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ZTE CORPORATION
中興通訊股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 763)

2013 INTERIM REPORT SUMMARY
AND RESULTS ANNOUNCEMENT

1. IMPORTANT

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

The 2013 interim report (the “Interim Report”) containing all information required to be presented in interim reports in accordance with Appendix 16 to the Rules (the “Hong Kong Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) will be published on the website of the Hong Kong Stock Exchange (<http://www.hkexnews.com.hk>) and the Company’s website (<http://www.zte.com.cn>) in due course.

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

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

1.4 The interim financial reports of ZTE and its subsidiaries (the “Group”) for the six months ended 30 June 2013 were unaudited.

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

1.6 No profit distribution or capitalisation of capital reserves will be implemented in respect of the interim period of 2013.

2. CORPORATE PROFILE

2.1 Corporate information

| | | |
|---|---|-------------------------------------|
| Abbreviated name of stock | ZTE | |
| Stock code | 000063 (A Shares) | 763 (H Shares) |
| Abbreviated name of bond (code) | 中興債1 (115003) maturity on 30 January 2013 | 12中興01 (112090) |
| Place of listing | Shenzhen Stock Exchange | Stock Exchange of Hong Kong Limited |
| Registered and office address | ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, People's Republic of China | |
| Postal code | 518057 | |
| Principal place of business in Hong Kong | 8/F, Gloucester Tower, The Landmark, 15 Queen's Road Central, Hong Kong | |
| Website | http://www.zte.com.cn | |
| E-mail | fengjianxiong@zte.com.cn | |

2.2 Contact Persons and Correspondence

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

3. HIGHLIGHTS OF ACCOUNTING AND FINANCIAL INDICATORS

3.1 Major Accounting Data and Financial Indicators prepared in accordance with PRC ASBEs

Unit: RMB in thousands

| Items | End of the reporting period (30 June 2013) | End of last year (31 December 2012) | Change as at the end of the reporting period compared with the end of last year |
|---|--|--|---|
| Total assets | 102,578,802 | 107,446,306 | (4.53%) |
| Owner's equity attributable to shareholders of the listed company | 21,712,353 | 21,502,474 | 0.98% |
| Share capital (<i>thousand shares</i>) | 3,440,078 | 3,440,078 | — |
| Net asset per share attributable to shareholders of the listed company (<i>RMB/share</i>) ^{Note 1} | 6.32 | 6.26 | 0.96% |
| Gearing ratio (%) | 77.80% | 78.93% | Decreased by 1.13 percentage points |
| Items | Reporting Period (Six months ended 30 June 2013) | Same period of last year (Six months ended 30 June 2012) | Change compared with the same period of last year |
| Operating revenue | 37,576,212 | 42,641,898 | (11.88%) |
| Operating profit | (772,673) | (863,347) | 10.50% |
| Total profit | 741,781 | 655,632 | 13.14% |
| Net profit attributable to shareholders of the listed company | 310,012 | 244,875 | 26.60% |
| Net profit after extraordinary items attributable to shareholders of the listed company | (752,372) | (59,383) | (1,166.98%) |
| Basic earnings per share (<i>RMB/share</i>) ^{Note 2} | 0.09 | 0.07 | 28.57% |
| Diluted earnings per share (<i>RMB/share</i>) ^{Note 3} | 0.09 | 0.07 | 28.57% |
| Basic earnings per share after extraordinary items (<i>RMB/share</i>) ^{Note 2} | (0.22) | (0.02) | (1,000.00%) |
| Weighted average return on net assets (%) | 1.43% | 1.00% | Increased by 0.43 percentage points |
| Weighted average return on net assets after extraordinary items (%) | (3.48%) | (0.24%) | Decreased by 3.24 percentage points |
| Net cash flows from operating activities | (4,341,084) | (3,639,672) | (19.27%) |
| Net cash flows from operating activities per share (<i>RMB/share</i>) ^{Note 4} | (1.26) | (1.06) | (18.87%) |

Note 1: Net asset per share attributable to shareholders of the listed company as at the end of the first half of 2013 and the end of 2012 were calculated on the basis of the number of shares representing the total share capital as at the end of the respective periods less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company;

Note 2: Basic earnings per share for the first half of 2013 was calculated on the basis of the weighted average number of ordinary shares representing the total share capital as at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company. Basic earnings per share for the same period of the previous year was calculated on the basis of the weighted average number of ordinary shares representing the total share capital as at the end of the period less 9,125,893 restricted shares remaining in lock-up under the Share Incentive Scheme;

Note 3: As certain Subject Share quotas under the Phase I Share Incentive Scheme of the Company have given rise to 0 and 6,874,194 potentially dilutive ordinary shares for the reporting period and the same period of 2012, respectively, therefore diluted earnings per share have been calculated on the basis of basic earnings per share taking into account the said factors;

Note 4: Net cash flows from operating activities per share for the first half of 2013 were calculated on the basis of the number of shares representing the total share capital at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company; net cash flows from operating activities per share for the first half of 2012 was calculated on the basis of the number of shares representing the total share capital as at the end of the period less 9,125,893 restricted shares remaining in lock-up under the Phase I Share Incentive Scheme.

3.2 Extraordinary items and amounts prepared in accordance with PRC ASBEs

Unit: RMB in thousands

| Extraordinary items | Amount |
|--|-------------------------|
| Non-operating income | 297,899 |
| Gains/(Losses) from changes in fair values | 162,888 |
| Investment income | 831,274 |
| Less: Gains/(Losses) on disposal of non-current assets | 7,171 |
| Less: Other non-operating expenses | 35,027 |
| Less: Effect of income tax | 187,479 |
| Total | <u>1,062,384</u> |

3.3 Major financial indicators prepared in accordance with HKFRSs

| Items | Six months ended 30 June 2013 | Six months ended 30 June 2012 |
|--|--|--|
| Basic earnings per share (<i>RMB/share</i>) ^{<i>Note 1</i>} | 0.09 | 0.07 |
| Weighted average return on net assets (%) | 1.43% | 1.00% |
| Weighted average return on net assets after extraordinary items (%) | (3.48%) | (0.24%) |
| | As at 30 June 2013 | As at 31 December 2012 |
| Net asset per share attributable to shareholders of the listed company (<i>RMB/share</i>) ^{<i>Note 2</i>} | 6.32 | 6.26 |

Note 1: Basic earnings per share for the first half of 2013 was calculated on the basis of the weighted average number of ordinary shares representing the total share capital as at the end of the period less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company. Basic earnings per share for the same period of the previous year was calculated on the basis of the weighted average number of ordinary shares representing the total share capital as at the end of the period less 9,125,893 restricted shares remaining in lock-up under the Share Incentive Scheme;

Note 2: Net asset per share attributable to shareholders of the listed company as at the end of the first half of 2013 and the end of 2012 were calculated on the basis of the number of shares representing the total share capital as at the end of the respective periods less 2,536,742 lapsed Subject Shares under the Phase I Share Incentive Scheme of the Company.

3.4 The amount of net profit and shareholders' equity of the Group for the six months ended and as at 30 June 2013 calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

4. SHAREHOLDINGS OF THE SHAREHOLDERS

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

Total number of shareholders 137,227 shareholders (of which 136,870 were holders of A shares and 357 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 | 628,246,324 | 18.26% | 0 | Unknown |
| 3. CITIC Trust Co.,Ltd. — Wealth Management 06 | Others | 58,194,000 | 1.69% | 0 | Unknown |
| 4. Hunan Nantian (Group) Co., Ltd | State-owned shareholders | 37,450,609 | 1.09% | 0 | Unknown |
| 5. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund | Others | 37,000,000 | 1.08% | 0 | Unknown |
| 6. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Fund (LOF) | Others | 34,030,216 | 0.99% | 0 | Unknown |
| 7. China Life Insurance Company Limited — Dividend — Individual Dividend-005L-FH002 Shen | Others | 29,512,305 | 0.86% | 0 | Unknown |
| 8. China Life Insurance Company Limited — Traditional — General Insurance Products-005L-CT001 Shen | Others | 26,456,657 | 0.77% | 0 | Unknown |
| 9. Bank of Communications — Bosera Emerging Growth Stock Fund | Others | 25,699,505 | 0.75% | 0 | Unknown |
| 10. China Minsheng Banking Corp., Ltd. — Yinhua SZSE 100 ETF Classified Securities Investment Fund | Others | 25,383,232 | 0.74% | 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 | 628,246,324 | H shares |
| 3. CITIC Trust Co., Ltd. — Wealth Management 06 | 58,194,000 | A shares |
| 4. Hunan Nantian (Group) Co., Ltd | 37,450,609 | A shares |
| 5. China Merchants Bank Co., Ltd. — Everbright Pramerica Fund Advantage Allocation Stock Fund | 37,000,000 | A shares |
| 6. Agricultural Bank of China — Dacheng Innovative Growth Hybrid Fund (LOF) | 34,030,216 | A shares |
| 7. China Life Insurance Company Limited — Dividend — Individual Dividend-005L-FH002 Shen | 29,512,305 | A shares |
| 8. China Life Insurance Company Limited — Traditional — General Insurance Products-005L-CT001 Shen | 26,456,657 | A shares |
| 9. Bank of Communications — Boser Emerging Growth Stock Fund | 25,699,505 | A shares |
| 10. China Minsheng Banking Corp., Ltd. — Yinhua SZSE 100 ETF Classified Fund | 25,383,232 | A shares |

Descriptions of any connected party relationships or concerted party relationships among the above shareholders

1. There were no connected party relationships or concerted party relationships between Zhongxingxin and other top ten shareholders and other top ten holders of shares that were not subject to lock-up.
2. The 7th and 8th ranking shareholders among the top 10 shareholders were managed by the same fund manager — China Life Insurance Company Limited.
3. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.

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

Note 2: 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 |

4.2 Changes in controlling shareholder and de facto controller

Applicable N/A

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

4.3 Purchase, sale and redemption of securities

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

5. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

| No. | Name | Title | Status of office | Gender | Age | Term of office commencing on | Term of office ending on | Number of A shares held at the beginning of the reporting period (shares) | Increase in the number of shares held during the period (shares) | Decrease in the number of shares held during the period (shares) | Number of A shares held at the end of the reporting period (shares) | Reason for the change | Whether remuneration is received from shareholder entities |
|---|---|--|------------------|--------|-----|------------------------------|--------------------------|---|--|--|---|-----------------------|--|
| Directors of the Company | | | | | | | | | | | | | |
| 1 | Hou Weigui | Chairman | Incumbent | Male | 72 | 3/2013 | 3/2016 | 1,297,472 | — | — | 1,297,472 | | No |
| 2 | Zhang Jianheng | Vice Chairman | Incumbent | Male | 52 | 3/2013 | 3/2016 | — | — | — | — | | No |
| 3 | Xie Weiliang | Vice Chairman | Incumbent | Male | 57 | 3/2013 | 3/2016 | 32,760 | — | — | 32,760 | | Yes |
| 4 | Wang Zhanchen | Director | Incumbent | Male | 61 | 3/2013 | 3/2016 | — | — | — | — | | No |
| 5 | Zhang Junchao | Director | Incumbent | Male | 60 | 3/2013 | 3/2016 | 32,760 | — | — | 32,760 | | No |
| 6 | Dong Lianbo | Director | Incumbent | Male | 56 | 3/2013 | 3/2016 | 32,760 | — | — | 32,760 | | Yes |
| 7 | Shi Lirong | Director and President | Incumbent | Male | 49 | 3/2013 | 3/2016 | 410,511 | — | — | 410,511 | | No |
| 8 | Yin Yimin | Director | Incumbent | Male | 50 | 3/2013 | 3/2016 | 632,833 | — | — | 632,833 | | No |
| 9 | He Shiyou | Director and Executive Vice President | Incumbent | Male | 47 | 3/2013 | 3/2016 | 344,940 | — | — | 344,940 | | No |
| 10 | Qu Xiaohui | Independent Non-executive Director | Incumbent | Female | 59 | 3/2013 | 7/2015 | — | — | — | — | | No |
| 11 | Wei Wei | Independent Non-executive Director | Incumbent | Male | 48 | 3/2013 | 7/2015 | — | — | — | — | | No |
| 12 | Chen Naiwei | Independent Non-executive Director | Incumbent | Male | 56 | 3/2013 | 7/2015 | — | — | — | — | | No |
| 13 | Tan Zhenhui | Independent Non-executive Director | Incumbent | Male | 69 | 3/2013 | 3/2016 | — | — | — | — | | No |
| 14 | Timothy Alexander Steiert ^{Note 1} | Independent Non-executive Director | Resigned | Male | 53 | 3/2013 | 6/2013 | — | — | — | — | | No |
| 15 | Richard Xike Zhang ^{Note 1} | Independent Non-executive Director | Incumbent | Male | 43 | 6/2013 | 3/2016 | — | — | — | — | | No |
| Supervisors of the Company | | | | | | | | | | | | | |
| 16 | Zhang Taifeng | Chairman of Supervisory Committee | Resigned | Male | 72 | 3/2010 | 3/2013 | 501,425 | — | — | 501,425 | | No |
| 17 | Xie Daxiong ^{Note 2} | Chairman of Supervisory Committee | Incumbent | Male | 50 | 3/2013 | 3/2016 | 498,492 | — | — | 498,492 | | No |
| 18 | He Xuemei | Supervisor | Incumbent | Female | 43 | 3/2013 | 3/2016 | 80,347 | — | — | 80,347 | | No |
| 19 | Zhou Huidong | Supervisor | Incumbent | Male | 37 | 3/2013 | 3/2016 | 78,158 | — | — | 78,158 | | No |
| 20 | Wang Yan | Supervisor | Resigned | Female | 48 | 3/2010 | 3/2013 | — | — | — | — | | Yes |
| 21 | Xu Weiyang | Supervisor | Incumbent | Female | 51 | 3/2013 | 3/2016 | 9,199 | — | — | 9,199 | | No |
| 22 | Chang Qing ^{Note 2} | Supervisor | Incumbent | Male | 58 | 3/2013 | 3/2016 | — | — | — | — | | Yes |
| Senior management of the Company | | | | | | | | | | | | | |
| 23 | Wei Zaisheng | Executive Vice President and Chief Financial Officer | Incumbent | Male | 51 | 4/2013 | 3/2016 | 437,421 | — | — | 437,421 | | No |
| 24 | Xie Daxiong ^{Note 3} | Executive Vice President | Resigned | Male | 50 | 3/2010 | 1/2013 | 498,492 | — | — | 498,492 | | No |
| 25 | Tian Wenguo | Executive Vice President | Incumbent | Male | 44 | 4/2013 | 3/2016 | 273,169 | — | — | 273,169 | | No |
| 26 | Qiu Weizhao | Executive Vice President | Incumbent | Male | 50 | 4/2013 | 3/2016 | 446,600 | — | — | 446,600 | | No |
| 27 | Fang Qingfeng | Executive Vice President | Incumbent | Male | 45 | 4/2013 | 3/2016 | 562,500 | — | — | 562,500 | | No |
| 28 | Chen Jie | Senior Vice President | Incumbent | Female | 55 | 4/2013 | 3/2016 | 794,583 | — | — | 794,583 | | No |
| 29 | Zhao Xianming | Senior Vice President | Incumbent | Male | 47 | 4/2013 | 3/2016 | 431,873 | — | 107,968 | 323,905 | ^{Note 5} | No |
| 30 | Pang Shengqing | Senior Vice President | Incumbent | Male | 45 | 4/2013 | 3/2016 | 521,402 | — | — | 521,402 | | No |
| 31 | Zeng Xuezhong | Senior Vice President | Incumbent | Male | 40 | 4/2013 | 3/2016 | 567,600 | — | — | 567,600 | | No |
| 32 | Xu Huijun | Senior Vice President | Incumbent | Male | 40 | 4/2013 | 3/2016 | 560,945 | — | — | 560,945 | | No |
| 33 | Ye Weimin | Senior Vice President | Incumbent | Male | 47 | 4/2013 | 3/2016 | 516,331 | — | — | 516,331 | | No |
| 34 | Ni Qin ^{Note 3} | Senior Vice President | Resigned | Male | 54 | 3/2010 | 1/2013 | 730,560 | — | — | 730,560 | | No |
| 35 | Wu Zengqi ^{Note 3} | Senior Vice President | Resigned | Male | 49 | 3/2010 | 1/2013 | 486,570 | — | 121,643 | 364,927 | ^{Note 5} | No |
| 36 | Zhu Jinyun | Senior Vice President | Incumbent | Male | 41 | 4/2013 | 3/2016 | 482,460 | — | — | 482,460 | | No |
| 37 | Zhang Renjun | Senior Vice President | Incumbent | Male | 44 | 4/2013 | 3/2016 | — | — | — | — | | No |
| 38 | Wang Jiaran ^{Note 3} | Senior Vice President | Resigned | Male | 44 | 3/2012 | 1/2013 | 151,107 | — | — | 151,107 | | No |
| 39 | Chen Jianzhou | Senior Vice President | Incumbent | Male | 43 | 4/2013 | 3/2016 | 130,028 | — | — | 130,028 | | No |
| 40 | Cheng Lixin ^{Note 4} | Senior Vice President | Incumbent | Male | 47 | 4/2013 | 3/2016 | 3,000 | — | — | 3,000 | | No |
| 41 | Feng Jianxiang | Secretary to the Board of Directors | Incumbent | Male | 39 | 4/2013 | 3/2016 | 275,000 | — | — | 275,000 | | No |
| — | Total | — | — | — | — | — | — | 11,322,806 | — | 229,611 | 11,093,195 | — | — |

- Note 1:* The term of office of Mr. Timothy Alexander Steinert as Independent Non-executive Director of the Company ended on 29 June 2013; at the Second Extraordinary Meeting of 2013 of the Company held on 28 June 2013, Mr. Richard Xike Zhang was elected Independent Non-executive Director of the Sixth Session of the Board of Directors of the Company for a term commencing on 30 June 2013 and ending upon the conclusion of the Sixth Session of the Board of Directors (namely 29 March 2016).
- Note 2:* At the First Extraordinary Meeting of 2013 of the Company held on 7 March 2013, Mr. Chang Qing was elected Shareholders' Representative Supervisor of the Sixth Session of the Supervisory Committee of the Company; on 28 February 2013, Mr. Xie Daxiong was elected Staff Representative Supervisor through democratic elections by the staff representatives of the Company.
- Note 3:* At the Thirty-ninth Meeting of the Fifth Session of the Board of Directors of the Company held on 14 January 2013, it was approved that the Company would discontinue the employment of Mr. Xie Daxiong as Executive Vice President of the Company and of Mr. Ni Qin, Mr. Wu Zengqi and Mr. Wang Jiaran each as Senior Vice President of the Company.
- Note 4:* At the First Meeting of the Sixth Session of the Board of Directors held on 2 April 2013, the appointment of Mr. Cheng Lixin as Senior Vice President of the Company was approved.
- Note 5:* Reduction 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 6:* 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.

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

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2013 are set out in the section of this chapter headed "Changes in the Shareholdings of the Company's Directors, Supervisors and Senior Management".

Save as disclosed above, as at 30 June 2013, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Hong Kong Listing Rules.

As at 30 June 2013, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

6. REPORT OF THE BOARD OF DIRECTORS

6.1 Review of business in the first half of 2013

1. Overview of the PRC telecommunications industry in the first half of 2013

During the first six months of 2013, domestic carriers were actively engaged in equipment tenders, the specific deployment plans for which are expected to be revealed in the second half of the year. The growth in investments in the telecommunications industry was mainly driven by the large-scale deployment of 4G networks and the construction of pertinent

ancillary facilities with a strong focus on wireless, broadband and transmission networks, while ongoing progress was also reported for the development of new strategic industries such as Cloud Computing and the Internet of Things. According to statistics published by the Ministry of Industry and Information Technology, revenue from principal operations for the domestic telecommunications sector amounted to RMB564.26 billion for the first six months of 2013, representing a year-on-year growth of 8.9%.

2. *Overview of the global telecommunications industry in the first half of 2013*

Growth in equipment investment by the global telecommunications industry was slow during the first half of 2013. With the gradual exit of 2G networks, in-depth operation of 3G networks, large-scale deployment of 4G networks and the continuous growth in consumers' demand for smart phones, the load of network flow also increased. Confronted with competition on various fronts, global carriers were actively identifying effective means to lower operating costs as well as new niches for business growth. National broadband strategies adopted by various countries coupled with technology upgrades taking place in relevant industries have driven the construction of global broadband networks, while increased data traffic over wireless networks and the ongoing construction of broadband networks have combined to advance the large-scale construction of transmission networks.

3. *Operating results of the Group for the first half of 2013*

During the first half of 2013, while global carriers tended to adopt a more rational approach in equipment investment, the Group continued to work diligently to cater to the technological preferences and network construction plans of global carriers in persistent implementation of its strategy to focus on major populous nations and leading carriers. Nevertheless, the Group's overall operating revenue decreased by 11.88% to RMB37.576 billion as compared to the same period of 2012, reflecting the decline in operating revenue from GSM and UMTS products in the domestic market and GSM handsets and data cards in both the domestic and international markets. Gross profit margin improved despite lower operating revenue as compared to the same period last year, thanks to the Group's effort to strengthen control over the profitability of contracts during the reporting period. Costs and expenses (selling and distribution costs, administrative expenses and research and development costs) for the period decreased significantly as compared to the same period last year, reflecting the Group's emphasis on cost utilisation efficiency. Under the combined effect of improved gross profit margin, lower costs and expenses for the period, increased exchange losses and investment income arising from the disposal of equity interests in Shenzhen ZNV Technology Co., Ltd. ("ZNV"), the Group reported net profit attributable to shareholders of the listed company of RMB0.31 billion for the six months ended 30 June 2013, representing a year-on-year growth of 26.60%. Basic earnings per share amounted to RMB0.09.

1) *By market*

The domestic market

For the reporting period, the Group reported operating revenue of RMB18.821 billion from the domestic market, accounting for 50.1% of the Group's overall operating revenue. The Group worked in close tandem with the technological preferences and network construction plans of carriers to capitalise on market opportunities presented by large-scale deployment of 4G networks, the Broadband China strategy and the construction of its ancillary transmission networks. Meanwhile, we further enhanced our control over the profitability of contracts to ensure sustainable development.

The international market

For the reporting period, the Group reported operating revenue of RMB18.755 billion from the international market, accounting for 49.9% of the Group's overall operating revenue. The Group continued to focus on in-depth business development and operation in major populous nations and with mainstream global carriers, enhancing its presence in strategic new products, solutions and frontiers to optimise its market exposure and achieve in-depth operation.

2) *By product*

For the reporting period, the Group reported operating revenue of RMB19.050 billion for carriers' networks, RMB12.461 billion for terminals, and RMB6.065 billion for telecommunication software systems, services and other products.

Carriers' networks

In connection with wireless products, the Group committed its best resources to 4G product research and development to enhance its product competitiveness and provide an important foundation for the new cycle of investment in wireless equipment. In the traditional 2G/3G market, the Group's effort to improve gross profit margin by optimising its sales mix has been rewarded with initial results. The Group was also committed to enhancing its R&D as well as marketing efforts for government and enterprise network product solutions, in order to provide groundwork for the long-term sustainable development of its wireless products.

In connection with wireline and optical communications products, the rapid development of the broadband market coupled with the construction of supporting facilities for the Mobile Internet were driving domestic and international carriers alike into vigorous planning for transmission networks to match increasing network traffic. With the benefit of this favourable development and on the back of superior product competitiveness, the Group reported relative fast growth in operating revenue from its international sales of wireline switch and access products and sound growth in operating revenue from its domestic sales of optical communications products.

In service products, the Group also reported positive development by enhancing innovation of products for value-added telecommunications services, while continuing to make breakthroughs in business with mainstream global carriers with the aid of broadband multimedia products.

Terminals

For the first six months of 2013, while operating revenue from terminal products decreased in line with weaker market demand for feature phones and data cards, operating revenue from the Group's smart terminals sustained growth to account for an increasing share of operating revenue, thanks to burgeoning consumers' demand for smart terminals effectively driven by the large-scale deployment of 4G networks and rapid development of the Mobile Internet, as well as the Group's ongoing effort to advance strategic cooperation with mainstream global carriers and its own brand building through R&D and the strategic transformation of its products.

Telecommunication software systems, services and other products

For the reporting period, operating revenue from the Group's telecommunication software systems, services and other products reported year-on-year decrease of 14.75%, reflecting mainly the decrease in operating revenue from service products.

6.2 Management discussion and analysis prepared in accordance with PRC ASBEs

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

| Revenue mix | Operating revenue (RMB in thousands) | Operating costs (RMB in thousands) | Gross profit margin | Year-on-year increase/decrease in operating revenue | Year-on-year increase/decrease in operating costs | Year-on-year increase/decrease in gross profit margin (percentage points) |
|---|---|---------------------------------------|---------------------|---|---|--|
| I. By industry | | | | | | |
| Manufacturing of communication equipment | 37,576,212 | 27,234,174 | 27.52% | (11.88%) | (12.93%) | 0.87 |
| Total | 37,576,212 | 27,234,174 | 27.52% | (11.88%) | (12.93%) | 0.87 |
| II. By product | | | | | | |
| Carriers' networks | 19,050,466 | 12,419,933 | 34.81% | (10.48%) | (13.88%) | 2.58 |
| Terminals | 12,460,868 | 10,538,437 | 15.43% | (12.54%) | (11.31%) | (1.17) |
| Telecommunication software systems, services and other products | 6,064,878 | 4,275,804 | 29.50% | (14.75%) | (14.03%) | (0.59) |
| Total | 37,576,212 | 27,234,174 | 27.52% | (11.88%) | (12.93%) | 0.87 |
| III. By region | | | | | | |
| The PRC | 18,821,489 | 13,277,162 | 29.46% | (9.88%) | (10.32%) | 0.35 |
| Asia (excluding the PRC) | 6,327,118 | 4,924,628 | 22.17% | (21.01%) | (20.08%) | (0.90) |
| Africa | 3,034,884 | 2,191,356 | 27.79% | (22.65%) | (8.71%) | (11.03) |
| Europe, Americas and Oceania | 9,392,721 | 6,841,028 | 27.17% | (4.39%) | (13.52%) | 7.69 |
| Total | 37,576,212 | 27,234,174 | 27.52% | (11.88%) | (12.93%) | 0.87 |

The Group reported RMB37,576.2 million in operating revenue for the first six months of 2013, dropping 11.9% as compared with the same period last year. Our domestic revenue decreased by 9.9% to RMB18,821.5 million as compared to the same period last year. Analysed by product segment, year-on-year decline on revenue from carriers' networks, terminals and telecommunication software systems, services and other products contributing to a declining trend of the Group's total operating revenue in the first half of 2013 over the same period last year.

The decrease in revenue from the Group's carriers' networks reflected mainly the combined effects of decreases in revenue generated from wireless communications systems in the domestic market, optical communications systems and data products in the international markets and wireline switch and access products in the domestic markets. The decrease in revenue from the Group's terminals reflected mainly the decrease in revenue generated from

data cards and GSM handsets in the domestic and international markets. The decrease in revenue from the Group's telecommunication software systems, services and other products reflected mainly the decrease in revenue from services products in the domestic and international markets.

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

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

| Item | As a percentage of total profit for the six months ended 30 June 2013 | As a percentage of total profit for the six months ended 30 June 2012 | Year-on-year increase/decrease (percentage points) |
|-------------------------|--|--|---|
| Expenses for the period | 1,455.61% | 1,711.03% | (255.42) <i>Note 1</i> |
| Impairment losses | 124.93% | 70.24% | 54.69 <i>Note 2</i> |
| Investment income | 109.08% | 13.86% | 95.22 <i>Note 3</i> |

Note 1: Attributably mainly to the year-on-year decrease in expense for the period;

Note 2: Attributably mainly to the year-on-year increase in bad debt provision for trade receivables charged for the period;

Note 3: Attributably mainly to the disposal of ZNV equity interests during the period.

- (3) There was no significant change in the profitability (gross profit margin) of principal business during the reporting period compared to the same period last year.

6.3 Management discussion and analysis 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 attributable to the major product segments of the Group for the periods indicated, in monetary amount and as a percentage of the total operating revenue:

Unit: RMB in millions

| Product segment | For the six months ended 30 June 2013 | | For the six months ended 30 June 2012 | |
|--|--|---|--|---|
| | Revenue | As a percentage of operating revenue | Revenue | As a percentage of operating revenue |
| Carriers' networks | 19,050.5 | 50.7% | 21,279.6 | 49.9% |
| Terminals | 12,460.9 | 33.2% | 14,248.1 | 33.4% |
| Telecommunication software systems, services and other products | 6,064.8 | 16.1% | 7,114.2 | 16.7% |
| Total | 37,576.2 | 100.0% | 42,641.9 | 100.0% |

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

Unit: RMB in millions

| Region | For the six months ended 30 June 2013 | | For the six months ended 30 June 2012 | |
|------------------------------|--|---|--|---|
| | Revenue | As a percentage of operating revenue | Revenue | As a percentage of operating revenue |
| The PRC | 18,821.5 | 50.1% | 20,884.9 | 49.0% |
| Asia (excluding the PRC) | 6,327.1 | 16.8% | 8,010.0 | 18.8% |
| Africa | 3,034.9 | 8.1% | 3,923.3 | 9.2% |
| Europe, Americas and Oceania | 9,392.7 | 25.0% | 9,823.7 | 23.0% |
| Total | 37,576.2 | 100.0% | 42,641.9 | 100.0% |

The Group reported RMB37,576.2 million in operating revenue for the first six months of 2013, an 11.9% decrease as compared to the same period last year. Our domestic revenue decreased by 9.9% to RMB18,821.5 million as compared to the same period last year. Analysed by product, year-on-year decline was reported for carriers' networks, terminals, telecommunication software systems, services and other products, contributing to a declining trend in the Group's total operating revenue for the first six months of 2013 as compared to the same period last year.

The year-on-year decrease in operating revenue from the Group's carriers' networks reflected mainly the decrease in operating revenue derived from wireless communications systems in the domestic market, optical communications systems and data products in the international market and wireline switch and access products in the domestic market.

The year-on-year decrease in operating revenue from the Group's terminals reflected mainly the decrease in operating revenue derived from data cards and GSM handsets in the domestic and international markets.

The year-on-year decrease in operating revenue from the Group's telecommunication software systems, services and other products reflected mainly the decrease in operating revenue derived from service products in the domestic and international markets.

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 product segment 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 2013 | | For the six months ended 30 June 2012 | |
|--|--|---|--|---|
| | Cost of sales | As a percentage of product segment revenue | Cost of sales | As a percentage of product segment revenue |
| Carriers' networks | 12,887.5 | 67.6% | 15,020.8 | 70.6% |
| Terminals | 10,551.1 | 84.7% | 11,883.8 | 83.4% |
| Telecommunication software systems, services and other products | 4,486.5 | 74.0% | 5,236.1 | 73.6% |
| Total | <u>27,925.1</u> | <u>74.3%</u> | <u>32,140.7</u> | <u>75.4%</u> |

Unit: RMB in millions

| Product segment | For the six months ended 30 June 2013 | | For the six months ended 30 June 2012 | |
|--|--|--------------------------------|--|--------------------------------|
| | Gross profit | Gross profit margin | Gross profit | Gross profit margin |
| Carriers' networks | 6,163.0 | 32.4% | 6,258.8 | 29.4% |
| Terminals | 1,909.8 | 15.3% | 2,364.3 | 16.6% |
| Telecommunication software systems, services and other products | 1,578.3 | 26.0% | 1,878.1 | 26.4% |
| Total | <u>9,651.1</u> | <u>25.7%</u> | <u>10,501.2</u> | <u>24.6%</u> |

Cost of sales of the Group for the first six months of 2013 decreased by 13.1% to RMB27,925.1 million as compared to the same period last year. The Group's overall gross profit margin for the first six months of 2013 year was 25.7%, which was 1.1 percentage points higher as compared to the same period last year, reflecting mainly improved gross profit margin of products for carriers' networks which accounted for a substantial portion of the Group's revenue.

Cost of sales for the Group's carriers' networks for the first six months of 2013 amounted to RMB12,887.5 million, a decrease of 14.2% as compared to the same period last year. Gross profit margin of carriers' networks was 32.4% versus 29.4% for the same period last year. The increase in gross profit margin of carriers' networks mainly reflected higher gross profit margin for optical communications systems and data communication systems in the domestic market and wireless communications systems products in the domestic and international markets, which accounted for a substantial portion of the Group's revenue.

Cost of sales for the Group's terminals for the first six months of 2013 amounted to RMB10,551.1 million, a decrease by 11.2% as compared to the same period last year. Gross profit margin for the Group's terminals was 15.3%, versus 16.6% for the same period last year. The gross profit margin for the terminals declined in tandem with lower gross profit margins for CDMA handsets and 3G handsets in the domestic market, which accounted for a substantial portion of the Group's revenue.

Cost of sales for the Group's telecommunication software systems, services and other products for the first six months of 2013 amounted to RMB4,486.5 million, a decrease by 14.3% compared to the same period last year. The relevant gross profit margin was 26.0% versus 26.4% for the same period last year. The slight decrease in gross profit margin for telecommunication software systems, services and other products mainly reflected the decrease in gross profit margins for service products in the international markets and domestic visual and network terminals products, which accounted for a substantial portion of the Group's revenue.

Other income and gains

Other income and gains of the Group for the first six months of 2013 amounted to RMB2,685.2 million, representing an increase of 56.7% compared to RMB1,713.5 million for the first six months of 2012 mainly attributable to investment income arising from disposal of equity interests in ZNV during the period.

Research and development costs

The Group's research and development costs for the first six months of 2013 decreased by 9.9% to RMB3,627.6 million from RMB4,025.4 million for the first six months of 2012, attributable mainly to strengthened cost control by the Company. Research and developments costs represented 9.7% of the operating revenue, a slight increase as compared to 9.4% for the first half of 2012.

Selling and distribution costs

The Group's selling and distribution costs for the first six months of 2013 decreased by 12.3% to RMB4,740.2 million from RMB5,402.3 million for the first half of 2012, or by 0.1 percentage points to 12.6% from 12.7% for the first half of 2012 as a percentage of operating revenue, reflecting mainly the decrease of human resources expenses and travelling expenses.

Administrative expenses

Administrative expenses of the Group for the first six months of 2013 decreased by 5.9% to RMB 1,084.7 million, as compared to RMB1,153.3 million for the first half of 2012, but slightly increased to 2.9% from 2.7% for the first half of 2012 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 2013 increased by 229.5% to RMB1,346.3 million, as compared to RMB408.6 million for the first half of 2012, reflecting mainly the increase in losses as a result of exchange rate volatility and the increase in bad debt provisions for the period.

Profit from operating activities

The Group's profit from operating activities for the first six months of 2013 increased by 25.5% to RMB1,537.5 million, as compared to RMB1,225.1 million for the first half of 2012, while the operating profit margin also increased by 1.2 percentage points to 4.1% from 2.9% for the first half of 2012. Such increase was attributable mainly to investment income arising from the disposal of equity interests in ZNV during the period coupled with strengthened cost control.

Finance costs

Finance costs of the Group for the first six months of 2013 increased by 36.4% to RMB766.1 million compared to RMB561.5 million for the first half of 2012, reflecting mainly the increase in loan interest expense in tandem with additional bank loans by the Group to meet working capital requirements.

Tax

The Group's income tax expense for the first six months of 2013 was RMB412.5 million, which was 56.5% higher as compared to RMB263.6 million for the first half of 2012, reflecting mainly increased profit reported by certain of the Group's subsidiaries.

Profit attributable to non-controlling interests

The Group's profit attributable to non-controlling interests for the first six months of 2013 amounted to RMB19.2 million, a decrease by 86.9% as compared to RMB147.1 million for the first half of 2012. Non-controlling interests decreased from 37.5% for the first six months of 2012 to 5.8% for the first six months of 2013 as a percentage of profit before non-controlling interests, reflecting mainly the deconsolidation of certain subsidiaries with a higher level of non-controlling interests, which were accounted for on a consolidated basis for the same period of 2012, following the disposal of their equity interests in the second half of 2012, as well as the year-on-year reduction of non-controlling interests in certain subsidiaries.

Other comprehensive income

Other comprehensive income of the Group for the first six months of 2013 decreased by 113.8% to RMB-99.8 million, as compared to RMB724.6 million for the first half of 2012. The change reflected mainly the increase in other comprehensive income resulting from value appreciation of properties for self-use after valuation upon reclassification to investment properties for the same period last year and the absence of such item for the period.

Debt-equity ratio

The Group's debt-equity ratio for the first six months of 2013 was 61.0%, an increase by 2.9 percentage points as compared to 58.1% for the first half of 2012. The increase was mainly attributable to the decrease in the Company's reserves owing to operating losses incurred by the Company in the second half of 2012.

Cash flow data

Unit: RMB in millions

| | For the six months ended 30 June 2013 | For the six months ended 30 June 2012 |
|--|--|---|
| Net cash outflow from operating activities | (5,660.6) | (3,781.1) |
| Net cash outflow from investing activities | (419.8) | (1,682.8) |
| Net cash inflow (outflow) from financing activities | (707.0) | 5,408.6 |
| Net increase/(decrease) in cash and cash equivalents | (6,787.4) | (55.3) |
| Cash and cash equivalents at the end of the period | 15,915.7 | 20,543.5 |

Operating activities

The Group had a net cash outflow from operating activities of RMB5,660.6 million for the first six months of 2013 compared to RMB3,781.1 million for the first half of 2012, reflecting year-on-year decrease of cash inflow from sales of goods and provision of services by RMB5,109.4 million, decrease of cash inflow from tax rebates by RMB204.8 million, decrease of cash outflow paid for purchases of goods and services by RMB1,813.1 million, decrease of cash outflow for payments made to and on behalf of employees by RMB687.8 million, decrease in tax payments by RMB596.2 million, decrease of other cash payments relating to operating activities by RMB742.0 million, coupled with increase of cash outflow for dividend payments or interest repayments by RMB489.8 million.

Investing activities

The net cash outflow from the Group's investing activities for the first six months of 2013 was RMB419.8 million compared to a net cash outflow of RMB1,682.8 million for the first half of 2012, reflecting mainly cash received by the Company for the disposal of equity interests in ZNV during the period.

Financing activities

The Group's net cash outflow from financing activities for the first six months of 2013 was RMB707.0 million, compared to net cash inflow of RMB5,408.6 million for the first half of 2012, reflecting mainly the repayment of Bonds cum Warrants issued in 2008 in the amount of RMB4,000.0 million for the first six months of 2013, versus the receipt of RMB6,000.0 million as proceeds from the issue of 3-year corporate bonds by the Company during the same period last year.

Indebtedness

Unit: RMB in millions

| Item | As at 30 June 2013 | As at 31 December 2012 |
|----------------------|-----------------------------------|---------------------------------------|
| Secured bank loans | 1,141.3 | 1,805.0 |
| Unsecured bank loans | 20,377.3 | 17,614.9 |

Unit: RMB in millions

| Item | As at 30 June 2013 | As at 31 December 2012 |
|-----------------------|-----------------------------------|---------------------------------------|
| Short-term bank loans | 13,239.7 | 18,429.9 |
| Long-term bank loans | 8,278.9 | 990.0 |

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

The Group's bank loans in the first half of 2013 increased by RMB2,098.7 million as compared to the balance as at 31 December 2012 and were mainly applied to fund repayments of Bonds cum Warrants. The reasons for the change in the structure of the long- and short-term debts are due to the transfers of the Company's syndicated loans into short-term bank loans as a result of the failure to comply with the undertakings of financial benchmarks at the end of 2012. As an exemption letter had been received during the period, the syndicated loans were transferred back to long-term bank loans.

Capital Commitments

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

Unit: RMB in millions

| Item | As at 30 June 2013 | As at 31 December 2012 |
|---|-----------------------------------|---------------------------------------|
| Land and buildings: Contracted, but not provided for | 281.1 | 484.4 |
| Investment in associates: Contracted, but not provided for | 60.8 | 41.7 |
| Land and buildings: Authorised, but not contracted | 21,514.7 | 21,600.4 |

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 2012 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

6.4 Business outlook for the second half of 2013 and risk exposures

6.4.1 Business outlook for the second half of 2013

Looking ahead to the latter half of 2013, the large-scale deployment of 4G networks, particularly the large-scale construction of TD-LTE networks in China, will channel in a new cycle of investment for the telecommunications industry in the wireless network sector. In connection with wireline networks, the construction of broadband networks around the world will continue to advance with the support of increasing consumers' demand for network bandwidth, national broadband strategies adopted by various countries and technology upgrades taking place in relevant industries, while development opportunities will also abound for transmission networks deployed to complement the wireless and wireline networks. The smart terminal is expected to sustain relatively fast growth as a mainstay product benefitting from the upgrade of wireless network bandwidth and the rapid development of the Mobile Internet. In the meantime, comprehensive and innovative solutions and stable long-term business relationships will be crucial as global carriers strive to deal with revolutionary changes in the industry. In this regard, the Group has already developed globally competitive solutions and entered into business partnerships with mainstream global carriers.

In the second half of 2013, the Group will continue to carry out product innovation and solution operations with an emphasis on mainstream products. We will enhance our R&D efficiency and implement in greater depth our strategy on populous nations and mainstream carriers, focusing on markets in which we claims dominance while vigorously developing business in the government and enterprise services sectors. The Group will exercise resource management and control, refine cost management and enhance operating efficiency through persistent implementation of the operations settlement system.

6.4.2 Risk Exposures

(1) Country risk

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

(2) Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the management of intellectual property rights. We maintain our investment in technology research and development each year at about 10% of our annual sales revenue. 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 with other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group.

(3) Exchange rate risk

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

(4) Interest rate risk

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

(5) Credit risk

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

7. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

7.1 Compliance of the Corporate Governance Code

The Company had fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules during the period from 1 January to 30 June 2013.

7.2 Securities transactions by Directors and Supervisors

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

8. FINANCIAL REPORT

8.1 The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also discussed and reviewed the Interim Report, including the financial statements of the Group for the six months ended 30 June 2013.

8.2 Audit opinion

Unaudited Audited

8.2 Financial statements

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

8.2.2 *Financial statements prepared under HKFRSs and notes thereto (Please see Appendix II)*

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

Applicable N/A

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

Applicable N/A

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

New tier-one subsidiaries established during the reporting period included 深圳市中興雲服務有限公司, 深圳市中興系統集成技術有限公司, 天津中興智聯科技有限公司; new tier-two subsidiaries established during the reporting period included 深圳市中興移動軟件有限公司, ZTE Myanmar Company Limited, 黃岡教育谷投資控股有限公司, Shenzhen ZTE SEECOM Tech Co., Ltd., 深圳市興聯達科技有限公司; New tier-three subsidiaries established during the reporting period included PT ZTE JOYGOR INDONESIA and ZTE (MLVV) LIMITED.

The Company and ZTE (H.K.) Limited (“ZTE HK”) (a wholly-owned subsidiary of the Company) entered into the “Equity Transfer Agreement for the Transfer of 65% Equity Interests in the Target Company” and “Equity Transfer Agreement for the Transfer of 16% Equity Interests in the Target Company,” respectively, with Ocean Delight Investments Limited in respect of the disposal of an aggregate of 81% equity interests in ZNV held by the Company and ZTE HK in aggregate. The date of disposal of the equity interests was 16 January 2013 and ZNV was deconsolidated from the Group, as from January 2013.

By Order of the Board
Hou Weigui
Chairman

Shenzhen, the PRC
21 August 2013

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

APPENDIX I: FINANCIAL STATEMENTS PREPARED UNDER PRC ASBES

CONSOLIDATED BALANCE SHEET

Currency: RMB'000

| Assets | 30 June 2013 (unaudited) | 31 December 2012 (audited) |
|--|--------------------------------|----------------------------------|
| Current assets | | |
| Cash | 17,322,010 | 24,126,423 |
| Trading financial assets | 104,489 | 106,297 |
| Bills receivable | 5,737,182 | 4,282,220 |
| Trade receivables | 22,108,313 | 22,068,176 |
| Factored trade receivables | 4,296,363 | 4,165,514 |
| Other receivables | 1,668,518 | 2,019,341 |
| Prepayments | 920,456 | 742,551 |
| Inventories | 11,577,111 | 11,442,389 |
| Amount due from customers for contract works | 14,133,330 | 13,666,100 |
| Total current assets | 77,867,772 | 82,619,011 |
| Non-current assets | | |
| Available-for-sale financial assets | 1,464,647 | 1,092,335 |
| Held-to-maturity investments | 160,505 | — |
| Long-term trade receivables | 717,027 | 1,206,642 |
| Factored long-term trade receivables | 3,740,283 | 4,018,484 |
| Long-term equity investments | 435,117 | 455,768 |
| Investment properties | 1,765,400 | 1,686,158 |
| Fixed assets | 7,709,892 | 7,096,624 |
| Construction in progress | 293,510 | 824,387 |
| Intangible assets | 1,255,933 | 1,087,038 |
| Deferred development costs | 2,639,041 | 2,446,934 |
| Deferred tax assets | 1,193,542 | 1,218,605 |
| Long-term deferred assets | 62,426 | 90,017 |
| Other non-current assets | 3,273,707 | 3,604,303 |
| Total non-current assets | 24,711,030 | 24,827,295 |
| TOTAL ASSETS | 102,578,802 | 107,446,306 |

Hou Weigui

Legal representative

Wei Zaisheng

Chief Financial Officer

Shi Chunmao

Head of Finance Division

CONSOLIDATED BALANCE SHEET (CONTINUED)

Currency: RMB'000

| | 30 June 2013 (unaudited) | 31 December 2012 (audited) |
|--|---|----------------------------------|
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Short-term loans | 13,233,514 | 17,923,607 |
| Bank advances on factored trade receivables | 4,302,448 | 4,168,932 |
| Derivative financial liabilities | 15,954 | 105,739 |
| Bills payable | 9,077,730 | 11,478,102 |
| Trade payables | 17,827,142 | 18,115,877 |
| Amount due to customers for contract works | 3,686,669 | 3,459,545 |
| Advances from customers | 3,347,938 | 3,106,638 |
| Salary and welfare payables | 2,452,019 | 2,346,526 |
| Taxes payable | (620,419) | (1,161,974) |
| Dividends payable | 116,112 | 205,783 |
| Other payables | 6,148,354 | 8,127,193 |
| Deferred income | 410,002 | 267,082 |
| Provisions | 284,019 | 291,457 |
| Long-term loans due within one year | 6,179 | 4,524,420 |
| Total current liabilities | 60,287,661 | 72,958,927 |
| Non-current liabilities | | |
| Long-term loans | 8,278,918 | 989,990 |
| Bank advances on factored long-term trade receivables | 3,740,283 | 4,018,484 |
| Bonds payable | 5,987,792 | 6,107,993 |
| Deferred tax liabilities | 139,900 | 139,900 |
| Other non-current liabilities | 1,368,723 | 592,282 |
| Total non-current liabilities | 19,515,616 | 11,848,649 |
| Total liabilities | 79,803,277 | 84,807,576 |
| Shareholders' equity | | |
| Share capital | 3,440,078 | 3,440,078 |
| Capital reserves | 9,422,012 | 9,352,643 |
| Surplus reserves | 1,587,430 | 1,587,430 |
| Retained profits | 8,015,034 | 7,705,022 |
| Foreign currency translation differences | (752,201) | (582,699) |
| Total equity attributable to equity holders of the parent | 21,712,353 | 21,502,474 |
| Non-controlling interests | 1,063,172 | 1,136,256 |
| Total shareholders' equity | 22,775,525 | 22,638,730 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 102,578,802 | 107,446,306 |

CONSOLIDATED INCOME STATEMENT

Currency: RMB'000

| | Six months ended 30 June 2013 (unaudited) | Six months ended 30 June 2012 (unaudited) |
|---|---|---|
| Operating revenue | 37,576,212 | 42,641,898 |
| Less: Operating costs | 27,234,174 | 31,277,990 |
| Taxes and surcharges | 362,636 | 608,119 |
| Selling and distribution costs | 4,667,509 | 5,323,563 |
| Administrative expenses | 1,060,788 | 1,038,026 |
| Research and development costs | 3,627,555 | 4,025,433 |
| Finance expenses | 1,441,554 | 831,063 |
| Impairment losses | 926,688 | 460,490 |
| Add: Gains/(Losses) from changes in fair values | 162,888 | (31,439) |
| Investment income | 809,131 | 90,878 |
| Including: Share of profits and losses of jointly-controlled entities and associates | (29,644) | (7,922) |
| Operating profit/(loss) | (772,673) | (863,347) |
| Add: Non-operating income | 1,556,652 | 1,546,718 |
| Less: Non-operating expenses | 42,198 | 27,739 |
| Including: Loss on disposal of non-current assets | 7,171 | 12,068 |
| Total profit/(loss) | 741,781 | 655,632 |
| Less: Income tax | 412,537 | 263,624 |
| Net profit/(loss) | 329,244 | 392,008 |
| Net profit attributable to owners of the parent | 310,012 | 244,875 |
| Non-controlling interests | 19,232 | 147,133 |
| Earnings per share | | |
| Basic earnings per share | RMB0.09 | RMB0.07 |
| Diluted earnings per share | RMB0.09 | RMB0.07 |
| Other comprehensive income | (99,838) | 724,599 |
| Total Comprehensive income | 229,406 | 1,116,607 |
| Including: | | |
| Total comprehensive income attributable to owners of the parent | 209,879 | 954,853 |
| Total comprehensive income attributable to non-controlling interests | 19,527 | 161,754 |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Currency: RMB'000

| For the six months ended 30 June 2013 (unaudited) | | | | | | | | | |
|---|------------------|------------------|------------------|------------------|--------------------------|--|-------------------|---------------------------|----------------------------|
| Equity attributable to equity holders of the parent | | | | | | | | | |
| | Share capital | Capital reserve | Surplus reserve | Retained profits | Proposed final dividends | Foreign currency translation differences | Sub-total | Non-controlling interests | Total shareholders' equity |
| I. Current period's opening balance | 3,440,078 | 9,352,643 | 1,587,430 | 7,705,022 | — | (582,699) | 21,502,474 | 1,136,256 | 22,638,730 |
| II. Changes during the period | | | | | | | | | |
| (1) Net profit/(loss) | — | — | — | 310,012 | — | — | 310,012 | 19,232 | 329,244 |
| (2) Other comprehensive income | — | 69,369 | — | — | — | (169,502) | (100,133) | 295 | (99,838) |
| Total comprehensive income | — | 69,369 | — | 310,012 | — | (169,502) | 209,879 | 19,527 | 229,406 |
| (3) Shareholder's capital injection and capital reduction | | | | | | | | | |
| 1. Capital injection from shareholders | — | — | — | — | — | — | — | 19,600 | 19,600 |
| 2. Capital reduction by shareholders | — | — | — | — | — | — | — | (48,990) | (48,990) |
| 3. Disposal of subsidiaries | — | — | — | — | — | — | — | (63,221) | (63,221) |
| 4. Acquisition of non-controlling interests | — | — | — | — | — | — | — | — | — |
| (4) Profit appropriation | | | | | | | | | |
| 1. Appropriation to surplus reserves | — | — | — | — | — | — | — | — | — |
| 2. Distribution to shareholders | — | — | — | — | — | — | — | — | — |
| 3. Proposed final dividends | — | — | — | — | — | — | — | — | — |
| 4. Others | — | — | — | — | — | — | — | — | — |
| (5) Transfer of shareholders' equity | | | | | | | | | |
| 1. Transfer of capital reserve to share capital | — | — | — | — | — | — | — | — | — |
| 2. Transfer of surplus reserves to share capital | — | — | — | — | — | — | — | — | — |
| 3. Surplus reserves making up of losses | — | — | — | — | — | — | — | — | — |
| III. Current period's closing balance | <u>3,440,078</u> | <u>9,422,012</u> | <u>1,587,430</u> | <u>8,015,034</u> | <u>—</u> | <u>(752,201)</u> | <u>21,712,353</u> | <u>1,063,172</u> | <u>22,775,525</u> |

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

Currency: RMB'000

For the six months ended 30 June 2012 (unaudited)

| | Equity attributable to equity holders of the parent | | | | | | | | | Total shareholders' equity |
|---|---|------------------|--------------------------------------|------------------|-------------------|--------------------------|--|-------------------|---------------------------|----------------------------|
| | Share capital | Capital reserve | Restricted Shares subject to lock-up | Surplus reserve | Retained profits | Proposed final dividends | Foreign currency translation differences | Sub-total | Non-controlling interests | |
| 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/(loss) | — | — | — | — | 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. Acquisition of non-controlling interests | — | — | — | — | — | — | — | — | — | — |
| (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 | — | — | — | — | — | — | — | — | — | — |
| 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 CASH FLOW STATEMENT

Currency: RMB'000

| | Six months ended 30 June 2013 (unaudited) | Six months ended 30 June 2012 (unaudited) |
|---|--|---|
| I. Cash flows from operating activities | | |
| Cash received from sale of goods or rendering of services | 37,821,989 | 42,243,025 |
| Refunds of taxes | 3,917,366 | 4,122,121 |
| Cash received relating to other operating activities | 497,374 | 412,133 |
| Sub-total of cash inflows | 42,236,729 | 46,777,279 |
| Cash paid for goods and services | 34,519,109 | 36,332,231 |
| Cash paid to and on behalf of employees | 5,723,526 | 6,411,292 |
| Cash paid for all types of taxes | 2,933,682 | 3,529,884 |
| Cash paid relating to other operating activities | 3,401,496 | 4,143,544 |
| Sub-total of cash outflows | 46,577,813 | 50,416,951 |
| Net cash flows from operating activities | (4,341,084) | (3,639,672) |
| II. Cash flows from investing activities | | |
| Cash received from sale of investments | 423,898 | 865,446 |
| Cash received from return on investments | 64,971 | 31,854 |
| Net cash received for the disposal of fixed assets, intangible assets and other long-term assets | 4,278 | 19,335 |
| Net cash received from disposal of subsidiaries | 1,006,367 | — |
| Sub-total of cash inflows | 1,499,514 | 916,635 |
| Cash paid to acquisition of fixed assets, intangible assets and other long term assets | 1,149,184 | 1,307,472 |
| Cash paid for acquisition of investments | 1,129,226 | 962,734 |
| Sub-total of cash outflows | 2,278,410 | 2,270,206 |
| Net cash flows from investing activities | (778,896) | (1,353,571) |

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Currency: RMB'000

| | Six months ended 30 June 2013 (unaudited) | Six months ended 30 June 2012 (unaudited) |
|--|--|---|
| III. Cash flows from financing activities | | |
| Cash received from capital injections | 15,000 | — |
| Including: Capital injection into subsidiaries by non-controlling shareholders | 15,000 | — |
| Cash received from borrowings | 12,805,703 | 17,485,994 |
| Sub-total of cash inflows | 12,820,703 | 17,485,994 |
| Cash repayments of borrowings | 13,527,730 | 12,077,415 |
| Cash payments for distribution of dividends, profits and for interest expenses | 960,454 | 470,649 |
| Including: Distribution of dividends and profits by subsidiaries to non-controlling shareholders | — | — |
| Sub-total of cash outflows | 14,488,184 | 12,548,064 |
| Net cash flows from financing activities | (1,667,481) | 4,937,930 |
| IV. Effect of changes in foreign exchange rate on cash and cash equivalents | 43,517 | (63,316) |
| V. Net increase in cash and cash equivalents | (6,743,944) | (118,629) |
| Add: cash and cash equivalents at the beginning of the year | 22,659,635 | 20,662,089 |
| VI. Net balance of cash and cash equivalents at the end of the period | 15,915,691 | 20,543,460 |

BALANCE SHEET

Currency: RMB'000

| Assets | 30 June 2013 (unaudited) | 31 December 2012 (audited) |
|--|--------------------------------|----------------------------------|
| Current assets | | |
| Cash | 9,580,383 | 16,010,506 |
| Trading financial assets | 43,300 | 54,308 |
| Bills receivable | 4,602,494 | 3,762,831 |
| Trade receivables | 32,799,779 | 34,970,056 |
| Factored trade receivables | 3,681,305 | 3,545,295 |
| Prepayments | 33,739 | 44,783 |
| Dividends receivable | 2,191,954 | 6,242,066 |
| Other receivables | 4,870,012 | 4,551,048 |
| Inventories | 5,890,197 | 5,668,033 |
| Amount due from customers for contract works | 8,771,505 | 8,440,613 |
| Total current assets | 72,464,668 | 83,289,539 |
| Non-current assets | | |
| Available-for-sale financial assets | 373,555 | 323,655 |
| Long-term trade receivables | 4,816,775 | 3,684,501 |
| Factored long-term trade receivables | 3,699,521 | 3,582,669 |
| Long-term equity investments | 6,319,057 | 6,492,492 |
| Investment properties | 1,426,747 | 1,381,593 |
| Fixed assets | 4,982,178 | 5,083,046 |
| Construction in progress | 79,903 | 54,714 |
| Intangible assets | 593,916 | 529,864 |
| Deferred development costs | 622,594 | 595,205 |
| Deferred tax assets | 605,079 | 581,507 |
| Long-term deferred assets | 52,232 | 57,993 |
| Other non-current assets | 2,991,284 | 3,374,559 |
| Total non-current assets | 26,562,841 | 25,741,798 |
| TOTAL ASSETS | 99,027,509 | 109,031,337 |

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

| | 30 June 2013 (unaudited) | 31 December 2012 (audited) |
|---|---|----------------------------------|
| Liabilities and shareholders' equity | | |
| Current liabilities | | |
| Short-term loans | 9,760,583 | 8,803,325 |
| Trading financial liabilities | 3,391 | 42,325 |
| Bank advances on factored trade receivables | 3,687,390 | 3,548,713 |
| Bills payable | 11,324,487 | 13,775,960 |
| Trade payables | 29,532,705 | 33,885,695 |
| Amount due to customers for contract works | 2,708,770 | 2,600,053 |
| Advances from customers | 1,589,985 | 1,765,544 |
| Salary and welfare payables | 617,596 | 569,587 |
| Taxes payables | (1,097,593) | (1,309,327) |
| Dividends payable | 152 | 152 |
| Other payables | 14,811,810 | 16,553,959 |
| Deferred income | 117,130 | 133,179 |
| Provisions | 129,469 | 159,693 |
| Long-term loans due within one year | — | 4,518,134 |
| Total current liabilities | 73,185,875 | 85,046,992 |
| Non-current liabilities | | |
| Long-term loans | 1,800,000 | — |
| Bank advances on factored long-term trade receivables | 3,699,521 | 3,582,669 |
| Bonds payable | 5,987,792 | 6,107,993 |
| Deferred tax liabilities | 138,400 | 138,400 |
| Other non-current liabilities | 1,372,875 | 592,282 |
| Total non-current liabilities | 12,998,588 | 10,421,344 |
| Total liabilities | 86,184,463 | 95,468,336 |
| Shareholders' equity | | |
| Share capital | 3,440,078 | 3,440,078 |
| Capital reserves | 9,332,663 | 9,332,663 |
| Surplus reserves | 925,674 | 925,674 |
| Retained profits | (837,940) | (118,276) |
| Foreign currency translation differences | (17,429) | (17,138) |
| Total shareholders' equity | 12,843,046 | 13,563,001 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 99,027,509 | 109,031,337 |

INCOME STATEMENT

Currency: RMB'000

| | Six months ended 30 June 2013 (unaudited) | Six months ended 30 June 2012 (unaudited) |
|--|--|---|
| Operating revenue | 33,263,826 | 36,570,493 |
| Less: Operating costs | 29,822,828 | 33,554,892 |
| Taxes and surcharges | 231,938 | 281,902 |
| Selling and distribution costs | 2,842,410 | 3,523,693 |
| Administrative expenses | 660,204 | 643,165 |
| Research and development costs | 911,808 | 1,014,836 |
| Finance expenses | 970,492 | 453,462 |
| Impairment losses | 672,444 | 324,196 |
| Add: Gains/(Losses) from changes in fair values | 90,033 | (21,685) |
| Investment income | 1,749,032 | 1,732,161 |
| Including: Share of profits and losses of associates and jointly-controlled entities | (25,908) | (20,693) |
| Operating profit/(loss) | (1,009,233) | (1,515,177) |
| Add: Non-operating income | 332,354 | 328,349 |
| Less: Non-operating expenses | 35,142 | 12,481 |
| Including: Losses on disposal of non-current assets | 3,424 | 8,411 |
| Total profit/(loss) | (712,021) | (1,199,309) |
| Less: Income tax | 7,643 | (30,421) |
| Net profit/(loss) | (719,664) | (1,168,888) |
| Other comprehensive income | (291) | 922,216 |
| Total comprehensive income | (719,955) | (246,672) |

STATEMENT OF CHANGES IN EQUITY

Currency: RMB'000

| | For the six months ended 30 June 2013 (unaudited) | | | | | | |
|---|---|------------------|-----------------|------------------|--------------------------|--|----------------------------|
| | Share capital | Capital reserve | Surplus reserve | Retained profits | Proposed final dividends | Foreign currency translation differences | Total shareholders' equity |
| I. Current period's opening balance | 3,440,078 | 9,332,663 | 925,674 | (118,276) | — | (17,138) | 13,563,001 |
| II. Changes during the period | | | | | | | |
| (1) Net profit/(loss) | — | — | — | (719,664) | — | — | (719,664) |
| (2) Other comprehensive income | — | — | — | — | — | (291) | (291) |
| Total comprehensive income | — | — | — | (719,664) | — | (291) | (719,955) |
| (3) Shareholder's capital injection and capital reduction | | | | | | | |
| 1. Capital injection from shareholders | — | — | — | — | — | — | — |
| 2. Equity settled share expenses charged to equity | — | — | — | — | — | — | — |
| 3. Others | — | — | — | — | — | — | — |
| (4) Profit appropriation | | | | | | | |
| 1. Appropriation to surplus reserves | — | — | — | — | — | — | — |
| 2. Distribution to shareholders | — | — | — | — | — | — | — |
| 3. Proposed final dividends | — | — | — | — | — | — | — |
| 4. Others | — | — | — | — | — | — | — |
| (5) Transfer of shareholders' equity | | | | | | | |
| 1. Transfer of capital reserve to share capital | — | — | — | — | — | — | — |
| 2. Transfer of surplus reserves to share capital | — | — | — | — | — | — | — |
| 3. Surplus reserves making up of losses | — | — | — | — | — | — | — |
| 4. Others | — | — | — | — | — | — | — |
| (6) Others | — | — | — | — | — | — | — |
| III. Current period's closing balance | 3,440,078 | 9,332,663 | 925,674 | (837,940) | — | (17,429) | 12,843,046 |

STATEMENT OF CHANGES IN EQUITY (CONTINUED)
Currency: 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/(loss) | — | — | — | — | (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 | — | — | — | — | — | — | — | — |
| 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> |

CASH FLOW STATEMENT

Currency: RMB'000

| | Six months ended 30 June 2013 (unaudited) | Six months ended 30 June 2012 (unaudited) |
|--|--|---|
| I. Cash flows from operating activities | | |
| Cash received from sale of goods or rendering of services | 32,379,742 | 32,932,537 |
| Refunds of taxes | 2,796,613 | 3,206,316 |
| Cash received relating to other operating activities | 384,923 | 313,031 |
| Sub-total of cash inflows | 35,561,278 | 36,451,884 |
| Cash paid for goods and services | 35,638,529 | 34,547,203 |
| Cash paid to and on behalf of employees | 2,226,755 | 2,311,533 |
| Cash paid for all types of taxes | 553,086 | 429,217 |
| Cash paid relating to other operating activities | 2,795,716 | 2,579,575 |
| Sub-total of cash outflows | 41,214,086 | 39,867,528 |
| Net cash flows from operating activities | (5,652,808) | (3,415,644) |
| II. Cash flows from investing activities | | |
| Cash received from sale of investments | 21,300 | — |
| Cash received from return on investments | 46,392 | 17,187 |
| Cash received from disposal of fixed assets, intangible assets and other long-term assets, net | 3,811 | 17,111 |
| Cash received from disposal of subsidiaries | 1,037,401 | — |
| Sub-total of cash inflows | 1,108,904 | 34,298 |
| Cash paid to acquisition of fixed assets, intangible assets and other long term assets | 470,955 | 632,496 |
| Cash paid for acquisition of investments | 207,320 | 150,502 |
| Sub-total of cash outflows | 678,275 | 782,998 |
| Net cash flows from investing activities | 430,629 | (748,700) |

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

| | Six months ended 30 June 2013 (unaudited) | Six months ended 30 June 2012 (unaudited) |
|--|--|---|
| III. Cash flows from financing activities | | |
| Cash received from capital injections | — | — |
| Cash received from borrowings | <u>9,339,536</u> | <u>13,598,394</u> |
| Sub-total of cash inflows | <u>9,339,536</u> | <u>13,598,394</u> |
| Cash repayments of borrowings | <u>9,502,819</u> | <u>8,215,339</u> |
| Cash payments for distribution of dividends, profits and interest expenses | <u>742,920</u> | <u>330,800</u> |
| Sub-total of cash outflows | <u>10,245,739</u> | <u>8,546,139</u> |
| Net cash flows from financing activities | <u>(906,203)</u> | <u>5,052,255</u> |
| IV. Effect of changes in foreign exchange rate on cash and cash equivalents | <u>(202,457)</u> | <u>(36,142)</u> |
| V. Net increase in cash and cash equivalents | <u>(6,330,839)</u> | <u>851,769</u> |
| Add: cash and cash equivalents at the beginning of the year | <u>15,276,437</u> | <u>13,276,732</u> |
| VI. Net balance of cash and cash equivalents at the end of the period | <u><u>8,945,598</u></u> | <u><u>14,128,501</u></u> |

**APPENDIX II: FINANCIAL STATEMENTS PREPARED UNDER HKFRSS AND
NOTES THERETO**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

| | (Prepared under HKFRSSs) | |
|---|---|---|
| | Six months ended | |
| | 30 June 2013 | |
| | Six months ended 30 June 2013 (unaudited) <i>RMB'000</i> | Six months ended 30 June 2012 (unaudited) <i>RMB'000</i> |
| Revenue | 37,576,212 | 42,641,898 |
| Cost of sales | (27,925,083) | (32,140,656) |
| Gross profit | 9,651,129 | 10,501,242 |
| Other income and gains | 2,685,222 | 1,713,512 |
| Research and development costs | (3,627,555) | (4,025,433) |
| Selling and distribution expenses | (4,740,242) | (5,402,346) |
| Administrative expenses | (1,084,730) | (1,153,256) |
| Other expenses | (1,346,295) | (408,645) |
| Finance costs | (766,104) | (561,520) |
| Share of profits and losses of: | | |
| Jointly-controlled entities | 40 | (893) |
| Associates | (29,684) | (7,029) |
| Profit/(loss) before tax | 741,781 | 655,632 |
| Income tax expense | (412,537) | (263,624) |
| Profit/(loss) for the period | 329,244 | 392,008 |
| Attributable to: | | |
| Owners of the parent | 310,012 | 244,875 |
| Non-controlling interests | 19,232 | 147,133 |
| | 329,244 | 392,008 |
| Earnings per share attributable to ordinary equity holders of the parent | | |
| Basic | RMB0.09 | RMB0.07 |
| Diluted | RMB0.09 | RMB0.07 |

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

(Prepared under HKFRSs)

Six months ended

30 June 2013

| Six months ended 30 June 2013 (unaudited) RMB'000 | Six months ended 30 June 2012 (unaudited) RMB'000 |
|--|--|
|--|--|

Other comprehensive income

Cash flow hedges — Effective portion of changes in fair value of hedging instruments arising during the period

7,513 (9,344)

Changes in fair value of available-for-sale investments

60,487 5,919

Exchange differences on translation of foreign operations

(167,838) (204,646)

Revaluation gain upon transfer from owner

— occupied properties to investment properties **—** 932,670

Other comprehensive income for the period, net of tax

(99,838) 724,599

Total comprehensive income — for the period

229,406 1,116,607

Attributable to:

Owners of the parent

209,879 954,853

Non-controlling interests

19,527 161,754

229,406 1,116,607

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under HKFRSs)

30 June 2013

| | 30 June 2013 (unaudited) RMB'000 | 31 December 2012 (audited) RMB'000 |
|---|---|---|
| Non-current assets | | |
| Property, plant and equipment | 8,065,828 | 8,011,028 |
| Prepaid land lease payments | 991,464 | 889,351 |
| Intangible assets | 2,881,567 | 2,624,944 |
| Investment properties | 1,765,400 | 1,686,158 |
| Investments in jointly-controlled entities | 46,854 | 46,814 |
| Investments in associates | 388,263 | 408,954 |
| Available-for-sale investments | 1,464,647 | 1,092,335 |
| Held-to-maturity investments | 160,505 | — |
| Long-term trade receivables | 717,027 | 1,206,642 |
| Factored long-term trade receivables | 3,740,283 | 4,018,484 |
| Deferred tax assets | 1,193,542 | 1,218,605 |
| Pledged deposits | 2,858,453 | 3,157,077 |
| Long-term prepayments, deposits and other receivables | 415,254 | 447,226 |
| | <hr/> | <hr/> |
| Total non-current assets | 24,689,087 | 24,807,618 |
| Current assets | | |
| Prepaid land lease payments | 21,943 | 19,677 |
| Inventories | 11,577,111 | 11,442,389 |
| Amount due from customers for contract works | 14,133,330 | 13,666,100 |
| Trade and bills receivables | 27,845,495 | 26,350,396 |
| Factored trade receivables | 4,296,363 | 4,165,514 |
| Prepayments, deposits and other receivables | 4,090,124 | 5,227,077 |
| Trading financial assets | 104,489 | 106,297 |
| Pledged deposits | 1,366,662 | 1,380,180 |
| Time deposits with original maturity of over three months | 39,657 | 86,608 |
| Cash and cash equivalents | 15,915,691 | 22,659,635 |
| | <hr/> | <hr/> |
| Total current assets | 79,390,865 | 85,103,873 |
| Current liabilities | | |
| Trade and bills payables | 26,904,872 | 29,593,979 |
| Amount due to customers for contract works | 3,686,669 | 3,459,545 |
| Other payables and accruals | 12,907,020 | 14,833,771 |
| Interest-bearing bank borrowings | 13,239,693 | 18,429,893 |
| Bank advances on factored trade receivables | 4,302,448 | 4,168,932 |
| Bonds cum warrants | — | 4,018,134 |
| Tax payable | 616,043 | 608,336 |
| Derivative financial instruments | 15,954 | 105,739 |
| Dividends payable | 116,112 | 205,783 |
| | <hr/> | <hr/> |
| Total current liabilities | 61,788,811 | 75,424,112 |
| Net current assets | 17,602,054 | 9,679,761 |
| Total assets less current liabilities | 42,291,141 | 34,487,379 |

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under HKFRSs)

30 June 2013

| | 30 June 2013 (unaudited) <i>RMB'000</i> | 31 December 2012 (audited) <i>RMB'000</i> |
|---|--|--|
| Total assets less current liabilities | 42,291,141 | 34,487,379 |
| Non-current liabilities | | |
| Derivative financial instruments | 3,427 | 10,747 |
| Interest-bearing bank borrowings | 8,278,918 | 989,990 |
| Bank advances on factored long-term trade receivables | 3,740,283 | 4,018,484 |
| Bonds payable | 5,987,792 | 6,107,993 |
| Deferred tax liabilities | 139,900 | 139,900 |
| Financial guarantee contract | 3,689 | 3,689 |
| Provision for retirement benefits | 53,440 | 54,041 |
| Other long-term payables | 1,308,167 | 523,805 |
| Total non-current liabilities | 19,515,616 | 11,848,649 |
| Net assets | 22,775,525 | 22,638,730 |
| Equity | | |
| Equity attributable to owners of the parent | | |
| Issued capital | 3,440,078 | 3,440,078 |
| Reserves | 18,272,275 | 18,062,396 |
| | 21,712,353 | 21,502,474 |
| Non-controlling interests | 1,063,172 | 1,136,256 |
| Total equity | 22,775,525 | 22,638,730 |

Director
Hou Weigui

Director
Shi Lirong

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

| | |
|-----------------------|---|
| HKFRS 7 Amendments | Amendments to HKFRS 7 Financial Instruments: Disclosures — Offsetting Financial Assets and Financial Liabilities |
| Amendment to HKFRS 13 | HKFRS 13 (Revised) Fair Value Measurement |
| Amendment to HKAS 1 | HKAS 1 (Revised): Presentation of Financial Statements — Presentation of Items of Other Comprehensive Income |

The HKFRS 7 Amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity’s financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with HKAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with HKAS 32. The Group has adopted the amendments from 1 January 2013.

HKFRS 13 provides a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The standard does not change the circumstances in which the Group is required to use fair value, but provides guidance on how fair value should be applied where its use is already required or permitted under other HKFRSs. The Group has adopted the amendments from 1 January 2013.

The HKAS 1 Amendments change the grouping of items presented in OCI. Items that could be reclassified (or recycled) to profit or loss at a future point in time (for example, net gain on hedge of a net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) would be presented separately from items which will never be reclassified (for example, actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendments will affect presentation only and have no impact on the financial position or performance. The Group has adopted the amendments from 1 January 2013.

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 2013 | | | | |
| Segment revenue: | | | | |
| Telecommunications system contracts | 19,050,466 | — | 6,029,380 | 25,079,846 |
| Sale of goods and services | — | 12,460,868 | 35,498 | 12,496,366 |
| Total | 19,050,466 | 12,460,868 | 6,064,878 | 37,576,212 |
| Segment results | 4,080,340 | 254,355 | 977,198 | 5,311,893 |
| Bank and other interest income | | | | 88,086 |
| Dividend income and unallocated gains | | | | 2,597,136 |
| Corporate and other unallocated expenses | | | | (6,459,586) |
| Finance costs | | | | (766,104) |
| Share of profits and losses of: Jointly controlled entities | | | | 40 |
| Associates | | | | (29,684) |
| Profit/(loss) before tax | | | | 741,781 |
| 30 June 2013 | | | | |
| Segment assets | 37,346,779 | 13,073,161 | 11,889,669 | 62,309,609 |
| Investment in jointly-controlled entities | | | | 46,854 |
| Investment in associates | | | | 388,263 |
| Corporate and other unallocated assets | | | | 41,335,226 |
| Total assets | | | | 104,079,952 |
| Segment liabilities | 10,594,317 | 1,110,229 | 3,372,792 | 15,077,338 |
| Corporate and other unallocated liabilities | | | | 66,227,089 |
| Total liabilities | | | | 81,304,427 |
| Six months ended 30 June 2013 | | | | |
| Other segment information: | | | | |
| Provision for asset impairment | 469,815 | 307,304 | 149,569 | 926,688 |
| Depreciation and amortisation | 402,499 | 263,273 | 128,139 | 793,911 |
| Capital expenditure | 579,451 | 379,018 | 184,473 | 1,142,942 |

| | 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 | | | | |
| Segment revenue: | | | | |
| Telecommunications system contracts | 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 |
| Segment results | 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 |
| Corporate and other unallocated expenses | | | | (5,920,664) |
| Finance costs | | | | (561,520) |
| Share of profits and losses of: Jointly-controlled entities | | | | (893) |
| Associates | | | | (7,029) |
| Profit/(loss) before tax | | | | 655,632 |
| 31 December 2012 | | | | |
| Segment assets | 35,099,356 | 11,594,963 | 14,155,206 | 60,849,525 |
| Investment in jointly-controlled entities | | | | 46,814 |
| Investment in associates | | | | 408,954 |
| Corporate and other unallocated assets | | | | 48,606,198 |
| Total assets | | | | 109,911,491 |
| Segment liabilities | 9,834,371 | 953,128 | 3,966,100 | 14,753,599 |
| Corporate and other unallocated liabilities | | | | 72,519,162 |
| Total liabilities | | | | 87,272,761 |
| Six months ended 30 June 2012 | | | | |
| Other segment information: | | | | |
| 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 |

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 2013 and 2012 is set out in the following table:

| | Six months ended 30 June 2013 RMB'000 | Six months ended 30 June 2012 RMB'000 |
|------------------------------|--|---|
| The PRC | 18,821,489 | 20,884,864 |
| Asia (excluding the PRC) | 6,327,118 | 8,009,957 |
| Africa | 3,034,884 | 3,923,335 |
| Europe, Americas and Oceania | 9,392,721 | 9,823,742 |
| Total | <u>37,576,212</u> | <u>42,641,898</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 2013 RMB'000 | Six months ended 30 June 2012 RMB'000 |
|-------------------------------------|--|---|
| Revenue | | |
| Telecommunications system contracts | 25,079,846 | 28,094,411 |
| Sale of goods and services | 12,496,366 | 14,547,487 |
| | <u>37,576,212</u> | <u>42,641,898</u> |

4. PROFIT BEFORE TAX

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

| | Six months ended 30 June 2013 RMB'000 | Six months ended 30 June 2012 RMB'000 |
|--|--|---|
| Cost of goods and services | 25,196,409 | 28,861,862 |
| Depreciation | 481,146 | 504,555 |
| Amortisation of land lease payments | 9,365 | 8,655 |
| Amortisation of intangible assets other than deferred development costs | 57,973 | 58,475 |
| Amortisation of development expenses | 245,427 | 155,007 |
| Provision for bad and doubtful debts* | 627,247 | 208,147 |
| Provision for warranties** | 193,321 | 241,360 |
| Write-down of inventories to net realisable value** | 299,441 | 252,343 |
| Exchange difference, net | 638,028 | 141,321 |
| Loss on disposal of fixed assets* | 7,171 | 12,068 |
| Equity-settled share expense | — | 3,666 |

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

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

5. TAXATION

| | Six months ended 30 June 2013 RMB'000 | Six months ended 30 June 2012 RMB'000 |
|---------------------------------|--|---|
| Group: | | |
| Current — Mainland China | 299,836 | 223,880 |
| Current — Overseas | 87,638 | 77,613 |
| Deferred | 25,063 | (37,869) |
| Total tax charge for the period | 412,537 | 263,624 |

Hong Kong profits tax has been provided at the rate of 16.5% (2012: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

6. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2013 (Same period in 2012: nil).

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

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

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

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

| | Six months ended 30 June 2013 RMB'000 | Six months ended 30 June 2012 RMB'000 |
|--|---|--|
| Earnings | | |
| Net profit attributable to ordinary equity holders of the parent company for the period | 310,012 | 244,875 |
| | Six months ended 30 June 2013 Shares'000 | Six months ended 30 June 2012 Shares'000 |
| Shares | | |
| Weighted average number of ordinary shares in issue during the period as used in the basic earning per share calculation <i>(Note 1)</i> | 3,437,541 | 3,430,952 |
| Share subject to lock-up under the share incentive scheme | | |
| Restricted Shares under share incentive scheme <i>(Note 2)</i> | — | 6,874 |
| Adjusted weighted average number of ordinary shares in issue | 3,437,541 | 3,437,826 |

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

Note 2: During the reporting period, the unlocking of restricted shares under the Phase I Share Incentive Scheme of the Company (less 2,536,742 shares proposed to be lapsed) had been completed and there were no 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:

| | 30 June 2013 RMB'000 | 31 December 2012 RMB'000 |
|--|-------------------------------------|--------------------------------|
| Within 6 months | 22,959,275 | 23,293,955 |
| 7 to 12 months | 3,911,361 | 3,147,913 |
| 1 to 2 years | 1,637,019 | 1,007,925 |
| 2 to 3 years | 54,867 | 107,245 |
| Over 3 years | — | — |
| | 28,562,522 | 27,557,038 |
| Less: Current portion of trade and bills receivables | (27,845,495) | (26,350,396) |
| Long-term portion | 717,027 | 1,206,642 |

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

| | 30 June 2013 RMB'000 | 31 December 2012 RMB'000 |
|-----------------------------|-------------------------------------|--------------------------------|
| The controlling shareholder | 626 | 346 |
| Jointly-controlled entities | 42,531 | 100,819 |
| Related companies | 35,106 | 2,663 |
| | 78,263 | 103,828 |

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

9. TRADE AND BILLS PAYABLES

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

| | 30 June 2013 | 31 December 2012 |
|-----------------|--------------------------|--------------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| Within 6 months | 26,511,808 | 29,083,388 |
| 7 to 12 months | 106,220 | 177,299 |
| 1 to 2 years | 213,460 | 267,454 |
| 2 to 3 years | 34,468 | 31,811 |
| Over 3 years | 38,916 | 34,027 |
| | <hr/> | <hr/> |
| Total | <u>26,904,872</u> | <u>29,593,979</u> |

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

| | 30 June 2013 | 31 December 2012 |
|-----------------------------|-------------------------|-----------------------|
| | <i>RMB'000</i> | <i>RMB'000</i> |
| The controlling shareholder | 35,762 | 65,376 |
| Associates | 4,457 | 19,080 |
| Related companies | 85,881 | 138,991 |
| | <hr/> | <hr/> |
| Total | <u>126,100</u> | <u>223,447</u> |

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

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

10. POST-BALANCE-SHEET-DATE EVENTS

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