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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 FIRST QUARTERLY REPORT**

This announcement is published simultaneously in the Mainland in accordance with the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange and in Hong Kong in accordance with the disclosure obligations under Rule 13.09(2) and Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the inside information provisions set out in Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

### **§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 there are no false information and misleading statements in this quarterly report nor any material omissions therefrom, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved at the Third 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. Tian Dongfang, Director, to vote on his behalf. Mr. Wang Yawen, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Shi Lirong, Director, to vote on his behalf. Mr. Zhan Yichao, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Tian Dongfang, Director, to vote on his behalf. Mr. Yin Yimin, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Zhao Xianming, Chairman, to vote on his behalf. Mr. Zhu Wuxiang, 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 financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”).

- 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 statements contained in this quarterly report.
- 1.6 China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> are designated media for the Company's information disclosure. Only information of the Company published in the aforesaid media should be relied upon.

## §2 CORPORATE INFORMATION

### 2.1 Brief analysis of the overall operating conditions of the Company and its subsidiaries (the "Group") during the reporting period

During the reporting period, the development of the global telecommunications industry benefited mainly from the large-scale deployment, capacity expansion and in-depth coverage of 4G networks, as well as the construction of ancillary equipment and facilities for these networks. Meanwhile, the pre-5G trials, inter-connection of data centres, construction of SDN (Software Defined Network) and NFV (Network Function Virtualisation) networks, creation of value from Big Data, development of integrated innovative businesses and the balance between security and privacy represented some of the most discussed topics in the industry. In the domestic market, the Group worked actively to support the network construction plans and application requirements of domestic carriers and customers in the government and corporate business sector, making strong efforts in the application of new technologies in various industries in a bid to maintain its dominant market position through the provision of competitive, innovative solutions. In the international market, the Group continued to enhance its overall competitiveness as it persisted in the strategy of focusing on major populous nations and mainstream global carriers, while making vigorous investigations in new business models.

For the three months ended 31 March 2016, the Group reported operating revenue of RMB21.859 billion, representing a 4.09% increase compared to the same period last year. Such growth was primarily attributable to the increase in operating revenue from 4G system products and optical transmission products in the domestic and international markets, family terminal products in the domestic market, as well as smart city projects and rail transport projects in the domestic market as compared to the same period last year. Net profit attributable to holders of ordinary shares of the listed company amounted to RMB950 million, representing a 15.97% increase compared to the same period last year. Basic earnings per share amounted to RMB0.23.

Looking forward to the next reporting period, "multi-connection" and "ultra-broadband" will become new hallmarks for the M-ICT age. The Group will focus on the three mainstream markets of "carriers, government and corporate sectors and consumers" under the theme of "capitalising on opportunities arising from macro-restructuring to create value out of information" and focus on the "new sectors" in our business deployment. In connection with the carriers' networks, the Group will be committed to the enhancement of intelligentization and value creation in connection with pipelines, as we continued to support carriers in their transformation from telecommunications carriers into information operators. In the government and corporate business, the Group will continue to focus on core industries and major markets and make stronger efforts in project standardisation and fast replication of successful projects, in order to steadily enhance its market position. In the consumer business, the Group will further improve its product competitiveness and increase its brand exposure.

## 2.2 Major Accounting Data and Financial Indicators

### 2.2.1 Major Accounting Data and Financial Indicators of the Group

Item	As at the end of the reporting period (31 March 2016)	As at the 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 ( <i>RMB in thousands</i> )	<b>134,998,910</b>	120,893,897	11.67%
Owners' equity attributable to holders of ordinary shares of the listed company ( <i>RMB in thousands</i> ) <i>Note 1</i>	<b>30,011,883</b>	29,660,094	1.19%
Total share capital ( <i>thousand shares</i> ) <i>Note 2</i>	<b>4,153,471</b>	4,150,791	0.06%
Net assets per share attributable to holders of ordinary shares of the listed company ( <i>RMB/share</i> ) <i>Note 1</i>	<b>7.23</b>	7.15	1.12%

Item	The reporting period (Three months ended 31 March 2016)	Same period last year (Three months ended 31 March 2015)	Change compared with the same period last year
Operating revenue ( <i>RMB in thousands</i> )	<b>21,858,509</b>	20,998,792	4.09%
Net profit attributable to holders of ordinary shares of the listed company ( <i>RMB in thousands</i> ) <i>Note 3</i>	<b>949,510</b>	818,723	15.97%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company ( <i>RMB in thousands</i> ) <i>Note 3</i>	<b>969,174</b>	399,215	142.77%
Net cash flows from operating activities ( <i>RMB in thousands</i> )	<b>3,945,521</b>	(3,813,204)	203.47%
Net cash flows from operating activities per share ( <i>RMB/share</i> ) <i>Note 4</i>	<b>0.95</b>	(0.92)	203.26%
Basic earnings per share ( <i>RMB/share</i> ) <i>Note 5</i>	<b>0.23</b>	0.20	15.00%
Diluted earnings per share ( <i>RMB/share</i> ) <i>Note 6</i>	<b>0.23</b>	0.20	15.00%
Weighted average return on net assets (%) <i>Note 7</i>	<b>3.18%</b>	3.20%	Decreased by 0.02 percentage points
Weighted average return on net assets after extraordinary items (%) <i>Note 7</i>	<b>3.25%</b>	1.56%	Increased by 1.69 percentage points

- Note 1:* The Company issued Perpetual Medium Term Notes (“Medium Term Notes” or “perpetual capital instruments”) for a total amount of RMB9 billion during 2015, which were presented under “Other equity instruments” under “Shareholders’ equity” in the balance sheet in this quarterly report. Owner’s equity attributable to holders of ordinary shares of the listed company as at 31 March 2016 has been stated after deducting equity of RMB8,904,700,000 and accruable interests of RMB107,659,000 attributable to holders of Medium Term Notes; owner’s equity attributable to holders of ordinary shares of the listed company as at 31 December 2015 has been stated after deducting equity of RMB8,904,700,000 and accruable interests of RMB416,627,000 attributable to holders of Medium Term Notes. Net assets per share attributable to holders of ordinary shares of the listed company as at the end of the respective periods are arrived at by dividing owner’s equity attributable to holders of ordinary shares of the listed company as at the end of the respective periods by the number of ordinary shares in issue as at the end of the respective periods.
- Note 2:* A total of 2,679,950 share options under the share option incentive scheme of the Company were exercised during the reporting period and the total share capital of the Company was increased from 4,150,791,215 shares to 4,153,471,165 shares as a result.
- Note 3:* Net profit attributable to holders of ordinary shares of the listed company and net profit after extraordinary items attributable to holders of ordinary shares of the listed company for the three months ended 31 March 2016 have been stated after deducting accruable interests of RMB124,982,000 attributable to holders of Medium Term Notes; net profit attributable to holders of ordinary shares of the listed company and net profit after extraordinary items attributable to holders of ordinary shares of the listed company for the three months ended 31 March 2015 have been stated after deducting accruable interests of RMB64,207,000 attributable to holders of Medium Term Notes.
- Note 4:* Net cash flows from operating activities per share for the three months ended 31 March 2015 has been restated to reflect the implementation of the Company’s 2014 plan for profit distribution and conversion of capital reserve.
- Note 5:* Basic earnings per share for the three months ended 31 March 2016 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 three months ended 31 March 2015 has been restated to reflect the implementation of the Company’s 2014 plan for profit distribution and conversion of capital reserve.
- Note 6:* As share options granted by the Company have given rise to 22,444,000 and 31,951,000 potentially dilutive ordinary shares for the three months ended 31 March 2016 and the three months ended 31 March 2015, 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 three months ended 31 March 2015 has been restated to reflect the implementation of the Company’s 2014 plan for profit distribution and conversion of capital reserve.
- Note 7:* Weighted average return on net assets and weighted average return on net assets after extraordinary items for the three months ended 31 March 2016 and the three months ended 31 March 2015 have been arrived at by dividing net profit attributable to holders of ordinary shares of the listed company and net profit after extraordinary items attributable to holders of ordinary shares of the listed company, respectively, by weighted average net assets. Weighted average net assets for the three months ended 31 March 2016 has been stated after deducting equity of RMB8,904,700,000 and accruable interests of RMB107,659,000 attributable to holders of Medium Term Notes; weighted average net assets for the three months ended 31 March 2015 has been stated after deducting equity of RMB7,415,500,000 and accruable interests of RMB64,207,000 attributable to holders of Medium Term Notes.

*Extraordinary item*

*Unit: RMB in thousands*

**Amount from the beginning  
of the year to the end of  
the reporting period**

**Extraordinary item**

Non-operating income	114,487
Gains/(Losses) from fair value change	(111,824)
Investment income	(16,151)
Less: Losses/(Gains) on disposal of non-current assets	3,652
Less: Other non-operating expenses	4,499
Less: Effect of income tax	(3,246)
Less: Effect of non-controlling interests (after tax)	1,271
<b>Total</b>	<b>(19,664)</b>

*2.2.2 The amounts of net profit and shareholders' equity of the Group for the three months ended 31 March 2016 and as at 31 March 2016 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.*

**2.3 Total number of shareholders and shareholdings of top 10 shareholders and top 10 holders of shares not subject to lock-up of the Company as at the end of the reporting period**

*Total number of shareholders*

**As at 31 March 2016** There were 202,494 shareholders in total (comprising 202,141 holders of A shares and 353 holders of H shares).

***Shareholdings of shareholders holding 5% or above or top 10 shareholders***

<b>Name of shareholders</b>	<b>Nature of shareholders</b>	<b>Percentage of shareholdings</b>	<b>Number of shares as at the end of the reporting period (shares)</b>	<b>Number of shares held subject to lock-up (shares)</b>	<b>Number of pledged or frozen shares</b>
1. Shenzhen Zhongxingxin Telecommunication Equipment Company Limited (“Zhongxingxin”)	State-owned corporation	30.57%	1,269,830,333	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.16%	754,076,439	—	Unknown
3. China Securities Finance Corporation Limited	General domestic corporation	2.99%	124,188,902	—	Unknown
4. Central Huijin Investment Ltd.	General domestic corporation	1.26%	52,519,600	—	Unknown
5. NSSF Portfolio #103	Others	1.20%	50,008,014	—	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-type Stock Fund	Others	0.53%	21,965,903	—	Unknown
9. Seventh Research Institute of China Mobile	State-owned corporation	0.46%	19,073,940	—	Unknown
10. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L-FH002 Shen	Others	0.46%	18,912,618	—	Unknown

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

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,269,830,333	A share
2. HKSCC Nominees Limited	754,076,439	H share
3. China Securities Finance Corporation Limited	124,188,902	A share
4. Central Huijin Investment Ltd.	52,519,600	A share
5. NSSF Portfolio #103	50,008,014	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-type Stock Fund	21,965,903	A share
9. Seventh Research Institute of China Mobile	19,073,940	A share
10. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L-FH002 Shen	18,912,618	A share
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<p>1. Zhongxingxin was neither a connected party nor a concerted party of any of the other top ten shareholders and other top ten holders of shares not subject to lock-up set out in the table above.</p> <p>2. Save as aforesaid, the Company is not aware of any connected party relationships or concerted party relationships among other top ten shareholders and other top ten holders of shares not subject to lock-up.</p>	
Description of top 10 shareholders' involvement in financing and securities lending businesses (if any)	N/A	

**Whether top 10 shareholders and top 10 holders of shares 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.**

## §3 MATERIAL MATTERS

### 3.1 Substantial changes in major accounting items and financial indicators of the Company and the reasons thereof

*Unit: RMB in thousands*

#### *Balance sheet*

Item	31 March 2016	31 December 2015	Change	Analysis of reasons for changes
Cash	37,336,644	28,025,009	33.23%	Mainly attributable to the increase in net cash inflow from operating activities and financing activities of the Group for the period
Derivative financial assets	28,924	10,110	186.09%	Mainly attributable to gains for the period arising from fair-value revaluation of certain derivative investments held by the Group at the end of the period
Bills receivable	4,643,081	3,463,358	34.06%	Mainly attributable to the increase in payments in the form of acceptance bills received by the Group for the period
Prepayments	1,042,997	640,113	62.94%	Mainly attributable to the increase in prepayments to suppliers by the Group for the purchase of materials under relevant contracts
Construction in progress	881,339	643,789	36.90%	Mainly attributable to investment by the Group in the Heyuan Production Base and Changsha Base projects for the period
Short-term loans	12,295,748	7,907,572	55.49%	Mainly attributable to the increase in loans incurred by the Group to provide standby liquidity
Derivative financial liabilities	188,107	19,840	848.12%	Mainly attributable to losses for the period arising from fair-value revaluation of certain derivative investments held by the Group at the end of the period
Amount due to customers for contract works	7,305,260	4,423,103	65.16%	Mainly attributable to the receipt of progress payments ahead of corresponding scheduled work completions in connection with certain construction contracts of the Group for the period
Advances from customers	5,726,398	4,035,638	41.90%	Mainly attributable to advances from customers received by the Group in connection with newly signed contracts for the period
Salary and welfare payables	4,878,894	3,644,694	33.86%	Mainly attributable to the Group's recognition of bonus payments and write-back of labour union funds for the period
Other payables	9,080,297	6,005,130	51.21%	Mainly attributable to the increase in payments to third parties by the Group for the period
Other comprehensive income	(1,354,740)	(685,067)	(97.75%)	Mainly attributable to the increase in the Group's exchange losses on translation of foreign operations due to exchange rate volatility for the period

***Income Statement (Three months ended 31 March)***

<b>Item</b>	<b>Three months ended 31 March 2016</b>	<b>Three months ended 31 March 2015</b>	<b>Change</b>	<b>Analysis of reasons for changes</b>
Finance expenses	152,613	815,099	(81.28%)	Mainly attributable to exchange gains due to exchange rate volatility for the period versus exchange losses for the same period last year of the Group
Impairment losses	189,347	548,053	(65.45%)	Mainly attributable to changes in the profile of the Group's trade receivables requiring additional charge of bad debt provisions for the period
Gains/(Losses) from changes in fair values	(111,824)	54,028	(306.97%)	Mainly attributable to losses arising from fair-value revaluation of derivative investments held by the Group at the end of the period versus revaluation gains for the same period last year
Investment income	(3,680)	268,992	(101.37%)	Mainly attributable to losses due to the settlement of derivative investments upon maturity incurred by the Group for the period versus gains for the same period last year
Non-operating expenses	8,151	34,336	(76.26%)	Mainly attributable to the decrease in compensation expenses incurred by the Group for the period
Interest accruals attributable to holders of perpetual capital instruments	124,982	64,207	94.65%	Mainly attributable to the increase for the period in the nominal value of the Group's perpetual capital instruments and their interest accrual periods
Non-controlling interests	(13,340)	(21,734)	38.62%	Mainly attributable to the decrease in losses incurred by subsidiaries of the Group with higher levels of minority interests
Changes in the fair value of available-for-sale financial assets	(19,241)	30,526	(163.03%)	Mainly attributable to losses due to volatility in the market prices of restricted equity in listed companies held by the Group for the period versus gains for the same period last year
Effective portion of hedging instruments	(43,102)	70	(61,674.29%)	Mainly attributable to losses arising from fair-value revaluation at the end of the period of the Group's hedging instruments for the period
Exchange differences on translation of foreign operations	(607,330)	(206,900)	(193.54%)	Mainly attributable to the increase in the Group's exchange losses on translation of foreign operations due to exchange rate volatility for the period
Other comprehensive income attributable to non-controlling interests, net of tax	8,250	168,363	(95.10%)	Mainly attributable to relatively strong gains for the same period last year arising from volatility in the market prices of restricted equity in listed companies held by a partnership fund under Shenzhen ZTE Capital Management Company Limited ("ZTE Capital")

**Cash Flow Statement (Three months ended 31 March)**

<b>Item</b>	<b>Three months ended 31 March 2016</b>	<b>Three months ended 31 March 2015</b>	<b>Change</b>	<b>Analysis of reasons for changes</b>
Net cash flows from operating activities	3,945,521	(3,813,204)	203.47%	Mainly attributable to the increase in cash received by the Group for the sales of goods and rendering of service for the period
Effect of changes in foreign exchange rate on cash and cash equivalents	(573,009)	(72,563)	(689.67%)	Mainly attributable to the increase in the Group's exchange losses on translation due to exchange rate volatility for the period

**3.2 Progress of significant events and analysis of their impacts and solutions**

**3.2.1 Statement of qualified opinion**

Applicable      N/A

**3.2.2 Provision of any funds by the Company to the controlling shareholders or its connected parties or provision of third-party guarantees in violation of stipulated procedures**

Applicable      N/A

**3.2.3 Execution and performance of material contracts in day-to-day operations**

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

<b>No.</b>	<b>Contents of material contracts</b>	<b>Date of domestic announcements</b>	<b>Pricing principle</b>	<b>Transaction prices</b>	<b>Whether a connected transaction</b>	<b>Performance status as at the end of the reporting period</b>
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	30 April 2007	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	Under normal progress
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Under normal progress
3	Network Supply Agreement and Managed Service Agreement between the Company and its subsidiary ZTE Corporation South Africa (PTY) Limited on the one hand and Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited, on the other	27 January 2010	By reference to market prices	USD378 million	No	Under normal progress

### 3.2.4 Others

#### 3.2.4.1 External investments by the Company

##### 1. Changsha Base Project

To provide support for its future business development, the Company has proposed to make an investment to construct the “ZTE Changsha Base Project” in Changsha Development Zone for Hi-tech Industries, and to enter into a “Project Investment Contract” with the Management Committee of Changsha Development Zone for Hi-tech Industries. The total investment of the Project is estimated at RMB4 billion. The aforesaid matter has been considered and approved at the Thirty-seventh Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2016 of the Company. For details, please refer to the “Announcement Resolutions of the Thirty-seventh Meeting of the Sixth Session of the Board of Directors” and the “Announcement of External Investments” published on 28 December 2015 and the “Announcement on Resolutions of the First Extraordinary General Meeting of 2016” published on 3 March 2016 by the Company.

##### 2. Guangzhou Research Institute Project

In view of its strategic requirements and future needs for technological development, the Company has proposed to make an investment to construct the “ZTE Guangzhou Research Institute Project” and to enter into the “ZTE Guangzhou Research Institute Project Cooperation Agreement” with the Guangzhou Municipal People’s Government. The total investment of the project is estimated to be not less than RMB5.6 billion. The aforesaid matter has been considered and approved at the Thirty-ninth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2016 of the Company. For details, please refer to the “Announcement Resolutions of the Thirty-ninth Meeting of the Sixth Session of the Board of Directors” and the “Announcement of External Investments” published on 7 January 2016 and the “Announcement on Resolutions of the First Extraordinary General Meeting of 2016” published on 3 March 2016 by the Company.

#### 3.2.4.2 Provision of guarantee for subsidiaries

##### 1. Guarantee for ZTE Malaysia

The Company proposed to increase the amount of guarantee for the joint liability guarantee provided in respect of the performance of the “CONTRACT FOR THE DELIVERY, SUPPLY, INSTALLATION, TESTING AND COMMISSIONING OF EQUIPMENT AND SOFTWARE AND PROVISION OF SERVICES FOR U MOBILE’S 3G/LTE SYSTEM CONTRACT” (“UM Wireless Capacity Expansion Contract”) by ZTE (Malaysia) Corporation SDN BHD (“ZTE Malaysia”) by USD40 million (namely, the increase of the total amount of guarantee to not more than USD60 million) for a term commencing on the date on which the UM Wireless Capacity Expansion Contract came into effect upon execution and ending on the date on which the performance of obligations under the UM Wireless Capacity Expansion Contract by ZTE Malaysia is completed.

The aforesaid matter has been considered and approved at the Thirty-ninth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2016 of the Company. For details, please refer to the “Announcement Resolutions of the Thirty-ninth Meeting of the Sixth Session of the Board of Directors” and the “Announcement

on the Provision of Guarantee for a Wholly-owned Subsidiary” published on 7 January 2016 and the “Announcement on Resolutions of the First Extraordinary General Meeting of 2016” published on 3 March 2016 by the Company.

## 2. Guarantee for ZTE Indonesia

The Company proposed to apply to Bank of China Corporation (“BOC”) on behalf of PT. ZTE Indonesia (“ZTE Indonesia”) for credit facilities in connection with the issuance of bank letters of guarantee and provide guarantee by way of joint liability assurance for a total amount of not more than USD50 million for ZTE Indonesia for a term of five years commencing on the date on which the guarantee agreement between the Company and BOC comes into effect, during which credit facilities will be available on a revolving basis subject to the aforesaid guarantee amounts.

The aforesaid matter has been considered and approved at the Second Meeting of the Seventh Session of the Board of Directors. For details, please refer to the “Announcement Resolutions of the Second Meeting of the Seventh Session of the Board of Directors” and the “Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary” published on 6 April 2016 by the Company. The said guarantee is subject to approval at the general meeting of the Company.

### 3.2.4.3 *Quotation of Subsidiaries of the Company on the National Equities Exchange and Quotations*

#### 1. Application by Shanghai Zhongxing for quotation on the National Equities Exchange and Quotations

The Company has proposed the conversion of Shanghai Zhongxing Telecom Equipment Technologies Company Limited (“Shanghai Zhongxing”), a subsidiary of the Company, into a joint stock company and, following the completion of such conversion, and the application by Shanghai Zhongxing for quotation on the National Equities Exchange and Quotations (“NEEQ”) subject to compliance with relevant national laws and regulations. The aforesaid matter has been considered and approved at the Thirty-third Meeting of the Sixth Session of the Board of Directors. For details, please refer to the “Voluntary Announcement — Potential Quotation of Shanghai Zhongxing on the National Equities Exchange and Quotations” and “Overseas Regulatory Announcement” published by the Company on 11 November 2015. The inaugural meeting of Shanghai Zhongxing was held on 28 December 2015 and the company was renamed 上海中興通訊技術股份有限公司. On 29 March 2016, 上海中興通訊技術股份有限公司 filed an application for quotation on NEEQ. For details, please refer to the “Application For Quotation Of Shanghai Zhongxing On The National Equities Exchange And Quotations” and “Overseas Regulatory Announcement” published by the Company on 29 March 2016.

## 2. Application by ZTEsoft for quotation on National Equities Exchange and Quotations

ZTEsoft Technology Company Limited (“ZTEsoft”), a subsidiary of the Company, has proposed to apply for quotation on NEEQ subject to compliance with relevant national laws, regulations and policies. The aforesaid matter has been considered and approved at the Second Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Voluntary Announcement — Potential Quotation of ZTEsoft on the National Equities Exchange and Quotations” and “Overseas Regulatory Announcement” published by the Company on 6 April 2016.

### 3.2.4.4 *Export restrictions imposed on the Company by the U.S. Department of Commerce*

The Bureau of Industry and Security of the Department of Commerce (“BIS”) of the United States of America (“U.S.”) has added the Company, ZTE Kangxun Telecommunications Ltd., 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 Telecommunications Ltd. under the Decision would not apply until 30 June 2016. The Company is currently cooperating with the U.S. Commerce Department, the U.S. Department of Justice, the U.S. Department of Treasury and other relevant U.S. government departments in their investigations of the Company’s compliance with the U.S. Export Administration Regulations.

For details of the aforesaid matter, please refer to the respective relevant announcements published on 9 March 2016, 23 March 2016, 28 March 2016, and “Updated Information in relation to Export Restrictions by the U.S. Commerce Department and Announcement Regarding the Revision of Preliminary Results for the Year ended 31 December 2015” published on 6 April 2016.

### 3.2.4.5 *Changes in Directors, Supervisors and senior management of the Company*

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 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 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; Mr. Zhu Wuxiang, Mr. Luan Jubao, Mr. Shi Lirong, Mr. Wang Yawen, Mr. Richard Xike Zhang, Mr. Lü Hongbing and Mr. Bingsheng Teng were elected members of the Nomination Committee of the Seventh Session of the Board of Directors of the Company; Mr. Chen Shaohua, Mr. Luan Jubao, Mr. Tian Dongfang, Mr. Zhan Yichao, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang were elected members of the Audit Committee of the Seventh Session of the Board of Directors of the Company; Mr. Bingsheng Teng, Mr. Zhang Jianheng, Mr. Shi Lirong, Mr. Richard Xike Zhang, Mr. Chen Shaohua and Mr. Zhu Wuxiang were elected members of the Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors of the Company.

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.

Pursuant to the Resolution on the Appointment of the New Session of Senior Management of the Company considered and passed at the First Meeting of the Nomination Committee of the Seventh Session of the Board of Directors of the Company held on 5 April 2016 and the First Meeting of the Seventh Session of the Board of Directors of the Company held on 5 April 2016, it was approved that Mr. Zhao Xianming be 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 be each appointed Executive Vice President of the Company; Mr. Wei Zaisheng be appointed Chief Financial Officer of the Company; and Ms. Cao Wei be 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 of the Company (namely, 29 March 2019).

#### *3.2.4.6 Information on the "Share Option Incentive Scheme" of the Company*

The share option incentive scheme (the "Scheme") implemented by the Company is aimed at further improving the corporate governance structure of the Company, bolstering its incentive mechanism, strengthening the loyalty and sense of responsibility on the part of the management team and key employees of the Company, retaining talents to facilitate the sustainable development of the Company and ensure the achievement of the Company's development objectives. The share option incentive scheme implemented by the Company has been approved by regulatory authorities including State-owned Assets Supervision and Administration Commission of the State Council, China Securities Regulatory Commission and The Stock

Exchange of Hong Kong Limited and the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. Pursuant to the “Resolution on Matters pertaining to the Grant of Share Options under the Share Option Incentive Scheme of the Company” considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013, the date of grant has been set for 31 October 2013 (Thursday), on which 102.989 million share options were granted to 1,528 Scheme Participants.

Pursuant to the “Resolution on the Adjustment of the Number and Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” considered and passed at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors of the Company held on 22 July 2015, it was approved that after the implementation of the 2013 profit distribution plan and the 2014 plan for profit distribution and conversion of capital reserve, the number of share options was adjusted to 123,586,800 and the exercise price was adjusted to RMB11.22.

Pursuant to the “Resolution on the Adjustment of Participants and Number of Share Options for the First Exercise Period of the Share Option Incentive Scheme” and “Resolution on the Fulfillment of Exercise Conditions for the First Exercise Period of the Share Option Incentive Scheme” considered and approved at the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, the adjustment of the number of participants and the number of share options granted under the Scheme was approved. After the adjustment, the number of participants under the Scheme was adjusted from 1,528 to 1,429, the number of share options granted from 123,586,800 to 116,613,000, the number of participants entitled to exercise share options for the first exercise period from 1,528 to 1,424, and the number of exercisable share options for the first exercise period from 37,076,040 to 34,884,360. The exercise conditions for the first exercise period under the Share Option Incentive Scheme of the Company was deemed fulfilled and the exercise period shall be from 2 November 2015 to 31 October 2016. For details of the share option incentive scheme implemented by the Company, please refer to the section headed “Material Matters — (VI) Implementation and Impact of the Company’s Share Option Incentive Scheme” in the 2015 Annual Report of the Company.

Share options under the share option incentive scheme of the Company were exercised on a voluntary basis. During the reporting period, a total of 2,679,950 options were exercised at an exercise price of RMB11.22. The number of A shares of the Company has increased by 2,679,950 shares as a result of the exercise, and proceeds received from the exercise of share options have been placed in a designated account of the Company. As at the end of the reporting period, 88,191,368 share options remained unexercised.

#### *3.2.4.7 Material litigation and arbitration during the reporting period*

There was no material litigation or arbitration of the Group occurring during the reporting period. For details of the progress in the reporting period of immaterial litigation and arbitration proceedings occurring prior to the reporting period, please refer to the section headed “Material Matters” in the 2015 Annual Report of the Company.

### 3.2.4.8 Conduct of continuing connected transactions during the reporting period

The connected transactions disclosed in the following table represent connected transactions reaching the benchmark for public disclosure as defined under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Whether approved or exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin and its subsidiaries	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Continuing connected transactions in respect of the Group's purchases from connected parties were conducted in the ordinary course of business of the two parties on normal commercial terms and terms no less favourable than those available to or from (as the case may be) independent third parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms.	Cabinets and related accessories: RMB1-RMB300,000 per unit depending on level of sophistication; Cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	11,197.65	0.84%	No	Commercial acceptance bill	N/A	2015-9-23	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna Technologies (Shenzhen) Co., Ltd. ("Mobi Antenna")	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party	Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Communication antenna: RMB100-RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100-9,999 per unit depending on technical parameters and functional features; Feeder: RMB1-200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1-100 per piece depending on technical parameters and functional features.	12,827.09	0.96%	No	Commercial acceptance bill	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
Huatong Technology Company Limited ("Huatong")	Subsidiary of a company for which a natural person related to the Company acted as director	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	943.49	0.07%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Software Technology (Nanchang) Company Limited ("Nanchang Software")	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company acted as director	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	518.24	0.04%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and its subsidiaries	Subsidiary of a company for which a natural person related to the Company acted as director	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.	840.72	0.06%	No	Tele-transfer	N/A	2015-4-24	Announcement No. 201515 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	As a percentage of Whether transactions approved in the same cap has exceeded			Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
						Amount (RMB in ten thousands)	classification	been				
Zhongxing Development Company Limited ("Zhongxing Development")	A Company for which a natural person related to the Company acted as director	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m.; Lease of parking spaces: 25 ground level parking spaces and 127 underground parking spaces by the Company from the connected party		Monthly rent of RMB145/sq.m.; monthly rent of ground level parking spaces of RMB350 each; monthly rent of underground parking spaces of RMB600 each. (Property management undertaken by ZTE and no management fees are payable.)	1,123.72	5.64%	No	Tele-transfer	N/A	2015-3-26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Chongqing Zhongxing Development Company Limited ("Chongqing Zhongxing Development")	Subsidiary of a company for which a natural person related to the Company acted as director	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. and 97 parking spaces by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, from the connected party		Monthly rent of RMB50/sq.m. for the office (for a maximum leased area of 18,532.08 sq.m.) and RMB45/sq.m. for the cafeteria (for a maximum leased area of 1,467.92 sq.m.) respectively; monthly management fee of RMB3/sq.m. based on actual area leased; monthly rent of parking space: RMB150 each.	222.76	1.12%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of a company for which a natural person related to the Company acted as director	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		Rent: RMB74/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB53/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB116/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB53/sq.m./month for hotel and related equipment and facilities in Xi'an.	1,926.05	30.06%	No	Tele-transfer	N/A	2015-4-24	Announcement No. 201515 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of a company for which a natural person related to the Company acted as director	Financial services	The provision of deposit services by ZTE Group Finance Co., Ltd. ("ZTE Group Finance") to the connected party		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; in case the interest rate announced by PBOC was not applicable, ZTE Group Finance would pay interest to the connected party at a rate not higher than the interest rate level adopted by similar businesses carried out by other independent financial institutions.	2,332.41 <sup>Year 1</sup>	0.39%	No	Tele-transfer	N/A	2015-3-26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna	A company at which a supervisor of the Company's controlling shareholder acted as director	Financial services	The provision of bill discounting services by ZTE Group Finance to the connected party		Bill discounting services were conducted during the ordinary course of business of the two parties based on normal commercial terms. The interest rate for discounting was determined on the basis of the rediscount rate announced by the PBOC taking into account prevailing market levels and in compliance with relevant guidelines and requirements of the PBOC.	— <sup>Year 2</sup>	0.00%	No	Tele-transfer	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
深圳市航天戴華科技發展有限公司 ("航天戴華")	Subsidiary of a company for which a Director of the Company acted as director	Sale of products	The sale of digital communications products and communications products by the Company to the connected party		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	9,834.41	0.45%	No	Tele-transfer or bank acceptance bill	N/A	2015-9-23	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company acted as director	Sales of products and rendering of services	The provision by the Company to the connected party of software and hardware equipment and engineering services required for smart campus and campus IT development, and integrated solutions for smart traffic, city emergency command system and government/corporate IT systems, etc		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	—	0.00%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
<b>Total</b>						<b>41,766.54</b>	<b>N/A</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations.
Effect of the connected transaction on the independence of the listed company	All transactions between the Company and the connected parties were in compliance with pertinent national laws and regulations without any compromise to the interest of the Company and its shareholders. The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	<p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated purchases from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2016 be capped at RMB800 million (before VAT);</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the cap of estimated purchases from Mobi Antenna, a connected party, by the Group in 2016 be revised to RMB1,700 million (before VAT);</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated purchases from Huatong and Nanchang Software, both connected parties, by the Company in 2016 be capped at RMB67 million and RMB63 million, respectively (before VAT);</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated sales of products and rendering of services to Nanchang Software, a connected party, by the Company in 2016 be capped at RMB30 million (before VAT);</p> <p>At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB54 million for a term commencing on 18 April 2015 and ending on 17 April 2017;</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the annual rent payable by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB13 million for a term commencing on 1 January 2015 and ending on 31 December 2017;</p> <p>At the Twenty-sixth Meeting of the Sixth Session of the Board of Directors of the Company held on 23 April 2015, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2015 and ending on 30 June 2016; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB85 million for the period commencing on 1 July 2015 and end on 30 June 2016;</p> <p>At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the estimated daily deposit balance (principal cum interest) of the deposit service provided by ZTE Group Finance to Zhongxing Hetai and its subsidiaries in 2016 shall be capped at RMB85 million;</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the estimated daily balance of outstanding discounted bills (principal cum interest) of the bill discounting service provided by ZTE Group Finance to Mobi Antenna in 2016 shall be capped at RMB400 million;</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated sales of digital communications products and communications products to 航天服务 by the Company in 2016 be capped at RMB1,000 million (before VAT); and</p> <p>Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.</p>
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

- Note 1:* The amount represented the estimated maximum daily deposit balance (principal cum interest) for the 3 months ended 31 March 2016.
- Note 2:* The amount represented the estimated maximum daily balance of outstanding discounted bills (principal cum interest) for the 3 months ended 31 March 2016.
- Note 3:* ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2016, and the funds utilised for settlement were limited to the cash deposits placed with ZTE Group Finance by Zhongxing Hetai and its subsidiaries. No handling fees were charged for such settlement service.
- Note 4:* For details of "Approved Cap", please refer to the section headed "Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)".
- Note 5:* As Mr. Hou Weigui, Director of the Company, concurrently acted as director of Zhongxing Development, Zhongxing Development was deemed a connected party of the Company under Rule 10.1.3 (III) of the Rules Governing the Listing of Stocks on The Shenzhen Stock Exchange. As Huatong, Chongqing Zhongxing Development and Zhongxing Hetai together with its subsidiaries were subsidiaries of Zhongxing Development, and Zhongxing Development could exercise control over the majority of the board of directors of Nanchang Software, the aforesaid companies were deemed connected parties of the Company under Rule 10.1.3 (V) of the Rules Governing the Listing of Stocks on The Shenzhen Stock Exchange. As Mr. Hou Weigui has ceased to be Director of the Company with effect from 30 March 2016, Huatong, Nanchang Software, Zhongxing Development, Chongqing Zhongxing Development and Zhongxing Hetai together with its subsidiaries will cease to be connected parties of the Company with effect from 30 March 2017 in accordance with the provisions of Rule 10.1.6 (II) of the Rules Governing the Listing of Stocks on The Shenzhen Stock Exchange.

**3.3 Undertakings of the Company, its shareholders, de facto controller, acquirer, Directors, Supervisors, senior management or other connected parties of which performances were completed during the reporting period and those of which performances had yet to be completed as at the end of the reporting period**

*1. Undertaking given upon the initial public offering or any refinancing exercise*

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

*2. Other undertaking given to minority shareholders of the Company*

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

**3.4 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 as compared to the same period last year**

Applicable       N/A

### 3.5 Other material matters requiring disclosure

#### 3.5.1 Investment in securities

##### 1. Investment in securities

##### (1) Investment in securities as at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Fair-value change for the period	Fair-value change accounted for in equity	Purchase during the period	Disposal during the period	Gain/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	603118	Gongjin Electronics <i>Note 1</i>	4,274.93	Fair-value measurement	48,798.08	—	(13,949.72)	—	—	—	34,848.36	Available-for-sale financial assets	Issue proceeds
Stock	300438	Great Power <i>Note 1</i>	3,095.24	Fair-value measurement	37,350.00	—	(5,886.00)	—	—	—	31,464.00	Available-for-sale financial assets	Issue proceeds
Stock	300502	Eoptolink <i>Note 1</i>	1,385.12	Fair-value measurement	1,385.12	—	21,199.11	—	—	—	22,584.23	Available-for-sale financial assets	Issue proceeds
Stock	002036	Lianchuang Electronic <i>Note 2</i>	3,266.00	Fair-value measurement	22,170.63	—	(3,959.04)	—	—	—	18,211.59	Available-for-sale financial assets	Issue proceeds
Stock	ENA.TSV	Enablence Technologies <i>Note 3</i>	3,583.26	Fair-value measurement	981.36	—	(83.72)	2,190.16	—	—	3,087.80	Available-for-sale financial assets	Internal funds
Other securities investments held at the end of the period			—	—	—	—	—	—	—	—	—	—	—
<b>Total</b>			<b>15,604.55</b>	<b>—</b>	<b>110,685.19</b>	<b>—</b>	<b>(2,679.37)</b>	<b>2,190.16</b>	<b>—</b>	<b>—</b>	<b>110,195.98</b>	<b>—</b>	<b>—</b>

*Note 1:* Figures corresponding to Shenzhen Gongjin Electronics Co., Ltd. (“Gongjin Electronics”), Guangzhou Great Power Energy & Technology Co., Ltd. (“Great Power”) and Eoptolink Technology Inc., Ltd. (“Eoptolink”) are provided with Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (“Zhonghe Chunsheng Fund”) as the accounting subject.

*Note 2:* Figures corresponding to Lianchuang Electronic Technology Co., Ltd. (“Lianchuang Electronic”, formerly named “China-Hemp Industrial Investment Co., Ltd.”) are provided with Jiaxing Xinghe Equity Investment Partnership (“Jiaxing Fund”) as the accounting subject.

*Note 3:* The initial investment for the acquisition of Enablence Technologies Inc. (“Enablence Technologies”) shares by ZTE (H.K.) Limited (“ZTE HK”), a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company’s foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company’s foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD37,028,900, equivalent to approximately RMB30,878,000 based on the Company’s foreign currency statement book exchange rate (HKD1: RMB0.83389) on 31 March 2016.

(2) Details in investment in securities

A. Shareholdings in Gongjin Electronics

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund, a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Zhonghe Chunsheng Fund held 10,371,500 shares in or 3.35% of the total share capital of Gongjin Electronics (a company listed on the Shanghai Stock Exchange).

B. Shareholdings in Great Power

As at the end of the reporting period, Zhonghe Chunsheng Fund held 3 million shares in Great Power, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.57% of the total share capital of Great Power.

C. Shareholdings in Eoptolink

As at the end of the reporting period, Zhonghe Chunsheng Fund held 2,611,800 shares in Eoptolink, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.37% of the total share capital of Eoptolink.

D. Shareholdings in Lianchuang Electronic

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaying Fund, which was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Jiaying Fund held 7,198,300 shares in Lianchuang Electronic, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 1.21% of the total share capital of Lianchuang Electronic.

E. Shareholdings in Enablence Technologies

ZTE HK, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies on 4 December 2014. ZTE HK subscribed for 18 million shares issued by Enablence Technologies on 6 January 2015 for a total cash consideration of CAD2.70 million. ZTE HK entered into a Subscription Agreement with Enablence Technologies on 27 January 2016. On 2 February 2016, ZTE HK subscribed for 77 million shares issued by Enablence Technologies for a total cash consideration of CAD4.62 million. As at the end of the reporting period, ZTE HK held 95 million shares in Enablence Technologies, accounting for 19.11% of its total share capital.

2. *Save as aforesaid, the Group did not invest in non-listed financial enterprises such as commercial banks, securities companies, insurance companies, trusts or futures companies, or conduct securities investment such as dealing in stocks of other listed companies during the reporting period.*

### 3.5.2 Records of reception of investors, communications and press interviews during the reporting period

During the reporting period, the Company hosted 7 receptions of investors for research purposes, receiving 17 institutional investors but no individual investor or other researchers. For details, please refer to the following table. The Company did not disclose, reveal or divulge unpublished material information to such investors.

Nature	Time	Location	Mode	Audience received	Key contents discussed	Index of research
External meetings	January 2016	Shanghai	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	January 2016	Hong Kong	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	January 2016	Hong Kong	Citibank investors' meeting	Customer of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
Company visits by investors	January to March 2016	Company	Verbal	<b>Overseas investors</b> Turiya Advisors, BNP Paribas Inv Partners, Tybourne Capital Mgmt (HK) Ltd, Generali Invs Asia Ltd, Goldman Sachs Inv Partners, INVESCO Asia Ltd, Karst Peak Capital Ltd, Telligent Capital Mgmt Ltd, Deutsche Bank, Tokai Tokyo Securities Asia, SinoPac Securities, Macquarie Capital Securities Limited, Resona Bank	Day-to-day operations of the Company	Published announcements and regular reports
	January to March 2016	Company	Verbal	<b>Domestic investors</b> Huatai United, Shenzhen Baiyi Capital Management Co., Ltd., Neo Capital, Sealand Securities	Day-to-day operations of the Company	Published announcements and regular reports

### 3.6 Derivative Investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment <sup>Note 1</sup>	Initial investment amount in the derivative investment		Opening balance of investment amount	Purchase during the period	Disposal during the period	Impairment provision (if any)	Closing balance of investment amount	Closing balance of net assets <sup>Note 2</sup> of the Company at the end of the period (%)	Actual profit or loss for the reporting period	
				Start date	End date								
HSBC	N/A	No	Interest rate swap <sup>Note 3</sup>	—	2011/12/19	2016/7/8	32,470.00	—	—	32,320.00	1.08%	—	
Standard Chartered Bank	N/A	No	Interest rate swap <sup>Note 3</sup>	—	2011/12/22	2016/7/8	32,470.00	—	—	32,320.00	1.08%	—	
Bank of China	N/A	No	Forward exchange contract	—	2015/7/8	2016/12/30	45,366.43	94,348.54	47,949.45	—	91,765.53	3.06%	(3,566.72)
BNP Paribas	N/A	No	Forward exchange contract	—	2016/1/5	2016/12/30	10,463.78	80,625.47	21,129.38	—	69,959.87	2.33%	(2,719.18)
Credit Agricole	N/A	No	Forward exchange contract	—	2015/12/14	2016/12/29	22,481.58	73,445.26	29,781.38	—	66,145.47	2.20%	(2,570.93)
Other banks	N/A	No	Forward exchange contract	—	2015/8/24	2016/12/29	118,241.45	181,336.09	125,505.64	—	174,107.39	5.80%	(6,765.49)
<b>Total</b>				—	—	—	<b>261,493.24</b>	<b>429,755.36</b>	<b>224,665.85</b> <sup>Note 4</sup>	—	<b>466,618.26</b>	<b>15.55%</b>	<b>(15,622.32)</b>
Source of funds for derivative investment	Internal funds												
Litigation (if applicable)	Not involved in any litigation												
Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)	“Announcement of Resolutions of the Twenty-fifth Meeting of the Sixth Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2015”, both dated 25 March 2015.												
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	“Announcement on Resolutions of the 2014 Annual General Meeting” dated 28 May 2015.												
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	<p>Derivative investments conducted by the Company during the first quarter of 2016 included value-protection derivatives. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> <li>Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivatives investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date;</li> <li>Liquidity risks: The value-protection derivatives investments of the Company were based on the Company’s budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company’s actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company’s current assets was insignificant;</li> <li>Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks;</li> <li>Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks;</li> <li>Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.</li> </ol>												
Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The Company has recognised losses from investments in derivatives during the reporting period. Total losses recognised for the reporting period amounted to RMB156.22 million, comprising losses from fair-value change of RMB111.82 million and recognised investment losses of RMB44.40 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.												
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period	There was no significant change in the Company’s accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.												
Specific opinion of Independent Non-executive Directors on the Company’s derivative investments and risk control	<p>Independent Non-executive Directors’ Opinion:</p> <p>The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.</p>												

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

*Note 2:* Net assets as at the end of the reporting period represented net assets attributable to holders of ordinary shares of the listed company as at the end of the reporting period;

*Note 3:* Interest rate swaps were dealt with as value protection hedging for accounting purposes and the gain or loss arising from interest rate swaps was recognised in other comprehensive income;

*Note 4:* The difference between the total amount of disposals for the reporting period and the sum of amounts with various banks is owing to revaluation of interest rate swaps with HSBC and Standard Chartered Bank.

### **3.7 Development and implementation of internal control in the first quarter of 2016**

During the reporting period, the work of the Company's internal control and audit department was mainly focused on reviewing the internal control operations of 2015 and formulating internal control work plans for 2016 to facilitate audit and rectification of the Company's significant internal control operations. Specifically:

1. The "2015 Summary Report and 2016 Work Plan for Internal Control and Audit of the Company" was completed based on the Company's implementation of internal control in 2015 and the internal control work plans for 2016.
2. An assessment on the effectiveness of the Company's internal control in 2015 was conducted in accordance with provisions of the "Basic Rules for Corporate Internal Control" and its supplementary guidelines and other internal control and regulatory requirements, and the "Self-assessment Report on Internal Control of the Company in 2015" was completed.
3. The Company's derivative investments and investments in securities in 2015 were examined.
4. The plan for self-assessment on internal control in 2016 was drawn up and the scheme for self-assessment on internal control was optimised, while self-assessment on internal control for the government and corporate business and terminal sectors was also commenced.
5. Promotion of the risk management culture was facilitated through various approaches, such as the publication of relevant knowledge, case-sharing, training and examination, covering risk control for supply chains, foreign exchange, contract business and channel management.
6. Potential risks affecting the fulfilment of business targets were identified, with a special emphasis on the assessment and monitoring of national risks, exchange risks, supply-chain risks and contract business risks.

**3.8 This quarterly report is published in both Chinese and English. In case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.**

## **§4 APPENDICES**

**4.1 Balance Sheet (unaudited) (Please see the attached.)**

**4.2 Income Statement (unaudited) (Please see the attached.)**

**4.3 Cash Flow Statement (unaudited) (Please see the attached.)**

## BALANCE SHEET

RMB in thousands

Assets	2016.3.31		2015.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash	37,336,644	24,113,332	28,025,009	17,708,219
Derivative financial assets	28,924	3,543	10,110	3,234
Bills receivable	4,643,081	2,645,537	3,463,358	1,461,254
Trade receivables	27,056,629	34,524,333	25,251,287	36,128,987
Factored trade receivables	1,253,222	435,465	1,272,068	445,819
Prepayments	1,042,997	14,330	640,113	28,871
Dividend receivable	—	3,473,753	—	3,473,753
Other receivables	3,490,893	14,126,417	2,970,258	8,659,093
Inventories	21,788,003	14,817,330	19,731,741	13,315,871
Amount due from customers for contract works	12,747,674	9,483,571	13,928,446	9,580,171
<b>Total current assets</b>	<b>109,388,067</b>	<b>103,637,611</b>	<b>95,292,390</b>	<b>90,805,272</b>
Non-current assets:				
Available-for-sale financial assets	2,400,528	366,724	2,381,467	366,724
Long-term trade receivables	366,814	5,877,775	362,831	5,908,497
Factored long-term trade receivables	1,574,677	1,260,730	1,593,528	1,282,435
Long-term equity investments	527,166	7,339,658	560,939	7,350,908
Investment properties	2,011,140	1,603,107	2,010,396	1,603,107
Fixed assets	7,532,871	4,304,575	7,692,175	4,340,067
Construction in progress	881,339	347,045	643,789	270,243
Intangible assets	4,212,493	1,181,734	4,224,446	1,176,400
Deferred development costs	826,802	150,789	789,815	166,417
Deferred tax assets	1,365,686	621,249	1,434,143	671,519
Long-term deferred assets	36,139	34,911	32,790	32,388
Other non-current assets	3,875,188	3,745,208	3,875,188	3,745,208
<b>Total non-current assets</b>	<b>25,610,843</b>	<b>26,833,505</b>	<b>25,601,507</b>	<b>26,913,913</b>
<b>Total assets</b>	<b>134,998,910</b>	<b>130,471,116</b>	<b>120,893,897</b>	<b>117,719,185</b>

Legal Representative:  
Zhao Xianming

Chief Financial Officer:  
Wei Zaisheng

Head of Finance Division:  
Shi Chunmao

RMB in thousands

Liabilities and shareholders' equity	2016.3.31		2015.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	12,295,748	8,820,028	7,907,572	5,710,313
Derivative financial liabilities	188,107	24,882	19,840	6,421
Bonds payable	4,000,000	4,000,000	4,000,000	4,000,000
Bank advances on factored trade receivables	1,254,500	435,929	1,273,346	446,283
Bills payable	10,309,696	14,557,763	9,885,129	13,366,928
Trade payables	22,599,266	39,677,705	22,932,866	35,274,224
Amount due to customers for contract works	7,305,260	5,840,904	4,423,103	3,016,655
Advances from customers	5,726,398	4,436,816	4,035,638	3,761,156
Salary and welfare payables	4,878,894	2,172,008	3,644,694	1,253,431
Taxes payable	(2,036,078)	(2,104,595)	(2,329,886)	(2,018,958)
Dividends payable	7,403	184	7,418	184
Other payables	9,080,297	18,996,414	6,005,130	19,557,447
Deferred income	565,621	215,225	438,920	179,198
Provisions	708,590	422,476	776,682	448,459
Long-term loans due within one year	4,644,879	1,700,000	4,617,604	1,700,000
<b>Total current liabilities</b>	<b>81,528,581</b>	<b>99,195,739</b>	<b>67,638,056</b>	<b>86,701,741</b>
Non-current liabilities:				
Long-term loans	6,221,505	1,463,720	6,016,254	1,469,570
Bank advances on factored long-term trade receivables	1,574,677	1,260,730	1,593,528	1,282,435
Provision for retirement benefits	143,787	143,787	144,280	144,280
Deferred tax liabilities	52,361	—	52,769	—
Deferred income	720,284	89,538	759,394	109,026
Other non-current liabilities	1,411,748	1,290,828	1,341,011	1,290,829
<b>Total non-current liabilities</b>	<b>10,124,362</b>	<b>4,248,603</b>	<b>9,907,236</b>	<b>4,296,140</b>
<b>Total liabilities</b>	<b>91,652,943</b>	<b>103,444,342</b>	<b>77,545,292</b>	<b>90,997,881</b>
Shareholders' equity:				
Share capital	4,153,471	4,153,471	4,150,791	4,150,791
Capital reserves	10,562,711	8,549,676	10,493,439	8,483,084
Surplus reserve	2,022,709	1,360,953	2,022,709	1,360,953
Retained profits	14,627,732	3,264,372	13,678,222	2,710,245
Other comprehensive income	(1,354,740)	685,943	(685,067)	694,904
Total equity attributable to holders of ordinary shares of the parent	30,011,883	18,014,415	29,660,094	17,399,977
Other equity instruments — perpetual capital instruments	9,012,359	9,012,359	9,321,327	9,321,327
Non-controlling interests	4,321,725	—	4,367,184	—
<b>Total shareholders' equity</b>	<b>43,345,967</b>	<b>27,026,774</b>	<b>43,348,605</b>	<b>26,721,304</b>
<b>Total liabilities and shareholders' equity</b>	<b>134,998,910</b>	<b>130,471,116</b>	<b>120,893,897</b>	<b>117,719,185</b>

# INCOME STATEMENT

*RMB in thousands*

Item	Three months ended 31 March 2016		Three months ended 31 March 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	<b>21,858,509</b>	<b>22,275,294</b>	20,998,792	20,469,706
Less: Operating costs	<b>14,278,848</b>	<b>17,742,417</b>	13,581,729	18,058,391
Taxes and surcharges	<b>422,005</b>	<b>260,985</b>	439,250	208,545
Selling and distribution costs	<b>2,659,191</b>	<b>1,783,425</b>	2,484,052	1,658,894
Administrative expenses	<b>674,907</b>	<b>389,890</b>	578,339	380,500
Research and development costs	<b>3,051,853</b>	<b>1,073,841</b>	2,570,026	648,239
Finance expenses	<b>152,613</b>	<b>268,135</b>	815,099	567,495
Impairment losses	<b>189,347</b>	<b>210,699</b>	548,053	432,698
Add: Gains/(Losses) from changes in fair values	<b>(111,824)</b>	<b>(20,926)</b>	54,028	18,881
Investment income	<b>(3,680)</b>	<b>(2,764)</b>	268,992	94,000
Including: Share of profits/ (losses) of associates and joint ventures	<b>(509)</b>	<b>—</b>	229	<b>—</b>
2. Operating profit	<b>314,241</b>	<b>522,212</b>	305,264	(1,372,175)
Add: Non-operating income	<b>1,064,900</b>	<b>196,613</b>	860,785	125,331
Less: Non-operating expenses	<b>8,151</b>	<b>3,146</b>	34,336	40,902
Including: Gains/(Losses) on disposal of non- current assets	<b>3,652</b>	<b>2,447</b>	4,352	3,085
3. Total profit	<b>1,370,990</b>	<b>715,679</b>	1,131,713	(1,287,746)
Less: Income tax	<b>309,838</b>	<b>36,570</b>	270,517	(8,724)
4. Net profit	<b>1,061,152</b>	<b>679,109</b>	861,196	(1,279,022)
Net profit attributable to holders of ordinary shares of the parent	<b>949,510</b>	<b>554,127</b>	818,723	(1,343,229)
Interest accruals attributable to holders of perpetual capital instruments	<b>124,982</b>	<b>124,982</b>	64,207	64,207
Non-controlling interests	<b>(13,340)</b>	<b>—</b>	(21,734)	<b>—</b>

Item	Three months ended 31 March 2016		Three months ended 31 March 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
5. Other comprehensive income, net of tax				
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax				
Other comprehensive income that cannot be reclassified to profit and loss in subsequent accounting periods				
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss in subsequent periods	—	—	—	—
Change in net liabilities arising from the re-measurement of defined benefit plans	—	—	—	—
	—	—	—	—
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods subject to certain conditions				
Changes in the fair value of available-for-sale financial assets	(19,241)	—	30,526	—
Effective portion of hedging instruments	(43,102)	—	70	—
Exchange differences on translation of foreign operations	(607,330)	(8,961)	(206,900)	(116)
	(669,673)	(8,961)	(176,304)	(116)
Other comprehensive income, net of income tax effect on respective items	(669,673)	(8,961)	(176,304)	(116)
Other comprehensive income attributable to non-controlling interests, net of tax	8,250	—	168,363	—

*RMB in thousands*

Item	Three months ended 31 March 2016		Three months ended 31 March 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
6. Total comprehensive income	<b>399,729</b>	<b>670,148</b>	853,255	(1,279,138)
Comprehensive income attributable to holders of ordinary shares of the parent	<b>279,837</b>	<b>545,166</b>	642,419	(1,343,345)
Comprehensive income attributable to holders of perpetual capital instruments	<b>124,982</b>	<b>124,982</b>	64,207	64,207
Comprehensive income attributable to non-controlling interests	<b>(5,090)</b>	—	146,629	—
7. Earnings per share				
(1) Basic earnings per share	<b>RMB0.23</b>		RMB0.20	
(2) Diluted earnings per share	<b>RMB0.23</b>		RMB0.20	

## CASH FLOW STATEMENT

RMB in thousands

Item	Three months ended 31 March 2016		Three months ended 31 March 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>1. Cash flows from operating activities</b>				
Cash received from sale of goods or rendering of services	31,491,449	29,539,331	24,032,091	21,936,259
Refunds of taxes	1,408,967	874,724	1,227,239	696,351
Cash received relating to other operating activities	499,984	276,510	386,405	288,025
<b>Sub-total of cash inflows</b>	<b>33,400,400</b>	<b>30,690,565</b>	<b>25,645,735</b>	<b>22,920,635</b>
Cash paid for goods and services	21,347,633	26,021,913	22,215,441	23,250,015
Cash paid to and on behalf of employees	3,509,488	1,099,134	3,302,426	1,068,380
Cash paid for all types of taxes	1,904,988	303,625	1,529,158	46,049
Cash paid relating to other operating activities	2,692,770	1,479,965	2,411,914	1,735,753
<b>Sub-total of cash outflows</b>	<b>29,454,879</b>	<b>28,904,637</b>	<b>29,458,939</b>	<b>26,100,197</b>
<b>Net cash flows from operating activities</b>	<b>3,945,521</b>	<b>1,785,928</b>	<b>(3,813,204)</b>	<b>(3,179,562)</b>
<b>2. Cash flows from investing activities</b>				
Cash received from sale of investments	205,981	20,934	274,446	—
Cash received from return on investments	85,741	71,129	61,230	55,331
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	9,652	482	2,183	1,666
Net cash received from the disposal of subsidiaries and other operating units	—	850	18,123	45,600
<b>Sub-total of cash inflows</b>	<b>301,374</b>	<b>93,395</b>	<b>355,982</b>	<b>102,597</b>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	594,498	223,608	303,981	106,425
Cash paid for acquisition of investments	94,281	87,200	485,554	38,730
<b>Sub-total of cash outflows</b>	<b>688,779</b>	<b>310,808</b>	<b>789,535</b>	<b>145,155</b>
<b>Net cash flows from investing activities</b>	<b>(387,405)</b>	<b>(217,413)</b>	<b>(433,553)</b>	<b>(42,558)</b>

RMB in thousands

Item	Three months ended 31 March 2016		Three months ended 31 March 2015	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
<b>3. Cash flows from financing activities</b>				
Cash received from capital injection	32,519	30,069	15,000	—
Including: Capital injection into subsidiaries by minority shareholders	2,450	—	15,000	—
Cash received from the issuance of perpetual capital instruments	—	—	7,415,500	7,415,500
Cash received from borrowings	11,908,787	8,539,916	4,068,992	2,957,089
<b>Sub-total of cash inflows</b>	<b>11,941,306</b>	<b>8,569,985</b>	<b>11,499,492</b>	<b>10,372,589</b>
Cash repayment of borrowings	4,877,073	3,019,401	6,150,552	5,091,667
Cash payments for distribution of dividends or for interest expenses	737,704	686,347	438,587	356,483
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	—	—	—	—
<b>Sub-total of cash outflows</b>	<b>5,614,777</b>	<b>3,705,748</b>	<b>6,589,139</b>	<b>5,448,150</b>
<b>Net cash flows from financing activities</b>	<b>6,326,529</b>	<b>4,864,237</b>	<b>4,910,353</b>	<b>4,924,439</b>
<b>4. Effect of changes in foreign exchange rate on cash and cash equivalents</b>	<b>(573,009)</b>	<b>(27,639)</b>	<b>(72,563)</b>	<b>(120,317)</b>
<b>5. Net increase in cash and cash equivalents</b>	<b>9,311,636</b>	<b>6,405,113</b>	<b>591,033</b>	<b>1,582,002</b>
Add: cash and cash equivalents at the beginning of the period	26,616,996	17,325,750	17,230,140	9,715,869
<b>6. Net balance of cash and cash equivalents at the end of the period</b>	<b>35,928,632</b>	<b>23,730,863</b>	<b>17,821,173</b>	<b>11,297,871</b>

By Order of the Board  
**Zhao Xianming**  
Chairman

Shenzhen, the PRC

28 April 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.*