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ZTE

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)

2016 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 the 2016 interim report (the “Interim Report”) does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents of the 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 posted on the website of the Hong Kong Stock Exchange (www.hkexnews.com.hk) and the Company’s website (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 Eighth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Luan Jubao, Vice Chairman, was unable to attend the meeting due to work reasons and has authorised Mr. Zhan Yichao, Director, to vote on his behalf. Mr. Tian Dongfang, Director, was unable to attend the meeting due to work reasons and has authorised Mr. Wang Yawen, Director, to vote on his behalf. Mr. Yin Yimin, Director, was unable to attend the meeting due to work reasons and has authorised Mr. Shi Lirong, Director, to vote on his behalf. Mr. Lü Hongbing, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Chen Shaohua, 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 2016 were unaudited.

1.5 Mr. Zhao Xianming, 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 conversion of capital reserves will be implemented in respect of the interim period of 2016.

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated name of stock	ZTE	
Stock code	000063 (A Shares)	763 (H Shares)
Place of listing	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China	
Postal code	518057	
Principal place of business in Hong Kong	36/F, Tower Two, Time Square, 1 Matheson Street, Causeway, Hong Kong	
Website	http://www.zte.com.cn	
E-mail	IR@zte.com.cn	

2.2 Contact persons and correspondence

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

3. SUMMARY OF THE COMPANY'S BUSINESS

3.1 Principal businesses

The Group is dedicated to the design, development, production, distribution and installation of a broad range of advanced ICT-related systems, equipment and terminals, including carriers' networks, government and corporate business and consumer business. There was no significant change to the principal businesses of the Group during the reporting period.

The carriers' network is focused on meeting requirements of carriers by providing wireless networks, wireline networks, core networks, telecommunication software systems and services and other innovative technologies and product solutions.

The government and corporate business is focused on meeting requirements of government and corporate clients, providing top-level design and consultation services as well as implementation, operation and maintenance of integrated informatisation solutions for the government and corporate informatisation projects through the application of cloud computing, communications networks, internet of things, big data technologies and related core M-ICT products.

The consumer business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry and corporate clients through the development, production and sales of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, wearable devices, as well as the provision of related software application and value-added services.

3.2 The industry in which we operates

The Company is a leading provider of integrated telecommunication solutions in the world market. Through the provision of innovative technology and product solutions to telecommunications service providers and government and corporate customers in more than 160 countries and regions, the Company enables communications via multiple means, such as voice, data, multi-media, wireless broadband and wireline broadband for users all over the world.

The Group owns a complete end-to-end product line and integrated solutions in the telecommunications industry. Through a complete range of wireless, wireline, cloud computing and IT, government and corporate business and consumer products, we have the flexibility to fulfill differentiated requirements and demands for fast innovation on the part of different carriers and customers in the government and corporate sector around the world. Currently, the Group is providing a full range of services to global mainstream carriers and customers in the government and corporate sector. In future, the Group will continue to lead the way in the development of global telecommunications industry in the M-ICT era and address ever-changing challenges in this sector.

4. HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Whether the Company has made retrospective adjustments to or restatement of accounting data of the previous year as a result of changes in accounting policies or for the rectification of accounting errors

Yes No

4.1 Major accounting data and financial indicators of the Group prepared in accordance with PRC Accounting Standards for Business Enterprise (“PRC ASBEs”)

Unit: RMB in thousands

Item	End of the reporting period (30 June 2016)	End of last year (31 December 2015)	Change as at the end of the reporting period compared with the end of last year
Total assets	129,916,283	120,893,897	7.46%
Owners’ equity attributable to holders of ordinary shares of the listed company	30,971,459	29,660,094	4.42%
Share capital (<i>thousand shares</i>) ^{Note 1}	4,154,242	4,150,791	0.08%
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	7.46	7.15	4.34% Increased by 2.04 percentage points
Gearing ratio (%)	66.18%	64.14%	

Unit: RMB in thousands

Item	Reporting period (Six months ended 30 June 2016)	Same period of last year (Six months ended 30 June 2015)	Changes compared with the same period of last year
Operating revenue	47,757,302	45,898,788	4.05%
Operating profit	495,416	76,343	548.93%
Total profit	2,707,781	2,142,388	26.39%
Net profit attributable to holders of ordinary shares of the listed company	1,766,397	1,615,585	9.33%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	1,673,242	938,000	78.38%
Basic earnings per share (<i>RMB/share</i>) ^{Note 2}	0.43	0.39	10.26%
Diluted earnings per share (<i>RMB/share</i>) ^{Note 3}	0.42	0.39	7.69%
Basic earnings per share after extraordinary items (<i>RMB/share</i>) ^{Note 2}	0.40	0.23	73.91% Decreased by 0.43 percentage points Increased by 1.88 percentage points
Weighted average return on net assets (%)	5.83%	6.26%	
Weighted average return on net assets after extraordinary items (%)	5.52%	3.64%	
Net cash flows from operating activities	2,354,931	1,507,886	56.17%
Net cash flows from operating activities per share (<i>RMB/share</i>) ^{Note 4}	0.57	0.37	54.05%

- Note 1:* The total share capital of the Company was increased from 4,150,791,215 shares to 4,154,242,094 shares following the exercising of a total of 3,450,879 A share options by scheme participants under the share option incentive scheme of the Company during the reporting period;
- Note 2:* Basic earnings per share and basic earnings per share after extraordinary items for the reporting period have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the period, basic earnings per share and basic earnings per share after extraordinary items for the same period last year have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve;
- Note 3:* As A share options granted by the Company have given rise to 13,420,000 and 44,768,000 potentially dilutive ordinary shares for the reporting period and the same period last year, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor, diluted earnings per share for the same period last year has been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve;
- Note 4:* Net cash flows from operating activities per share for the reporting period has been calculated on the basis of the total share capital as at the end of the period, net cash flows from operating activities per share for the same period last year has been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve.

4.2 Extraordinary gains or losses items and amounts prepared in accordance with PRC ASBEs

Unit: RMB in thousands

Extraordinary item	Amount
Non-operating income	298,968
Gains/(Losses) from fair value change	(36,350)
Investment income	(97,657)
Less: Losses/(Gains) on disposal of non-current assets	4,659
Less: Other non-operating expenses	46,706
Less: Effect of income tax	17,039
Less: Effect of non-controlling interests (after tax)	3,402
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Total	93,155
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4.3 Major financial indicators prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”)

Item	Six months ended 30 June 2016	Six months ended 30 June 2015
Basic earnings per share (<i>RMB/share</i>) ^{Note}	0.43	0.39
Weighted average return on net assets (%)	5.83%	6.26%
Weighted average return on net assets after extraordinary items (%)	5.52%	3.64%
Item	30 June 2016	31 December 2015
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	7.46	7.15

Note: Basic earnings per share for the reporting period has been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the period, basic earnings per share for the same period last year has been restated to reflect the implementation of the Company’s 2014 plan for profit distribution and conversion of capital reserve.

4.4 The amounts of net profit and shareholders’ equity of the Group for the six months ended and as at 30 June 2016 calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

5. SHAREHOLDINGS OF THE SHAREHOLDERS

5.1 Total number of shareholders, shareholdings of top ten shareholders and top ten holders that were not subject to lock-up as at the end of the reporting period

As at 30 June 2016		Total number of shareholders				
		There were 214,068 shareholders (comprising 213,702 holders of A shares and 366 holders of H shares)				
		Shareholdings of top 10 shareholders or shareholders holding 5% or above of the shares				
Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/decrease during the reporting period (shares)	Number of shares subject to lock-up (shares)	Number of shares pledged or frozen
1. Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”)	State-owned corporation	30.57%	1,269,830,333	—	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.15%	753,997,716	-84,034	—	Unknown
3. China Securities Finance Corporation Limited	General domestic corporation	3.19%	132,638,000	+25,493,628	—	Unknown
4. Central Huijin Asset Management Ltd.	State-owned corporation	1.26%	52,519,600	—	—	Unknown
5. NSSF Portfolio #103	Others	1.08%	45,008,014	+5,008,559	—	Unknown
6. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.03%	42,840,008	—	—	Unknown
7. New China Life Insurance Company Ltd. — Dividend — Individual Dividend — 018L-FH002 Shen	Others	0.61%	25,170,442	—	—	Unknown
8. Bank of China Limited — China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	Others	0.53%	21,965,903	—	—	Unknown
9. Tibet Ziguang Chunhua Investment Limited	General domestic corporation	0.53%	21,866,154	+21,866,154	—	Unknown
10. Seventh Research Institute of China Mobile	State-owned corporation	0.46%	19,073,940	—	—	Unknown
Shareholdings of top 10 holders of shares that were not subject to lock-up					Number of shares not subject to lock-up (shares)	Class of shares
Name of shareholders						
1. Zhongxingxin					1,269,830,333	A share
2. HKSCC Nominees Limited					753,997,716	H share
3. China Securities Finance Corporation Limited					132,638,000	A share
4. Central Huijin Asset Management Ltd.					52,519,600	A share
5. NSSF Portfolio #103					45,008,014	A share
6. Hunan Nantian (Group) Co., Ltd.					42,840,008	A share
7. New China Life Insurance Company Ltd. — Dividend — Individual Dividend — 018L-FH002 Shen					25,170,442	A share
8. Bank of China Limited — China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund					21,965,903	A share
9. Tibet Ziguang Chunhua Investment Limited					21,866,154	A share
10. Seventh Research Institute of China Mobile					19,073,940	A share

- Descriptions of any connected party relationships or concerted party relationships among the above shareholders
1. Zhongxingxin was neither a connected party nor a concerted party of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above.
 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.

Description of involvement in financing and securities lending businesses of top 10 shareholders (if any) N/A

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

Note 2: Shareholders holding 5% or above of the Company's shares — Changes in the shareholding of Zhongxingxin, controlling shareholder of the Company interested in 30.57% of the Company's shares as at the end of the reporting period, 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	Number of	Number of shares pledged or frozen (shares)
				shares subject to lock-up held at the end of the reporting period (shares)	shares not subject to lock-up held at the end of the reporting period (shares)	
Zhongxingxin	0	1,269,830,333	A shares	0	1,269,830,333	Nil

Whether top 10 shareholders and top 10 holders of shares that were not subject to lock-up of the Company conducted any transactions on agreed repurchases during the reporting period

Yes No

The Company had no preferential shares.

5.2 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.

5.3 Purchase, sale and redemption of securities

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

6. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

6.1 Changes in the holdings of shares and share options in the Company by the Company's Directors, Supervisors and senior management

No.	Name	Gender	Age	Title	Status of office	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 A shares held during the reporting period (shares)	Decrease in the number of A shares held during the reporting period (shares)	Number of A shares held at the end of the reporting period (shares)	Reasons for changes	Whether remuneration is received from connected parties ^{Note 1}
Directors of the Company ^{Note 2}													
1	Hou Weigui ^{Note 2}	Male	75	Chairman	Resigned	3/2013	3/2016	1,556,967	—	—	1,556,967	—	No
2	Zhao Xianming ^{Note 2, Note 4}	Male	50	Chairman President	Incumbent	3/2016 4/2016	3/2019 3/2019	391,515	80,000	—	471,515	^{Note 5}	No
3	Zhang Jianheng	Male	55	Vice Chairman	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
4	Luan Jubao	Male	54	Vice Chairman	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
5	Shi Lirong	Male	52	Director	Incumbent	3/2016	3/2019	660,613	—	—	660,613	—	No
6	Wang Yawen	Male	53	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
7	Tian Dongfang	Male	56	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
8	Zhan Yichao	Male	53	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
9	Yin Yimin	Male	53	Director	Incumbent	3/2016	3/2019	759,400	—	—	759,400	—	No
10	Wei Zaisheng ^{Note 2, Note 4}	Male	54	Director Executive Vice President and Chief Financial Officer	Incumbent	3/2016 4/2016	3/2019 3/2019	439,677	—	—	439,677	—	No
11	Tan Zhenhui ^{Note 2}	Male	72	Independent Non-executive Director	Resigned	3/2013	3/2016	—	—	—	—	—	Yes
12	Richard Xike Zhang	Male	46	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
13	Chen Shaohua	Male	55	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
14	Lü Hongbing	Male	50	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
15	Bingsheng Teng	Male	46	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
16	Zhu Wuxiang ^{Note 2}	Male	51	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
Supervisors of the Company ^{Note 3}													
17	Xie Daxiong	Male	53	Chairman of Supervisory Committee	Incumbent	3/2016	3/2019	495,803	—	—	495,803	—	No
18	Zhou Huidong	Male	40	Supervisor	Incumbent	3/2016	3/2019	70,342	—	—	70,342	—	No
19	Xu Weiyan	Female	54	Supervisor	Incumbent	3/2016	3/2019	11,039	—	—	11,039	—	No
20	Chang Qing ^{Note 3}	Male	61	Supervisor	Resigned	3/2013	3/2016	—	—	—	—	—	Yes
21	Wang Junfeng ^{Note 3}	Male	50	Supervisor	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
22	Xia Xiaoyue ^{Note 3}	Female	41	Supervisor	Incumbent	3/2016	3/2019	50,927	—	—	50,927	—	No
Senior management of the Company ^{Note 4}													
23	Fan Qingfeng	Male	48	Executive Vice President	Incumbent	4/2016	3/2019	505,687	—	—	505,687	—	No
24	Zeng Xuezhong	Male	43	Executive Vice President	Incumbent	4/2016	3/2019	552,840	—	—	552,840	—	No
25	Xu Huijun ^{Note 4}	Male	43	Executive Vice President	Incumbent	4/2016	3/2019	630,851	—	—	630,851	—	No
26	Pang Shengqing ^{Note 4}	Male	48	Executive Vice President	Incumbent	4/2016	3/2019	571,682	—	—	571,682	—	No
27	Zhang Zhenhui ^{Note 4}	Male	43	Executive Vice President	Incumbent	4/2016	3/2019	148,200	—	—	148,200	—	No
28	Chen Jianzhou ^{Note 4}	Male	46	Executive Vice President	Incumbent	4/2016	3/2019	167,769	82,000	—	249,769	^{Note 5}	No
29	Tian Wenguo ^{Note 4}	Male	47	Executive Vice President	Resigned	4/2013	3/2016	256,390	—	—	256,390	—	No
30	Qiu Weizhou ^{Note 4}	Male	53	Executive Vice President	Resigned	4/2013	3/2016	440,537	—	—	440,537	—	No
31	Chen Jie	Female	58	Senior Vice President	Note 4	4/2013	3/2016	745,599	—	—	745,599	—	No
32	Ye Weimin	Male	50	Senior Vice President	Note 4	4/2013	3/2016	474,523	—	—	474,523	—	No
33	Zhu Jinyun	Male	44	Senior Vice President	Note 4	4/2013	3/2016	596,213	—	—	596,213	—	No
34	Zhang Renjun	Male	47	Senior Vice President	Note 4	4/2013	3/2016	—	—	—	—	—	No
35	Cheng Lixin	Male	50	Senior Vice President	Note 4	4/2013	3/2016	75,600	—	—	75,600	—	No
36	Xiong Hui	Male	47	Senior Vice President	Note 4	1/2014	3/2016	51,700	92,300	—	144,000	^{Note 5}	No
37	Huang Dabin	Male	45	Senior Vice President	Note 4	8/2015	3/2016	90,000	—	—	90,000	—	No
38	Cao Wei ^{Note 4}	Female	40	Secretary to the Board	Incumbent	4/2016	3/2019	25,200	—	25,200	—	^{Note 5}	No
39	Feng Jianxiong ^{Note 4}	Male	42	Secretary to the Board	Resigned	4/2013	3/2016	391,500	—	—	391,500	—	No
40	Others ^{Note 6}	—	—	—	—	—	—	82,600	—	—	82,600	—	—
—	Total	—	—	—	—	—	—	10,243,174	254,300	25,200	10,472,274	—	—

- Note 1:* Pursuant to Rule 10.1.3(III) of the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, legal entities or other entities in which the Directors, Supervisors and senior management of a listed company acted as directors and senior management (other than the listed company and its subsidiaries) are deemed as connected parties of the listed company.
- Note 2:* The term of office of the Sixth Session of the Board of Directors of the Company concluded on 29 March 2016. At the First Extraordinary General Meeting of 2016 of the Company held on 3 March 2016, Mr. Zhang Jianheng, Mr. Luan Jubao, Mr. Shi Lirong, Mr. Wang Yawen, Mr. Tian Dongfang and Mr. Zhan Yichao were elected Non-executive Directors of the Seventh Session of the Board of Directors of the Company; Mr. Zhao Xianming, Mr. Yin Yimin and Mr. Wei Zaisheng were elected Executive Directors of the Seventh Session of the Board of Directors of the Company; and Mr. Richard Xike Zhang, Mr. Chen Shaohua, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang were elected Independent Non-executive Directors of the Seventh Session of the Board of Directors of the Company. The term of office of the Seventh Session of the Board of Directors of the Company shall commence on 30 March 2016 and end on 29 March 2019. At the First Meeting of the Seventh Session of the Board of Directors of the Company held on 5 April 2016, Mr. Zhao Xianming was elected Chairman of the Company, Mr. Zhang Jianheng and Mr. Luan Jubao were each elected Vice Chairman of the Company.
- Note 3:* The term of office of the Sixth Session of Supervisory Committee of the Company concluded on 29 March 2016. At the First Extraordinary General Meeting of 2016 of the Company held on 3 March 2016, Ms. Xu Weiyan and Mr. Wang Junfeng were elected Shareholders' Representative Supervisors of the Seventh Session of the Supervisory Committee of the Company. On 17 February 2016, Mr. Xie Daxiong, Mr. Zhou Huidong and Ms. Xia Xiaoyue were elected Staff Representative Supervisors of the Seventh Session of the Supervisory Committee of the Company through democratic elections by the staff representatives of the Company. The term of office of the Seventh Session of the Supervisory Committee of the Company shall commence on 30 March 2016 and end on 29 March 2019. At the First Meeting of the Seventh Session of the Supervisory Committee of the Company held on 6 April 2016, Mr. Xie Daxiong was elected Chairman of the Supervisory Committee of the Company.
- Note 4:* The term of office of the senior management appointed by the Sixth Session of the Board of Directors of the Company concluded on 29 March 2016. At the First Meeting of the Seventh Session of the Board of Directors of the Company held on 5 April 2016, Mr. Zhao Xianming was appointed President of the Company; Mr. Wei Zaisheng, Mr. Fan Qingfeng, Mr. Zeng Xuezhong, Mr. Xu Huijun, Mr. Pang Shengqing, Mr. Zhang Zhenhui and Mr. Chen Jianzhou were each appointed Executive Vice President of the Company; Mr. Wei Zaisheng was concurrently appointed Chief Financial Officer of the Company; and Ms. Cao Wei was appointed Secretary to the Board of Directors of the Company and removed from the position of securities affairs representative of the Company. The term of office of the aforesaid new session of senior management shall commence on the date on which the appointment was considered and approved at the said meeting of the Board of Directors and end on the date of conclusion of the term of office of the Seventh Session of the Board of Directors (namely, 29 March 2019).
- Note 5:* Reduction or increase of shareholdings in accordance with “Rules Governing the Holding of Shares in the Company by Directors, Supervisors and Senior Management of Listed Companies and Changes Thereof”, including the exercise of A share options.
- Note 6:* As disclosed in the “Further Announcement on the Fulfillment and Completion of Undertaking of Directors and Senior Management to Increase Shareholdings in the Company” published by the Company on 26 August 2015, then Director Mr. He Shiyong and then senior management members Mr. Zhang Zhenhui, Mr. Qiu Weizhao, Mr. Chen Jianzhou, Mr. Fan Qingfeng, Mr. Pang Shengqing, Mr. Zhang Renjun, Mr. Ye Weimin, Mr. Xiong Hui and Mr. Feng Jianxiong had undertaken to increase shareholdings in the Company, and increased their shareholdings in the Company by 82,600 A shares indirectly through an asset management plan. Such shares are not included in the shareholdings of the senior management in the A shares of the Company set out in the above table.
- Note 7:* As at the end of the reporting period, Mr. Wei Zaisheng held 30,000 H shares of the Company. Save as that, no other Directors, Supervisors or senior management of the Company held any H shares in the issued share capital of the Company.

During the reporting period, no share options had been granted to the Directors, Supervisors and senior management of the Company.

For details of the A share options of the Company held by Directors and senior management of the Company during the reporting period, please refer to the section headed “Material Matters — (VII) Information on the Share Option Incentive Scheme of the Company” in the Interim Report. Supervisors of the Company did not hold any A share options of the Company.

6.2 Interests of Directors, Supervisors and Chief Executive Officer of the Company in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2016 are set out in the section of this chapter headed “6.1 Changes in the holdings of shares and share options in the Company by the Company’s Directors, Supervisors and senior management”.

Save as disclosed above, as at 30 June 2016, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model code”) as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 30 June 2016, 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.

7. REPORT OF THE BOARD OF DIRECTORS

7.1 Review of business in the first half of 2016

(1) Overview of the domestic telecommunications industry for the first half of 2016

During the first half of 2016, data flow handled by carriers increased rapidly with the further expansion of 4G networks operated by domestic carriers, advance of the Broadband China strategy, ongoing penetration and application of cloud computing and big data, development of big video and big bandwidth services and the acceleration of mobile interconnection of all things. To cope with the pressure of increasing data flow and drive business transformation, carriers increased their investment in smart pipes, cloud computing, big data, internet of things and big video, while remaining focused on the construction of wireless, transmission and broadband networks.

(2) Overview of the global telecommunications industry for the first half of 2016

Traditional telecommunication businesses were exposed to increasing pressure in operations during the first half of 2016, as the transformation and upgrade of the industry gained pace. Elsewhere, the advances and application of Pre-5G technologies, expansion of “internet+” in traditional industries, development of integrated new businesses, preliminary application of SDN/NFV technologies, balance of security and privacy, development of AR/VR technologies represented some of the latest trends in the industry. Meanwhile, the

telecommunications sector welcomed opportunities for innovation afforded by the development of industry 4.0, artificial intelligence, smart city, intelligent manufacturing, internet of things and internet of energy.

(3) Operating results of the Group for the first half of 2016

For the first half of 2016, the Group's overall operating revenue increased by 4.05% to RMB47,757 million, as compared to the first half of 2015, reflecting primarily the increase in operating revenue from 4G system products and cloud computing and IT products in the domestic and international markets, as well as optical transmission products and handset products in the domestic market. The Group's net profit attributable to holders of ordinary shares of the listed company amounted to RMB1,766 million for the six months ended 30 June 2016, representing a year-on-year growth of 9.33%. Basic earnings per share amounted to RMB0.43.

A. By market

The domestic market

During the reporting period, the Group reported operating revenue of RMB27,803 million from the domestic market, accounting for 58.22% of the Group's overall operating revenue. The Group worked proactively in support of the network construction plans and application requirements of domestic carriers and government and corporate clients, while increasing investments in channel development and brand building for our consumer business. Meanwhile, we were also vigorously expanding our cloud computing and big data services and businesses in smart city, high-end routers, big video, internet of things, VR and quantum communication, etc.

The international market

During the reporting period, the Group reported operating revenue of RMB19,954 million from the international market, accounting for 41.78% of the Group's overall operating revenue. The Group forged closer strategic partnerships with global mainstream carriers by introducing innovations in technologies and product solutions and improving its competitive strengths, in persistent implementation of its strategy of focusing on populous nations and mainstream carriers. In the meantime, the Group served government and corporate customers extensively by launching new products and solutions in government informatisation services, corporate IT services and consumer smart terminals, aiming to drive sustainable development in the future.

B. By business segment

During the reporting period, the Group reported operating revenue of RMB28,735 million for carriers' networks. Operating revenue for government and corporate business amounted to RMB4,607 million. Operating revenue for the consumer business amounted to RMB14,415 million.

Carriers' network

In connection with wireless products, the Group persisted in innovation to enhance its competitiveness. The profile of the domestic and overseas markets for 4G products was optimized, as we capitalized on the window for large-scale 4G construction to help global carriers lower their consolidated costs and improve their operational capabilities. For the future developments in wireless communications, the planning and subsequent launch of the Pre-5G product series has provided an effective backing for the implementation of an evolvable high-performance network. Pre-5G tests for large-scale operation were actively underway, while the Group's work in the formulation of 5G standards has also achieved initial results. In connection with the market for the internet of things, the Group has expedited progress in the formulation of standards for the internet of things, technological research and development, product design and application of solutions in close tandem with its M-ICT strategy, laying a solid foundation for large-scale growth in the future.

In connection with wireline and optical communications products, the Group seized opportunities arising from the implementation of the Broadband China strategy and overseas demand for broadband network construction, and strengthened the marketing of solutions in various sectors such as big video, data centre, smart city and government and corporate services, giving assurance to ongoing solid operations.

In connection with cloud computing and IT products, the Group strengthened its research, development and investment in RCS, big video, cloud computing, big data and internet of things, while establishing its presence in distributed database, AR, artificial intelligence and in-depth learning to assure balanced development.

Government and corporate business

With the adoption of smart city as its main strategy, the Group was focused on key sectors and markets, such as the government, energy, transportation, finance and education. Our market position was steadily enhanced with sustained market growth, as we accelerated expansion through the dual strategy of being ready "to integrate as well as to be integrated," while strengthening the standardised operation of projects and launching fast replication of successful projects.

Consumer business

In connection with handset terminals, the Group continued to reinforce its global strategic set up with ongoing effort to enhance its ability in product innovation, channel development, brand marketing and services. Our product series, notably AXON, Blade and Spro, have been well received by the market and users. In connection with the home media centre, the Group continued to expand its market and launch new products on the back of the rapid growth in domestic and international home video markets, developments in 4K and HDR technologies and the upgrade and replacement demands for relevant equipment and technologies. In connection with fixed-network broadband terminals, the Group launched a new-generation interactive home entertainment and smart home solution as well as home security products with initial success.

7.2 Management discussion and analysis prepared in accordance with PRC ASBEs

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

7.2.1 Breakdown of indicators by industry, business and region and comparison with the same period last year

To cater to our business development, the classification of the Group's principal business mix has been changed from classification by product to classification by business from 2015. Details of indicators analysed by industry, business and region for six months ended 30 June 2016, together comparisons with the same period last year, are set out as follows:

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	47,757,302	31,824,387	33.36%	4.05%	4.59%	(0.35)
Total	47,757,302	31,824,387	33.36%	4.05%	4.59%	(0.35)
II. By business						
Carriers' networks	28,734,974	16,843,932	41.38%	5.05%	5.07%	(0.01)
Government and corporate business	4,607,271	2,743,928	40.44%	2.46%	(6.09%)	5.42
Consumer business	14,415,057	12,236,527	15.11%	2.62%	6.65%	(3.22)
Total	47,757,302	31,824,387	33.36%	4.05%	4.59%	(0.35)
III. By region						
The PRC	27,803,026	17,631,590	36.58%	14.13%	16.69%	(1.39)
Asia (excluding the PRC)	7,234,938	5,460,657	24.52%	0.52%	4.97%	(3.20)
Africa	3,100,051	1,652,466	46.70%	(3.35%)	12.40%	(7.46)
Europe, Americas and Oceania	9,619,287	7,079,674	26.40%	(13.60%)	(18.10%)	4.04
Total	47,757,302	31,824,387	33.36%	4.05%	4.59%	(0.35)

Details of indicators analysed by industry, business and region for the six months ended 30 June 2015, together comparisons with the same period last year, are set out as follows:

	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)
Revenue mix						
I. By industry						
Manufacturing of communication equipment	45,898,788	30,426,748	33.71%	21.76%	19.27%	1.38
Total	45,898,788	30,426,748	33.71%	21.76%	19.27%	1.38
II. By business						
Carriers' networks	27,354,512	16,031,669	41.39%	23.59%	19.25%	2.13
Government and corporate business	4,496,574	2,921,836	35.02%	78.74%	89.51%	(3.69)
Consumer business	14,047,702	11,473,243	18.33%	7.67%	9.01%	(1.01)
Total	45,898,788	30,426,748	33.71%	21.76%	19.27%	1.38
III. By region						
The PRC	24,360,835	15,110,258	37.97%	26.49%	24.55%	0.96
Asia (excluding the PRC)	7,197,236	5,202,310	27.72%	22.66%	29.16%	(3.64)
Africa	3,207,354	1,470,191	54.16%	45.08%	(7.37%)	25.95
Europe, Americas and Oceania	11,133,363	8,643,989	22.36%	7.47%	11.34%	(2.70)
Total	45,898,788	30,426,748	33.71%	21.76%	19.27%	1.38

(1) Analysis of change in revenue

The Group reported RMB47,757,302,000 in operating revenue for the first six months of 2016, a 4.05% increase as compared to the same period last year, of which the domestic operating revenue increased by 14.13% to RMB27,803,026,000, while the international operating revenue decreased by 7.35% to RMB19,954,276,000 as compared to the same period last year.

Analysed by business segment, there was growth in the Group's operating revenue from carriers' networks, government and corporate business and consumer business as compared to the same period last year. Growth in operating revenue from carriers' networks for the first half of 2016 reflected mainly growth in operating revenue from 4G system products and cloud computing and IT products in the domestic and international markets, as well as operating revenue from optical transmission products in the domestic market. Growth in the Group's operating revenue from the government and corporate business for the first six months of 2016 reflected mainly growth in operating revenue from domestic smart city projects and rail transportation projects. Growth in the Group's operating revenue from the consumer business for the first six

months of 2016 reflected mainly growth in operating revenue from handset products in the domestic and European markets and home terminal products in the domestic market.

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

Unit: RMB in thousands

Six months ended 30 June 2016			Six months ended 30 June 2015 <i>Note</i>			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 (<i>percentage points</i>)
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin			
47,757,302	31,824,387	33.36%	45,833,915	30,373,453	33.73%	4.20%	4.78%	(0.37)

Note: Figures of operating revenue and operating costs for the six months ended 30 June 2015 are stated after exclusion of operating revenue and operating costs of subsidiaries deconsolidated for the six months ended 30 June 2016.

Newinfo Holdings Limited, a wholly-owned subsidiary of ZTE H.K. Limited (“ZTE HK”), which is in turn a wholly-owned subsidiary of the Company, completed the disposal of 51% equity interests in LiveCom Limited (“LiveCom”) in January 2016 and LiveCom had been deconsolidated from the consolidated statements of the Group as from February 2016. Operating revenue and operating cost of LiveCom included in the consolidated financial statements for the first half of 2015 amounted to RMB64,873,000 and RMB53,295,000, respectively. Excluding the operating revenue and operating costs of LiveCom for the first half of 2015, the Group’s operating revenue and operating costs for the first six months of 2016 would have increased by 4.20% and 4.78%, respectively, over the same period last year, while gross profit margin would have been 0.37 percentage points lower as compared to the same period last year.

(3) During the reporting period, the Company did not enter into any materials contracts requiring disclosure. For details of material contracts entered into prior to the reporting period and subsisting during the reporting period, please refer to the section headed “Material Matters (XIII) MATERIAL CONTRACTS AND THEIR PERFORMANCE” in the Interim Report.

7.2.2 Reasons for substantial changes in the Group’s principal business and its structure, profit mix and 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 profit mix during the reporting period compared to the same period last year are set out as follows:

For the first half of 2016, the Group reported operating profit of RMB495,416,000, an increase by 548.93% compared to the same period last year, which was mainly attributable to growth in operating revenue, exchange gains on translation for the period

versus exchange losses on translation for the same period last year due to exchange rate volatility, as well as the reduction in impairment losses owing to changes in the mix of trade receivables requiring new charge for bad debt provisions. Expenses for the period amounted to RMB14,336,698,000, which was 9.94% higher as compared to the same period last year, reflecting mainly increased investment in research and development for the period. Investment income amounted to RMB357,965,000, a slight decrease by 1.19% as compared to the same period last year. Net non-operating income and expenses amounted to RMB2,212,365,000, a year-on-year increase of 7.08%, reflecting increase in income from financial subsidies for the period.

- (3) Changes in the profitability (gross profit margin) of our principal business during the reporting period compared to the same period last year are set out as follows:

The gross profit margin of the Group for the first half of 2016 was 33.36%, which was 0.35 percentage points lower compared with the same period last year, reflecting lower gross profit margin for carriers' networks in the international markets and the consumer business in the domestic market.

7.3 Management discussion and analysis prepared in accordance with HKFRSs

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

Revenue

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

Unit: RMB in millions

Business segment	For the six months ended 30 June 2016		For the six months ended 30 June 2015	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	28,735.0	60.2%	27,354.5	59.6%
Government and corporate business	4,607.3	9.6%	4,496.6	9.8%
Consumer business	14,415.0	30.2%	14,047.7	30.6%
Total	47,757.3	100.0%	45,898.8	100.0%

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

Unit: RMB in millions

Region	For the six months ended 30 June 2016		For the six months ended 30 June 2015	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	27,803.0	58.2%	24,360.8	53.1%
Asia (excluding the PRC)	7,234.9	15.2%	7,197.2	15.7%
Africa	3,100.1	6.5%	3,207.4	7.0%
Europe, the Americas and Oceania	9,619.3	20.1%	11,133.4	24.2%
Total	<u>47,757.3</u>	<u>100.0%</u>	<u>45,898.8</u>	<u>100.0%</u>

The Group reported RMB47,757.3 million in operating revenue for the first six months of 2016, a 4.0% increase as compared to the same period last year, of which the domestic operating revenue increased by 14.1% to RMB27,803.0 million, while international operating revenue decreased by 7.4% to RMB19,954.3 million as compared to the same period last year.

Analysed by business segment, there was growth in the Group's operating revenue in carriers' networks, government and corporate business and consumer business as compared to the same period last year. Growth in the Group's operating revenue from carriers' networks for the first six months of 2016 was mainly attributable to growth increase in operating revenue from 4G system products as well as cloud computing and IT products in the domestic and international markets, as well as optical transmission products in the domestic market. Growth in the Group's operating revenue from government and corporate business for the first six months of 2016 was mainly attributable to increase in operating revenue from domestic smart city projects and rail transportation projects. Growth in the Group's operating revenue from consumer business for the first six months of 2016 mainly reflected growth in operating revenue from handset products in the domestic and European markets and home terminal products in the domestic market.

Cost of Sales and Gross Profit

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

Unit: RMB in millions

Business segment	For the six months ended 30 June 2016		For the six months ended 30 June 2015	
	Cost of sales	As a percentage of business segment revenue	Cost of sales	As a percentage of business segment revenue
Carriers' networks	17,412.4	60.6%	17,243.2	63.0%
Government and corporate business	2,835.0	61.5%	3,116.7	69.3%
Consumer business	12,382.5	85.9%	11,728.5	83.5%
Total	32,629.9	68.3%	32,088.4	69.9%

Unit: RMB in millions

Business segment	For the six months ended 30 June 2016		For the six months ended 30 June 2015	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	11,322.6	39.4%	10,111.3	37.0%
Government and corporate business	1,772.3	38.5%	1,379.9	30.7%
Consumer business	2,032.5	14.1%	2,319.2	16.5%
Total	15,127.4	31.7%	13,810.4	30.1%

Cost of sales of the Group for the first six months of 2016 increased 1.7% as compared to the same period last year to RMB32,629.9 million. The Group's overall gross profit margin for the first half of 2016 of 31.7% was 1.6 percentage points higher as compared to the same period last year, which was driven by higher gross profit margin for carriers' networks and government and corporate business.

Cost of sales of the Group's carriers' networks for the first six months of 2016 amounted to RMB17,412.4 million, a 1.0% increase compared to the same period last year. The relevant gross profit margin was 39.4% versus 37.0% for the same period last year. The increase in gross profit margin of carriers' networks mainly reflected higher gross profit margin for 4G system products in the domestic and international markets, which accounted for a more significant percentage shares.

Cost of sales of the Group's government and corporate business for the first six months of 2016 amounted to RMB2,835.0 million, a decline of 9.0% compared to the same period last year. The relevant gross profit margin was 38.5% versus 30.7% for the same period last year. The increase in the gross profit margin of government and corporate business was mainly driven by the increase in the gross profit margin of international government and corporate projects.

Cost of sales of the Group's consumer business for the first six months of 2016 amounted to RMB12,382.5 million, increasing by 5.6% compared to the same period last year. The relevant gross profit margin was 14.1%, compared to 16.5% for the same period last year. The decline in the gross profit margin of consumer business reflected mainly lower gross profit margin for domestic home terminal products.

Other Income and Gains

Other income and gains of the Group for the first six months of 2016 amounted to RMB3,681.4 million, representing a 29.6% increase compared to RMB2,840.3 million for the first six months of 2015. The increase reflected mainly increased net gains as a result of exchange rate volatility and increased gains from the disposal of available-for-sale financial assets of the Group for the period.

Research and Development Costs

The Group's research and development costs for the first six months of 2016 increased by 28.5% to RMB7,059.2 million from RMB5,491.9 million for the first six months of 2015, which was mainly attributable to the ongoing increase in the Group's investment in the research and development of products such as 5G, high-end routers, LTE, SDN, GPON and core chipsets during the period. Research and development costs as a percentage of operating revenue increased by 2.8 percentage points to 14.8%, as compared to 12.0% for the six months ended 30 June 2015.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the first six months of 2016 increased by 11.9% to RMB6,052.2 million from RMB5,406.8 million for the first six months of 2015, which was mainly attributable to increased investment in the domestic market by the Group during the period. Selling and distribution expenses as a percentage of operating revenue was 12.7%, increasing by 0.9 percentage points compared to 11.8% for the first six months of 2015.

Administrative Expenses

Administrative expenses of the Group for the first six months of 2016 increased by 17.0% to RMB1,454.7 million, as compared to RMB1,243.8 million for the first six months of 2015, which was mainly attributable to the increase in the Group's per capita remuneration for the period. Administrative expenses as a percentage of operating revenue increased by 0.3 percentage points to 3.0% from 2.7% for the first six months of 2015.

Other Expenses

Other expenses comprise mainly asset impairment losses, exchange losses and non-operating expenses. Other expenses of the Group for the first six months of 2016 decreased by 44.2% to RMB912.3 million, as compared to RMB1,635.6 million for the first six months of 2015. Provision for bad debts of trade receivables decreased by RMB456.3 million as compared to the same period last year, reflecting mainly the change in the mix of the Group's trade receivables

requiring new charge for bad debt provisions for the period. Exchange losses for the same period last year amounted to RMB428.3 million, while net gains arising from exchange rate volatility for the period were accounted for as other income and gains.

Profit from Operating Activities

The Group's profit from operating activities for the first six months of 2016 increased by 15.9% to RMB3,330.5 million, as compared to RMB2,872.6 million for the first six months of 2015, while the operating profit margin increased by 0.7 percentage points to 7.0% from 6.3% for the first six months of 2015, reflecting primarily the combined effect of the increase in gross profit and the decrease in bad debt provisions for trade receivables of the Group for the period.

Finance Costs

Finance costs of the Group for the first six months of 2016 decreased by 12.8% to RMB603.2 million as compared to RMB692.1 million for the first six months of 2015, which was attributable mainly to the Group's efforts to enhance treasury management, optimise debt structure and lower interest expenses during the period.

Income Tax Expense

The Group's income tax expense for the first six months of 2016 was RMB519.4 million, which was 67.4% higher as compared to RMB310.2 million for the first six months of 2015. The increase was mainly attributable to the increase in profit for the period and the application of profit for the same period last year to make up for losses in previous years.

Profit Attributable to Non-Controlling Interests

The Group's profit attributable to non-controlling interests for the first six months of 2016 amounted to RMB172.0 million, representing an increase of 380.4% compared to RMB35.8 million for the first six months of 2015, reflecting mainly higher gains from the disposal of equity interests in other companies held by the fund partnerships under Shenzhen ZTE Capital Management Company Limited.

Other Comprehensive Income

Other comprehensive income of the Group for the first six months of 2016 amounted to RMB-673.7 million, compared to RMB559.6 million for the first six months of 2015, which was mainly attributable to greater translation losses on the Group's statements denominated in foreign currencies owing to exchange rate volatility for the period, as well as losses arising from volatility in the market prices of restricted equity interests in listed companies held recorded for the period versus significant gains recorded for the same period last year.

Debt-Equity Ratio and the Basis of Calculation

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

The Group's debt-equity ratio for the first six months of 2016 was 36.0%, decreasing by 1.0 percentage point as compared to 37.0% for 2015. The decrease was mainly attributable to the repayment of the super short-term commercial paper by the Group during the period.

Cash Flow Data

Unit: RMB in millions

Item	For the six	For the six
	months	months
	ended	ended
	30 June 2016	30 June 2015
Net cash inflow from operating activities	1,831.6	873.6
Net cash outflow from investing activities	(1,508.3)	(1,132.7)
Net cash inflow from financing activities	1,326.3	527.7
Net increase in cash and cash equivalents	1,649.6	268.6
Cash and cash equivalents at the end of the period	27,931.4	17,317.5

As at 30 June 2016, the Group's cash and cash equivalents amounted to RMB27,931.4 million, which were mainly denominated in RMB, and to a lesser extent in USD, EUR, HKD and other currencies.

Operating Activities

The Group reported net cash inflow from operating activities of RMB1,831.6 million for the first six months of 2016, compared to RMB873.6 million for the first six months of 2015, mainly reflecting year-on-year increase of cash received from sales of goods and provision of services by RMB10,292.5 million, increase in tax rebates by RMB1,064.3 million, and increase in other cash received relating to operating activities by RMB279.1 million; coupled with increase of cash paid for the purchase of goods and services by RMB8,468.9 million, increase in cash payments to and on behalf of employees by RMB1,720.7 million, decrease in tax payments by RMB29.1 million, increase in other cash payments relating to operating activities by RMB628.4 million, decrease in cash payments relating to dividend distribution or interest repayment by RMB119.0 million and increase in cash paid for the interests of the perpetual capital instruments by RMB433.9 million, as compared to the same period last year.

Investing Activities

The Group's net cash outflow from investing activities was RMB1,508.3 million for the first six months of 2016 versus RMB1,132.7 million for the first six months of 2015, reflecting mainly the increase in cash received from the disposal of investment by the Group for the period.

Financing Activities

The Group's net cash inflow from financing activities for the first six months of 2016 was RMB1,326.3 million versus RMB527.7 million for the first six months of 2015, reflecting mainly the increase in cash received from investments by Nubia Technology Limited for the period.

Indebtedness

Unit: RMB in millions

Item	30 June	31 December
	2016	2015
Secured bank loans	513.3	524.7
Unsecured bank loans	20,559.6	18,016.8

Unit: RMB in millions

Item	30 June	31 December
	2016	2015
Short-term bank loans	11,381.5	12,525.2
Long-term bank loans	9,691.4	6,016.3

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 short-term and long-term banks loans, RMB loans with amounts of RMB5,964.1 million and RMB526.5 million were subject to fixed interest rates, while USD loans and EUR loans were subject to floating interest rates. The Group's bank loans were mainly denominated in USD and EUR, apart from RMB loans.

The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the fluctuations in the exchange rates of such currencies. The Group seeks to mitigate the impact of exchange rate volatility on its operations on an ongoing basis through business strategy guidance, internal settlement management, financing mix adjustment and application of derivative financial instruments based on the principle of active exposure management. In view of the inclusion of RMB in SDR, the Company will also actively facilitate the pricing and settlement of its overseas projects in RMB.

The balance of the Group's bank loans as at 30 June 2016 increased by 2,531.4 million versus 31 December 2015. The news loans were mainly applied as additional working capital.

Contractual obligations

Unit: RMB in millions

Item	Total	30 June 2016		
		Within 1 year	2 to 5 years	Over 5 years
Bank loans	21,072.9	14,396.5	6,616.4	60.0
Obligations under operating leases	530.7	232.5	184.3	113.9

Capital Commitments

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

Item	Unit: RMB in millions	
	30 June 2016	31 December 2015
Land and buildings:		
Contracted, but not provided for	1,258.7	904.4
Investment in associates:		
Contracted, but not provided for	114.3	28.6

Material acquisitions and disposals related to subsidiaries and associates

The Group did not conduct any significant acquisitions or disposals related to subsidiaries in the first half of 2016. Details of disposals related to subsidiaries commenced by the Company in the first half of 2016 and in previous periods are set out in the section headed “Material Matters — (VI) Asset Transactions” in the Interim Report.

Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40 (2) 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 2015 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

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

Applicable N/A

7.5 Business outlook for the second half of 2016 and risk exposures

7.5.1 Business outlook for the second half of 2016

The development of traditional telecommunication industries will be subject to stronger challenges in the second half of 2016, given the slowdown in global economic growth and increasing uncertainties. Nevertheless, the traditional sectors will savour opportunities presented by various favourable factors, such as the rapid growth of global data flow, application and development of “internet+” and the internet of things, rapid construction of smart cities and the remoulding of ICT network architecture with SDN/NFV technologies.

In connection with carriers’ network, investment in the telecommunication industry will be driven by the further deployment of 4G network, the application of big video and big bandwidth products and massive connection. In line with new concepts in telecommunication operations and network advancement, such as “ubiquitous access, elastic network and digitalised service,” we will vigorously develop smart pipes in association with telecommunication operators and help them to evolve into information operators.

In connection with the government and corporate business, universal mobile interconnection and big data will drive the upgrade of traditional industries, while the penetration of “internet+”, construction of smart cities, development of cloud computing and data centres, digitalisation of railway transport, and informatisation of the energy sector will also give rise to opportunities for development. We will help our government and corporate clients to expedite their planning and application of new products and solutions.

In connection with the consumer business, with the continuous application and promotion of big video, home internet of things and smart hardware, users will be more demanding in terms of the integration of big data, cloud services and contents and user experience, in addition to expectations in technological innovation.

In the second half of 2016, the Group will continue to persist in “adding value through information by leveraging opportunities present in the age of restructuring,” focusing on three major strategic directions, namely “in-depth development of the carriers’ market; value creation in government and corporate business; integration and innovation in the consumers’ market”, and driving business development in the “new sectors”. We will continue to make advances in our transition to the M-ICT strategy, persisting in research and development with stronger efforts in innovation while strengthening project management. We will pursue mutual growth with our customers, partners and other stakeholders and seek to create a positive ecosphere for the sector.

7.5.2 Risk Exposures

(1) Country risk

Given the complex nature of international economic and political conditions and the presence of the Group’s business and branch organisations in over 160 countries, 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. Meanwhile, import and export regulation, tax compliance and antitrust measures of national governments around the world means that a very high level of operational and risk control capabilities is required of the Group. Currently, the Group conducts systematic management of country risks mainly through studies in the political and economic developments and policies of various countries, regular assessment, timely warning and proactive response. We also control such risks by taking out country risk insurance policies.

(2) Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the protection and management of intellectual property rights. Trademarks of the Group’s products and services are all registered, and such products and services are all protected under relevant patent rights. While the Group has adopted highly stringent measures to protect its intellectual property rights, potential disputes over intellectual property rights between the Group and other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group cannot be totally ruled out. The Group will continue to drive the solution of related issues with an open-minded, cooperative and mutually beneficial approach.

(3) Exchange risks

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 and the volatility of exchange rates. The Group seeks to mitigate the impact of exchange rate volatility on its operations on an ongoing basis by managing its foreign exchange risks through the use of measures such as the business strategic guidance, internal settlement management, adjustment of financing structure, internal exchange settlement and derivative financial instruments based on the principle of prudent exposure management, aiming to retain favourable exposures as appropriate, strictly control unfavourable exposures subject to apparent adverse developments or which are without value-protection features. The Group will also actively facilitate RMB pricing and settlement for overseas projects to lower its exchange rate risks in the long run.

(4) Interest rate risk

The interest rate risk of the Group is mainly associated with interest-bearing liabilities. Fluctuations in the interest rates of RMB or foreign currencies will result in changes in the total amount of interest payable by the Group and will therefore affect the Group's profitability. The Group seeks to lower its interest rate risk mainly by managing the total amount and structure of its interest-bearing liabilities. Control over the total amount of interest-bearing liabilities is mainly achieved by improving the cash turnover efficiency and increasing the free cash flow of the Group. Structural management of interest-bearing liabilities is achieved mainly through portfolio control with a mixture of long-term/short-term domestic and overseas loans denominated in RMB or foreign currencies with fix or floating interests, complemented by derivative instruments such as interest rate swaps, while exploring low-cost financing opportunities in the global market.

(5) Credit risk

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

8. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

8.1 Compliance of the Corporate Governance Code

During the period from 1 January to 30 June 2016, the Company was in full compliance with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules, except for the following:

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

From 5 April 2016 to the present, the office of the Chairman and the office of the President have been concurrently assumed by Mr. Zhao Xianming. The Company is of the view that, the structure of the Company operated as such will not undermine the checks and balances between the Board and the management. Members of the Board have made contributions to the Company with their extensive experience, and the Company believes that it will be able to ensure that the checks and balances between the Board and the management will remain unaffected. Having the office of the Chairman and the office of the President taken up by the same person will enhance the Company's efficiency in management and decision making.

8.2 Securities transactions by Directors and Supervisors

The Directors and Supervisors of the Company confirmed that the Company had adopted 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.

9. FINANCIAL REPORTS

9.1 The Audit Committee

The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also discussed and reviewed the Interim Report, including the financial statements of the Group for the six months ended 30 June 2016.

9.2 Audit opinion

Unaudited Audited

9.3 Comparative financial statements

9.3.1 Financial statements prepared in accordance with PRC ASBEs (Unaudited) (Please see Appendix I)

9.3.2 Financial statements prepared in accordance with HKAS 34 (Unaudited) and notes thereto (Please see Appendix II)

9.4 Explanatory statement on changes in the accounting policies, accounting estimates, and auditing methods for the reporting period in comparison with the last annual financial report

Applicable N/A

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

Applicable N/A

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

New subsidiaries established during the period included: tier-one subsidiaries ZTE Feiliu IT Company Limited* (中興飛流信息科技有限公司), ZTE Gaoneng Technology Company Limited* (中興高能技術有限責任公司), Jiyuan ZTE Smart Technology Industries Company Limited* (濟源中興智慧科技產業有限公司); and tier-two subsidiaries ZTE MOZAMBIQUE LDA, Shanghai Xingxin New Energy Auto Company Limited* (上海興新新能源汽車有限公司), Shenzhen Hengdian New Energy Technology Company Limited* (深圳市恒電新能源科技有限責任公司), Shenzhen ZTE Golden Cloud Technology Company Limited* (深圳中興金雲科技有限公司), ZTESOFT TECHNOLOGY INDIA PRIVATE LIMITED, ZTE Cameroon Sarl, ZTE Telecommunications Limited and Shenzhen ZTE Gaoda Communications Technology Company Limited* (深圳市中興高達通信技術有限公司).

Newinfo Holdings Limited, a wholly-owned subsidiary of ZTE HK, which is in turn a wholly-owned subsidiary of the Company, completed the disposal of 51% equity interests in LiveCom Limited in January 2016 and LiveCom Limited had been deconsolidated from the consolidated statements of the Group as from February 2016.

By Order of the Board
Zhao Xianming
Chairman

Shenzhen, the PRC
25 August 2016

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Zhao Xianming, Yin Yimin and Wei Zaisheng; six non-executive directors, Zhang Jianheng, Luan Jubao, Shi Lirong, Wang Yawen, Tian Dongfang and Zhan Yichao; and five independent non-executive directors, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang.

* *for identification purposes only*

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

CONSOLIDATED BALANCE SHEET

Currency: RMB'000

Assets	30 June 2016 (unaudited)	31 December 2015 (audited)
Current assets		
Cash	30,373,185	28,025,009
Derivative financial assets	30,426	10,110
Bills receivable	4,617,975	3,463,358
Trade receivables	29,311,949	25,251,287
Factored trade receivables	2,134,371	1,272,068
Other receivables	2,663,755	2,970,258
Prepayments	1,180,619	640,113
Inventories	25,767,664	19,731,741
Amount due from customers for contract works	7,996,830	13,928,446
Total current assets	104,076,774	95,292,390
Non-current assets		
Available-for-sale financial assets	2,194,383	2,381,467
Long-term trade receivables	1,175,847	362,831
Factored long-term trade receivables	1,450,559	1,593,528
Long-term equity investments	546,851	560,939
Investment properties	2,012,612	2,010,396
Fixed assets	7,458,776	7,692,175
Construction in progress	1,133,257	643,789
Intangible assets	4,018,793	4,224,446
Deferred development costs	926,542	789,815
Deferred tax assets	1,439,153	1,434,143
Long-term deferred assets	38,185	32,790
Other non-current assets	3,444,551	3,875,188
Total non-current assets	25,839,509	25,601,507
Total assets	129,916,283	120,893,897

CONSOLIDATED BALANCE SHEET (CONTINUED)

Currency: RMB'000

Liabilities	30 June 2016 (unaudited)	31 December 2015 (audited)
Current liabilities		
Short-term loans	11,381,462	7,907,572
Bank advances on factored trade receivables	2,135,235	1,273,346
Derivative financial liabilities	102,784	19,840
Bonds payable	—	4,000,000
Bills payable	10,182,851	9,885,129
Trade payables	25,238,981	22,932,866
Amount due to customers for contract works	8,412,857	4,423,103
Advances from customers	7,120,020	4,035,638
Salary and welfare payables	4,913,017	3,644,694
Taxes payable	(5,322,485)	(2,329,886)
Dividends payable	1,630	7,418
Other payables	7,514,604	6,005,130
Deferred income	396,872	438,920
Provisions	708,224	776,682
Long-term loans due within one year	3,015,051	4,617,604
Total current liabilities	75,801,103	67,638,056
Non-current liabilities		
Long-term loans	6,676,374	6,016,254
Bank advances on factored long-term trade receivables	1,450,559	1,593,528
Provision for retirement benefits	143,286	144,280
Deferred tax liabilities	76,697	52,769
Deferred income	722,805	759,394
Other non-current liabilities	1,112,561	1,341,011
Total non-current liabilities	10,182,282	9,907,236
Total liabilities	85,983,385	77,545,292

CONSOLIDATED BALANCE SHEET (CONTINUED)

Currency: RMB'000

Shareholders' equity	30 June 2016 (unaudited)	31 December 2015 (audited)
Shareholders' equity		
Share capital	4,154,242	4,150,791
Capital reserves	10,563,309	10,493,439
Other comprehensive income	(1,213,420)	(685,067)
Surplus reserve	2,022,709	2,022,709
Retained profits	<u>15,444,619</u>	<u>13,678,222</u>
Total equity attributable to holders of ordinary shares of the parent	30,971,459	29,660,094
Other equity instruments		
Including: perpetual capital instruments	9,137,341	9,321,327
Non-controlling interests	<u>3,824,098</u>	<u>4,367,184</u>
Total shareholders' equity	<u>43,932,898</u>	<u>43,348,605</u>
Total liabilities and shareholders' equity	<u><u>129,916,283</u></u>	<u><u>120,893,897</u></u>

Zhao Xianming
*Legal
representative*

Wei Zaisheng
*Chief Financial
Officer*

Shi Chunmao
*Head of Finance
Division*

CONSOLIDATED INCOME STATEMENT

Currency: RMB'000

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
Operating revenue	47,757,302	45,898,788
Less: Operating costs	31,824,387	30,426,748
Taxes and surcharges	371,198	845,820
Selling and distribution costs	5,978,607	5,333,174
Administrative expenses	1,393,985	1,207,807
Research and development costs	7,059,164	5,491,912
Finance expenses	(95,058)	1,007,102
Impairment losses	1,051,218	1,882,106
Add: (Losses)/gains from changes in fair values	(36,350)	9,956
Investment income	357,965	362,268
Including: Share of losses of associates and joint ventures	(19,517)	(38,111)
Operating profit	495,416	76,343
Add: Non-operating income	2,263,730	2,131,212
Less: Non-operating expenses	51,365	65,167
Including: losses on disposal of non-current assets	4,659	16,044
Total profit	2,707,781	2,142,388
Less: Income tax	519,427	310,202
Net profit	2,188,354	1,832,186
Attributable to:		
Holders of ordinary shares of the parent	1,766,397	1,615,585
Holders of perpetual capital instruments	249,963	180,753
Non-controlling interests	171,994	35,848

CONSOLIDATED INCOME STATEMENT (CONTINUED)

Currency: RMB'000

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
Other comprehensive income, net of tax	(673,746)	559,573
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	(528,353)	147,588
Other comprehensive income that will be reclassified to profit or loss in subsequent periods		
Changes in the fair value of available-for-sale financial assets	(55,474)	126,144
Effective portion of hedging instruments	(59,507)	917
Exchange differences on translation of foreign operations	(413,372)	20,527
	(528,353)	147,588
Other comprehensive income attributable to non-controlling interests, net of tax	(145,393)	411,985
Total comprehensive income	1,514,608	2,391,759
Attributable to:		
Holders of ordinary shares of the parent	1,238,044	1,763,173
Holders of perpetual capital instruments	249,963	180,753
Non-controlling interests	26,601	447,833
Earnings per share (RMB/share)		
Basic	RMB0.43	RMB0.39
Diluted	RMB0.42	RMB0.39

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Currency: RMB'000

Six months ended 30 June 2016 (unaudited)

	Equity attributable to holders of ordinary shares of the parent						Other equity instruments	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total	Including:		
							Perpetual capital instruments		
I. Current period's opening balance	4,150,791	10,493,439	(685,067)	2,022,709	13,678,222	29,660,094	9,321,327	4,367,184	43,348,605
II. Changes during the period									
(I) Total comprehensive income	—	—	(528,353)	—	1,766,397	1,238,044	249,963	26,601	1,514,608
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	3,451	35,269	—	—	—	38,720	—	—	38,720
2. Equity settled share expenses charged to equity	—	54,884	—	—	—	54,884	—	—	54,884
3. Capital reduction by shareholders	—	—	—	—	—	—	—	(402,859)	(402,859)
4. Acquisition of non-controlling interest	—	(20,283)	—	—	—	(20,283)	—	(140,238)	(160,521)
(III) Profit appropriation									
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(26,590)	(460,539)
III. Current period's closing balance	4,154,242	10,563,309	(1,213,420)	2,022,709	15,444,619	30,971,459	9,137,341	3,824,098	43,932,898

Currency: RMB'000

Six months ended 30 June 2015 (unaudited)

	Equity attributable to holders of ordinary shares of the parent						Other equity instruments	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total	Including:		
							Perpetual capital instruments		
I. Current period's opening balance	3,437,541	8,724,754	(464,275)	1,769,012	11,411,542	24,878,574	—	1,413,930	26,292,504
II. Changes during the period									
(I) Total comprehensive income	—	—	147,588	—	1,615,585	1,763,173	180,753	447,833	2,391,759
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	—	—	—	—	—	—	—	5,000	5,000
2. Capital injection from other equity instruments holders	—	—	—	—	—	—	7,415,500	—	7,415,500
3. Equity settled share expenses charged to equity	—	89,121	—	—	—	89,121	—	—	89,121
4. Acquisition of non-controlling interest	—	(1,648)	—	—	—	(1,648)	—	(22,594)	(24,242)
(III) Profit appropriation									
1. Distribution to shareholders	—	—	—	—	—	—	—	(13,969)	(13,969)
III. Current period's closing balance	3,437,541	8,812,227	(316,687)	1,769,012	13,027,127	26,729,220	7,596,253	1,830,200	36,155,673

CONSOLIDATED CASH FLOW STATEMENT

Currency: RMB'000

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	61,319,410	51,026,906
Refunds of taxes	4,590,398	3,526,114
Cash received relating to other operating activities	1,324,641	1,045,509
Sub-total of cash inflows	<u>67,234,449</u>	<u>55,598,529</u>
Cash paid for goods and services	46,951,860	38,482,957
Cash paid to and on behalf of employees	9,176,859	7,456,185
Cash paid for various types of taxes	4,282,243	4,311,365
Cash paid relating to other operating activities	4,468,556	3,840,136
Sub-total of cash outflows	<u>64,879,518</u>	<u>54,090,643</u>
Net cash flows from operating activities	<u>2,354,931</u>	<u>1,507,886</u>
II. Cash flows from investing activities		
Cash received from sale of investments	947,529	800,001
Cash received from return on investment	46,777	441,778
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	14,646	9,033
Net cash received from the disposal of subsidiaries and other operating units	54,542	—
Sub-total of cash inflows	<u>1,063,494</u>	<u>1,250,812</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	1,596,103	1,352,721
Cash paid for acquisition of investments	373,273	854,241
Sub-total of cash outflows	<u>1,969,376</u>	<u>2,206,962</u>
Net cash flows from investing activities	<u>(905,882)</u>	<u>(956,150)</u>

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Currency: RMB'000

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	1,789,105	5,000
Including: Capital injection into subsidiaries by minority shareholders	1,750,386	5,000
Issue of perpetual capital instruments	—	7,415,500
Cash received from borrowings	13,388,122	7,020,747
Sub-total of cash inflows	<u>15,177,227</u>	<u>14,441,247</u>
Cash repayment of borrowings	13,438,324	13,913,549
Cash payments for distribution of dividends and profits or for interest expenses	691,826	810,849
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	25,613	13,969
Cash paid for the repayment of interests of perpetual capital instruments	433,949	—
Other cash paid relating to financing activities	412,620	—
Sub-total of cash outflows	<u>14,976,719</u>	<u>14,724,398</u>
Net cash flows from financing activities	<u>200,508</u>	<u>(283,151)</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>(335,180)</u>	<u>(181,183)</u>
V. Net increase in cash and cash equivalents	1,314,377	87,402
Add: cash and cash equivalents at the beginning of the period	26,616,996	17,230,140
VI. Net balance of cash and cash equivalents at the end of the period	<u><u>27,931,373</u></u>	<u><u>17,317,542</u></u>

BALANCE SHEET

Currency: RMB'000

Assets	30 June 2016 (unaudited)	31 December 2015 (audited)
Current assets		
Cash	14,344,543	17,708,219
Derivative financial assets	1,521	3,234
Bills receivable	4,027,748	1,461,254
Trade receivables	35,847,268	36,128,987
Factored trade receivables	455,477	445,819
Prepayments	25,172	28,871
Dividend receivable	3,634,273	3,473,753
Other receivables	7,318,286	8,659,093
Inventories	16,613,491	13,315,871
Amount due from customers for contract works	5,365,909	9,580,171
Total current assets	87,633,688	90,805,272
Non-current assets		
Available-for-sale financial assets	368,148	366,724
Long-term trade receivables	5,986,190	5,908,497
Factored long-term trade receivables	1,204,745	1,282,435
Long-term equity investments	8,080,649	7,350,908
Investment properties	1,610,296	1,603,107
Fixed assets	4,337,989	4,340,067
Construction in progress	490,086	270,243
Intangible assets	1,019,125	1,176,400
Deferred development costs	213,839	166,417
Deferred tax assets	531,111	671,519
Long-term deferred assets	36,131	32,388
Other non-current assets	3,314,571	3,745,208
Total non-current assets	27,192,880	26,913,913
Total assets	114,826,568	117,719,185

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

	30 June 2016 (unaudited)	31 December 2015 (audited)
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans	7,862,555	5,710,313
Derivative financial liabilities	18,543	6,421
Bank advances on factored trade receivables	456,096	446,283
Bonds payable	—	4,000,000
Bills payable	15,249,429	13,366,928
Trade payables	30,449,509	35,274,224
Amount due to customers for contract works	7,131,051	3,016,655
Advances from customers	3,921,864	3,761,156
Salary and welfare payables	2,485,092	1,253,431
Taxes payable	(3,877,297)	(2,018,958)
Dividends payable	184	184
Other payables	19,015,119	19,557,447
Deferred income	214,044	179,198
Provisions	400,200	448,459
Non-current liabilities due within one year	—	1,700,000
Total current liabilities	83,326,389	86,701,741
Non-current liabilities		
Long-term loans	2,191,460	1,469,570
Bank advances on factored long-term trade receivables	1,204,745	1,282,435
Provision for retirement benefits	143,286	144,280
Deferred income	89,538	109,026
Other non-current liabilities	889,043	1,290,829
Total non-current liabilities	4,518,072	4,296,140
Total liabilities	87,844,461	90,997,881
Shareholders' equity		
Share capital	4,154,242	4,150,791
Capital reserves	8,573,237	8,483,084
Other comprehensive income	694,298	694,904
Surplus reserve	1,360,953	1,360,953
Retained profits	3,062,036	2,710,245
Total equity attributable to holders of ordinary shares	17,844,766	17,399,977
Other equity instruments		
Including: perpetual capital instruments	9,137,341	9,321,327
Total shareholders' equity	26,982,107	26,721,304
Total liabilities and shareholders' equity	114,826,568	117,719,185

INCOME STATEMENT

Currency: RMB'000

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
Operating revenue	45,604,317	44,533,087
Less: Operating costs	37,836,620	37,506,417
Taxes and surcharges	41,006	501,735
Selling and distribution costs	3,666,151	3,468,013
Administrative expenses	891,345	799,335
Research and development costs	2,232,591	1,456,751
Finance expenses	(84,734)	752,215
Impairment losses	868,139	1,436,623
Add: (Losses)/gains from changes in fair values	(5,014)	11,659
Investment income	157,053	1,171,274
Including: Share of losses of associates and joint ventures	(21,203)	(35,426)
Operating profit/(loss)	305,238	(205,069)
Add: Non-operating income	435,655	624,991
Less: Non-operating expenses	4,899	70,646
Including: losses on disposal of non-current assets	2,013	5,259
Total profit	735,994	349,276
Less: Income tax	134,240	(36,145)
Net profit	601,754	385,421
Holders of ordinary shares	351,791	204,668
Holders of perpetual capital instruments	249,963	180,753
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods		
Exchange differences on translation of foreign operations	(606)	(112)
Other comprehensive income attributable to non-controlling interests, net of tax	(606)	(112)
Total comprehensive income	601,148	385,309
Holders of ordinary shares	351,185	204,556
Holders of perpetual capital instruments	249,963	180,753

STATEMENT OF CHANGES IN EQUITY

Currency: RMB'000

Six months ended 30 June 2016 (unaudited)								
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Total equity of holders of ordinary shares	Other equity instruments — perpetual capital instruments	Total shareholders' equity
I. Current period's opening balance	4,150,791	8,483,084	694,904	1,360,953	2,710,245	17,399,977	9,321,327	26,721,304
II. Changes during the period								
(I) Total comprehensive income	—	—	(606)	—	351,791	351,185	249,963	601,148
(II) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	3,451	35,269	—	—	—	38,720	—	38,720
2. Equity settled share expenses charged to equity	—	54,884	—	—	—	54,884	—	54,884
(III) Profit appropriation								
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(433,949)
III. Current period's closing balance	<u>4,154,242</u>	<u>8,573,237</u>	<u>694,298</u>	<u>1,360,953</u>	<u>3,062,036</u>	<u>17,844,766</u>	<u>9,137,341</u>	<u>26,982,107</u>

Currency: RMB'000

Six months ended 30 June 2015 (unaudited)								
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit (Loss not made up for)	Total equity of holders of ordinary shares	Other equity instruments — perpetual capital instruments	Total shareholders' equity
I. Current period's opening balance	3,437,541	8,740,683	720,953	1,107,256	1,531,111	15,537,544	—	15,537,544
II. Changes during the period								
(I) Total comprehensive income	—	—	(112)	—	204,668	204,556	180,753	385,309
(II) Shareholder's capital injection and capital reduction								
1. Capital injection by other equity instrument holders	—	—	—	—	—	—	7,415,500	7,415,500
2. Equity settled share expenses charged to equity	—	89,121	—	—	—	89,121	—	89,121
III. Current period's closing balance	<u>3,437,541</u>	<u>8,829,804</u>	<u>720,841</u>	<u>1,107,256</u>	<u>1,735,779</u>	<u>15,831,221</u>	<u>7,596,253</u>	<u>23,427,474</u>

CASH FLOW STATEMENT

Currency: RMB'000

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	53,714,208	49,590,344
Refunds of taxes	3,021,064	1,996,750
Cash received relating to other operating activities	768,904	686,153
Sub-total of cash inflows	57,504,176	52,273,247
Cash paid for goods and services	49,610,554	45,376,455
Cash paid to and on behalf of employees	3,118,996	2,671,191
Cash paid for various types of taxes	582,903	702,106
Cash paid relating to other operating activities	3,319,720	2,832,110
Sub-total of cash outflows	56,632,173	51,581,862
Net cash flows from operating activities	872,003	691,385
II. Cash flows from investing activities		
Cash received from sale of investments	266,934	45,474
Cash received from return on investment	39,049	96,781
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	5,190	8,165
Net cash received from the disposal of subsidiaries	850	126
Sub-total of cash inflows	312,023	150,546
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	703,848	355,356
Cash paid for acquisition of investments	1,032,645	72,288
Sub-total of cash outflows	1,736,493	427,644
Net cash flows from investing activities	(1,424,470)	(277,098)

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

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	38,719	—
Cash received from the issuance of perpetual capital instruments	—	7,415,500
Cash received from borrowings	8,645,637	5,140,138
Sub-total of cash inflows	8,684,356	12,555,638
Cash repayment of borrowings	10,839,961	12,607,186
Cash payments for distribution of dividends, profits and for interest expenses	548,669	619,638
Cash repayment of interests of perpetual capital instruments	433,949	—
Sub-total of cash outflows	11,822,579	13,226,824
Net cash flows from financing activities	(3,138,223)	(671,186)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	125,190	(116,941)
V. Net increase in cash and cash equivalents	(3,565,500)	(373,840)
Add: cash and cash equivalents at the beginning of period	17,325,750	9,715,869
VI. Net balance of cash and cash equivalents at the end of period	13,760,250	9,342,029

**APPENDIX II : FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH HKAS
34 (UNAUDITED) AND NOTES THERETO**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	(Prepared under HKAS 34)	
	Six months ended	
	30 June 2016	
	Six months	Six months
	ended	ended
	30 June 2016	30 June 2015
	(unaudited)	(unaudited)
	RMB'000	RMB'000
Revenue	47,757,302	45,898,788
Cost of sales	<u>(32,629,903)</u>	<u>(32,088,400)</u>
Gross profit	15,127,399	13,810,388
Other income and gains	3,681,447	2,840,276
Research and development costs	(7,059,164)	(5,491,912)
Selling and distribution expenses	(6,052,152)	(5,406,796)
Administrative expenses	(1,454,669)	(1,243,793)
Other expenses	(912,331)	(1,635,567)
Finance costs	(603,232)	(692,097)
Share of profits and losses of:		
Joint ventures	1,533	294
Associates	<u>(21,050)</u>	<u>(38,405)</u>
Profit before tax	2,707,781	2,142,388
Income tax expense	<u>(519,427)</u>	<u>(310,202)</u>
Profit for the period	<u>2,188,354</u>	<u>1,832,186</u>
Attributable to:		
Ordinary equity holders of the parent	1,766,397	1,615,585
Perpetual capital instruments	249,963	180,753
Non-controlling interests	<u>171,994</u>	<u>35,848</u>
	<u>2,188,354</u>	<u>1,832,186</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

(Prepared under HKAS 34)

Six months ended

30 June 2016

Six months ended

30 June 2015

(unaudited) (unaudited)

RMB'000 RMB'000

Other comprehensive income

Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:

Hedges — effective portion of changes in fair value of hedging instruments

(59,507) 917

Changes in fair value of available-for-sale investments

(198,699) 542,186

Exchange differences on translation of foreign operations

(415,540) 16,470

Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods

(673,746) 559,573

Other comprehensive (loss)/income for the period, net of tax

(673,746) 559,573

Total comprehensive income for the period

1,514,608 2,391,759

Attributable to:

Ordinary equity holders of the parent

1,238,044 1,763,173

Perpetual capital instruments

249,963 180,753

Non-controlling interests

26,601 447,833

1,514,608 2,391,759

Earnings per share attributable to ordinary equity holders of the parent

Basic

RMB0.43 RMB0.39

Diluted

RMB0.42 RMB0.39

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under HKAS 34)

30 June 2016

	30 June 2016 (unaudited) <i>RMB'000</i>	31 December 2015 (audited) <i>RMB'000</i>
Non-current assets		
Property, plant and equipment	8,630,218	8,368,754
Prepaid land lease payments	1,151,539	1,214,106
Intangible assets	3,767,158	3,772,451
Investment properties	2,012,612	2,010,396
Investments in joint ventures	102,514	77,341
Investments in associates	444,337	483,598
Available-for-sale investments	2,194,383	2,381,467
Long-term trade receivables	1,175,847	362,831
Factored long-term trade receivables	1,450,559	1,593,528
Deferred tax assets	1,439,153	1,434,143
Pledged deposits	3,084,239	3,515,601
Long-term prepayments, deposits and other receivables	360,312	359,587
	<hr/>	<hr/>
Total non-current assets	25,812,871	25,573,803
	<hr/>	<hr/>
Current assets		
Prepaid land lease payments	26,638	27,704
Inventories	25,767,664	19,731,741
Amount due from customers for contract works	7,996,830	13,928,446
Trade and bills receivables	33,929,924	28,714,645
Factored trade receivables	2,134,371	1,272,068
Prepayments, deposits and other receivables	9,865,541	7,304,441
Derivative financial instruments	30,426	10,110
Pledged deposits	1,459,756	1,202,984
Time deposits with original maturity of over three months	982,056	205,029
Cash and cash equivalents	27,931,373	26,616,996
	<hr/>	<hr/>
Total current assets	110,124,579	99,014,164
	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under HKAS 34)

30 June 2016

	30 June 2016	31 December 2015
	(unaudited)	(audited)
	RMB'000	RMB'000
Current liabilities		
Trade and bills payables	35,421,832	32,817,995
Amount due to customers for contract works	8,412,857	4,423,103
Other payables and accruals	20,100,281	15,003,939
Provisions	708,224	776,682
Derivative financial instruments	102,784	19,840
Interest-bearing bank borrowings	14,396,513	12,525,176
Bank advances on factored trade receivables	2,135,235	1,273,346
Tax payable	542,914	484,627
Dividends payable	1,630	7,418
Bonds payable	—	4,000,000
	<hr/>	<hr/>
Total current liabilities	81,822,270	71,332,126
	<hr/>	<hr/>
Net current assets	28,302,309	27,682,038
	<hr/>	<hr/>
Total assets less current liabilities	54,115,180	53,255,841
	<hr/>	<hr/>
Non-current liabilities		
Interest-bearing bank borrowings	6,676,374	6,016,254
Bank advances on factored long-term trade receivables	1,450,559	1,593,528
Financial guarantee contract	3,689	3,689
Deferred tax liabilities	76,697	52,769
Provision for retirement benefits	143,286	144,280
Other non-current liabilities	1,831,677	2,096,716
	<hr/>	<hr/>
Total non-current liabilities	10,182,282	9,907,236
	<hr/>	<hr/>
Net assets	43,932,898	43,348,605
	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**(Prepared under HKAS 34)****30 June 2016**

	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
Equity		
Equity attributable to ordinary equity holders of the parent		
Issued capital	4,154,242	4,150,791
Reserves	26,817,217	25,509,303
	30,971,459	29,660,094
Perpetual capital instruments	9,137,341	9,321,327
Non-controlling interests	3,824,098	4,367,184
	43,932,898	43,348,605
Total equity	43,932,898	43,348,605

Zhao Xianming
Director

Wei Zaisheng
Director

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

1.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with *HKAS 34: Interim Financial Reporting*.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

1.2 New and revised standards and interpretations adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the annual financial statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to HKFRS 11

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendment has had no impact on the Group as there is no new acquisition of Interests in joint operations during the period.

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

1.2 New and revised standards and interpretations adopted by the Group (Continued)

Amendments to HKAS 1

Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

- (i) the materiality requirements in HKAS 1;
- (ii) that specific line items in the statement of profit or loss and other comprehensive income and the statement of financial position may be disaggregated;
- (iii) that entities have flexibility as to the order in which they present the notes to financial statements; and
- (iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. The amendments has had no impact on the Group's financial statements.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) The Carriers' Networks are focused on meeting the demands of carriers by providing wireless networks, wireline networks, core networks, telecommunication software systems and services and other innovative technologies and product solutions.
- (b) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the demands of industry and corporate clients through the development, production and sales of products such as smart phones, mobile broadband, family terminals, innovative fusion terminals, wearable devices, as well as the provision of related software application and value-added services.
- (c) The Government and Corporate Business is focused on meeting the demands of government and corporate clients, proving top-level design and consultation services as well as implementation, operation and maintenance of integrated informatisation solutions for the government and corporate informatisation projects through the application of cloud computing, communications networks, internet of things, big data technologies and related core M-ICT products.

2. OPERATING SEGMENT INFORMATION (CONTINUED)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and joint ventures, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude derivative financial instruments, deferred tax assets, pledged deposits, cash and cash equivalents, investments in joint ventures and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds payable, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Business segments for reporting and disclosure purposes have been reclassified for the reporting period into Carriers' Networks (comprising mainly projects in collaboration with domestic and international telecommunications carriers), Government and Corporate Business (comprising mainly projects in collaboration with domestic and international governments and corporations) and Consumer Business (comprising mainly businesses targeted at end-consumers) according to the nature of customers from which revenue is derived. The management of the Company is of the view that the classification of business segments according to the nature of customers from which revenue is derived will give a more accurate reflection of the current operating conditions as well as market and strategic positions of the Company and align more closely with the management model of the Company's business departments and its internal performance appraisal. The Company has classified its customers into three main categories, namely, carriers, government and corporate networks and end-consumers. Accordingly, its revenue and costs have been analysed into the aforesaid three major segments based on the source of end-users, and the corresponding figures for 2015 have been restated on the same basis.

2. OPERATING SEGMENT INFORMATION (CONTINUED)

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

	Carriers' Networks <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government and Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2016				
Segment revenue:				
Revenue from external customers	28,734,974	14,415,057	4,607,271	47,757,302
	<u>28,734,974</u>	<u>14,415,057</u>	<u>4,607,271</u>	<u>47,757,302</u>
Segment results	8,070,444	261,906	1,250,760	9,583,110
Bank and other interest income				442,372
Dividend income and unallocated gains				3,239,075
Unallocated expenses				(9,934,027)
Finance costs				(603,232)
Share of profits and losses of:				
Joint ventures				1,533
Associates				(21,050)
Profit before tax				<u>2,707,781</u>
30 June 2016				
Segment assets	45,658,651	19,475,787	7,320,757	72,455,195
Investment in joint ventures				102,514
Investment in associates				444,337
Unallocated assets				62,935,404
Total assets				135,937,450
Segment liabilities	13,443,985	3,519,122	2,155,564	19,118,671
Unallocated liabilities				72,885,881
Total liabilities				<u>92,004,552</u>
Six months ended 30 June 2016				
Other segment information:				
Impairment losses recognised in profit or loss	632,505	317,299	101,414	1,051,218
Depreciation and amortisation	766,677	384,608	122,927	1,274,212
Capital expenditure	1,106,100	554,882	177,349	1,838,331

2. OPERATING SEGMENT INFORMATION (CONTINUED)

	Carriers' Networks <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government and Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2015				
Segment revenue:				
Revenue from external customers	27,354,512	14,047,702	4,496,574	45,898,788
	<u>27,354,512</u>	<u>14,047,702</u>	<u>4,496,574</u>	<u>45,898,788</u>
Segment results	7,640,319	683,327	969,400	9,293,046
Bank and other interest income				298,730
Dividend income and unallocated gains				2,541,546
Unallocated expenses				(9,260,726)
Finance costs				(692,097)
Share of profits and losses of:				
Joint ventures				294
Associates				(38,405)
Profit before tax				<u>2,142,388</u>
31 December 2015				
Segment assets	40,619,357	17,396,973	7,586,929	65,603,259
Investment in joint ventures				77,341
Investment in associates				483,598
Unallocated assets				58,423,769
Total assets				<u>124,587,967</u>
Segment liabilities	7,800,164	2,068,528	1,456,923	11,325,615
Unallocated liabilities				69,913,747
Total liabilities				<u>81,239,362</u>
Six months ended 30 June 2015				
Other segment information:				
Impairment losses recognised in profit or loss	1,121,687	576,034	184,385	1,882,106
Depreciation and amortisation	579,849	297,778	95,317	972,944
Capital expenditure	919,189	472,042	151,098	1,542,329
	<u>919,189</u>	<u>472,042</u>	<u>151,098</u>	<u>1,542,329</u>

2. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June 2016 <i>RMB'000</i>	Six months ended 30 June 2015 <i>RMB'000</i>
The PRC	27,803,026	24,360,835
Asia (excluding the PRC)	7,234,938	7,197,236
Africa	3,100,051	3,207,354
Europe, Americas and Oceania	9,619,287	11,133,363
Total	<u>47,757,302</u>	<u>45,898,788</u>

The revenue information above is based on the locations of the customers.

(b) Non-current assets

	Six months ended 30 June 2016 <i>RMB'000</i>	Six months ended 30 June 2015 <i>RMB'000</i>
The PRC	13,229,859	12,680,987
Asia (excluding the PRC)	1,111,232	1,329,223
Africa	326,598	354,310
Europe, Americas and Oceania	893,838	1,001,187
Total	<u>15,561,527</u>	<u>15,365,707</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments, deferred tax assets, investments in joint ventures, investments in associates and other non-current assets.

3. REVENUE

Revenue 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 period. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue is set out as follows:

	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000 (Restated)
Revenue		
Telecommunications system contracts	31,675,335	31,116,034
Sale of good and services	16,014,399	14,720,523
Rental income	67,568	62,231
	<u>47,757,302</u>	<u>45,898,788</u>

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000
Cost of goods and services	27,345,822	26,361,388
Depreciation	688,475	484,269
Amortisation of land lease payments	13,013	11,650
Amortisation of intangible assets other than deferred development costs	58,830	30,579
Development costs:		
Deferred development costs amortised	513,894	446,446
Current period expenditure	7,048,045	5,851,503
Less: deferred development costs	<u>(502,775)</u>	<u>(806,037)</u>
	<u>7,059,164</u>	<u>5,491,912</u>
Fair value (gain)/loss, net*:		
Derivative instruments	38,566	54,725
Investment properties	(2,216)	(64,681)
Impairment of trade receivables*	682,112	1,137,297
Provision for warranties**	623,541	601,128
Provision for legal obligation*	24,235	8,300
Write-down of inventories to net realisable value**	369,106	740,045
Impairment of a long-term equity investment*	—	4,764
Minimum lease payments under operating leases on land and buildings	341,940	314,670
Contingent rental income in respect of operating leases	(2,854)	(18,860)
Auditors' remuneration	600	600
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	10,600,021	8,448,921
Equity-settled share option expense	54,884	89,121
Retirement benefit scheme contributions:		
Defined contribution pension schemes	582,408	545,550
	<u>11,237,313</u>	<u>9,083,592</u>
Foreign exchange (gain)/loss*	(455,359)	428,340
Loss on disposal of items of property, plant and equipment*	4,659	16,044
Gain on disposal of subsidiaries*	(18,814)	—
Gain on disposal of interest in an associate	(17,984)	—
Loss/(Gain) on disposal of derivative financial instruments	140,289	(275,256)
Gain on disposal of available-for-sale investments	<u>(455,200)</u>	<u>(101,099)</u>

* The fair value losses, impairment of trade receivables, impairment of a long-term equity investment, provision for legal obligation, foreign exchange loss and loss on disposal of subsidiaries are included in "Other expenses" on the face of the consolidated statement of profit or loss and other 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 profit or loss and other comprehensive income.

5. FINANCE COSTS

	Six months ended 30 June 2016 <i>RMB'000</i>	Six months ended 30 June 2015 <i>RMB'000</i>
Interest on bank loans wholly repayable within five years	332,979	371,061
Interest on bonds payable	<u>58,222</u>	<u>120,815</u>
Total interest expense on financial liabilities not at fair value through profit or loss	391,201	491,876
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	<u>212,031</u>	<u>200,221</u>
	<u>603,232</u>	<u>692,097</u>

6. INCOME TAX

	Six months ended 30 June 2016 <i>RMB'000</i>	Six months ended 30 June 2015 <i>RMB'000</i>
Group:		
Current — Hong Kong	242	803
Current — Mainland China	405,982	317,554
Current — Overseas	74,163	123,398
Deferred	<u>39,040</u>	<u>(131,553)</u>
Total tax charge for the period	<u>519,427</u>	<u>310,202</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of China 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 periods 2014 to 2016 as a national-grade hi-tech enterprise incorporated in Shenzhen.

7. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2016 (Same period in 2015: nil).

8. 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 holders of ordinary shares 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 period 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 period, 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 share were as follows:

	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000
Earnings		
Net profit attributable to holders of ordinary shares of the Company for the period	<u>1,766,397</u>	<u>1,615,585</u>
	Six months ended 30 June 2016 '000 Share	Six months ended 30 June 2015 '000 Share
Shares		
Weighted average number of ordinary shares of the Company in issue (<i>Note 1</i>)	4,153,594	4,125,049
Diluting effect — weighted average number of ordinary shares	<u>13,420</u>	<u>44,768</u>
Adjusted weighted average number of ordinary shares of the Company in issue	<u>4,167,014</u>	<u>4,169,817</u>

Note 1: With effect from 2 November 2015, scheme participants that had fulfilled the exercise conditions under the share option incentive scheme of the Company were entitled to exercise share options qualified as such during the first exercise period. During the six months ended 30 June 2016, 3,451,000 new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 2,803,000 after taking into account the duration of time for such shares had been issued and outstanding.

For the reporting period, share options granted by the Company gave rise to 13,420,000 potential dilutive ordinary shares.

9. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills receivables	41,405,240	34,879,664
Impairment	(6,299,469)	(5,802,188)
	35,105,771	29,077,476
Current portion	(33,929,924)	(28,714,645)
Long-term portion	1,175,847	362,831

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. With the exception of certain overseas customers, the credit period is normally 90 days, and is extendable up to one year depending on customers' creditworthiness. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is set out as follows:

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	27,648,014	24,060,630
7 to 12 months	4,130,757	2,716,472
1 to 2 years	2,986,241	2,106,596
2 to 3 years	340,759	193,778
	35,105,771	29,077,476
Less: portion classified as current assets	(33,929,924)	(28,714,645)
Long-term portion	1,175,847	362,831

**9. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES
(CONTINUED)**

The movements in the provision for impairment of trade and bills receivables are as follows:

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Opening balance	5,802,188	4,396,591
Impairment losses recognised	745,038	1,820,368
Amount written off as uncollectible	(184,831)	(196,849)
Impairment losses reversed	(62,926)	(217,922)
Closing balance	<u>6,299,469</u>	<u>5,802,188</u>

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB345,001,000 (31 December 2015: RMB503,123,000) with a carrying amount before provision of RMB345,001,000 (31 December 2015: RMB503,123,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	30 June 2016	31 December 2015
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	4,831,436	4,228,313
Less than one year past due	<u>21,232,779</u>	<u>22,009,510</u>
	<u>26,064,215</u>	<u>26,237,823</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been any change in credit quality and the balances are still considered fully recoverable.

9. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (CONTINUED)

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

	30 June	31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
The controlling shareholder	859	1,425
Joint ventures	176,457	70,990
Associates	7,314	20,332
Other related companies	571,419	300,287
	<u>756,049</u>	<u>393,034</u>

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

The Group has not pledged trade receivables but pledged RMB184,183,000 bills receivables (2015: none and RMB106,892,000) to secure the bank borrowings.

10. 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 set out as follows:

	30 June	31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	34,445,360	32,391,107
7 to 12 months	625,584	264,027
1 to 2 years	250,736	123,011
2 to 3 years	83,976	10,327
Over 3 years	16,176	29,523
	<u>35,421,832</u>	<u>32,817,995</u>
Total	<u>35,421,832</u>	<u>32,817,995</u>

10. TRADE AND BILLS PAYABLES (CONTINUED)

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

	30 June	31 December
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
The controlling shareholder	53,402	61,007
Joint ventures	10,720	11,973
Associates	109	1,650
Other related companies	149,259	105,262
	<hr/>	<hr/>
Total	213,490	179,892
	<hr/> <hr/>	<hr/> <hr/>

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

Trade payables are non-interest-bearing and are normally settled on within 180 days.

11. EVENTS AFTER THE REPORTING PERIOD

- (a) Giga Device Semiconductor (Beijing) Inc. (“Giga Device”), a company in which Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (“Zhonghe Chunsheng Fund”), a partnership reported in the consolidated financial statements of the Company, has invested in, was listed on the Shanghai Stock Exchange on 18 August 2016 with the issue capital of 25 million shares at an issue price of RMB23.26 per share. Zhonghe Chunsheng Fund holds 3,175,400 shares in Giga Device, accounting for 3.18% of the total share capital of Giga Device after the issue.
- (b) The Bureau of Industry and Security of the Department of Commerce (“BIS”) of the United States of America (“U.S.”) has added the Company, Shenzhen ZTE Kangxun Telecom Company Limited (“ZTE Kangxun”), ZTE Parsian and Beijing 8-Star International Co. to the Entity List on 7 March 2016 (the “Decision”). Pursuant to the Decision, with effect from 8 March 2016, suppliers of items subject to the Export Administration Regulations shall be required to apply for a license for the supplies of such items to the Company and the other three companies, and a license review policy of presumption of denial shall apply. On 24 March 2016, BIS amended the aforesaid Decision by creating a temporary general license with the effect that the export restrictions on the Company and ZTE Kangxun under the Decision would not apply until 30 June 2016. On 28 June 2016, BIS extended the temporary general license to 30 August 2016 (U.S. time). On 19 August 2016, BIS further extended the temporary general license to 28 November 2016 (U.S. time). The Company will continue to maintain cooperation with relevant U.S. government authorities and actively liaise with them to reach a final solution, and will strictly comply with U.S. laws and regulations relating to export restrictions.