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**ZTE中兴**  
**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)**

**2012 INTERIM REPORT SUMMARY  
AND ANNOUNCEMENT OF RESULTS**

**§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 summary of interim report and announcement of results 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.

An interim report which contains all the information required by Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”) will be published on the website of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) <http://www.hkexnews.hk> and the website of the Company <http://www.zte.com.cn> in due course.

- 1.2 The 2012 interim report has been considered and approved at the Thirty-second meeting of the Fifth Session of the Board of Directors of the Company. Mr. Zhang Junchao, Director, was unable to attend the meeting due to prior work commitment, and had authorised Mr. Wang Zhanchen, Director, to vote on his behalf.
- 1.3 The interim financial statements of ZTE and its subsidiaries (the “Group”) for the six months ended 30 June 2012 were unaudited.
- 1.4 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 and completeness of the financial statements contained in the 2012 interim report.

## §2 PROFILE OF THE LISTED COMPANY

### 2.1 Corporate information

<b>Abbreviated name of stock</b>	ZTE	
<b>Stock code</b>	000063 (A shares)	763 (H shares)
<b>Places of listing</b>	The Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
<b>Abbreviated name of bond</b>	中興債1 (Bonds cum Warrants)	12中興01 (Corporate Bond)
<b>Bond code</b>	115003	112090
<b>Place of listing</b>	The Shenzhen Stock Exchange	The Shenzhen Stock Exchange
<b>Registered and office address</b>	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China	
<b>Postal code</b>	518057	
<b>Principal place of business in Hong Kong</b>	8/F Gloucester Tower, The Landmark, 15 Queen's Road Central, Central, Hong Kong	
<b>Website</b>	<a href="http://www.zte.com.cn">http://www.zte.com.cn</a>	
<b>E-mail</b>	<a href="mailto:fengjianxiong@zte.com.cn">fengjianxiong@zte.com.cn</a>	

#### **Secretary to the Board of Directors/ Company Secretary**

#### **Securities affairs representatives**

<b>Name</b>	Feng Jianxiong	Xu Yulong, Cao Wei
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## 2.2 Major financial data and indicators

### 2.2.1 Major Financial Data and Indicators prepared in accordance with PRC ASBEs

Unit: RMB in thousands

Items	End of the reporting period (30 June 2012)	End of last year (31 December 2011)	Change as at the end of the reporting period compared with the end of last year
Total assets	107,045,025	105,368,114	1.59%
Owner's equity attributable to shareholders of the listed company	24,503,585	24,231,717	1.12%
Share capital ( <i>thousand shares</i> )	3,440,078	3,440,078	0.00%
Net asset per share attributable to shareholders of the listed company ( <i>RMB/share</i> ) <sup>Note 1</sup>	7.14	7.06	1.13%
Gearing ratio (%)	75.07%	75.05%	Increased by 0.02 percentage points
Items	Reporting Period (Six months ended 30 June 2012)	Same period of last year (Six months ended 30 June 2011) (Restated)	Change compared with the same period of last year
Operating revenue	42,641,898	37,013,111	15.21%
Operating profit	(863,347)	683,744	-226.27%
Total profit	655,632	1,272,749	-48.49%
Net profit attributable to shareholders of the listed company	244,875	769,271	-68.17%
Net profit after extraordinary items attributable to shareholders of the listed company	(59,383)	(76,936)	22.82%
Basic earnings per share ( <i>RMB/share</i> ) <sup>Note 2</sup>	0.07	0.23	-69.57%
Diluted earnings per share ( <i>RMB/share</i> ) <sup>Note 3</sup>	0.07	0.22	-68.18%
Basic earnings per share after extraordinary items ( <i>RMB/share</i> ) <sup>Note 2</sup>	(0.02)	(0.02)	0.00%
Fully diluted return on net assets (%)	1.00%	3.34%	Decreased by 2.34 percentage points
Weighted average return on net assets (%)	1.00%	3.29%	Decreased by 2.29 percentage points
Fully diluted return on net assets after extraordinary items (%)	-0.24%	-0.33%	Increased by 0.09 percentage points
Weighted average return on net assets after extraordinary items (%)	-0.24%	-0.33%	Increased by 0.09 percentage points
Net cashflow from operating activities	(3,639,672)	(6,171,353)	41.02%
Net cashflow from operating activities per share ( <i>RMB/share</i> ) <sup>Note 4</sup>	(1.06)	(1.83)	42.08%

- Note 1:* Net asset per share attributable to shareholders of the listed company as at the end of the first half of 2012 and the end of 2011 were calculated on the basis of the number of shares representing the total share capital as at the end of the respective periods less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme;
- Note 2:* Basic earnings per share for the first half of 2012 was calculated on the basis of the weighted average number of shares less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme. Basic earnings per share for the same period of the previous year was calculated on the basis of the weighted average number of shares less 62,407,186 restricted shares then remaining in lock-up under the share incentive scheme, and have been restated to reflect the implementation of the 2010 profit distribution and capitalization of capital reserve plans of the Company;
- Note 3:* As certain Subject Share quotas under the Share Incentive Scheme of the Company have given rise to 6,874,194 and 61,864,408 potentially dilutive ordinary shares for the reporting period and the same period of 2011, respectively, therefore diluted earnings per share have been calculated on the basis of basic earnings per share taking into account the said factors, and the diluted earnings per share for the same period of 2011 have been restated to reflect the implementation of the 2010 profit distribution and capitalization of capital reserve plans of the Company;
- Note 4:* Net cash flow from operating activities per share as at the end of the first half of 2012 were calculated on the basis of the number of shares representing the total share capital at the end of the period less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme; net cash flow from operating activities per share for the same period of 2011 was calculated on the basis of the total share capital as at 30 June 2011 less 62,407,186 restricted shares then remaining in lock-up under the share incentive scheme, and have been restated to reflect the implementation of the 2010 profit distribution and capitalization of capital reserve plans of the Company.

## 2.2.2 Extraordinary gains or loss items

*Unit: RMB in thousands*

Extraordinary items	Amount
Non-operating income	320,436
Gains/(Losses) from fair value change	(31,439)
Investment gains	96,693
Less: Gains/(Losses) arising from the disposal of non-current assets	12,068
Less: Other non-operating expenses	15,671
Less: Effect of income tax	53,693
<b>Total</b>	<b>304,258</b>

## 2.2.3 Major financial indicators prepared in accordance with HKFRSs

Items	Six months ended 30 June 2012	Six months ended 30 June 2011
Basic earnings per share ( <i>RMB/share</i> ) <i>Note 1</i>	<b>0.07</b>	0.23
Weighted average return on net assets (%)	<b>1.00%</b>	3.29%
Weighted average return on net assets after extraordinary items (%)	<b>-0.24%</b>	-0.33%

Items	As at 30 June 2012	As at 31 December 2011
Net asset per share attributable to shareholders of the listed company ( <i>RMB/share</i> ) <sup>Note 2</sup>	7.14	7.06

*Note 1:* Basic earnings per share for the first half of 2012 was calculated on the basis of the weighted average number of shares less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme. Basic earnings per share for the same period of the previous year was calculated on the basis of the weighted average number of shares less 62,407,186 restricted shares then remaining in lock-up under the share incentive scheme, and have been restated to reflect the implementation of the 2010 profit distribution and capitalization of capital reserve plans 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 2012 and the end of 2011 were calculated on the basis of the number of shares representing the total share capital as at the end of the respective periods less 9,125,893 restricted shares remaining in lock-up under the share incentive scheme.

**2.2.4 The amounts of net profit and shareholders' equity of the Group for the six months ended and as at 30 June 2012 calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.**

### §3 CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

#### 3.1 Table of changes in share capital

	Opening Balance (31 December 2011)		Increase/decrease (+/-) resulting from changes in the reporting period					Closing Balance (30 June 2012)	
	Number	Percentage	New issue	Bonus issue	Transfer from capital reserve	Others <sup>Note</sup>	Sub-total	Number	Percentage
<b>I. Shares subject to lock-up</b>	<b>17,455,975</b>	<b>0.51%</b>	—	—	—	-129,767	-129,767	<b>17,326,208</b>	<b>0.51%</b>
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	9,125,893	0.27%	—	—	—	—	—	9,125,893	0.27%
Comprising: Domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	9,125,893	0.27%	—	—	—	—	—	9,125,893	0.27%
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	8,330,082	0.24%	—	—	—	-129,767	-129,767	8,200,315	0.24%
<b>II. Shares not subject to lock-up</b>	<b>3,422,622,045</b>	<b>99.49%</b>	—	—	—	129,767	129,767	<b>3,422,751,812</b>	<b>99.49%</b>
1. RMB ordinary shares	2,793,036,600	81.19%	—	—	—	129,767	129,767	2,793,166,367	81.19%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H Shares)	629,585,445	18.30%	—	—	—	—	—	629,585,445	18.30%
4. Others	—	—	—	—	—	—	—	—	—
<b>III. Total number of shares</b>	<b>3,440,078,020</b>	<b>100.00%</b>	—	—	—	—	—	<b>3,440,078,020</b>	<b>100.00%</b>

*Note:* According to relevant domestic regulations, shares held by Directors, Supervisors or senior management of the Company shall be subject to unlock on a pro-rata basis.

**Schedule I: Shareholdings of shareholders subject to lock-up and lock-up conditions** (*Unit: shares*)

No.	Name of shareholders subject to lock-up	Number of shares subject to lock-up as at 31 Dec 2011	Number of shares released from lock-up during the reporting period	Increase in the number of shares subject to lock-up during the reporting period	Number of shares subject to lock-up at the end of the reporting period	Lock-up conditions	Date of unlocking
1	Hou Weigui	890,603	—	—	890,603	Restricted senior management shares	<i>Note 1</i>
2	Chen Jie	558,436	—	—	558,436	Restricted senior management shares	<i>Note 1</i>
3	Ni Qin	532,920	—	—	532,920	Restricted senior management shares	<i>Note 1</i>
4	Yin Yimin	474,624	—	—	474,624	Restricted senior management shares	<i>Note 1</i>
5	Zeng Xuezhong	425,700	—	—	425,700	Restricted senior management shares	<i>Note 1</i>
6	Fan Qingfeng	421,874	—	—	421,874	Restricted senior management shares	<i>Note 1</i>
7	Pang Shengqing	391,051	—	—	391,051	Restricted senior management shares	<i>Note 1</i>
8	Ye Weimin	387,248	—	—	387,248	Restricted senior management shares	<i>Note 1</i>
9	Xu Huijun	480,709	97,500	—	383,209	Restricted senior management shares	<i>Note 1</i>
10	Xie Daxiong	373,868	—	—	373,868	Restricted senior management shares	<i>Note 1</i>
11	Others	12,518,942	32,267	—	12,486,675	Restricted senior management shares and restricted shares under share incentive scheme	<i>Note 1, Note 2</i>
<b>Total</b>		<b>17,455,975</b>	<b>129,767</b>	<b>—</b>	<b>17,326,208</b>	<b>—</b>	<b>—</b>

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

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

## 3.2 Shareholdings of substantial shareholders as at end of reporting period

### 3.2.1 Shareholdings of top ten shareholders and top ten holders that are not subject to lock-up

**Total numbers of shareholders** 142,828 shareholders (of which 142,472 were holders of A shares and 356 were holders of H shares)

#### Shareholdings of top ten shareholders

Name of Shareholders	Nature of Shareholders	Total number of shares held (shares)	Percentage of Shareholdings	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 shareholders	1,058,191,944	30.76%	0	None
2. HKSCC Nominees Limited	Foreign shareholders	628,372,860	18.27%	0	Unknown
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	Others	95,089,219	2.76%	0	Unknown
4. CITIC Trust Co., Ltd. — Wealth Management 06	Others	58,194,000	1.69%	0	Unknown
5. Hunan Nantian (Group) Co., Ltd	State-owned shareholders	37,450,609	1.09%	0	Unknown
6. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	Others	36,021,482	1.05%	0	Unknown
7. Bank of China — E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	Others	32,104,710	0.93%	0	Unknown
8. China Life Insurance (Group) Company — Traditional — General Insurance Products	Others	25,569,044	0.74%	0	Unknown
9. Industrial and Commercial Bank of China — Rongtong Shenzhen Stock Exchange 100 Index Fund	Others	21,427,116	0.62%	0	Unknown
10. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	Others	18,299,940	0.53%	0	Unknown

## Shareholdings of top ten holders that were not subject to lock-up

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,058,191,944	A shares
2. HKSCC Nominees Limited	628,372,860	H shares
3. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L — FH002 Shen	95,089,219	A shares
4. CITIC Trust Co.,Ltd. — Wealth Management 06	58,194,000	A shares
5. Hunan Nantian (Group) Co., Ltd	37,450,609	A shares
6. China Life Insurance Company Limited — Traditional — General Insurance Products — 005L — CT001 Shen	36,021,482	A shares
7. Bank of China — E Fund Shenzhen Stock Exchange 100 Exchange-Traded Fund	32,104,710	A shares
8. China Life Insurance (Group) Company — Traditional — General Insurance Products	25,569,044	A shares
9. Industrial and Commercial Bank of China — Rongtong Shenzhen Stock Exchange 100 IndexFund	21,427,116	A shares
10. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund	18,299,940	A shares

Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<ol style="list-style-type: none"> <li>1. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares not subject to lock-up.</li> <li>2. The 3rd and 6th ranking shareholders among the top 10 shareholders were managed by the same fund manager — China Life Insurance Company Limited. The 8th ranking shareholder was managed by China Life Insurance Company (Group) Limited, the controlling shareholder of China Life Insurance Company Limited.</li> <li>3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that are not subject to lock-up.</li> </ol>
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*Note:* 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.



**3.2.2 Changes in the shareholding of Zhongxingxin, shareholder interested in more than 5% of the Company's shares, during the reporting period are as follows:**

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

**3.3 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.

**3.4 Purchase, sale and redemption of securities**

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

## §4 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

### 4.1 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 and Subject Shares under the Share Incentive Scheme granted to the Directors, Supervisors and senior management of the Company at the end of the reporting period are as follows:

No.	Name	Title	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)	Including: number of restricted shares held (shares)	Number of restricted shares under share incentive scheme at the end of the period (shares)	Reason for the change	Whether remuneration is received from shareholder entities or other connected entities
<b>Directors of the Company</b>														
1	Hou Weigui	Chairman	Male	71	3/2010	3/2013	1,187,472	—	—	1,187,472	890,603	—	—	No
2	Lei Fanpei <i>Note 1</i>	Vice Chairman	Male	49	3/2010	2/2012	—	—	—	—	—	—	—	Yes
3	Zhang Jianheng	Vice Chairman	Male	51	4/2012	3/2013	—	—	—	—	—	—	—	Yes
4	Xie Weiliang	Vice Chairman	Male	56	3/2010	3/2013	32,760	—	—	32,760	24,570	—	—	Yes
5	Wang Zhanchen	Director	Male	60	3/2010	3/2013	—	—	—	—	—	—	—	Yes
6	Zhang Junchao	Director	Male	59	3/2010	3/2013	32,760	—	—	32,760	24,570	—	—	Yes
7	Dong Lianbo	Director	Male	55	3/2010	3/2013	32,760	—	—	32,760	24,570	—	—	Yes
8	Shi Lirong	Director and Chief Executive Officer	Male	48	3/2010	3/2013	360,511	—	—	360,511	270,382	—	—	No
9	Yin Yimin	Director	Male	49	3/2010	3/2013	632,833	—	—	632,833	474,624	—	—	No
10	He Shiyu	Director and Executive Vice President	Male	46	3/2010	3/2013	344,940	—	—	344,940	258,703	—	—	No
11	Qu Xiaohui	Independent Non-executive Director	Female	58	3/2010	3/2013	—	—	—	—	—	—	—	No
12	Wei Wei	Independent Non-executive Director	Male	47	3/2010	3/2013	—	—	—	—	—	—	—	No
13	Chen Naiwei	Independent Non-executive Director	Male	55	3/2010	3/2013	—	—	—	—	—	—	—	No
14	Tan Zhenhui	Independent Non-executive Director	Male	68	3/2010	3/2013	—	—	—	—	—	—	—	No
15	Timothy Alexander Steinert	Independent Non-executive Director	Male	52	6/2010	3/2013	—	—	—	—	—	—	—	No
<b>Supervisors of the Company</b>														
16	Zhang Taifeng	Chairman of Supervisory Committee	Male	71	3/2010	3/2013	398,625	—	—	398,625	298,967	—	—	No
17	He Xuemei	Supervisor	Female	42	3/2010	3/2013	30,347	—	—	30,347	22,760	—	—	No
18	Zhou Huidong	Supervisor	Male	36	6/2010	3/2013	78,158	—	—	78,158	58,618	—	—	No
19	Wang Yan	Supervisor	Female	47	3/2010	3/2013	—	—	—	—	—	—	—	Yes
20	Xu Weiyang	Supervisor	Female	50	3/2010	3/2013	9,199	—	—	9,199	6,899	—	—	No
<b>Senior management of the Company</b>														
21	Wei Zaisheng	Executive Vice President and Chief Financial Officer	Male	50	3/2010	3/2013	387,421	—	—	387,421	290,565	—	—	No

No.	Name	Title	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)	Including: number of restricted shares held (shares)	Number of restricted shares under share incentive scheme at the end of the period (shares)	Reason for the change	Whether remuneration is received from shareholder entities or other connected entities
22	Xie Daxiong	Executive Vice President	Male	49	3/2010	3/2013	498,492	—	—	498,492	373,868	—	—	No
23	Tian Wenguo	Executive Vice President	Male	43	3/2010	3/2013	363,979	—	90,810	273,169	272,984	—	Note 2	No
24	Qiu Weizhao	Executive Vice President	Male	49	3/2010	3/2013	411,600	—	—	411,600	308,700	—	—	No
25	Fang Qingfeng	Executive Vice President	Male	44	3/2010	3/2013	562,500	—	—	562,500	421,874	—	—	No
26	Chen Jie	Senior Vice President	Female	54	3/2010	3/2013	744,583	—	—	744,583	558,436	—	—	No
27	Zhao Xianming	Senior Vice President	Male	46	3/2010	3/2013	431,873	—	—	431,873	323,905	—	—	No
28	Pang Shengqing	Senior Vice President	Male	44	3/2010	3/2013	521,402	—	—	521,402	391,051	—	—	No
29	Zeng Xuezhong	Senior Vice President	Male	39	3/2010	3/2013	567,600	—	—	567,600	425,700	—	—	No
30	Xu Huijun	Senior Vice President	Male	39	3/2010	3/2013	510,945	—	—	510,945	383,209	—	—	No
31	Ye Weimin	Senior Vice President	Male	46	3/2010	3/2013	516,331	—	—	516,331	387,248	—	—	No
32	Ni Qin	Senior Vice President	Male	53	3/2010	3/2013	710,560	—	—	710,560	532,920	—	—	No
33	Wu Zengqi	Senior Vice President	Male	48	3/2010	3/2013	486,570	—	—	486,570	364,927	—	—	No
34	Zhu Jinyun	Senior Vice President	Male	40	3/2010	3/2013	482,460	—	—	482,460	361,844	—	—	No
35	Zhang Renjun	Senior Vice President	Male	43	3/2010	3/2013	—	—	—	—	—	—	—	No
36	Wang Jiaran	Senior Vice President	Male	43	3/2012	3/2013	51,107	—	—	51,107	38,330	—	—	No
37	Chen Jianzhou	Senior Vice President	Male	42	3/2012	3/2013	49,828	—	—	49,828	37,371	—	—	No
38	Feng Jianxiang	Secretary to the Board of Directors	Male	38	3/2010	3/2013	315,000	—	40,000	275,000	236,250	—	Note 2	No
<b>Total</b>							<b>10,752,616</b>	<b>—</b>	<b>130,810</b>	<b>10,621,806</b>	<b>8,064,448</b>	<b>—</b>	<b>—</b>	<b>—</b>

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

*Note 2:* Reduction or increase of shareholdings in accordance with “Rules Governing the Holding of Shares in the Company by Directors, Supervisors and Senior Management of Listed Companies and Changes Thereof”.

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

## §5 REPORT OF THE BOARD OF DIRECTORS

### 5.1 Review of business in the first half of 2012

#### *Overview of the PRC telecommunications industry in the first half of 2012*

During the first half of 2012, developments of the domestic telecommunications industry were mainly focused on three areas, namely capacity expansion, upgrades and transformation. Continued efforts were being made to advance the construction of wireless networks, broadband networks and their ancillary facilities, while innovations were sought in the business models of Mobile Internet and telecommunications VAT services, in a bid to drive business development in the Internet of Things and Cloud Computing. According to statistics published by the Ministry of Industry and Information Technology, revenue from principal operations for the domestic telecommunications sector amounted to RMB517.53 billion for the first six months of 2012, representing a year-on-year growth of 9.2%.

#### *Overview of the global telecommunications industry in the first half of 2012*

Investment in equipment in the global telecommunications industry slackened during the first half of 2012. Regional differences remained as emerging markets such as Latin America, Middle East and Asia Pacific continued to enjoy faster investment growth. With the gradual phase-out of 2G networks and the further optimisation and upgrades of 3G networks, commercial deployment of 4G networks has commenced in many countries around the world. In the meantime, global broadband construction continued to be boosted by policy support for and financial commitments to the national broadband strategy in various countries. Smart terminals continued to account for an increasing share of the market, in line with growing popular demand for the product driven by the rapid development of Mobile Internet and the growing variety of mobile applications.

#### *Operating results of the Group for the first half of 2012*

During the first half of 2012, the Group achieved relatively fast growth in overall revenue courtesy to efforts to explore market niches and enhance its market position through initiatives in the perfection and innovation of product technologies, as competition in global telecommunications industry became more rational. Terminals remained on track for fast growth, while telecommunications software systems, services and other products sustained existing growth rates. Nevertheless, the Group's net profit declined in comparison the same period last year, reflecting reduced investment income, exchange losses, postponement of network contract tenders of certain domestic carriers and lower gross profit margin. For the first six months of 2012, the Group reported operating revenue of RMB42.642 billion, representing a year-on-year growth of 15.21%. Net profit attributable to the shareholders of the parent company amounted to RMB245 million, decreasing by 68.17% as compared to the same period last year. Earnings per share amounted to RMB0.07 per share.

#### *1) By market*

##### *The domestic market*

During the reporting period, the Group reported operating revenue of RMB20.885 billion from the domestic market, accounting for 48.98% of the Group overall operating revenue and representing a year-on-year growth of 26.37%. The Group secured its existing market

shares by working in close tandem with the technical choices and network construction of operators, while striving for new market shares by introducing new technologies and products and differentiated solutions.

### *The international market*

During the reporting period, the Group reported operating revenue of RMB21.757 billion from the international market, accounting for 51.02% of the Group's overall operating revenue and representing a year-on-year growth of 6.20%. With a strong focus on populous nations and mainstream global carriers, the Group consolidated its market shares in emerging markets, while winning recognition in its work to enhance cooperation with mainstream global carriers on different products. As well as reinforcing its operation in current mainstream products, the Group was vigorously planning for new strategic niches.

## **2) By product**

For the reporting period, the Group reported operating revenue of RMB21.280 billion for carriers' networks, representing year-on-year growth of 3.89%. Operating revenue for terminal products amounted to RMB14.248 billion, representing year-on-year growth of 27.05%. Operating revenue for telecommunication software systems, services and other products amounted to RMB7.114 billion, representing year-on-year growth of 33.82%.

### *Carriers' networks*

During the period under review in the first half of 2012:

In connection with wireless products, the Group searched deep in emerging markets to identify new business opportunities on the back of its strengths in Uni-RAN and C-RAN solutions, while enhancing cooperation with global mainstream carriers to drive network upgrade and evolution to the 4G generation, as well as vigorously promoting cross-sector integration of mobile broadband to meet demands from the government and enterprise sectors. Meanwhile, the Group strengthened its in-depth operation of wireless products, striking balance between scale and profitability in this business segment to ensure sustainable development while keeping up with required network performance indicators and delivery schedules.

In connection with wireline products, the Group reported relatively fast growth in revenue from domestic optical communications products amidst rapid development of the domestic broadband market and the construction of ancillary facilities for Mobile Internet to sustain its position in the domestic market.

In connection with service products, the Group focused on the markets of personal services, household services and government and corporate services, ensuring sound development of its service products through ongoing efforts to optimise its market footprint.

## Terminals

During the first six months of 2012, the Group sustained high growth for the sales of its smart terminals, which accounted for an increasing share of sales. As the 3G business in China was undergoing large-scale development, the Group reported fast growth in the domestic sales of its 3G smart terminals in various modes. In the international market, the Group also commenced large scale marketing of its smart terminals in developed markets such as the United States and France.

## Telecommunication software systems, services and other products

For the reporting period, revenue from the Group's telecommunications software systems, services and other products reported year-on-year growth of 33.82%, underpinned by rapid growth in revenue from the video and network terminal product segment and the service product segment.

## Difficulties encountered by the Group in its operations during the first half of 2012

The reporting period was underpinned by slackened global economic growth, continued competition in the telecommunications industry and volatility in exchange rates.

## 5.2 Management discussion and analysis prepared in accordance with PRC ASBEs

### 5.2.1 Breakdown of principal operations by industry, product and region segments

Revenue mix	Operating revenue (RMB in thousands)	Operating costs (RMB in thousands)	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin
<b>I. By industry</b>						
Manufacturing of communication equipment	42,641,898	31,277,990	26.65%	15.21%	19.18%	-2.45%
<b>Total</b>	<b>42,641,898</b>	<b>31,277,990</b>	<b>26.65%</b>	<b>15.21%</b>	<b>19.18%</b>	<b>-2.45%</b>
<b>II. By product</b>						
Carriers' networks	21,279,581	14,421,544	32.23%	3.89%	7.16%	-2.06%
Terminals	14,248,064	11,882,809	16.60%	27.05%	31.84%	-3.03%
Telecommunication software systems, services and other products	7,114,253	4,973,637	30.09%	33.82%	31.85%	1.05%
<b>Total</b>	<b>42,641,898</b>	<b>31,277,990</b>	<b>26.65%</b>	<b>15.21%</b>	<b>19.18%</b>	<b>-2.45%</b>
<b>III. By region</b>						
The PRC	20,884,864	14,805,138	29.11%	26.37%	35.22%	-4.64%
Asia (excluding the PRC)	8,009,957	6,162,258	23.07%	17.66%	17.09%	0.37%
Africa	3,923,335	2,400,468	38.82%	-21.72%	-18.51%	-2.40%
Europe, Americas and Oceania	9,823,742	7,910,126	19.48%	13.34%	11.63%	1.24%
<b>Total</b>	<b>42,641,898</b>	<b>31,277,990</b>	<b>26.65%</b>	<b>15.21%</b>	<b>19.18%</b>	<b>-2.45%</b>

*Including:* RMB1,301,000 as the aggregate amount of connected transaction in the sales of products and provision of labour service by the Company to the controlling shareholder and its subsidiaries.

*Note:* Connected transaction as defined under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange (“Shenzhen Stock Exchange Listing Rules”) and other domestic securities regulatory provisions.

### 5.3 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.

#### *Operating revenue*

The following table sets out the revenue and the corresponding percentage of the total revenue attributable to the major product segments of the Group for the periods indicated:

*Unit: RMB in millions*

Product segment	For the six months ended 30 June 2012		For the six months ended 30 June 2011 (Restated)	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers’ networks	21,279.6	49.9%	20,482.1	55.3%
Terminals	14,248.1	33.4%	11,214.7	30.3%
Telecommunication software systems, services and other products	7,114.2	16.7%	5,316.3	14.4%
Total	<u>42,641.9</u>	<u>100.0%</u>	<u>37,013.1</u>	<u>100.0%</u>

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

*Unit: RMB in millions*

Region	For the six months ended 30 June 2012		For the six months ended 30 June 2011 (Restated)	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	20,884.9	49.0%	16,526.8	44.7%
Asia (excluding the PRC)	8,010.0	18.8%	6,807.6	18.4%
Africa	3,923.3	9.2%	5,011.6	13.5%
Europe, Americas and Oceania	9,823.7	23.0%	8,667.1	23.4%
Total	<u>42,641.9</u>	<u>100.0%</u>	<u>37,013.1</u>	<u>100.0%</u>



The Group reported RMB42,641.9 million in operating revenue for the first six months of 2012, a 15.2% growth as compared to the same period last year. Our domestic business sustained growth in operating revenue, which increased by 26.4% to RMB20,884.9 million. Analysed by product, significant year-on-year growth was reported for terminals, and telecommunications software systems, services and other products. Our carriers' networks segment also reported a slight growth in revenue as compared to the same period last year, ensuring that an overall growth trend for the Group's total operating revenue was sustained for the first six months of 2012.

The slight increase in operating revenue from the Group's carriers' networks segment for the first six months of 2012 reflected mainly growth in revenue derived from wireless products in the domestic and international markets and from optical communications systems and data products in the domestic market, offset by the decline in revenue derived from wireline switch and access products in the domestic and international markets and from optical communications systems and data products in the international market, resulting in a relatively small margin of growth.

The substantial increase in operating revenue from the Group's terminals segment for the first six months of 2012 was driven mainly by growth in revenue derived from 3G handsets and CDMA handsets in domestic as well as international markets.

The substantial increase in operating revenue from the Group's telecommunication software systems, services and other products for the first six months of 2012 was mainly driven by growth in revenue derived from video and network terminal products and other products in the domestic market and from service products 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 2012		For the six months ended 30 June 2011 (Restated)	
	Cost of sales	As a percentage of segment revenue	Cost of sales	As a percentage of segment revenue
Carriers' networks	15,020.8	70.6%	14,307.8	69.9%
Terminals	11,883.8	83.4%	8,989.7	80.2%
Telecommunication software systems, services and other products	5,236.1	73.6%	3,603.3	67.8%
Total	<u>32,140.7</u>	<u>75.4%</u>	<u>26,900.8</u>	<u>72.7%</u>



Unit: RMB in millions

Product segment	For the six months ended 30 June 2012		For the six months ended 30 June 2011	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	6,258.8	29.4%	6,174.3	30.1%
Terminals	2,364.3	16.6%	2,225.0	19.8%
Telecommunication software systems, services and other products	1,878.1	26.4%	1,713.0	32.2%
Total	<u>10,501.2</u>	<u>24.6%</u>	<u>10,112.3</u>	<u>27.3%</u>

Cost of sales of the Group for the first six months of 2012 increased by 19.5% to RMB32,140.7 million, as compared to the same period last year. The Group's overall gross profit margin for the first half of the year was 24.6%, which was 2.7 percentage points lower as compared to the same period last year, reflecting mainly the decline in the gross profit margin of terminals and of telecommunication software systems, services and other products.

Cost of sales for the Group's carriers' networks segment for the first six months of 2012 amounted to RMB15,020.8 million, an increase of 5.0% as compared to the same period last year. Gross profit margin of carriers' networks was 29.4% versus 30.1% for the same period last year. The slight decrease in gross profit margin of carriers' networks mainly reflected the decline of gross profit margin of wireline switch and access products in the domestic as well as international markets.

Cost of sales for the Group's terminal segment for the first six months of 2012 amounted to RMB11,883.8 million, an increase by 32.2% as compared to the same period last year. Gross profit margin for the Group's terminal segment was 16.6%, versus 19.8% for the same period last year. The gross profit margin for the terminal segment declined in tandem with lower gross profit margins for various terminal products in the domestic market and for 3G handsets and GSM handsets in the international market.

Cost of sales for the Group's telecommunication software systems, services and other products for the first six months of 2012 amounted to RMB5,236.1 million, an increase by 45.3% compared to the same period last year. The relevant gross profit margin was 26.4%, compared to 32.2% for the same period last year. The decline in gross profit margin mainly reflected the combined effect of lower gross profit margins reported for video and network terminals products in the domestic market and for services products in the domestic and international markets.

#### *Other income and gains*

Other income and gains of the Group for the first six months of 2012 amounted to RMB1,713.5 million, representing a decline of 19.0% compared to RMB2,116.6 million for the first six months of 2011. The decline reflected mainly a smaller extent of growth in VAT allowances and rebates versus the increase in investment gains recognised following the Company's disposal of equity interests in Nationz Technologies, Inc. ("Nationz Technologies") and the reclassification of the remaining equity interests in Nationz Technologies from long-term equity investments to trading financial assets in the first six months of 2011.

### *Research and development costs*

The Group's research and development costs for the first six months of 2012 increased by 9.8% to RMB4,025.4 million from RMB3,664.5 million for the first six months of 2011, reflecting mainly increased investments by the Company in the research and development of UMTS and LTE wireless systems, service products and core networks, etc. Research and developments costs represented 9.4% of our operating revenue, down by 0.5 percentage points as compared to 9.9% for the first half of 2011.

### *Selling and distribution costs*

The Group's selling and distribution costs for the first six months of 2012 increased by 8.4% to RMB5,402.3 million from RMB4,983.6 million for the first half of 2011, reflecting mainly increased selling costs in the international market, but decreased by 0.8 percentage points from 13.5% to 12.7% as a percentage of operating revenue, reflecting mainly the Company's ongoing efforts to strengthen control over selling expenses.

### *Administrative expenses*

Administrative expenses of the Group for the first six months of 2012 decreased by 8.5% to RMB1,153.3 million, as compared to RMB1,260.4 million for the first half of 2011, or decreased by 0.7 percentage points from 3.4% to 2.7% as a percentage of operating revenue, reflecting mainly the Company's stronger efforts in cost management.

### *Other expenses*

Other expenses of the Group for the first six months of 2012 decreased by 25.4% to RMB408.6 million, as compared to RMB547.4 million for the first half of 2011. The decrease mainly reflected the increase in exchange losses in the period as a result of exchange rate volatility by a smaller extent than the decrease in losses arising from fluctuations in the fair values of equity and derivative financial instruments.

### *Profit from operating activities*

The Group's profit from operating activities for the first six months of 2012 decreased by 30.9% to RMB1,225.1 million, as compared to RMB1,773.0 million for the first half of 2011, while the operating profit margin decreased by 1.9 percentage points as compared to the same period last year to 2.9% for the first six months of 2012, primarily as a result of lower gross profit margin for the Company's products and the decrease in other income and gains.

### *Finance costs*

Finance costs of the Group for the first six months of 2012 increased by 10.2% to RMB561.5 million compared to RMB509.7 million for the first half of 2011, reflecting mainly higher interest expense for bank loans.

### *Tax*

The Group's income tax expense for the first six months of 2012 was RMB263.6 million, which was 39.6% lower as compared to RMB436.4 million for the first half of 2011, reflecting mainly slower profit growth for certain of the Group's subsidiaries subject to higher tax rates, which resulted in a higher effective tax rate of 40.2% for the first half of 2012, as compared to 34.3% for the same period of 2011.

### *Profit attributable to minority interests*

The Group's minority interests for the first six months of 2012 amounted to RMB147.1 million, a growth of 119.2% as compared to RMB67.1 million for the first half of 2011. Minority interests increased from 8.0% for the first six months of 2011 to 37.5% for the same period of 2012 as a percentage of profit before minority interests, reflecting mainly higher profit generated by subsidiaries with a higher level of minority interests.

### *Other comprehensive income*

Other comprehensive income of the Group for the first six months of 2012 increased by 31604.3% to RMB724.6 million, compared to RMB-2.3 million for the first half of 2011. The change in other comprehensive income was mainly attributable to the value appreciation of properties for self-use after valuation upon reclassification to investment properties for the period.

### *Debt-equity ratio and the basis of calculation*

The Group's debt-equity ratio for the first six months of 2012 was 53.4%, an increase by 6.5 percentage points as compared to 46.9% for the first half of 2011. The increase was mainly attributable to the increase in the Company's bank loans to replenish working capital.

### *Cash flow data*

*Unit: RMB in millions*

	<b>For the six months ended 30 June 2012</b>	<b>For the six months ended 30 June 2011</b>
Net cash outflow from operating activities	<b>(3,781.1)</b>	(6,220.5)
Net cash outflow from investing activities	<b>(1,682.8)</b>	(2,183.2)
Net cash inflow from financing activities	<b>5,408.6</b>	8,434.4
Net increase/(decrease) in cash and cash equivalents	<b>(55.3)</b>	30.7
Cash and cash equivalents at the end of the period	<b>20,543.5</b>	14,867.5

### *Operating activities*

The Group had a net cash outflow from operating activities of RMB3,781.1 million for the first six months of 2012 compared to RMB6,220.5 million for the first half of 2011, reflecting year-on-year increase of cash outflow for purchases of goods and services by RMB9,583.8 million mainly as a result of expanded sales scale, slight decrease of cash outflow for payments made to and on behalf of employees, increase in tax payment by RMB834.7 million, decrease of other cash payments relating to operating activities by RMB2,075.3 million, coupled with increase of cash inflow for sales and the provision of services by RMB10,876.6 million, increase of cash inflow from tax rebates by approximately RMB1,450.3 million and decrease in other cash relating to operating activities received by RMB1,941.7 million.

### *Investing activities*

The net cash outflow from the Group's investment activities for the first six months of 2012 was RMB1,682.8 million compared to a net cash outflow of RMB2,183.2 million for the first half of 2011, reflecting mainly the recouping of certain investment funds by Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (Limited Partnership) ("Zhonghe Chunsheng Fund"), which was incorporated in the Group's consolidated financial statement.

## *Financing activities*

The Group's net cash inflow from financing activities for the first six months of 2012 was RMB5,408.6 million, compared to RMB8,434.4 million for the first half of 2011, reflecting mainly the repayment of loans upon maturity by the Company.

## *Disclosure required under the Hong Kong Listing Rules*

In accordance with paragraph 46 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 2011 Annual Report of the Company in relation to those matters set out in paragraph 32 of Appendix 16.

### **5.4 Reasons for substantial change in principal business and its structure compared to the same period last year**

☐ Applicable ☒ N/A

### **5.5 Reasons for substantial change in the profitability (gross profit margin) of principal business compared to the same period last year**

☐ Applicable ☒ N/A

### **5.6 Analysis of reasons for substantial changes in the breakdown of profit as compared to the same period last year**

<b>Item</b>	<b>As a percentage of total profit for the six months ended 30 June 2012</b>	<b>As a percentage of total profit for the six months ended 30 June 2011</b>	<b>Change (percentage points)</b>
Operating profit	<b>-131.68%</b>	53.72%	-185.40
Expenses for the period	<b>1,711.03%</b>	797.86%	913.17
Investment gains	<b>13.86%</b>	91.56%	-77.70
Non-operating income and expenses, net	<b>231.68%</b>	46.28%	185.40

*Note:* The substantial decrease in operating profit as a percentage of total profit was attributable mainly to a lower gross profit margin and the increase in finance costs; the substantial increase in expenses for the period as a percentage of total profit was attributable mainly to the increase in investment in marketing and R&D in line with the expansion of the Company's scale of operations; the substantial decrease in investment gains as a percentage of total profit was attributable mainly to investment gains arising from the disposal of equity interests in Nationz Technologies and the investment gains from fair-value changes of certain derivative investments upon settlement on maturity for the same period last year; the substantial increase in non-operating income and expenses, net as a percentage of total profit was mainly attributable to the increase in income from VAT rebate for software products.

**5.7 The consolidated gearing ratio of the Group for the first half of 2012 was 75.07%, largely unchanged as compared to the end of last year.**

## **5.8 Use of proceeds**

### **5.8.1 Comparison table relating to the use of proceeds**

#### **1. Bonds cum Warrants — 中興債1**

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

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

The exercise period for the “ZXC1” Warrants ended on 12 February 2010 and a total of 23,348,590 “ZXC1” Warrants had been exercised generating total issue proceeds of RMB912 million. In order to enhance the efficiency of fund application and reduce finance costs, it was approved at the Thirtieth Meeting of the Fourth Session of the Board of Directors of the Company that the Company would replace internal funds that had previously been invested as partial funding for the issue proceed projects with proceeds from the exercise of the warrants. For details, please refer to the “Overseas Regulatory Announcement” published by the Company dated 24 March 2010.

#### **2. Bonds — 12中興01**

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

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

A comparison table relating the use of proceeds from the corporate bonds (12中興01) is set out as follows:

*Unit: RMB in ten thousands*

Aggregate amount of issue proceeds	600,000.00	Aggregate amount of issue proceeds invested by the Company	183,785.66
Aggregate amount of issue proceeds redirected to other applications during the reporting period	0	during the reporting period	
Accumulated amount of issue proceeds redirected to other applications	0	Aggregate amount of issue proceeds invested by the Company	183,785.66
Accumulated amount of issue proceeds redirected to other applications as a percentage of the aggregate amount of issue proceeds	0		

Investment commitments and application of over-subscription proceeds	Whether there have been changes (or partial changes)	Total amount of committed investment of issue proceeds	Total investment after adjustment (1)	Amounted invested during the reporting period	Aggregate amount invested as at the end of the period (2)	Investment fulfilment as at the end of the period (%) (3)=(2)/(1)	Date by which the project is ready for intended use	Profit attained for the reporting period	Whether estimated profit is met	Whether there have been significant changes to project feasibility
Investment commitments										
Repayment of bank loans	No	258,212.60	258,212.60	10,000.00	10,000.00	3.87%	N/A	N/A	N/A	N/A
Working capital replenishments	No	341,787.40	341,787.40	173,785.66	173,785.66	50.85%	N/A	N/A	N/A	N/A
Sub-total of investment commitments	—	600,000.00	600,000.00	183,785.66	183,785.66	—	—	N/A	—	—
Application of over-subscription proceeds										
Nil	—	—	—	—	—	—	—	—	—	—
Repayment of bank loans (if any)	—	—	—	—	—	—	—	—	—	—
Working capital replenishments (if any)	—	—	—	—	—	—	—	—	—	—
Sub-total of application of over-subscription proceeds	—	—	—	—	—	—	—	—	—	—
<b>Total</b>	<b>—</b>	<b>600,000.00</b>	<b>600,000.00</b>	<b>183,785.66</b>	<b>183,785.66</b>	<b>—</b>	<b>—</b>	<b>N/A</b>	<b>—</b>	<b>—</b>

Cases of not meeting planned schedules or estimated earnings and reasons therefore (by items)	N/A
Statement on significant changes in project feasibility	N/A
Amount, application and progress of use of over-subscription proceeds	N/A
Change in the location of implementation of projects utilising issue proceeds	N/A
Adjustments to the manner of implementation of projects utilising issue proceeds	N/A
Advanced investment and fund replacement in respect of projects utilising issue proceeds	N/A
Use of idle fund as provisional working capital replenishments	N/A
Amount of and reasons for surplus issue proceeds in project implementation	N/A
Application and whereabouts of unutilised issue proceeds	Out of the RMB6,000 million raised through the issue of corporate bonds, the Company proposed to apply approximately RMB2,582 million to the repayment of bank loans to adjust the Company's debt structure and the remainder as additional working capital replenishments. As at the end of the reporting period, the Company completed repayment of RMB100 million and applied approximately RMB1,738 million as additional working capital. The remaining issue proceeds will be applied according to the original plan, with approximately RMB2,482 million as repayment of bank loans and approximately RMB1,680 million as additional working capital.
Issues in the application and disclosure of issue proceeds or other matters	Nil

## 5.8.2 Table of investment projects involving changes in the application of issue proceeds

□ Applicable √ N/A



## **5.9 Amendments to the business plan in the second half of the year by the Board of Directors**

☐ Applicable ☒ N/A

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

☐ Applicable ☒ N/A

## **5.11 Explanatory statement from the Board of Directors on the accountant's "qualified opinion" for the reporting period**

☐ Applicable ☒ N/A

## **5.12 Explanatory statement from the Board of Directors on changes and treatment of matters relating to the accountant's "qualified opinion" for the previous year**

☐ Applicable ☒ N/A

## **5.13 Business outlook and risk exposure for the second half of 2012**

### ***5.13.1 Business outlook for the second half of 2012***

Looking to the second half of 2012: regarding wireless networks, the rapid development of Mobile Internet should drive the optimisation and upgrade of 3G networks and the commercialisation of 4G networks. Regarding wireline network, thriving growth is expected for broadband markets around the world in different stages of development as providers seek to meet the service requirements of users, while policy support for and financial commitments to national broadband strategies will continue to drive global broadband construction. Regarding smart terminals, with the further penetration of Mobile Internet and the growing variety of mobile applications, fast growth is expected to sustain for smart terminals. In addition, requirements of carriers will undergo changes, as integrated solutions and long-term stable partnerships will become crucial. In this connection, the Group's products and solutions are globally competitive, and full-scale cooperation with global mainstream carriers has commenced.

In the second half of 2012, the Group will capitalise on opportunities presented by the capacity expansion and upgrade of global wireless networks, national broadband strategies, smart terminals and requirements of government and corporate networks and dedicate its efforts to product innovation and solution implementation. We will enhance execution of our strategy to focus on populous nations and mainstream carriers and expand in the government and corporate service sector. Meanwhile, efforts to strengthen cash flow management, exercise contract risk control and optimise processes and systems will continue, in a bid to improve operating efficiency and achieve balance between scale and profit.

### ***5.13.2 Risk exposure***

#### ***1) Foreign exchange risk***

The foreign exchange risk of the Group arose mainly from exchange differences in the conversion to RMB (the functional currency of the Group) of sales and purchases settled in currencies other than RMB. Exchange rate volatility has recently escalated under the impact of the international economic situation. With a strong emphasis on the research of

exchange risk management policies, models and strategies, the Group sought to mitigate the impact of exchange rate volatility on its operations by lowering its net exposure to foreign exchange through the use of measures such as the business planning method, asset and liability method, internal exchange settlement and net exposure foreign exchange value protection, etc based on the principle of exposure management.

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 about 10% of our annual sales revenue. Our research and development team is supported by over 30,000 employees. While the Group has adopted stringent measures to protect its intellectual property rights, there can be no assurance that there will not be any conflicts in intellectual property rights between the Company and other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group.

3) *Interest rate risk*

As the size of the Group's loan facilities continued to grow, the total amount of interest payments owed by the Group will vary in line with any changes in the loan interest rates policies determined by the State and fluctuations in the interest rates and the profitability of the Group will be affected as a result.

4) *Country risk*

Under the complicated global economic and political environment, the Group will continue to be exposed to debtors' risks, trade protection, 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.

5) *Credit risk*

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



## §6 MATERIAL MATTERS

### 6.1 Acquisition and disposal of assets and asset reorganisation

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

#### 1. Details of asset disposal

*Unit: RMB in ten thousands*

Counterparty	Assets disposed of	Date of disposal	Transaction price	Net profit contributions to the Company by the assets from the beginning of the period to the date of disposal	Gain/loss from disposal	Whether a connected transaction	Pricing principle for asset disposal	Whether titles to asset involved have been transferred in full	Whether creditors' rights and debts have been transferred in full	Net profit contribution to the listed company by the asset disposal as a percentage of total profit	Relationship with the counterparty (as applicable to connected transactions)	Date of the first announcement disclosing the transaction
Zhongxing Development Company Limited ("Zhongxing Development")	82% interests in Shenzhen Zhongxing Hetai Hotel Management Company Limited ("Zhongxing Hetai")	26 June 2012	2,517.4	229.76	Gain of approximately RMB2,000	Yes	The pricing of the equity transfer was determined by reference to the audited net assets of Zhongxing Hetai as at 30 April 2012	Yes	Yes	0.0003%	Mr. Hou Weigui, Chairman of the Company, was chairman of Zhongxing Development	26 June 2012

*Note:* Above transaction is a connected transaction defined under the Shenzhen Stock Exchange Listing Rules and other domestic securities regulatory provisions.

#### 2. Statement relating to the disposal of assets

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

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

#### 3. Progress of sale of assets and its effects on the operating results and financial position for the reporting period subsequent to the publication or announcement of the relevant sale of assets

The equity transfer was performed in a normal manner pursuant to the Equity Transfer Agreement that had been signed and had taken effect. The equity transfer was priced by reference to the audited net assets of Zhongxing Hetai, and as such had no significant effect on the Group's profit.

## 6.2 Guarantees

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

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
Djibouti Telecom S.A.	19 April 2007, 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Benin Telecoms S.A. <sup>Note 1</sup>	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Assurance	6.5 years	No	No
Total amount of third-party guarantee approved during the reporting period (A1)			0	Total amount of third-party guarantee actually incurred during the reporting period (A2)				0
Total amount of third-party guarantee approved as at the end of the reporting period (A3)			RMB68,974,700	Total amount of third-party guarantee actually incurred as at the end the reporting period (A4)				RMB68,974,700

### Guarantees provided by the Company on behalf of subsidiaries

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
ZTE (H.K.) Limited <sup>Note 1</sup>	23 July 2007, 200735	USD3 million	28 June 2007	USD3 million	Joint liability assurance	6.6 years	No	No
Closed Joint-Stock Company CJSC TK Mobile <sup>Note 2</sup>	12 May 2009, 200917	USD70.60 million	N/A	—	Guarantee by pledge	—	No	No
PT. ZTE Indonesia <sup>Note 2</sup>	6 June 2009, 200926	USD40 million	10 June 2009	USD40 million	Joint liability assurance	From maturity to the date on which performance of obligations of PT. ZTE Indonesia under “Framework Agreement for Infrastructure Network Construction” is completed	No	No
PT. ZTE Indonesia <sup>Note 2</sup>	6 June 2009, 200926	USD5 million	17 June 2009	USD5 million	Joint liability assurance	3.6 years or from maturity to the date on which performance of obligations of PT. ZTE Indonesia under “Framework Agreement for Infrastructure Network Construction” is completed, whichever later	No	No

**Guarantees provided by the Company on behalf of subsidiaries**

Guaranteed party	Date and code number of announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties (Yes/No)
ZTE Telecom India Private Limited <sup>Note 3</sup>	13 November 2009, 200945	USD30 million	30 December 2009	USD30 million	Joint liability assurance	From maturity to the date on which performance of obligations of ZTE India under “Framework Agreement for Infrastructure Network Construction” is completed	No	No
ZTE Telecom India Private Limited <sup>Note 3</sup>	13 November 2009, 200945	USD3 million	31 December 2009	INR6,848,100	Joint liability assurance		No	No
ZTE (H.K.) Limited <sup>Note 4</sup>	9 April 2011, 201112	USD900 million	8 July 2011	USD900 million	Joint liability assurance	From 8 July 2011 until the date on which a period of 60 months has lapsed	No	No
ZTE France SASU <sup>Note 5</sup>	14 December 2011,201152	EUR10 million	N/A	—	Assurance	From maturity to the date on which performance obligations of ZTE France under “SMS Contract” and “PATES Contract” expire or the termination date (whichever is later)	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)			0	Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)				0
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)			RMB6,729,974,800	Total amount of guarantee on behalf of subsidiaries actually incurred as at the end the reporting period (B4)			RMB6,186,521,200	
Total amount guaranteed by the Company (sum of the two categories aforesaid)								
Total amount of guarantee approved during the reporting period (A1+B1)			0	Total amount of guarantee actually incurred during the reporting period (A2+B2)				0
Total amount of guarantee approved as at the end of the reporting period (A3+B3) <sup>Note 1</sup>			RMB6,779,974,800	Total amount of guarantee actually incurred as at the end the reporting period (A4+B4) <sup>Note 1</sup>			RMB6,236,521,200	

Total guaranteed amount as a percentage of net assets of the Company (A4+B4)	25.45%
Including:	
Amounts of guarantees provided on behalf of shareholders, defacto controllers and their connected parties (C)	0
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (D)	RMB6,186,521,200
Amount of total guarantee exceeding 50% of net assets (E)	0
Aggregate amount of the three guarantee amounts stated above (C+D+E)	RMB6,186,521,200
Statement on potential joint liability involved in outstanding guarantees	N/A
Statement on provision of guarantee to third parties in violation of stipulated procedures	N/A

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

*Note 2:* It was respectively approved at the Twenty-fourth and Twenty-fifth Meetings of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile (“CJSC TK Mobile”) held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile; a performance guarantee of US\$40 million be provided by the Company for PT. ZTE Indonesia (“ZTE Indonesia”), a wholly-owned subsidiary of the Company and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of US\$5 million. Since the gearing ratio of both CJSC TK Mobile and ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the first extraordinary general meeting of 2009. As at the date of this report, a US\$5 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company’s banking credit facilities has been executed and the US\$40 million performance guarantee agreement has been signed. The guarantee provided in respect of CJSC TK Mobile’s bank loans by way of pledge of equity has not yet been performed as the relevant agreement has not yet been signed.

*Note 3:* It was approved at the Thirty-first Meeting of the Fourth Session of the Board of Directors that a performance guarantee of not more than US\$30 million be provided by the Company for ZTE Telecom India Private Limited (“ZTE India”), a wholly-owned subsidiary of the Company and application be made by the Company to the Indian local bank for the issuance of an assurance letter in respect of contract performance to provide guarantee with an amount not exceeding US\$3 million for ZTE India. Since the gearing ratio of ZTE India was above 70%, the aforesaid guarantees were approved at the second extraordinary general meeting of 2009 in accordance with relevant laws and regulations. As at the date of this report, an agreement in respect of the US\$30 million performance guarantee provided by the Company has been signed and INR6,848,100 out of the US\$3 million guarantee provided to ZTE India by way of bank assurance letter has been drawn upon.

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

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

*Note 6:* Being the book exchange rate of the Company as at 30 June 2012. Guaranteed amounts denominated in Indian Rupee (INR) are translated at the exchange rate of 1 Indian Rupee to RMB0.1123. Guaranteed amounts denominated in US dollars are translated at the exchange rate of USD1 to RMB6.3249. Guaranteed amounts denominated in Euro dollars are translated at the exchange rate of EUR1 to RMB 7.8710.

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

### **6.3. Creditors and debtors with connected parties of a non-operating nature**

**Whether any creditors or debtors with connected parties of a non-operating nature were incurred**

☐ Yes ☒ No

### **6.4 Material litigation and arbitration**

During the reporting period, the Group did not incur any material litigation or arbitration. Progress of immaterial litigation during the reporting period and arbitration proceedings incurred prior to and other litigation and arbitration proceedings incurred during the reporting period under review are as follows:

1. In February 2012, the Company and Telefonaktiebolaget LM Ericsson (publ) (“Ericsson”) entered into an AGREEMENT OF DISPUTE RESOLUTION, pursuant to which the two parties agree to withdraw all patent infringement litigations against each other, including all pending patent disputes between the Parties in Germany, the United Kingdom and China. For details, please refer to the section headed “Material Matters (I) Material Litigation and Arbitration” in the 2011 Annual Report of the Company.
2. A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its subsidiary ZTE (USA), Inc. (“ZTE (USA)”) by Universal Telephone Exchange, Inc. (“UTE”) at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

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

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

3. On 28 April 2011, the Company and ZTE France SASU (“ZTE France”), a wholly-owned subsidiary of the Company, received a statement of claim from the High Court of Paris, according to which a lawsuit has been filed by Huawei Technologies Co. Ltd. (“Huawei”), claiming that the data card products of the Company and ZTE France have infringed upon its patent and demanding the Company and ZTE France to discontinue such act of infringement and pay damages in the amount of EUR500,000. The Company had submitted a defense according to the required timeline to the court, which had confirmed the date of court trial, being 8 January 2013. As the Company is no longer selling the products involved in this case, the litigation will not have any substantial impact on the local sales of the Company. In respect of the patent which is the subject of Huawei’s litigation and other related patents of the same class, ZTE France has filed a lawsuit with the High Court of Paris to claim the invalidity of the patent, and the case is currently under trial.

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

In May 2011 and May 2012, ZTE Deutschland and the Company respectively received statements of claim filed by Huawei to the court of Dusseldorf, Germany, claiming that ZTE Deutschland and the Company had infringed its patent. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 9 January 2012, ZTE Deutschland submitted a defense to the court. In respect of the patent which is the subject of Huawei’s litigation and other related patents of the same class, the Company and ZTE Deutschland filed a lawsuit with the Federal Patent Court of Germany to claim the invalidity of the patent, and the case is currently under trial.

In May 2012, ZTE Deutschland received statements of claim filed by Huawei to the court of Mannheim Dusseldorf, Germany, claiming that ZTE Deutschland had infringed its patent. The amount in dispute for this case was estimated by Huawei at EUR1 million. The Company is actively preparing for its defense.



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

In addition to instituting lawsuits in other countries against the Company and its wholly-owned subsidiaries for infringements of its patent rights or trademarks, Huawei also filed a lawsuit with Shenzhen Intermediate People’s Court (“Shenzhen Intermediate Court”) in 2011 alleging the Company’s infringement of 4 of its patent rights and demanding the Company to discontinue such infringement and pay a compensation. The Company responded actively by filing a case with Shenzhen Intermediate Court alleging Huawei’s infringement of 3 patent rights of the Company, demanding Huawei to discontinue such infringement and pay a compensation. As of now, trials of the aforesaid domestic cases have commenced.

4. On 3 January 2012, ZTE DO BRAZIL LTDA (“ZTE Brazil”), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil. It was alleged in the notice that ZTE Brazil had not paid the ICMS tax (a tax payable in respect of the transit of goods and related services between different states) to the tax bureau of Sao Paulo State in respect of goods imported at Espirito Santo State and transported to Sao Paulo State during the period from October 2006 to December 2008. The tax amount outstanding was approximately BRL74.70 million (equivalent to approximately RMB234 million).

On 20 January 2012, ZTE Brazil submitted an administrative defense to the primary administrative court under the tax bureau of Sao Paulo State, stating that ZTE Brazil had paid the ICMS tax at Espirito Santo State. Pursuant to an agreement between Sao Paulo State and Espirito Santo State in June 2009 and Order No. 56045/2010 of Sao Paulo State, which provides that the agreement shall apply to ICMS tax incurred prior to May 2009, ZTE Brazil is not required to pay ICMS to the tax bureau of Sao Paulo State. On 13 April 2012, ZTE Brazil received the judgment of the primary trial of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 11 June 2012, ZTE Brazil filed an appeal with the secondary administrative court under the tax bureau of Sao Paulo State.

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

5. In May 2012, the Company and ZTE USA, a wholly-owned subsidiary of the Company, received a statement of claim filed by a certain U.S. company, with the International Trade Commission (ITC) and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a limited exclusion and injunction order that would prevent the Company's products that had infringed its patent rights in image processing from entering the United States. In the case filed with the District Court, damages for losses and payments of attorney fees were also demanded of the defendants, in addition to the plea for injunction, although no specific amount of compensation was named. The Company has appointed an external legal counsel to conduct active defense in respect of the said case. There was no substantial progress of the case at the moment.

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

## 6.5 Other significant events and analysis of their impact and solutions

### 6.5.1 Investment in securities

1. Securities investment by the Company at the end of the reporting period:

*Unit: RMB in ten thousands*

Type of securities	Stock code	Stock name	Initial investment	Shares held at the end of the period (10 thousands shares)	Nominal value at the end of the period	Percentage of total investment in securities at the end of the period	Profit and loss in the reporting period
Stock	300077	Nationz Technologies	172	313	6,349	100%	(2,369)
Other investment in securities held at the end of the period			—	—	—	—	—
Profit and loss from sales of investment in securities in the reporting period			—	—	—	—	—
<b>Total</b>			<b>172</b>	<b>313</b>	<b>6,349</b>	<b>100%</b>	<b>(2,369)</b>

Session of the Board approving investment in securities, announcement date and number

N/A

Session of the general meeting approving investment in securities, announcement date and number

N/A



## 2. Details of securities investment

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

As at the end of the reporting period, the Company held 3,125,800 shares in Nationz Technologies (accounting for approximately 1.15% of the total share capital of Nationz Technologies), all of which were unrestricted circulating shares. As the Company no longer exercises significant influence over the operating activities of Nationz Technologies, the outstanding unsold shares, previously accounted for as long-term equity, have been reclassified as trading financial assets for accounting purposes and investment gains and profit/loss from fair-value changes have been measured at fair value.

### 6.5.2 *Equity interests in other listed companies*

On 13 December 2011, the IPO application of Shenzhen Jufei Optoelectronics Co., Ltd. (“Jufei”), a company in which the Company held an indirect interest, was approved at the 78th working meeting of 2011 of the GEM Board Issue Approval Committee under China Securities Regulatory Commission (“CSRC”), and was listed on the GEM Board of the Shenzhen Stock Exchange on 19 March 2012.

As at the end of the reporting period, the Company was the controlling shareholder of Shenzhen Changfei Investment Company Limited (“Changfei”) holding a 51% equity interest. Changfei held 12.87 million shares in Jufei, representing 16.09% of the total share capital of Jufei.

On 28 February 2012, the IPO application of Huizhou Speed Wireless Technology Co., Ltd (“Speed”), a company in which the Company held an indirect interest, was approved at the 12th working meeting of 2012 of the GEM Board Issue Approval Committee under CSRC, and Speed was listed on the GEM Board of the Shenzhen Stock Exchange on 8 June 2012.

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

Unit: RMB in ten thousands

Stock code	Stock name	Initial investment	Percentage of equity interest in issuer	Nominal value at the end of the period	Gain/loss for the reporting period	Change in owner's equity for the reporting period	Accounting classification	Source of shares
300303	Jufei	450	16.09%	12,606	6,916	6,916	Long-term equity investment	Initial investment
300322	Speed	763	2.14%	3,346	—	1,937	Available-for-sale financial assets	Initial investment
Total		1,213	—	15,952	6,916	8,853	—	—

*Note:* Figures corresponding to Jufei are provided with Changfei as the accounting subject; figures corresponding to Speed are provided with Zhonghe Chunsheng Fund as the accounting subject.

### 6.5.3 Fund appropriation and progress of repayment during the reporting period

☐ Applicable ☒ N/A

Accountability investigation plan proposed by the Board of Directors in respect of failure of the listed company to complete settlement of non-operating fund appropriation as at the end of the reporting period

☐ Applicable ☒ N/A

### 6.5.4 Performance of undertaking

☐ Applicable ☒ N/A

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

### 6.5.5 The current profit distribution or capitalisation of capital reserve proposal of the Board of Directors

☐ Applicable ☒ N/A

The Company does not propose any interim profit distribution or share capital increase by way of transfer from reserves for the first six months of 2012.

### 6.5.6 The Phase I Share Incentive Scheme of the Company during the reporting period

The Phase I Share Incentive Scheme of the Company was under normal implementation during the reporting period. The impact of the Phase I Share Incentive Scheme on the Company's financial conditions and operating results is discussed in further detail in Note VII to the financial statements prepared under PRC ASBEs in the 2012 Interim Report to be published in due course.

### 6.5.7 Items of other comprehensive income

Unit: RMB in ten thousands

Item	Reporting period	Previous period
1. Gains/losses arising from available-for-sale financial assets	1,937	—
Less: Income tax effect of available-for-sale financial assets	—	—
Net amount charged to other comprehensive income in the previous period and transferred to profit and loss in the current period	—	—
<b>Sub-total</b>	<b>1,937</b>	—
2. Share of other comprehensive income of investees under the equity method	—	—
Less: Income tax effect of share of other comprehensive income of investees under the equity method	—	—
Net amount charged to other comprehensive income in the previous period and transferred to profit and loss in the current period	—	—
<b>Sub-total</b>	—	—
3. Gains/losses arising from cash flow hedging instruments	(934)	—
Less: income tax effect of cash flow hedging instruments	—	—
Net amount charged to other comprehensive income in the previous period and transferred to profit and loss in the current period	—	—
Adjustment of initially recognised amount upon reclassification as hedges	—	—
<b>Sub-total</b>	<b>(934)</b>	—
4. Difference arising from translation of foreign currencies	(21,810)	(230)
Less: net amount of disposal of overseas operations transferred to profit and loss for the current period	—	—
<b>Sub-total</b>	<b>(21,810)</b>	<b>(230)</b>
5. Others	93,267	—
Less: Income tax effect arising from other income charged to other comprehensive income	—	—
Net amount charged to other comprehensive income in the previous period and transferred to profit and loss in the current period	—	—
<b>Sub-total</b>	<b>93,267</b>	—
<b>Total</b>	<b>72,460</b>	<b>(230)</b>

## 6.6 Reception of investors and analysts, communications and press interviews of the Company during the reporting period

Nature	Location	Time	Mode	Audience received	Key contents of discussion	Materials furnished
<b>Presentation of the Company</b>	Shenzhen	March 2012	Teleconference	Analysts and investors	2011 Annual Report	Published announcements and regular reports
	Hong Kong	March 2012	2011 results presentation	Analysts and investors	2011 Annual Report	Published announcements and regular reports
	Shenzhen	April 2012	Analysts' meeting	Analysts	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	April 2012	Teleconference	Analysts and investors	First Quarterly Report 2012	Published announcements and regular reports
<b>External meetings</b>	Hong Kong	January 2012	Citibank investors' meeting	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2012	CICC investor's meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	Hong Kong	May 2012	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	May 2012	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Enshi	June 2012	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2012	China Merchants Securities investors' meeting	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
	Shenzhen	June 2012	BOCI investors' meeting	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports

Nature	Location	Date	Mode	Audience received	Contents of discussion	Materials furnished
<b>Overseas investors</b>						
Company visits by analysts	Company	January to June 2012	Verbal	Merrill Lynch Securities, China Alpha Investment, Tokai Tokyo Securities (Asia) Limited, GSI, Neptune Investment Management, KGI, F & C Group, Baillie Gifford & Co Limited, Goldman Sachs, Shenyin Wanguo, BOCI, Havenport, Nomura Securities, Collins Stewart LLC, Sumitomo Mitsui Asset Management, UOB, ING, Core Pacific, Display Bank, Schroder Investment Management (Singapore) Ltd., Lansdowne Partners Limited, Capital, Mitsubishi UFJ Securities, CGII, CCB International, Kynikos Associates, Woori Investment, Pengana Capital Limited, Comgest Asia, Everbright International, Oaktree Capital, De L Echiquier, Mondrian Investment Partners, Teng Yue Partners, Korea Investment & Securities, Deutsche Bank, CN Investment Division, Smith & Williamson, UBS Asset Management, Absolute Asia Asset Management, DBS, SAC, APS, CLSA, Daiwa Securities, Mizuho Asset Management, Putnam	Day-to-day operations of the Company	Published announcements and regular reports
<b>Domestic Investors</b>						
	Company	January to June 2012	Verbal	Hua Chuang Securities, Guotai Junan Group Research, China Merchants Securities, Everbright Securities, E Fund, Great Wall Securities, China AMC, Bosera Fund, Xiangcai Securities, Southern Fund, Sinolink Securities, First Capital, CITIC Securities, Haitong Securities, Guangfa Fund, Goldstate Securities, Shang Cheng Asset, Rongtong Fund, Zhongshan Securities, Wise Win, Taiping Asset, Prime Capital, China Securities, PICC, China Life Insurance, Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports

## 6.7 Implementation of the Corporate Governance Code and other matters

### 6.7.1 Compliance with the Corporate Governance Code

During the period from 1 January to 31 March 2012, the Company fully complied with all the principles and code provisions of the Code on Corporate Governance Practices set out in Appendix 14 to the Hong Kong Listing Rules; during the period from 1 April to 30 June 2012, the Company fully complied with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the revised Hong Kong Listing Rules.

### **6.7.2 Securities transactions by Directors**

The Directors 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.

### **6.7.3 The Audit Committee**

The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also discussed and reviewed the report, including the financial statements of the Group for the six months ended 30 June 2012.

## **§7 FINANCIAL REPORT**

### **7.1 Audit opinion**

☒ Unaudited ☐ Audited

### **7.2 Financial statements**

**7.2.1 Financial statements prepared under PRC ASBEs (unaudited) (Please see Appendix I)**

**7.2.2 Financial statements prepared under HKFRSs (unaudited) (Please see Appendix II)**

### **7.3 Notes to Financial Statements**

**7.3.1 Changes in major accounting policies or accounting estimates and corrections of significant accounting errors and their impact**

☐ Applicable ☒ N/A

**7.3.2 Reasons for significant changes in the scope of consolidated financial statements**

☐ Applicable ☒ N/A

**7.3.3 Explanatory notes on matters in relation to which a qualified auditors’ report has been furnished**

☐ Applicable ☒ N/A

By Order of the Board  
**Hou Weigui**  
Chairman

Shenzhen, PRC  
22 August 2012

*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 Timothy Alexander Steinert.*

# APPENDIX I: FINANCIAL STATEMENTS PREPARED UNDER PRC ASBEs (UNAUDITED)

## Consolidated Balance Sheet

30 June 2012

	<i>RMB'000</i>	
	30 June 2012 (unaudited)	31 December 2011 (audited)
<b>Assets</b>		
<b>Current assets</b>		
Cash	21,687,036	21,471,967
Financial assets held for trading	91,507	95,618
Bills receivable	3,987,639	3,223,529
Trade receivables	23,800,944	23,873,425
Factored trade receivables	2,176,989	3,623,096
Prepayments	561,484	494,200
Other receivables	1,795,822	2,118,700
Inventories	13,055,460	14,988,379
Amount due from customers for contract works	16,635,456	14,588,455
<b>Total current assets</b>	<b>83,792,337</b>	<b>84,477,369</b>
<b>Non-current assets:</b>		
Available-for-sale financial assets	944,905	819,972
Long-term trade receivables	1,214,620	864,274
Factored long-term trade receivable	4,336,995	4,156,083
Long-term equity investment	572,896	514,091
Investment properties	1,595,977	—
Fixed assets	7,328,333	7,003,824
Construction in progress	857,241	1,580,462
Intangible assets	1,226,488	1,194,946
Development costs	2,149,934	1,925,610
Deferred tax assets	1,188,745	1,128,836
Long-term deferred assets	66,366	61,741
Other non-current assets	1,770,188	1,640,906
<b>Total non-current assets</b>	<b>23,252,688</b>	<b>20,890,745</b>
<b>TOTAL ASSETS</b>	<b>107,045,025</b>	<b>105,368,114</b>

Legal representative:  
Hou Weigui

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

**Consolidated Balance Sheet (continued)***30 June 2012**RMB'000*

	30 June 2012 (unaudited)	31 December 2011 (audited)
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Short-term loans	12,890,954	11,183,349
Derivative financial liabilities	32,218	5,305
Bank advances on factored trade receivables	2,176,989	3,789,731
Bills payable	11,235,766	11,149,367
Trade payables	16,121,642	21,542,885
Amount due to customers for contract works	3,003,622	3,068,804
Advances from customer	2,691,130	2,458,428
Salary and welfare payable	2,091,578	2,409,032
Taxes payable	(1,015,744)	(990,041)
Dividends payable	860,627	170,046
Other payables	6,993,728	7,526,477
Deferred income	252,225	74,986
Provisions	398,356	393,343
Long-term loans due within one year	4,434,935	693,099
<b>Total current liabilities</b>	<b>62,168,026</b>	<b>63,474,811</b>
<b>Non-current liabilities:</b>		
Long-term loans	7,248,628	6,940,702
Bank advances on factored long-term trade receivables	4,336,995	4,156,083
Bonds cum warrants	5,976,196	3,884,198
Deferred tax liabilities	22,040	—
Other non-current liabilities	607,143	623,545
<b>Total non-current liabilities</b>	<b>18,191,002</b>	<b>15,604,528</b>
<b>Total liabilities</b>	<b>80,359,028</b>	<b>79,079,339</b>
<b>Shareholders' equity:</b>		
Share capital	3,440,078	3,440,078
Capital reserves	9,472,718	8,539,807
Restricted shares subject to lock-up	(40,537)	(40,537)
Surplus reserves	1,587,430	1,587,891
Retained profits	10,790,859	10,545,984
Proposed final dividends	—	686,190
Foreign currency translation differences	(746,963)	(527,696)
<b>Total equity attributable to equity holders of the parent</b>	<b>24,503,585</b>	<b>24,231,717</b>
Minority interests	2,182,412	2,057,058
<b>Total shareholders' equity</b>	<b>26,685,997</b>	<b>26,288,775</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>107,045,025</b>	<b>105,368,114</b>



# Consolidated Income Statement

For the six months ended 30 June 2012

RMB'000

	Six months ended 30 June 2012 (unaudited)	Six months ended 30 June 2011 (unaudited) (Restated)
<b>Operating revenue</b>	<b>42,641,898</b>	37,013,111
Less: Operating costs	<b>31,277,990</b>	26,243,731
Taxes and surcharges	<b>608,119</b>	572,917
Selling and distribution costs	<b>5,323,563</b>	4,913,396
Administrative expenses	<b>1,038,026</b>	1,136,385
Research and development costs	<b>4,025,433</b>	3,664,474
Finance expenses	<b>831,063</b>	440,485
Impairment losses	<b>460,490</b>	286,717
Add: Gains and losses from changes in fair value	<b>(31,439)</b>	(236,551)
Investment income	<b>90,878</b>	1,165,289
Including: Share of profits and losses of associates and jointly-controlled entities	<b>(7,922)</b>	9,407
<b>Operating profit</b>	<b>(863,347)</b>	683,744
Add: Non-operating income	<b>1,546,718</b>	629,119
Less: Non-operating expenses	<b>27,739</b>	40,114
Including: Gains and losses on disposal of non-current assets	<b>12,068</b>	5,087
<b>Total profit</b>	<b>655,632</b>	1,272,749
Less: Income tax	<b>263,624</b>	436,419
<b>Net profit</b>	<b>392,008</b>	836,330
Net profit attributable to owners of the parent	<b>244,875</b>	769,271
Minority interests	<b>147,133</b>	67,059
<b>Earnings per share</b>		
Basic earnings per share	<b>RMB0.07</b>	RMB0.23
Diluted earnings per share	<b>RMB0.07</b>	RMB0.22
<b>Other comprehensive income</b>	<b>724,599</b>	(2,303)
<b>Comprehensive income</b>	<b>1,116,607</b>	834,027
Including:		
Comprehensive income attributable to owners of the parent	<b>954,853</b>	764,607
Comprehensive income attributable to minority interests	<b>161,754</b>	69,420

# Consolidated Statement of Changes in Equity

RMB'000

For the six months ended 30 June 2012 (unaudited)										
Equity attributable to equity holders of the parent										
	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I. Current period's opening balance	3,440,078	8,539,807	(40,537)	1,587,891	10,545,984	686,190	(527,696)	24,231,717	2,057,058	26,288,775
II. Changes during the period										
(1) Net profit	—	—	—	—	244,875	—	—	244,875	147,133	392,008
(2) Other comprehensive income	—	929,245	—	—	—	—	(219,267)	709,978	14,621	724,599
Total comprehensive income	—	929,245	—	—	244,875	—	(219,267)	954,853	161,754	1,116,607
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	3,666	—	—	—	—	—	3,666	—	3,666
3. Disposal of subsidiaries	—	—	—	(461)	—	—	—	(461)	1,392	931
(4) Profit appropriation										
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(686,190)	—	(686,190)	(37,792)	(723,982)
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										
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—	—	—
III. Current period's closing balance	3,440,078	9,472,718	(40,537)	1,587,430	10,790,859	—	(746,963)	24,503,585	2,182,412	26,685,997

# Consolidated Statement of Changes in Equity (continued)

RMB'000

For the six months ended 30 June 2011 (unaudited)  
Equity attributable to equity holders of the parent

	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Sub-total	Minority interests	Total shareholders' equity
I. Current period's opening balance	2,866,732	9,070,975	(276,266)	1,537,512	9,222,387	841,297	(168,765)	23,093,872	1,868,126	24,961,998
II. Changes during the period										
(1) Net profit	—	—	—	—	769,271	—	—	769,271	67,059	836,330
(2) Other comprehensive income	—	—	—	—	—	—	(4,664)	(4,664)	2,361	(2,303)
Total comprehensive income	—	—	—	—	769,271	—	(4,664)	764,607	69,420	834,027
(3) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	6,696	6,696
2. Equity settled share expenses charged to equity	—	34,670	—	—	—	—	—	34,670	—	34,670
3. Others	—	—	—	—	—	—	—	—	316	316
(4) Profit appropriation										
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(841,297)	—	(841,297)	(218,677)	(1,059,974)
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										
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—	—	—
III. Current period's closing balance	<u>2,866,732</u>	<u>9,105,645</u>	<u>(276,266)</u>	<u>1,537,512</u>	<u>9,991,658</u>	<u>—</u>	<u>(173,429)</u>	<u>23,051,852</u>	<u>1,725,881</u>	<u>24,777,733</u>

# Consolidated Cash Flow Statement

For the six months ended 30 June 2012

RMB'000

	Six months ended 30 June 2012 (unaudited)	Six months ended 30 June 2011 (unaudited)
<b>I. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	42,243,025	31,366,465
Refunds of taxes	4,122,121	2,671,771
Cash received relating to other operating activities	412,133	2,353,862
<b>Sub-total of cash inflows</b>	<b>46,777,279</b>	<b>36,392,098</b>
Cash paid for goods and services	36,332,231	26,748,405
Cash paid to and on behalf of employees	6,411,292	6,901,016
Cash paid for all types of taxes	3,529,884	2,695,191
Cash paid relating to other operating activities	4,143,544	6,218,839
<b>Sub-total of cash outflows</b>	<b>50,416,951</b>	<b>42,563,451</b>
<b>Net cash flows from operating activities</b>	<b>(3,639,672)</b>	<b>(6,171,353)</b>
<b>II. Cash flows from investing activities</b>		
Cash received from sale of investments	865,446	493,155
Cash received from return on investments	31,854	114,601
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	19,335	25,298
<b>Sub-total of cash inflows</b>	<b>916,635</b>	<b>633,054</b>
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	1,307,472	1,520,120
Cash paid for acquisition of investments	962,734	916,522
<b>Sub-total of cash outflows</b>	<b>2,270,206</b>	<b>2,436,642</b>
<b>Net cash flows from investing activities</b>	<b>(1,353,571)</b>	<b>(1,803,588)</b>

**Consolidated Cash Flow Statement (continued)***For the six months ended 30 June 2012*

	<i>RMB'000</i>	
	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Six months ended 30 June 2011 (unaudited)</b>
<b>III. Cash flows from financing activities</b>		
Cash received from capital injections	—	6,696
Including: Capital injection into subsidiaries by minority shareholders	—	6,696
Cash received from borrowings	<b>17,485,994</b>	13,905,120
<b>Sub-total of cash inflows</b>	<b>17,485,994</b>	13,911,816
Cash repayments of borrowings	<b>12,077,415</b>	5,477,440
Cash payments for distribution of dividends or for interest expenses	<b>470,649</b>	428,740
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	—	—
<b>Sub-total of cash outflows</b>	<b>12,548,064</b>	5,906,180
<b>Net cash flows from financing activities</b>	<b>4,937,930</b>	8,005,636
<b>IV. Effect of changes in foreign exchange rate on cash</b>	<b>(63,316)</b>	(68,264)
<b>V. Net increase in cash and cash equivalents</b>	<b>(118,629)</b>	(37,569)
Add: cash and cash equivalents at the beginning of the period	<b>20,662,089</b>	14,905,099
<b>VI. Net balance of cash and cash equivalents at the end of the period</b>	<b>20,543,460</b>	14,867,530

**Balance Sheet**  
**30 June 2012**

	<i>RMB'000</i>	
	<b>30 June 2012 (unaudited)</b>	<b>31 December 2011 (audited)</b>
<b>Assets</b>		
<b>Current assets</b>		
Cash	<b>14,345,256</b>	13,575,178
Financial assets held for trading	<b>79,024</b>	87,180
Bills receivable	<b>3,629,188</b>	2,992,133
Trade receivables	<b>33,529,629</b>	33,136,024
Factored trade receivables	<b>2,170,765</b>	3,306,558
Prepayments	<b>17,778</b>	22,969
Dividends receivable	<b>5,432,920</b>	3,696,751
Other receivables	<b>5,549,238</b>	3,477,706
Inventories	<b>6,288,371</b>	8,634,564
Amount due from customers for contract works	<b>11,800,570</b>	12,171,992
<b>Total current assets</b>	<b>82,842,739</b>	81,101,055
<b>Non-current assets</b>		
Available-for-sale financial assets	<b>212,448</b>	212,448
Long-term trade receivables	<b>3,552,786</b>	3,633,751
Factored long-term trade receivables	<b>4,336,321</b>	4,059,772
Long-term equity investment	<b>5,046,333</b>	4,750,471
Investment properties	<b>1,326,789</b>	—
Fixed assets	<b>5,229,334</b>	4,791,141
Construction in progress	<b>52,730</b>	739,549
Intangible assets	<b>690,983</b>	715,716
Development costs	<b>561,262</b>	499,988
Deferred tax assets	<b>597,289</b>	622,619
Long-term deferred assets	<b>29,993</b>	30,096
Other non-current assets	<b>1,467,374</b>	1,489,944
<b>Total non-current assets</b>	<b>23,103,642</b>	21,545,495
<b>TOTAL ASSETS</b>	<b>105,946,381</b>	102,646,550

**Balance Sheet (continued)***30 June 2012**RMB'000*

	30 June 2012 (unaudited)	31 December 2011 (audited)
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities:</b>		
Short-term loans	9,023,635	6,536,028
Financial liabilities held for trading	13,528	—
Bank advances on factored trade receivables	2,170,765	3,473,193
Bills payable	13,326,824	11,904,593
Trade payables	30,285,396	31,997,323
Amount due to customers for contract works	2,318,968	2,401,582
Advances from customers	1,913,180	1,608,213
Salary and welfare payables	480,333	720,866
Taxes payable	(1,219,124)	(1,628,377)
Dividends payable	686,318	128
Other payables	16,719,696	20,133,672
Deferred income	74,204	29,483
Provisions	266,492	241,134
Long-term loans due within one year	4,434,935	693,099
<b>Total current liabilities</b>	<b>80,495,150</b>	<b>78,110,937</b>
<b>Non-current liabilities</b>		
Long-term loans	632,490	1,130,090
Bank advances on factored long-term trade receivables	4,336,321	4,059,772
Bonds cum warrants	5,976,196	3,884,198
Other non-current liabilities	596,164	622,297
<b>Total non-current liabilities</b>	<b>11,541,171</b>	<b>9,696,357</b>
<b>Total liabilities</b>	<b>92,036,321</b>	<b>87,807,294</b>
<b>Shareholders' equity</b>		
Share capital	3,440,078	3,440,078
Capital reserves	9,461,007	8,534,677
Restricted shares subject to lock-up	(40,537)	(40,537)
Surplus reserves	925,674	925,674
Retained profits	140,635	1,309,523
Proposed final dividends	—	686,190
Foreign currency translation differences	(16,797)	(16,349)
Total equity attributable to equity holders of the parent	13,910,060	14,839,256
Minority interests	—	—
<b>Total shareholders' equity</b>	<b>13,910,060</b>	<b>14,839,256</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>105,946,381</b>	<b>102,646,550</b>



## Income Statement

For the six months ended 30 June 2012

	RMB'000	
	Six months ended 30 June 2012 (unaudited)	Six months ended 30 June 2011 (unaudited)
<b>Operating revenue</b>	<b>36,570,493</b>	30,966,602
Less: Operating costs	<b>33,554,892</b>	27,606,825
Taxes and surcharges	<b>281,902</b>	115,754
Selling and distribution costs	<b>3,523,693</b>	3,126,795
Administrative expenses	<b>643,165</b>	639,113
Research and development costs	<b>1,014,836</b>	1,044,595
Finance expenses	<b>453,462</b>	601,960
Impairment losses	<b>324,196</b>	218,236
Add: Gains and losses from changes in fair value	<b>(21,685)</b>	(181,464)
Investment income	<b>1,732,161</b>	2,814,865
Including: Share of profits and losses of associates and jointly-controlled entities	<b>(20,693)</b>	(1,942)
<b>Operating profit</b>	<b>(1,515,177)</b>	246,725
Add: Non-operating income	<b>328,349</b>	143,998
Less: Non-operating expenses	<b>12,481</b>	30,785
Including: Gains and losses on disposal of non-current assets	<b>8,411</b>	1,588
<b>Total profit</b>	<b>(1,199,309)</b>	359,938
Less: Income tax	<b>(30,421)</b>	24,178
<b>Net profit</b>	<b>(1,168,888)</b>	335,760
<b>Other comprehensive income</b>	<b>922,216</b>	(209)
<b>Comprehensive income</b>	<b>(246,672)</b>	335,551

# Statement of Changes in Equity

RMB'000

For the six months ended 30 June 2012 (unaudited)

	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current period's opening balance	3,440,078	8,534,677	(40,537)	925,674	1,309,523	686,190	(16,349)	14,839,256
II. Changes during the period								
(1) Net profit	—	—	—	—	(1,168,888)	—	—	(1,168,888)
(2) Other comprehensive income	—	922,664	—	—	—	—	(448)	922,216
Total comprehensive income	—	922,664	—	—	(1,168,888)	—	(448)	(246,672)
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	3,666	—	—	—	—	—	3,666
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(686,190)	—	(686,190)
3. Proposed final dividends	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(5) Transfer of shareholders' equity								
1. Transfer of capital reserve to share capital	—	—	—	—	—	—	—	—
2. Transfer of surplus reserves to share capital	—	—	—	—	—	—	—	—
3. Surplus reserves making up of losses	—	—	—	—	—	—	—	—
4. Others	—	—	—	—	—	—	—	—
(6) Others								
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—
III. Current period's closing balance	<u>3,440,078</u>	<u>9,461,007</u>	<u>(40,537)</u>	<u>925,674</u>	<u>140,635</u>	<u>—</u>	<u>(16,797)</u>	<u>13,910,060</u>

# Statement of Changes in Equity (continued)

RMB'000

For the six months ended 30 June 2011 (unaudited)								
	Share capital	Capital reserve	Restricted Shares subject to lock-up	Surplus reserve	Retained profits	Proposed Final dividends	Foreign currency translation differences	Total shareholders' equity
I. Current period's opening balance	2,866,732	9,066,202	(276,266)	875,295	1,542,299	841,297	(15,413)	14,900,146
II. Changes during the period								
(1) Net profit	—	—	—	—	335,760	—	—	335,760
(2) Other comprehensive income	—	—	—	—	—	—	(209)	(209)
Total comprehensive income	—	—	—	—	335,760	—	(209)	335,551
(3) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	—	—	—	—	—	—	—	—
2. Equity settled share expenses charged to equity	—	34,670	—	—	—	—	—	34,670
3. Others	—	—	—	—	—	—	—	—
(4) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(841,297)	—	(841,297)
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								
1. Effect of changes of other equity holders' interest in invested entities by equity method	—	—	—	—	—	—	—	—
III. Current period's closing balance	<u>2,866,732</u>	<u>9,100,872</u>	<u>(276,266)</u>	<u>875,295</u>	<u>1,878,059</u>	<u>—</u>	<u>(15,622)</u>	<u>14,429,070</u>

## Cash Flow Statement

For the six months ended 30 June 2012

	RMB'000	
	Six months ended 30 June 2012 (unaudited)	Six months ended 30 June 2011 (unaudited)
<b>I. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	32,932,537	25,995,501
Refunds of taxes	3,206,316	2,135,676
Cash received relating to other operating activities	313,031	3,250,718
<b>Sub-total of cash inflows</b>	<b>36,451,884</b>	<b>31,381,895</b>
Cash paid for goods and services	34,547,203	29,730,608
Cash paid to and on behalf of employees	2,311,533	2,477,421
Cash paid for all types of taxes	429,217	309,497
Cash paid relating to other operating activities	2,579,575	3,072,147
<b>Sub-total of cash outflows</b>	<b>39,867,528</b>	<b>35,589,673</b>
<b>Net cash flows from operating activities</b>	<b>(3,415,644)</b>	<b>(4,207,778)</b>
<b>II. Cash flows from investing activities</b>		
Cash received from sale of investments	—	493,155
Cash received from return on investments	17,187	28,572
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	17,111	25,048
<b>Sub-total of cash inflows</b>	<b>34,298</b>	<b>546,775</b>
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	632,496	607,575
Cash paid for acquisition of investments	150,502	214,500
<b>Sub-total of cash outflows</b>	<b>782,998</b>	<b>822,075</b>
<b>Net cash flows from investing activities</b>	<b>(748,700)</b>	<b>(275,300)</b>

**Cash Flow Statement (continued)***For the six months ended 30 June 2012*

	<i>RMB'000</i>	
	<b>Six months ended 30 June 2012 (unaudited)</b>	<b>Six months ended 30 June 2011 (unaudited)</b>
<b>III.Cash flows from financing activities</b>		
Cash received from capital injections	—	—
Including: Capital injection into subsidiaries by minority shareholders	—	—
Cash received from borrowings	<b>13,598,394</b>	7,356,664
<b>Sub-total of cash inflows</b>	<b>13,598,394</b>	7,356,664
Cash repayments of borrowings	<b>8,215,339</b>	2,312,007
Cash payments for distribution of dividends or for interest expenses	<b>330,800</b>	281,531
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	—	—
<b>Sub-total of cash outflows</b>	<b>8,546,139</b>	2,593,538
<b>Net cash flows from financing activities</b>	<b>5,052,255</b>	4,763,126
<b>IV.Effect of changes in foreign exchange rate on cash</b>	<b>(36,142)</b>	(65,585)
<b>V. Net increase in cash and cash equivalents</b>	<b>851,769</b>	214,463
Add: cash and cash equivalents at the beginning of the period	<b>13,276,732</b>	9,505,157
<b>VI.Net balance of cash and cash equivalents at the end of the period</b>	<b>14,128,501</b>	9,719,620

## APPENDIX II: FINANCIAL STATEMENTS PREPARED UNDER HKFRSs (UNAUDITED)

### Consolidated Statement of Comprehensive Income

(Prepared under HKFRSs)

Six months ended 30 June 2012

	Six months ended 30 June 2012 (unaudited) RMB'000	Six months ended 30 June 2011 (unaudited) (Restated) RMB'000
<b>Revenue</b>	<b>42,641,898</b>	37,013,111
Cost of sales	(32,140,656)	(26,900,766)
Gross profit	10,501,242	10,112,345
Other income and gains	1,713,512	2,116,556
Research and development costs	(4,025,433)	(3,664,474)
Selling and distribution costs	(5,402,346)	(4,983,647)
Administrative expenses	(1,153,256)	(1,260,362)
Other expenses	(408,645)	(547,406)
Finance costs	(561,520)	(509,670)
Share of profits and losses of:		
Jointly-controlled entities	(893)	—
Associates	(7,029)	9,407
<b>Profit before tax</b>	<b>655,632</b>	1,272,749
Income tax expense	(263,624)	(436,419)
<b>Profit for the year</b>	<b>392,008</b>	836,330
<b>Attributable to:</b>		
Owners of the parent	244,875	769,271
Non-controlling interests	147,133	67,059
	<b>392,008</b>	836,330
<b>Earnings per share attributable to ordinary equity holders of the parent</b>		
Basic	RMB0.07	RMB0.23
Diluted	RMB0.07	RMB0.22

**Consolidated Statement of Comprehensive Income (continued)**

(Prepared under HKFRSs)

*Six months ended 30 June 2012*

	<b>Six months ended 30 June 2012 (unaudited) RMB'000</b>	<b>Six months ended 30 June 2011 (unaudited) (Restated) RMB'000</b>
<b>Other comprehensive income</b>		
Cash flow hedging — Effective portion of changes in fair value of hedging instruments arising during the period	<b>(9,344)</b>	—
Changes in fair value of available-for-sale investments	<b>5,919</b>	—
Exchange differences arising from the translation of overseas business accounts on translation of foreign operations	<b>(204,646)</b>	(2,303)
Appreciation of investment properties upon valuation	<b>932,670</b>	—
<b>Other comprehensive income for the period, net of tax</b>	<b>724,599</b>	(2,303)
<b>Total comprehensive income — for the period</b>	<b>1,116,607</b>	834,027
<b>Attributable to:</b>		
Owners of the parent	<b>954,853</b>	764,607
Non-controlling interest	<b>161,754</b>	69,420
	<b>1,116,607</b>	834,027



# Consolidated Statement of Financial Position

(Prepared under HKFRSs)

30 June 2012

	30 June 2012 (unaudited) RMB'000	31 December 2011 (audited) RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	8,251,940	8,646,027
Prepaid land lease payments	892,649	862,030
Intangible assets	2,464,163	2,239,648
Investment properties	1,595,977	—
Investments in a jointly-controlled entity	45,302	46,195
Investments in associates	527,594	467,896
Available-for-sale investments	944,905	819,972
Long-term trade receivables	1,214,620	864,274
Factored long-term trade receivables	4,336,995	4,156,083
Deferred tax assets	1,188,745	1,128,836
Pledged deposits	945,207	949,666
Other non-current assets	824,981	691,240
<b>Total non-current assets</b>	<b>23,233,078</b>	<b>20,871,867</b>
<b>Current assets</b>		
Prepaid land lease payments	19,610	18,878
Inventories	13,055,460	14,988,379
Amount due from customers for contract works	16,635,456	14,588,455
Trade and bills receivables	27,788,583	27,096,954
Factored trade receivables	2,176,989	3,623,096
Prepayments, deposits and other receivables	4,161,284	5,028,840
Derivative financial assets	91,507	95,618
Pledged deposits	1,102,611	724,878
Time deposits with original maturity of over three months	40,965	85,000
Cash and cash equivalents	20,543,460	20,662,089
<b>Total current assets</b>	<b>85,615,925</b>	<b>86,912,187</b>
<b>Current liabilities</b>		
Trade and bills payables	27,357,408	32,692,252
Amount due to customers for contract works	3,003,622	3,068,804
Other payables and accruals	12,804,364	13,407,890
Interest-bearing bank borrowings	13,390,954	11,876,448
Bank advances on factored trade receivables	2,176,989	3,789,731
Tax payables	410,887	880,275
Derivative financial instruments	32,218	5,305
Dividends payable	860,627	170,046
Bonds cum warrants due within one year	3,934,935	—
<b>Total current liabilities</b>	<b>63,972,004</b>	<b>65,890,751</b>
<b>Net current assets</b>	<b>21,643,921</b>	<b>21,021,436</b>
<b>Total assets less current liabilities</b>	<b>44,876,999</b>	<b>41,893,303</b>

**Consolidated Statement of Financial Position (continued)**  
(Prepared under HKFRSs)  
30 June 2012

	30 June 2012 (unaudited) RMB'000	31 December 2011 (audited) RMB'000
<b>Total assets less current liabilities</b>	<b>44,876,999</b>	41,893,303
<b>Non-current liabilities</b>		
Derivative financial instruments	10,979	1,248
Interest-bearing bank borrowings	7,248,628	6,940,702
Bank advances on factored long-term trade receivables	4,336,995	4,156,083
Bonds cum warrants	5,976,196	3,884,198
Deferred tax liabilities	22,040	—
Financial guarantee contract	3,689	3,689
Provision for retirement benefits	48,221	48,716
Other long-term payables	544,254	569,892
<b>Total non-current liabilities</b>	<b>18,191,002</b>	15,604,528
<b>Net assets</b>	<b>26,685,997</b>	26,288,775
<b>Equity</b>		
<b>Equity attributable to owners of the parent</b>		
Issued capital	3,440,078	3,440,078
Shares subject to lock-up under the Share Incentive Scheme	(40,537)	(40,537)
Reserves	21,104,044	20,145,986
Proposed final dividend	—	686,190
	<b>24,503,585</b>	24,231,717
<b>Non-controlling interests</b>	<b>2,182,412</b>	2,057,058
<b>Total equity</b>	<b>26,685,997</b>	26,288,775

**Huo 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 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**

HKAS 12 Amendments      Amendments to HKAS 12 Income Taxes — Deferred Tax:  
Recovery of Underlying Assets<sup>2</sup>

HKAS 12 Amendments clarify the determination of deferred tax for investment property measured at fair value. The amendments introduce a rebuttable presumption that deferred tax on investment property measured at fair value should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, the amendments incorporate the requirement previously in HK(SIC) — Int 21 Income Taxes — Recovery of Revalued Non-Depreciable Assets that deferred tax on non-depreciable assets, measured using the revaluation model in HKAS 16, should always be measured on a sale basis. The Group adopted HKAS 12 Amendments from 1 January 2012. The adoption of the new and revised HKFRSs has had no significant financial effect on these financial statements.

## 2. OPERATING SEGMENT INFORMATION

An analysis of the Group's revenue and profit by operating segment is set out in the following table:

	Networks <i>RMB'000</i>	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 2012				
<b>Segment revenue:</b>				
Contract revenue from external customers	21,279,581	—	6,814,830	28,094,411
Sale of goods and services	—	14,248,064	299,423	14,547,487
Total	21,279,581	14,248,064	7,114,253	42,641,898
<b>Segment results</b>	3,897,951	383,284	1,150,991	5,432,226
Bank and other interest income				67,994
Dividend income and unallocated gains				1,645,518
Unallocated expenses				(5,920,664)
Finance costs				(561,520)
Share of profits and losses of:				
Jointly-controlled entity				(893)
Associates				(7,029)
<b>Profit before tax</b>				655,632
30 June 2012				
<b>Segment assets</b>	38,641,891	13,647,341	12,918,871	65,208,103
Investment in a jointly-controlled entity				45,302
Interest in associates				527,594
Unallocated assets				43,068,004
Total assets				108,849,003
<b>Segment liabilities</b>	8,475,865	899,195	2,833,676	12,208,736
Unallocated liabilities				69,954,270
Total liabilities				82,163,006
Six months ended 30 June 2012				
<b>Other segment information:</b>				
Provision for asset impairment	229,798	153,865	76,827	460,490
Depreciation and amortisation	362,641	242,812	121,239	726,692
Capital expenditure	673,033	450,640	225,010	1,348,683

	Networks <i>RMB'000</i>	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 2011 (Restated)				
<b>Segment revenue:</b>				
Contract revenue from external customers	20,482,092	—	3,737,548	24,219,640
Sale of goods and services	—	11,214,730	1,578,741	12,793,471
<b>Total</b>	<b>20,482,092</b>	<b>11,214,730</b>	<b>5,316,289</b>	<b>37,013,111</b>
<b>Segment results</b>	<b>3,871,167</b>	<b>456,438</b>	<b>955,462</b>	<b>5,283,067</b>
Bank and other interest income				51,913
Dividend income and unallocated gains				2,064,643
Unallocated expenses				(5,626,611)
Finance costs				(509,670)
Share of losses of jointly-controlled entities				9,407
<b>Profit before tax</b>				<b>1,272,749</b>
31 December 2011				
<b>Segment assets</b>	<b>40,918,534</b>	<b>13,141,415</b>	<b>11,257,292</b>	<b>65,317,241</b>
Investment in jointly-controlled entities				46,195
Investment in associates				467,896
Unallocated assets				41,952,722
<b>Total assets</b>				<b>107,784,054</b>
<b>Segment liabilities</b>	<b>9,964,112</b>	<b>767,660</b>	<b>2,741,274</b>	<b>13,473,046</b>
Unallocated liabilities				68,022,233
<b>Total liabilities</b>				<b>81,495,279</b>
Six months ended 30 June 2011				
<b>Other segment information:</b>				
Impairment losses recognised in profit or loss	157,601	86,121	42,995	286,717
Depreciation and amortisation	355,586	194,309	97,009	646,904
Capital expenditure	1,033,105	564,538	281,844	1,879,487

## 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 2012 and 2011 is set out in the following table:

	Six months ended 30 June 2012 <i>RMB'000</i>	Six months ended 30 June 2011 <i>RMB'000</i> (Restated)
The PRC	20,884,864	16,526,771
Asia (excluding the PRC)	8,009,957	6,807,562
Africa	3,923,335	5,011,605
Europe, Americas and Oceania	9,823,742	8,667,173
Total	<u>42,641,898</u>	<u>37,013,111</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 is as follows:

	Six months ended 30 June 2012 <i>RMB'000</i>	Six months ended 30 June 2011 <i>RMB'000</i> (Restated)
<b>Turnover</b>		
Telecommunications system contracts	28,094,411	24,219,640
Sale of goods and services	14,547,487	12,793,471
	<u>42,641,898</u>	<u>37,013,111</u>

#### 4. PROFIT BEFORE TAX

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

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Cost of goods and services	28,861,862	22,937,870
Depreciation	504,555	501,520
Amortisation of intangible assets	67,130	25,370
Amortisation of development expenses	155,007	120,014
Provision for bad and doubtful debts*	208,147	270,740
Provision for warranties**	241,360	126,966
Write-down of inventories to net realisable value**	252,343	15,977
Exchange difference, net	141,321	—
Loss on disposal of fixed assets*	12,068	5,087
Equity-settled share expense	3,666	34,670

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

\*\* Provision for warranties, 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. TAXATION

	Six months ended 30 June 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Group:		
Current — Mainland China	223,880	399,629
Current — Overseas	77,613	65,879
Deferred	(37,869)	(29,089)
Total tax charge for the period	263,624	436,419

Hong Kong profits tax has been provided at the rate of 16.5% (2011: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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



## 6. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2012 (Same period in 2011: 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 parent by the weighted average number of ordinary shares in issue as adjusted by the bonus issue during the year.

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 2012 RMB'000	Six months ended 30 June 2011 RMB'000
Earnings		
Net profit attributable to ordinary equity holders of the parent company for the period	<u>244,875</u>	<u>769,271</u>
	Six months ended 30 June 2012 Shares '000	Six months ended 30 June 2011 Shares '000 (Restated)
Shares		
Weighted average number of ordinary shares of the Company in issue (Note 1)	3,430,952	3,365,190
Diluting effect — weighted average number of ordinary shares (Note 2)		
Restricted Shares under share incentive scheme	<u>6,874</u>	<u>74,237</u>
Adjusted weighted average number of ordinary shares in issue	<u>3,437,826</u>	<u>3,439,427</u>

*Note 1:* In July 2011, the Company enlarged its share capital by 573,346,336 shares by way of capitalisation of capital reserves. After the capitalisation, the total number of ordinary shares in issue was 3,440,078,020 shares. The amounts of earnings per share for the reported periods were computed on the basis of the adjusted number of shares.

During the reporting period, 9,125,893 restricted shares subject to lock-up under the Phase I Share Incentive Scheme of the Company were not included accounted for as outstanding ordinary shares in issue.

*Note 2:* During the reporting period, 6,874,194 restricted shares (less 2,251,699 shares which were to lapse) subject to lock-up under the Phase I Share Incentive Scheme of the Company gave rise to potentially dilutive ordinary shares.

## 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 can be extended to at most 1 year depending on the customers' credit rating. 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. Trade receivables are non-interest bearing.

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:

	<b>30 June 2012 RMB'000</b>	<b>31 December 2011 RMB'000</b>
Within 6 months	<b>24,425,599</b>	24,390,814
7 to 12 months	<b>3,173,580</b>	2,296,520
1 to 2 years	<b>1,316,733</b>	1,174,085
2 to 3 years	<b>87,291</b>	99,809
Over 3 years	<b>—</b>	—
	<b>29,003,203</b>	27,961,228
Less: Current portion of trade and bills receivables	<b>(27,788,583)</b>	(27,096,954)
Long-term portion	<b>1,214,620</b>	864,274

The balances due from ultimate controlling company, jointly-controlled entities, associates and related companies included in the above are as follows:

	<b>30 June 2012 RMB'000</b>	<b>31 December 2011 RMB'000</b>
Controlling shareholders	<b>115</b>	77
Jointly-controlled entities	<b>56,870</b>	88,966
Associates	<b>882</b>	1,652
Related companies	<b>42,265</b>	25,957
	<b>100,132</b>	116,652

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:

	<b>30 June 2012 RMB'000</b>	<b>31 December 2011 RMB'000</b>
Within 6 months	<b>26,869,727</b>	32,263,588
7 to 12 months	<b>173,329</b>	299,452
1 to 2 years	<b>257,153</b>	87,206
2 to 3 years	<b>17,941</b>	13,278
Over 3 years	<b>39,258</b>	28,728
Total	<b><u>27,357,408</u></b>	<b><u>32,692,252</u></b>

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

	<b>30 June 2012 RMB'000</b>	<b>31 December 2011 RMB'000</b>
Ultimate controlling company	<b>41,918</b>	70,404
Associates	<b>62,385</b>	154,025
Other related companies	<b>84,407</b>	88,159
Total	<b><u>188,710</u></b>	<b><u>312,588</u></b>

The balances are unsecured, interest-free and are 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.