

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.

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)

2015 ANNUAL REPORT SUMMARY AND RESULTS ANNOUNCEMENT AND RESUMPTION OF TRADING

1. RESUMPTION OF TRADING

At the request of ZTE Corporation (“ZTE” or the “Company”), trading in the H shares of the Company was halted from 9:00 a.m. on 7 March 2016 on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”). Application has been made by the Company to the Hong Kong Stock Exchange for the resumption of trading of the H shares of the Company with effect from 9:00 a.m. on 7 April 2016.

Trading in the A shares of the Company was halted from 7 March 2016. Application has been made to the Shenzhen Stock Exchange by the Company to resume trading of its A shares with effect from the morning of 7 April 2016.

2. IMPORTANT

2.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of the Company confirm that the 2015 annual report (the “Annual Report”) does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents of the Annual Report.

The Annual Report containing all information required to be presented in annual reports in accordance with Appendix 16 to the Rules (the “Hong Kong Stock Exchange Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited will be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company’s website (www.zte.com.cn) in due course.

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

2.3 The Annual Report has been considered and approved at the Second Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Richard Xike Zhang, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Lü Hongbing, Independent Non-executive Director, to vote on his behalf. Mr. Bingsheng

Teng, 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.

- 2.4 The respective financial statements of ZTE Corporation and its subsidiaries (“the Group”) for the year ended 31 December 2015 were prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”) and with Hong Kong Financial Reporting Standards (“HKFRSs”) respectively, and had been audited by Ernst & Young Hua Ming LLP and Ernst & Young, and an unqualified auditors’ report has been issued by each of them.
- 2.5 During the year, there was no significant deficiency in internal control in relation to financial reporting of the Company, nor was any significant deficiency in internal control in relation to non-financial reporting identified.
- 2.6 Mr. Zhao Xianming, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in the Annual Report.
- 2.7 In view of the state of affairs of the Company, the proposal for profit distribution for 2015 is as follows: the payment to all shareholders of a final dividend of RMB2.5 in cash (before tax) for every 10 shares on the basis of the number of shares held by shareholders (including A shareholders and H shareholders) registered at the close of business on the record dates for registration of shareholdings for the purpose of dividend payments. The aforesaid matter shall require consideration and approval at the general meeting.

3. CORPORATE PROFILE

3.1 Corporate Information

Abbreviated name of stock	ZTE	
Stock code	000063 (A Shares)	763 (H Shares)
Abbreviated name of bond (code)	12中興01 (112090) (Matured on 13 June 2015)	
Place of listing	The Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People’s Republic of China	
Postal code	518057	
Principal place of business in Hong Kong	36/F, Tower Two, Times Square 1 Matheson Street, Causeway, Hong Kong	
Website	http://www.zte.com.cn	
E-mail	IR@zte.com.cn	

3.2 Contact Persons and Correspondence

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

4. SUMMARY OF THE COMPANY'S BUSINESSES

4.1 Principal businesses

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

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

The government and corporate business is focused on meeting requirements of government and corporate clients, proving top-level design and consultation services as well as implementation, operation and maintenance of integrated informatization solutions for the government and corporate informatization projects through the application of Cloud Computing, communications networks, Internet of Things, Big Data technologies and related core M-ICT products.

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

4.2 The industry in which we operate

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

The Group owns the most complete end-to-end product line and integrated solutions in the telecommunications industry. Through a complete range of wireless, wireline, Cloud Computing and IT, government and corporate business and consumer products, we have the flexibility to fulfill differentiated requirements and demands for fast innovation on the part of different carriers

and customers in the government and corporate sector around the world. Currently, the Group is providing a full range of services to global mainstream carriers and customers in the government and corporate sector. In future, the Group will continue to lead the way in the development of the global telecommunications and address ever-changing challenges in this sector.

5. HIGHLIGHTS OF ACCOUNTING AND FINANCIAL INDICATORS

WHETHER THE COMPANY HAS MADE RETROSPECTIVE ADJUSTMENTS TO OR RESTATED ACCOUNTING DATA OF THE PREVIOUS YEAR BECAUSE OF CHANGES IN ACCOUNTING POLICIES OR FOR THE RECTIFICATION OF ACCOUNTING ERRORS

Yes No

5.1 Accounting information prepared in accordance with PRC ASBEs

5.1.1 Major accounting data of the Group for the past three years prepared in accordance with PRC ASBEs

Unit: RMB in millions

Item	For the year ended 31 December 2015	For the year ended 31 December 2014	Year-on-year change	For the year ended 31 December 2013
Operating revenue	100,186.4	81,471.3	22.97%	75,233.7
Operating profit	320.5	60.3	431.51%	(1,493.1)
Total profit	4,303.5	3,538.2	21.63%	1,827.8
Net profit attributable to holders of ordinary shares of the listed company ^{Note 1}	3,207.9	2,633.6	21.81%	1,357.6
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company ^{Note 1}	2,577.9	2,072.0	24.42%	73.0
Net cash flows from operating activities	7,404.7	2,512.6	194.70%	2,574.6

Unit: RMB in millions

Item	As at 31 December 2015	As at 31 December 2014	Year-on-year change	As at 31 December 2013
Total assets	120,893.9	106,214.2	13.82%	100,079.5
Total liabilities	77,545.3	79,921.7	(2.97%)	76,453.8
Owners' equity attributable to holders of ordinary shares of the listed company ^{Note 2}	29,660.1	24,878.6	19.22%	22,532.7
Share capital (million shares) ^{Note 3}	4,150.8	3,437.5	20.75%	3,437.5

Note 1: The Company completed the issue of 2015 Tranche I Perpetual Medium Term Notes (“Medium Term Notes” or “perpetual capital instruments”) for an amount of RMB6 billion on 27 January 2015, the issue of 2015 Tranche II Medium Term Notes for an amount of RMB1.5 billion on 6 February 2015, and the issue of 2015 Tranche III Medium Term Notes for an amount of RMB1.5 billion on 20 November 2015, which were presented under “Other equity instruments” under “Shareholders’ equity” in the balance sheet in the Annual Report. 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 2015 have been stated after deducting accruable interests of RMB416.6 million attributable to holders of Medium Term Notes;

Note 2: 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 RMB8,904.7 million and accruable interests of RMB416.6 million attributable to holders of Medium Term Notes;

Note 3: The Company implemented the 2014 plan for profit distribution and conversion of capital reserve during the reporting period, whereby the total share capital of the Company increased from 3,437,541,278 shares to 4,125,049,533 shares. The first exercise period under the share option incentive scheme of the Company commenced on 2 November 2015. As at 31 December 2015, a total of 25,741,682 share options had been exercised, whereby the total share capital of the Company increased from 4,125,049,533 shares to 4,150,791,215 shares.

5.1.2 Major accounting data of the Group for the quarters of the year prepared in accordance with PRC ASBEs

Unit: RMB in millions

Item	Three months ended 31 March 2015	Three months ended 30 June 2015	Three months ended 30 September 2015	Three months ended 31 December 2015
Operating revenue	20,998.8	24,900.0	22,624.4	31,663.2
Net profit attributable to holders of ordinary shares of the listed company	882.9	732.7	988.6	603.7
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	463.4	474.6	701.9	938.0
Net cash flows from operating activities	(3,813.2)	5,321.1	(1,153.2)	7,050.0

The accounting data and their aggregations set out above are not materially different from relevant accounting data disclosed in the quarterly reports and interim report of the Group.

5.1.3 Major financial indicators of the Group for the past three years prepared in accordance with PRC ASBEs

Item	For the year ended	For the year ended	Year-on-year change	For the year ended
	31 December 2015	31 December 2014		31 December 2013
Basic earnings per share (RMB/share) <i>Note 1</i>	0.78	0.64	21.88%	0.33
Diluted earnings per share (RMB/share) <i>Note 2</i>	0.77	0.64	20.31%	0.33
Basic earnings per share after extraordinary items (RMB/share) <i>Note 1</i>	0.62	0.50	24.00%	0.02
Weighted average return on net assets (%) <i>Note 3</i>	12.28%	11.10%	Increased by 1.18 percentage points	6.17%
Weighted average return on net assets after extraordinary items (%) <i>Note 3</i>	9.87%	8.74%	Increased by 1.13 percentage points	0.33%
Net cash flows from operating activities per share (RMB/share) <i>Note 4</i>	1.78	0.61	191.80%	0.63
Item	As at	As at	Year-on-year change	As at
	31 December 2015	31 December 2014		31 December 2013
Net asset per share attributable to holders of ordinary shares of the listed company (RMB/share) <i>Note 5</i>	7.15	6.03	18.57%	5.46
Gearing ratio (%)	64.14%	75.25%	Decreased by 11.11 percentage points	76.39%

Note 1: Basic earnings per share and basic earnings per share after extraordinary items for the reporting period has been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the period; basic earnings per share and basic earnings per share after extraordinary items for 2014 and 2013 have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve;

Note 2: As share options granted by the Company have given rise to 52,784,000, 0 and 1,767,000 potentially dilutive ordinary shares for the reporting period, 2014 and 2013, 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 2014 and 2013 have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve;

Note 3: Weighted average return on net assets and weighted average return on net assets after extraordinary items for the reporting period 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, after deducting equity of RMB8,904.7 million and accruable interests of RMB416.6 million attributable to holders of Medium Term Notes;

Note 4: Net cash flow from operating activities per share for 2014 and 2013 have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve;

Note 5: Net assets per share attributable to holders of ordinary shares of the listed company as at the end of 2014 and 2013 have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve.

5.1.4 Extraordinary gains or losses items and amounts of the Group for the past three years prepared in accordance with PRC ASBEs

Unit: RMB in millions

Item	For the year ended 31 December 2015	For the year ended 31 December 2014	For the year ended 31 December 2013
Non-operating income	939.2	666.8	594.2
Gains/(losses) from fair value change	(183.7)	148.3	204.0
Investment income	452.0	155.4	857.7
Less: Losses/(gains) on disposal of non-current assets	28.9	35.7	18.1
Less: Other non-operating expenses	431.0	274.1	126.4
Less: Effect of income tax	112.1	99.1	226.7
Less: Effect of non-controlling interests (after tax)	5.5	—	—
Total	<u>630.0</u>	<u>561.6</u>	<u>1,284.7</u>

5.2 Accounting information prepared in accordance with HKFRSs

5.2.1 Major financial information of the Group for the past five years prepared in accordance with HKFRSs

Unit: RMB in millions

Results	Year ended 31 December				
	2015	2014	2013	2012 (Restated)	2011
Revenue	100,186.4	81,471.3	75,233.7	84,118.9	86,254.5
Cost of sales	(71,093.3)	(57,759.0)	(54,775.1)	(65,545.5)	(62,086.4)
Gross profit	29,093.1	23,712.3	20,458.6	18,573.4	24,168.1
Other income and gains	5,419.5	4,561.2	4,905.3	4,609.2	3,664.4
Research and development expenses	(12,200.5)	(9,008.5)	(7,383.9)	(8,829.2)	(8,492.6)
Selling and distribution expenses	(11,941.0)	(10,391.6)	(10,158.5)	(11,340.9)	(11,112.2)
Administrative expenses	(2,514.1)	(2,138.1)	(2,258.7)	(2,449.2)	(2,605.6)
Other expenses	(2,347.7)	(1,582.3)	(2,119.1)	(706.1)	(1,684.1)
Profit from operating activities	5,509.3	5,153.0	3,443.7	(142.8)	3,938.0
Finance costs	(1,269.1)	(1,561.7)	(1,650.4)	(1,888.5)	(1,374.2)
Share of profits and losses of joint ventures and associates	63.3	(53.0)	34.5	48.1	71.3
Profit before tax	4,303.5	3,538.3	1,827.8	(1,983.2)	2,635.1
Income tax expense	(563.2)	(810.6)	(394.2)	(621.4)	(392.0)
Profit for the year	3,740.3	2,727.7	1,433.6	(2,604.6)	2,243.1
Attributable to:					
Non-controlling interests	(115.8)	(94.1)	(76.0)	(236.3)	(182.9)
Attributable to:					
Perpetual capital instruments	(416.6)	—	—	—	—
Attributable to:					
Holders of ordinary shares of the parent company	3,207.9	2,633.6	1,357.6	(2,840.9)	2,060.2

Unit: RMB in millions

Assets and liabilities	As at 31 December				
	2015	2014	2013	2012 (Restated)	2011 (Restated)
Total assets	124,588.0	110,254.6	102,473.0	109,911.5	107,784.1
Total liabilities	81,239.4	83,962.1	78,847.3	87,318.7	81,549.6
Non-controlling interests	4,367.2	1,413.9	1,093.0	1,136.3	2,057.1
Perpetual capital instruments	9,321.3	—	—	—	—
Equity attributable to holders of ordinary shares of the parent company	29,660.1	24,878.6	22,532.7	21,456.5	24,177.4

5.2.2 Major financial indicators of the Group for the past five years prepared in accordance with HKFRSs

Item	2015	2014	2013	2012 (Restated)	2011 (Restated)
Basic earnings per share (RMB/share) <i>Note 1</i>	0.78	0.64	0.33	(0.69)	0.51
Net asset per share (RMB/share) <i>Note 2</i>	7.15	6.03	5.46	5.20	5.88
Fully diluted return on net assets (%)	10.82%	10.59%	6.03%	(13.24%)	8.52%

Note 1: Basic earnings per share for the reporting period has been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the period; basic earnings per share for the previous years has been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve;

Note 2: Net assets per share for the previous years has been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve.

5.3 The amounts of net profit and net assets of the Group for the year ended and as at 31 December 2015 calculated in accordance with PRC ASBEs are entirely consistent with those calculated under HKFRSs.

6. SHAREHOLDINGS OF THE SHAREHOLDERS AND FRAMEWORK OF CONTROL

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

Total number of shareholders

As at 31 December 2015	There were 200,808 shareholders (comprising 200,457 holders of A shares and 351 holders of H shares)
As at 31 March 2016, namely the last day of the preceding month of the date of publication of the Annual Report	There were 202,494 shareholders (comprising 202,141 holders of A shares and 353 holders of H shares)

Shareholdings of top 10 shareholders or shareholders holding 5% or above of the shares

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/ decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen (shares)
1. Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”)	State-owned corporation	30.59%	1,269,830,333	+211,638,389	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.17%	754,081,750	+125,747,410	—	Unknown
3. China Securities Finance Corporation Limited	General domestic corporation	2.58%	107,144,372	+107,144,372	—	Unknown
4. Central Huijin Investment Ltd.	General domestic corporation	1.27%	52,519,600	+52,519,600	—	Unknown
5. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.03%	42,840,008	+5,389,399	—	Unknown
6. NSSF Portfolio #103	Others	0.96%	39,999,455	+38,999,455	—	Unknown
7. New China Life Insurance Company Ltd. — Dividend — Individual Dividend — 018L-FH002 Shen	Others	0.61%	25,170,442	+25,170,442	—	Unknown
8. Bank of China Limited-China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	Others	0.53%	21,965,903	+21,965,903	—	Unknown
9. Seventh Research Institute of China Mobile	State-owned corporation	0.46%	19,073,940	+3,178,990	—	Unknown
10. China Life Insurance Company Limited — Dividend — Individual Dividend — 005L-FH002 Shen	Others	0.46%	18,912,618	+10,758,463	—	Unknown

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

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,269,830,333	A share
2. HKSCC Nominees Limited	754,081,750	H share
3. China Securities Finance Corporation Limited	107,144,372	A share
4. Central Huijin Investment Ltd.	52,519,600	A share
5. Hunan Nantian (Group) Co., Ltd.	42,840,008	A share
6. NSSF Portfolio #103	39,999,455	A share
7. New China Life Insurance Company Ltd. — Dividend — Individual Dividend — 018L-FH002 Shen	25,170,442	A share
8. Bank of China Limited-China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	21,965,903	A share
9. 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
- Zhongxingxin was neither a connected party nor a concerted party of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above.
 - Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.

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

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

Note 2: Shareholders holding 5% or above of the Company's shares — Changes in the shareholding of Zhongxingxin, controlling shareholder of the Company interested in 30.59% of the Company's shares, during the year are as follows. The increase in the number of shares during the year is attributable to the implementation of the 2014 plan for profit distribution and conversion of capital reserve:

Name of shareholder	Increase/ decrease of number of shares held during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Class of shares held	Number of shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	211,638,389	1,269,830,333	A shares	0	1,269,830,333	Nil

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

Yes No

The Company had no preferential shares.

6.2 Controlling shareholder of the Company

During the year, there was no change in the Company's controlling shareholder, details of which are as follows:

Name of controlling shareholder: Zhongxingxin

Legal representative: Yin Yimin

Date of incorporation: 29 April 1993

Standard social credit code: 91440300192224518G

Registered capital: RMB100 million

Scope of business: Production of SPC switch cabinets, telephones and related parts and components, electronic products; import and export operations (in accordance with the requirements under document Shen Mao Guan Shen Zheng Zi No. 727); treatment of waste water, toxic fumes and noise and related technical services, research and technical development of environmental protection equipment; production of continuous monitoring smoke systems; manufacturing of mining equipment; manufacturing of power transmission and distribution and control equipment; computer systems integration; development of digital processing system technologies and technological research and development for related technical services.

As at the date of this annual report summary and results announcement and resumption of trading (this “Announcement”), Zhongxingxin’s 2015 annual audit work has yet to be completed. Unaudited data are as follows: For 2015, operating revenue, net profit and net cash flow from operating activities of Zhongxingxin amounted to approximately RMB384 million, RMB91 million and RMB-20 million, respectively. As at 31 December 2015, total assets of Zhongxingxin amounted to approximately RMB6,467 million, while total liabilities amounted to approximately RMB1,469 million. In future, Zhongxingxin will build an innovative investment group company engaged in diversified capital applications with a primary focus on innovative technologies and services in close tandem with principal economic activities in China.

During the year, Zhongxingxin did not hold any controlling or non-controlling stakes in other domestic or international listed companies.

6.3 The shareholders (or de facto controllers) of the Company’s controlling shareholder

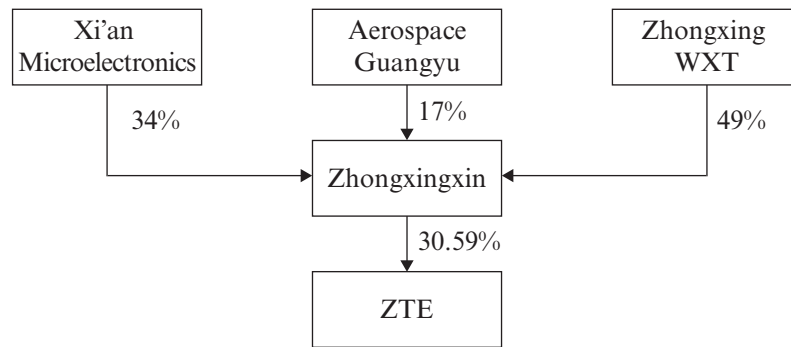
Zhongxingxin, the controlling shareholder of the Company, was jointly formed by Xi’an Microelectronics Technology Research Institute (“Xi’an Microelectronics”), Shenzhen Aerospace Guangyu Industrial Company Limited (“Aerospace Guangyu”) and Shenzhen Zhongxing WXT Equipment Company Limited (“Zhongxing WXT”), each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi’an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of Zhongxingxin, respectively. Therefore, no shareholder of Zhongxingxin has the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. Details of these three shareholders are as follows:

Xi’an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tian Dongfang and its organization number is H0420141-X. It is the only specialized research institute in China which integrates and complements the research, development and production of semiconductor integrated circuits, hybrid integrated circuits and computers.

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a wholly state-owned enterprise established on 17 August 1989. The legal representative is Cui Yuping and the registered capital amounts to RMB17,950,000. Its organization number is 19217503-1. The scope of business includes aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile, sales of automobile; domestic trade; import and export operations; trade brokerage and agency; lease of owned properties.

Zhongxing WXT is a private enterprise incorporated on 23 October 1992. Its legal representative is Hou Weigui and its registered capital amounts to RMB10 million. Its organization number is 27941498-X. The scope of business includes the development and production of telecommunications and transmission equipment, ancillary equipment, computer and peripheral equipment (excluding restricted projects); investment in industrial operations (specific projects shall be separately reported).

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2015:



6.4 Purchase, sale and redemption of securities

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

7. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

7.1 Changes in the shareholdings and share options of the personages who acted as Directors, Supervisors, senior management of the Company during 2015 and annual remuneration

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on <i>Note 1</i>	Term of office ending on <i>Note 1</i>	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of A shares held during the period (shares)	Decrease in the number of A shares held during the period (shares)	Other changes in the number of A shares during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reasons for changes	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands)	Whether remuneration is received from connected parties <i>Note 2</i>
Directors of the Company <i>Note 3</i>															
1	Hou Weigui	Male	74	Chairman	Note 3	3/2013	3/2016	1,297,472	—	—	259,495	1,556,967	Note 11	293.4	No
2	Zhao Xianming	Male	49		Note 3, Note 5, Note 6			242,929	100,000	—	48,586	391,515	Notes 11, 12	769.2	No
3	Zhang Jianheng	Male	54	Vice Chairman	Incumbent	3/2013	3/2016	—	—	—	—	—	—	10.0	Yes
4	Luan Jubao	Male	53	Vice Chairman	Incumbent	11/2015	3/2016	—	—	—	—	—	—	0.8	Yes
5	Shi Lirong	Male	51		Note 3, Note 5			550,511	—	—	110,102	660,613	Note 11	557.0	No
6	Wang Yawen	Male	52	Director	Incumbent	11/2015	3/2016	—	—	—	—	—	—	0.8	Yes
7	Tian Dongfang	Male	55	Director	Incumbent	11/2015	3/2016	—	—	—	—	—	—	0.8	Yes
8	Zhan Yichao	Male	52	Director	Incumbent	11/2015	3/2016	—	—	—	—	—	—	0.8	Yes
9	Yin Yimin	Male	52	Director	Incumbent	3/2013	3/2016	632,833	—	—	126,567	759,400	Note 11	115.6	No
10	Wei Zaisheng	Male	53		Note 3, Note 5			333,065	40,000	—	66,612	439,677	Notes 11, 12	369.4	No
11	Xie Weiliang	Male	59	Vice Chairman	Resigned	3/2013	11/2015	32,760	—	—	6,552	39,312	Note 11	9.2	Yes
12	Wang Zhanchen	Male	63	Director	Resigned	3/2013	11/2015	—	—	—	—	—	—	9.2	No
13	Zhang Junchao	Male	62	Director	Resigned	3/2013	11/2015	32,760	10,800	—	6,552	50,112	Notes 11, 12	9.2	No
14	Dong Lianbo	Male	58	Director	Resigned	3/2013	11/2015	32,760	—	—	6,552	39,312	Note 11	9.2	Yes
15	He Shiyou	Male	49	Director	Resigned	3/2013	11/2015	344,940	—	—	68,989	413,929	Note 11	84.2	No
16	Tan Zhenhui	Male	71	Independent Non-executive Director	Note 3, Note 7	3/2013	3/2016	—	—	—	—	—	—	13.0	Yes
17	Richard Xike Zhang	Male	45	Independent Non-executive Director	Incumbent	6/2013	3/2016	—	—	—	—	—	—	13.0	Yes
18	Chen Shaohua	Male	54	Independent Non-executive Director	Incumbent	7/2015	3/2016	—	—	—	—	—	—	5.8	Yes
19	Lü Hongbing	Male	49	Independent Non-executive Director	Incumbent	7/2015	3/2016	—	—	—	—	—	—	5.8	Yes
20	Bingsheng Teng	Male	45	Independent Non-executive Director	Incumbent	7/2015	3/2016	—	—	—	—	—	—	5.8	Yes
21	Qu Xiaohui	Female	61	Independent Non-executive Director	Resigned	3/2013	7/2015	—	—	—	—	—	—	7.2	Yes
22	Wei Wei	Male	50	Independent Non-executive Director	Resigned	3/2013	7/2015	—	—	—	—	—	—	7.2	Yes
23	Chen Naiwei	Male	58	Independent Non-executive Director	Resigned	3/2013	7/2015	—	—	—	—	—	—	7.2	Yes
Supervisors of the Company <i>Note 4</i>															
24	Xie Daxiong	Male	52	Chairman of Supervisory Committee	Incumbent	3/2013	3/2016	413,169	—	—	82,634	495,803	Note 11	307.0	No
25	Zhou Huidong	Male	39	Supervisor	Incumbent	3/2013	3/2016	58,618	—	—	11,724	70,342	Note 11	74.0	No
26	Xu Weiyan	Female	53	Supervisor	Incumbent	3/2013	3/2016	9,199	—	—	1,840	11,039	Note 11	93.5	No
27	Chang Qing	Male	60	Supervisor	Note 4	3/2013	3/2016	—	—	—	—	—	—	—	Yes
28	He Xuemei	Female	45	Supervisor	Resigned	3/2013	9/2015	60,260	—	—	12,052	72,312	Note 11	81.1	No
Senior management of the Company <i>Note 5</i>															
29	Fan Qingfeng	Male	47	Executive Vice President	Incumbent	4/2013	3/2016	361,875	180,000	90,469	54,281	505,687	Notes 11, 12	270.8	No
30	Zeng Xuezhong	Male	42	Executive Vice President	Incumbent	1/2014	3/2016	325,700	162,000	—	65,140	552,840	Notes 11, 12	194.0	No
31	Xu Huijun	Male	42		Note 5			420,709	126,000	—	84,142	630,851	Notes 11, 12	668.1	No

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on ^{Note 1}	Term of office ending on ^{Note 1}	Number of A	Increase in	Decrease in	Other changes	Number of A	Total payable	Whether remuneration is received from connected parties ^{Note 2}	
								shares held at the beginning of the reporting period (shares)	the number of A shares held during the period (shares)	the number of A shares held during the period (shares)	in the number of A shares during the period (shares)	shares held at the end of the reporting period (shares)	Reasons for changes		remuneration received from the Company during the reporting period (RMB in ten thousands)
32	Pang Shengqing	Male	47		Note 5			421,402	162,000	80,000	68,280	571,682	Notes 11, 12	257.7	No
33	Zhang Zhenhui	Male	42		Note 5			65,000	70,200	—	13,000	148,200	Notes 11, 12	985.8	No
34	Chen Jianzhou	Male	45		Note 5			97,521	80,000	24,380	14,628	167,769	Notes 11, 12	244.7	No
35	Tian Wenguo	Male	46	Executive Vice President	Note 5	4/2013	3/2016	153,658	72,000	—	30,732	256,390	Notes 11, 12	494.0	No
36	Qiu Weizhao	Male	52	Executive Vice President	Note 5	4/2013	3/2016	289,414	180,000	72,300	43,423	440,537	Notes 11, 12	253.4	No
37	Chen Jie	Female	57	Senior Vice President	Note 5	4/2013	3/2016	684,583	8,100	70,000	122,916	745,599	Notes 11, 13	341.7	No
38	Ye Weimin	Male	49	Senior Vice President	Note 5	4/2013	3/2016	367,248	144,000	91,812	55,087	474,523	Notes 11, 12	195.7	No
39	Zhu Jinyun	Male	43	Senior Vice President	Note 5	4/2013	3/2016	361,844	162,000	—	72,369	596,213	Notes 11, 12	177.0	No
40	Zhang Renjun	Male	46	Senior Vice President	Note 5	4/2013	3/2016	—	—	—	—	—	—	217.5	No
41	Cheng Lixin	Male	49	Senior Vice President	Note 5	4/2013	3/2016	3,000	72,000	—	600	75,600	Notes 11, 12	550.4	No
42	Xiong Hui	Male	46	Senior Vice President	Note 5	1/2014	3/2016	—	51,700	—	—	51,700	Note 12	329.3	No
43	Huang Dabin	Male	44	Senior Vice President	Note 5, Note 10	8/2015	3/2016	—	90,000	—	—	90,000	Note 12	155.9	No
44	Feng Jianxiang	Male	41	Secretary to the Board	Note 5	4/2013	3/2016	275,000	144,000	68,750	41,250	391,500	Notes 11, 12	92.0	No
45	Others	—	—	—	—	—	—	—	—	—	82,600	82,600	Note 13	—	—
—	Total	—	—	—	—	—	—	7,868,230	1,854,800	497,711	1,556,705	10,782,024	—	8,287.4	—

Note 1: The starting and ending dates of the term of office set out in this table are the starting and ending dates of the term of office of the Directors of the Sixth Session of the Board of Directors, Supervisors of the Sixth Session of the Supervisory Committee and senior management of the Company appointed by the Sixth Session of the Board of Directors. For the starting dates of their first appointments with the Company and changes in the appointments of the Directors, Supervisors and senior management of the Company, please refer to the section headed “Directors, Supervisors, Senior Management and Employees — (I) BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT” of the Annual Report.

Note 2: Pursuant to Rule 10.1.3(III) of the Shenzhen Listing Rules, legal entities or other entities in which the Directors, Supervisors and senior management of a listed company acted as directors and senior management (other than the listed company and its subsidiaries) are deemed as connected parties of the listed company.

Note 3: The term of office of the Sixth Session of the Board of Directors of the Company concluded on 29 March 2016. At the First Extraordinary General Meeting of 2016 of the Company held on 3 March 2016, Mr. Shi Lirong, Mr. Zhang Jianheng, Mr. Luan Jubao, Mr. Wang Yawen, Mr. Tian Dongfang and Mr. Zhan Yichao were elected Non-executive Directors of the Seventh Session of the Board of Directors of the Company; Mr. Zhao Xianming, Mr. Yin Yimin and Mr. Wei Zaisheng were elected Executive Directors of the Seventh Session of the Board of Directors of the Company; and Mr. Richard Xike Zhang, Mr. Chen Shaohua, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang were elected Independent Non-executive Directors of the Seventh Session of the Board of Directors of the Company. The term of office of the Seventh Session of the Board of Directors of the Company shall commence on 30 March 2016 and end on 29 March 2019. At the First Meeting of the Seventh Session of the Board of Directors of the Company held on 5 April 2016, Mr. Zhao Xianming was elected Chairman of the Company, Mr. Zhang Jianheng and Mr. Luan Jubao were each elected Vice chairman of the Company.

Note 4: The term of office of the Sixth Session of Supervisory Committee of the Company concluded on 29 March 2016. At the First Extraordinary General Meeting of 2016 of the Company held on 3 March 2016, Ms. Xu Weiyang and Mr. Wang Junfeng were elected Shareholders’ Representative Supervisors of the Seventh Session of the Supervisory Committee of the Company. On 17 February 2016, Mr. Xie Daxiong, Mr. Zhou Huidong and Ms. Xia Xiaoyue were elected Staff Representative Supervisors of the Seventh Session of the Supervisory Committee of the Company through democratic elections by the staff representatives of the Company. The term of office of the Seventh Session of the Supervisory Committee of the Company shall commence on 30 March 2016 and end on 29 March 2019. At the First Meeting of the Seventh Session of the Supervisory Committee of the Company held on 6 April 2016, Mr. Xie Daxiong was elected Chairman of the Supervisory Committee of the Company.

- Note 5:* The term of office of the senior management appointed by the Sixth Session of the Board of Directors of the Company concluded on 29 March 2016. At the First Meeting of the Seventh Session of the Board of Directors of the Company held on 5 April 2016, Mr. Zhao Xianming was appointed President of the Company; Mr. Wei Zaisheng, Mr. Fan Qingfeng, Mr. Zeng Xuezhong, Mr. Xu Huijun, Mr. Pang Shengqing, Mr. Zhang Zhenhui and Mr. Chen Jianzhou were each appointed Executive Vice President of the Company; Mr. Wei Zaisheng was concurrently appointed Chief Financial Officer of the Company; and Ms. Cao Wei was appointed Secretary to the Board of Directors of the Company and removed from the position of securities affairs representative of the Company. The term of office of the aforesaid new session of senior management shall commence on the date on which the appointment was considered and approved at the said meeting of the Board of Directors and end on the date of conclusion of the term of office of the Seventh Session of the Board of Directors (namely, 29 March 2019).
- Note 6:* Mr. Xie Weiliang, Mr. Dong Lianbo and Mr. He Shiyu, owing to changes in their duties, and Mr. Wang Zhanchen and Mr. Zhang Junchao, owing to their retirement, resigned from their respective directorships with the Company and positions as members of the specialised committees under the Board of Directors on 25 November 2015. At First Extraordinary General Meeting of 2015 of the Company held on 25 November 2015, Mr. Wang Yawen, Mr. Tian Dongfang, Mr. Luan Jubao and Mr. Zhan Yichao were elected Non-executive Directors of the Sixth Session of the Board of Directors and Mr. Zhao Xianming was elected Executive Director of the Sixth Session of the Board of Directors.
- Note 7:* Mr. Tan Zhenhui was Independent Non-executive Director of the Company from 30 March 2010 to 29 March 2016, Mr. Richard Xike Zhang has been Independent Non-executive Director of the Company since 30 June 2013.
- Note 8:* The term of office of each of Ms. Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei, who had been serving as Independent Non-executive Directors of the Company since 22 July 2009, ended on 21 July 2015 upon the expiration of a period of 6 years. At the 2014 Annual General Meeting of the Company held on 28 May 2015, Mr. Chen Shaohua, Mr. Lü Hongbing and Mr. Bingsheng Teng were elected Independent Non-executive Directors of the Sixth Session of the Board of Directors for a term commencing on 22 July 2015 and ending on the date of conclusion of the term of office of the Sixth Session of the Board of Directors (namely, 29 March 2016).
- Note 9:* Ms. He Xuemei tendered her resignation from the office of Staff Representative Supervisor of the Company on 6 September 2015 for personal reasons.
- Note 10:* At the Thirtieth Meeting of the Sixth Session of the Board of Directors of the Company held on 26 August 2015, it was approved that Mr. Huang Dabin be appointed Senior Vice President of the Company for a term of office commencing on the date on which the appointment was considered and approved at the said meeting of the Board of Directors and ending on the date of conclusion of the term of office of the Sixth Session of the Board of Directors (namely, 29 March 2016).
- Note 11:* The Company implemented the 2014 plan for profit distribution and conversion of capital reserve by way of the bonus issue of 2 share for every 10 shares held on 17 July 2015, and the number of shares in the Company held by the Directors, Supervisors and senior management of the Company increased accordingly.
- Note 12:* Reduction or increase of shareholdings in accordance with “Rules Governing the Holding of Shares in the Company by Directors, Supervisors and Senior Management of Listed Companies and Changes Thereof”, including the exercise of share options of A shares.
- Note 13:* Eleven members of the Directors and senior management of the Company, including Director Mr. He Shiyu and senior management members Mr. Zhang Zhenhui, Mr. Qiu Weizhao, Mr. Chen Jianzhou, Mr. Fan Qingfeng, Mr. Pang Shengqing, Mr. Zhang Renjun, Mr. Ye Weimin, Mr. Xiong Hui, Ms. Chen Jie and Mr. Feng Jianxiong (Secretary to the Board of Directors) had undertaken to increase shareholdings in the Company. Among them, Ms. Chen Jie increased shareholdings in the Company by 8,100 A shares through direct personal acquisition, while the remaining 10 Directors and members of senior management increased shareholdings in the Company by 82,600 A shares, indirectly through an asset management plan. For details, please refer to the “Further Announcement on the Fulfillment and Completion of Undertaking

of Directors and Senior Management to Increase Shareholdings in the Company” published by the Company on 26 August 2015. Such shares are not included in the shareholdings of the remaining 10 Directors and senior management in the A shares of the Company set out in the above table.

Note 14: As at the end of the year, Mr. Wei Zaisheng held 30,000 H shares of the Company. Save as that, no other Directors, Supervisors or senior management of the Company held any H shares in the issued share capital of the Company.

During the year no share options had been granted to the personages who acted as Directors, Supervisors and senior management of the Company in 2015.

For details of the share options of A shares of the Company held by the personages who acted as Directors and senior management of the Company during 2015, please refer to the section headed “Material Matters — (VI) Implementation and Impact of the Company’s Share Option Incentive Scheme” in the Annual Report. The personages who acted as supervisors of the Company during 2015 did not hold any share options of A shares of the Company.

7.2 Interests of Directors, Supervisors and Chief Executive Officer in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 31 December 2015 are set out in the section of this Announcement headed “7.1 Changes in the shareholdings and share options of the personages who acted as Directors, Supervisors, senior management of the Company during 2015 and annual remuneration.”

Save as disclosed above, as at 31 December 2015, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Stock Exchange Listing Rules.

Save as disclosed above, as at 31 December 2015, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

8. REPORT OF THE BOARD OF DIRECTORS

8.1 Business review for 2015

1. Overview of the domestic telecommunications industry for 2015

In 2015, domestic carriers expanded the scale of construction of the planned 4G networks and their ancillary facilities following the issuance of FDD-LTE permits. With the proposition of the domestic “Internet+” action plan, advancement of the construction of high-speed broadband networks, rapid development of the mobile Internet and penetration of 4G smart phones, carriers were increasingly concerned with and increased their investments in Cloud Computing, Internet of Things, Big Data, Smart City and high-end routers, although their investments in equipment remained focused on wireless, transmission, access and broadband sectors.

2. Overview of the global telecommunications industry for 2015

The growth trend of equipment investment in the global telecommunications industry continued in 2015. Benefitting from the integration of ICT industries, rise of new business types and expectations for information upgrade under the global digitalised strategy, the telecommunications sector welcomed enormous opportunities for innovation provided by Industry 4.0, Smart City, informatisation of the medical sector, informatisation of the education sector, mobile e-commerce, agricultural modernisation and other developments.

3. Operating Results of the Group for 2015

The Group’s overall operating revenue for 2015 increased by 23.0% to RMB100.19 billion as compared to 2014, primarily reflecting the increase in operating revenue from 4G system products and optical access products in the domestic and international markets, optical transmission products in the domestic market, high-end routers and handset products in the international market and family terminals in the domestic and international markets, the rapid growth of Smart City projects and the growth in data centre and ICT businesses. Overall financial expenses for 2015 decreased substantially year-on-year as the Group enhanced financial expenses control and optimised its debt structure. Meanwhile, substantial growth in net cash flow from operating activities over the previous year was also reported following enhanced efforts in sales revenue collection. The Group reported net profit attributable to holders of ordinary shares of the listed company of RMB3.21 billion for 2015, representing a year-on-year growth of 21.8%. Basic earnings per share amounted to RMB0.78.

(1) By market

The domestic market

During the year, the Group reported operating revenue of RMB53.11 billion from the domestic market, accounting for 53.0% of the Group’s overall operating revenue. The issuance of FDD-LTE permits, “Internet+” and the rush for optical fibre upgrades were driving further growth in investments in 4G equipment and broadband networks. The Group worked proactively in the domestic market in support of the network construction plans and application requirements of domestic carriers and government and corporate clients, maintaining quality growth by offering competitive innovative solutions on the back of application of new technologies in various industries. In the meantime, we were also vigorously expanding our Cloud Computing and Big Data services, Smart City and high-end routers.

The international market

During the year, the Group reported operating revenue of RMB47.08 billion from the international market, accounting for 47.0% of the Group's operating revenue. The Group continued to take the implementation of its strategy of focusing on populous nations and mainstream carriers to further depths by forging more extensive partnerships with mainstream carriers in the global market to help these carriers add value through Internet applications. Meanwhile, by facilitating cooperation within the global ecosphere of channel businesses, we succeeded in enhancing our brand name, securing stable operations and optimising our revenue mix in government informatisation services, corporate IT services and consumer smart terminals, while consistently improving our overall competitiveness in the process.

(2) *By business segment*

During the year, the Group reported operating revenue of RMB57.22 billion for carriers' networks. Operating revenue for government and corporate business amounted to RMB10.50 billion. Operating revenue for the consumer business amounted to RMB32.47 billion.

Carriers' networks

In connection with wireless products, the Group persisted in prioritising, breaking into the high-end markets of Europe and North America with cutting-edge solutions, such as Cloud Radio, QCell, UBR and Magic Radio. Rapid growth was maintained in the deployment of new 4G networks in the PRC and elsewhere. In the traditional 2G/3G markets, stable growth was achieved as the Group completed modernisation upgrades of old networks. In anticipation of future developments in wireless communications, the Group made breakthroughs in the research of key 5G technologies and successfully deployed its commercially ready Pre-5G with pre-commercial experimental bureaus, providing a sound foundation for subsequent market consolidation and global Pre-5G deployment.

In connection with wireline and optical communications products, the Group sustained stable growth thanks to dedicated efforts in product innovation and solution operations, ongoing improvements in product competitiveness, leadership in terms of new technologies, optimised global market development and the reinforced strategy of focusing on populous nations and mainstream carriers.

In connection with Cloud Computing and IT products, the Group strengthened its R&D and investment in RCS, Big Video, Cloud Computing, Big Data and Internet of Things in active implementation of the M-ICT master strategy. The establishment of data centres in domestic and international markets was expedited and breakthrough achievements were made in the research of cutting-edge technologies for Big Video solutions and smart Q&A systems.

Government and corporate business

The Group persisted in its strategic focus on value-added customers, partners, products and solutions and strengthened the standardised operation of projects and fast replication of successful projects. Seizing opportunities afforded by global digitalization, Smart City construction, "Internet+" and autonomous and controllable information security, we achieved rapid growth in sectors such as finance, Internet, new energy, transport and Smart City and sustained strong growth as we steadily enhanced our industry position and brand reputation through developments in the global ecosphere of channel businesses.

Consumer business

The Group persisted in the shift of focus to consumer products and an Internet-driven mentality. In connection with handset terminals, the Group continued to take its global strategic setup to further depths with a strong focus on major nations, refined products, channel enhancement, branding, product quality control and team building, while paying close attention to customer experience and vigorously driving transformation. In connection with home media centre, the Group further enlarged its global market shares in online video and set-top box products. In connection with wireline broadband terminals, the Group was engaged in active expansion and achieved initial results in the smart home sector.

For financial results of the year analysed by major financial indicators adopted by the Group, please refer to section headed “8.2 Management Discussion and Analysis under PRC ASBEs” and “8.3 Management Discussion and Analysis under HKFRSs” in this Announcement.

For details of the Group’s compliance with relevant laws and regulations which have a material impact on its operations, please refer to the section headed “Corporate Governance Structure” in the Annual Report.

For details of the Group’s environmental policy and performance of corporate social responsibilities, please refer to the section headed “Material Matters (XXX) Performance of corporate social responsibility by the Company” in the Annual Report.

8.2 Management discussion and analysis under PRC ASBEs

The financial data below are extracted from the Group’s audited financial statements prepared in accordance with PRC ASBEs. The following discussion and analysis should be read in conjunction with the Group’s financial statements audited by Ernst & Young Hua Ming LLP and the accompanying notes thereto set out in the Annual Report.

8.2.1 Breakdown of indicators by industry, business and region segments for the year as compared to the previous year

To cater to our business development, the classification of the Group’s principal business mix has been changed from classification by product to classification by business. Figures for the year by industry, business and geography and comparisons with corresponding figures for the previous year are set out as follows:

Revenue mix	Operating revenue (RMB in millions)	Operating costs (RMB in millions)	Gross profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in gross profit margin (percentage points)
I. By industry						
Manufacturing of communication equipment	100,186.4	69,100.4	31.03%	22.97%	23.92%	(0.53)
Total	100,186.4	69,100.4	31.03%	22.97%	23.92%	(0.53)
II. By business segment						
Carriers' networks	57,222.7	36,016.5	37.06%	30.22%	32.65%	(1.15)
Government and corporate business	10,496.7	6,230.7	40.64%	18.16%	21.87%	(1.81)
Consumer business	32,467.0	26,853.2	17.29%	13.35%	14.29%	(0.68)
Total	100,186.4	69,100.4	31.03%	22.97%	23.92%	(0.53)
III. By region						
The PRC	53,108.5	34,434.0	35.16%	30.86%	29.97%	0.44
Asia (excluding the PRC)	14,820.3	11,087.1	25.19%	22.16%	33.30%	(6.25)
Africa	6,979.5	4,065.7	41.75%	13.04%	4.18%	4.95
Europe, Americas and Oceania	25,278.1	19,513.6	22.80%	11.94%	14.48%	(1.71)
Total	100,186.4	69,100.4	31.03%	22.97%	23.92%	(0.53)

Breakdown of indicators by industry, business segment and region for 2014 as compared to the previous year

Revenue mix	Operating revenue (RMB in millions)	Operating costs (RMB in millions)	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
I. By industry						
Manufacturing of communication equipment	81,471.3	55,760.1	31.56%	8.29%	4.96%	2.17
Total	81,471.3	55,760.1	31.56%	8.29%	4.96%	2.17
II. By business segment						
Carriers' networks	43,943.9	27,152.3	38.21%	(1.52%)	(7.24%)	3.81
Government and corporate business	8,883.5	5,112.4	42.45%	7.88%	3.90%	2.20
Consumer business	28,643.9	23,495.4	17.97%	27.99%	24.09%	2.58
Total	81,471.3	55,760.1	31.56%	8.29%	4.96%	2.17
III. By region						
The PRC	40,583.5	26,494.2	34.72%	13.88%	11.46%	1.42
Asia (excluding the PRC)	12,131.6	8,317.4	31.44%	(12.40%)	(20.36%)	6.85
Africa	6,174.2	3,902.4	36.80%	5.25%	(10.36%)	11.02
Europe, Americas and Oceania	22,582.0	17,046.1	24.51%	13.58%	17.10%	(2.27)
Total	81,471.3	55,760.1	31.56%	8.29%	4.96%	2.17

(1) Analysis of change in revenue

The Group reported RMB100,186.4 million in operating revenue for 2015, improving by 22.97% as compared with last year. Operating revenue generated from the domestic business amounted to RMB53,108.5 million, increasing by 30.86% as compared with last year. Operating revenue generated from the international business also rose by 15.14%, as compared with last year, to RMB47,077.9 million.

Analysed by business segment, year-on-year growth was reported for operating revenue from carriers' networks, government and corporate business and consumer business. The year-on-year increase in operating revenue from the Group's carriers' networks for 2015 reflected mainly the increase in operating revenue from 4G system products and optical access products in the domestic and international markets, optical transmission products in the domestic market, and high-end routers in the international market. The year-on-year increase in operating revenue from the Group's government and corporate business for 2015 reflected mainly the rapid growth of Smart City projects and the increase in data centre and ICT businesses. The year-on-year increase in operating revenue from the Group's consumer business for 2015 mainly reflected the year-on-year increase in operating revenue from handset products in the international market and family terminals in both the domestic and international markets.

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

Unit: RMB in millions

2015			2014^{Note}			Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin			
100,186.4	69,100.4	31.03%	81,469.6	55,758.4	31.56%	22.97%	23.93%	(0.53)

Note: operating revenue and operating costs for 2014 have been stated after exclusion of operating revenue and operating costs for subsidiaries which was no longer included in the Company consolidated statements in 2015.

Anhui ZTE Communications and Media Company Limited (“Anhui Media”), a wholly-owned subsidiary of the Company, completed the deregistration with industrial and commercial administration authorities in February 2015 and Anhui Media had been deconsolidated from the consolidated statements of the Group as from February 2015. Shanghai Zhongxing Telecom Equipment Technology Company Limited (“Shanghai Zhongxing”), a controlled subsidiary of the Company, completed the disposal of 100% equity interests in Zhengzhou ZTE Communications Technology Company Limited (“ZTE Zhengzhou”) in August 2015 and ZTE Zhengzhou had been deconsolidated from the consolidated statements of the Group as from September 2015. The Company completed the disposal of 42% equity interests in Shenzhen Weipin Zhiyuan Information Technology Company Limited (“Weipin Zhiyuan”) in November 2015 and Weipin Zhiyuan had been deconsolidated from the consolidated statements of the Group as from December 2015. Excluding the operating revenue and operating costs which were deconsolidated from the consolidated statements of Anhui Media, ZTE Zhengzhou and Weipin Zhiyuan for 2014, the Group’s operating revenue and operating costs for 2015 increased by 22.97% and 23.93%, respectively, over the same period last year, while gross profit margin was 0.53 percentage points lower as compared to the same period last year.

(3) *During the year, the Company did not enter into any material contracts requiring disclosure. Progress during the year of material contracts entered into prior to the year is set out as in the section headed “Material Matters — (XVII) Material Contracts and Their Performance” in the Annual Report.*

8.2.2 Reasons for substantial changes in the Group's principal business and its structure, profit mix and profitability of the principal business during the year

- (1) There was no substantial change in the principal business and its structure during the year as compared to the previous year.
- (2) Changes in the profit mix during the year as compared to the previous year are set out as follows:

The Group's operating profit for 2015 amounted to RMB320.5 million, representing year-on-year growth of 431.51%, which reflected mainly the increase in revenue, decrease in financial expenses and increase in investment income. Operating revenue amounted to RMB100,186.4 million, representing year-on-year growth of 22.97%, which reflected mainly the increase in operating revenue from 4G system products and optical access products in the domestic and international markets, optical transmission products in the domestic market, high-end routers in the international market, handset products in the international market and family terminals in both the domestic and international markets, rapid growth of Smart City projects and the increase in data centre and ICT businesses. Investment income increased by 417.17% year-on-year to RMB695.6 million, reflecting mainly increased gains from the disposal of equity interests and increased gains from derivative investments for the period. The net amount of non-operating income and expenses increased 14.53% year-on-year to RMB3,983.1 million, reflecting mainly the year-on-year increase in VAT rebates for software products.

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

The Group's gross profit margin for 2015 was 31.03%, which was 0.53 percentage point lower as compared to the same period of last year, and such decline was mainly attributable to the decrease in gross profit margin for carriers' networks and handset products in the international market.

8.3 Management discussion and analysis under HKFRSs

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

Unit: RMB in millions

Consolidated statement of profit or loss and other comprehensive income

	2015	2014
Operating revenue:		
Carriers' networks	57,222.7	43,943.9
Government and corporate business	10,496.7	8,883.5
Consumer business	32,467.0	28,643.9
Total revenue	100,186.4	81,471.3
Cost of sales	(71,093.3)	(57,759.0)
Gross profit	29,093.1	23,712.3
Other income and gains	5,419.5	4,561.2
Research and development costs	(12,200.5)	(9,008.5)
Selling and distribution expenses	(11,941.0)	(10,391.6)
Administrative expenses	(2,514.1)	(2,138.1)
Other expenses	(2,347.7)	(1,582.3)
Profit from operating activities	5,509.3	5,153.0
Finance costs	(1,269.1)	(1,561.7)
Share of profits and losses of joint ventures and associates	63.3	(53.0)
Profit before tax	4,303.5	3,538.3
Income tax expense	(563.2)	(810.6)
Profit for the year	3,740.3	2,727.7
Attributable to:		
Non-controlling interests	(115.8)	(94.1)
Attributable to:		
Perpetual capital instruments	(416.6)	—
Attributable to:		
Ordinary shares of the parent company	3,207.9	2,633.6
Other comprehensive income	327.6	(333.6)
Comprehensive income	4,067.9	2,394.1
Dividend	1,038.4	687.5
Earnings per share — Basic	RMB0.78	RMB0.64
— Diluted	RMB0.77	RMB0.64

REVENUE ANALYSIS BY BUSINESS AND GEOGRAPHIC REGION

In tandem with the status of its business development, the presentation of the mix of the Group's principal operations analysed by product has been changed to presentation analysed by business. The following table sets out the revenue attributable to the major business segments of the Group for the periods indicated, in monetary amount and as a percentage of the total operating revenue:

Unit: RMB in millions

Business segment	2015		2014	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	57,222.7	57.1%	43,943.9	53.9%
Government and corporate business	10,496.7	10.5%	8,883.5	10.9%
Consumer business	32,467.0	32.4%	28,643.9	35.2%
Total	100,186.4	100.0%	81,471.3	100.0%

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

Unit: RMB in millions

Region	2015		2014	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	53,108.5	53.0%	40,583.5	49.8%
Asia (excluding the PRC)	14,820.3	14.8%	12,131.6	14.9%
Africa	6,979.5	7.0%	6,174.2	7.6%
Europe, the Americas and Oceania	25,278.1	25.2%	22,582.0	27.7%
Total	100,186.4	100.0%	81,471.3	100.0%

The Group reported RMB100,186.4 million in operating revenue for 2015, improving by 23.0% as compared with the same period last year. Operating revenue generated from the domestic business amounted to RMB53,108.5 million, increasing by 30.9% as compared with last year. Operating revenue generated from the international business also rose by 15.1%, as compared with last year, to RMB47,077.9 million.

Analysed by business segment, year-on-year growth was reported for operating revenue from carriers' networks, government and corporate business and consumer business. The year-on-year increase in operating revenue from the Group's carriers' networks for 2015 reflected mainly the increase in operating revenue from 4G system products and optical access products in the domestic and international markets, optical transmission products in the domestic market, and high-end routers in the international market. The year-on-year increase in operating revenue

from the Group's government and corporate business for 2015 reflected mainly the rapid growth of Smart City projects and the increase in data centre and ICT businesses. The year-on-year increase in operating revenue from the Group's consumer business for 2015 mainly reflected the year-on-year increase in operating revenue from handset products in the international market and family terminals in both the domestic and international markets.

COST OF SALES AND GROSS PROFIT

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

Unit: RMB in millions

Business segment	2015		2014	
	Cost of sales	As a percentage of business segment revenue	Cost of sales	As a percentage of business segment revenue
Carriers' networks	37,472.1	65.5%	28,623.0	65.1%
Government and corporate business	6,446.9	61.4%	5,352.8	60.3%
Consumer business	27,174.3	83.7%	23,783.2	83.0%
Total	71,093.3	71.0%	57,759.0	70.9%

Unit: RMB in millions

Business segment	2015		2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	19,750.6	34.5%	15,320.9	34.9%
Government and corporate business	4,049.8	38.6%	3,530.7	39.7%
Consumer business	5,292.7	16.3%	4,860.7	17.0%
Total	29,093.1	29.0%	23,712.3	29.1%

Cost of sales of the Group for 2015 increased by 23.1% as compared to last year to RMB71,093.3 million. The Group's overall gross profit margin of 29.0% for 2015 was 0.1 percentage point lower as compared to the same period last year, reflecting mainly decline in the gross profit margin for carriers' networks and handset products in the international market.

Cost of sales of the Group's carriers' networks for 2015 amounted to RMB37,472.1 million, a 30.9% increase compared to last year. The relevant gross profit margin was 34.5% versus 34.9% for the same period last year. The decrease in gross profit margin of carriers' networks mainly reflected the decrease in gross profit margin for wireless products in the international markets.

Cost of sales of the Group's government and corporate business for 2015 amounted to RMB6,446.9 million, an increase of 20.4% compared to the same period last year. The relevant gross profit margin was 38.6% versus 39.7% for the same period last year. The decline in gross profit margin for the government and corporate business reflected mainly the decline in gross profit margin for the government and corporate business in the international market.

Cost of sales of the Group's consumer business for 2015 amounted to RMB27,174.3 million, increasing by 14.3% compared to the same period last year. The relevant gross profit margin was 16.3%, compared to 17.0% for the same period last year. The decline in gross profit margin for the consumer business was mainly attributable to the lower gross profit margin for handset products in the international market.

OTHER INCOME AND GAINS

Other income and gains of the Group for 2015 amounted to RMB5,419.5 million, representing an 18.8% increase compared to RMB4,561.2 million for 2014, which reflected mainly the increase in investment income from derivatives and government subsidies for the Group during the period.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2015 increased by 35.4% to RMB12,200.5 million from RMB9,008.5 million for 2014, and increased by 1.1 percentage points from 11.1% for 2014 to 12.2% for 2015 as a percentage of operating revenue, attributable mainly to the continuous increase in the Group's investment in the research and development of products such as 5G, high-end routers, LTE, SDN, GPON and core chips for the period.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses for 2015 increased by 14.9% to RMB11,941.0 million from RMB10,391.6 million for 2014, reflecting mainly increased investments in the Asian, European and American markets by the Group. Selling and distribution expenses as a percentage of operating revenue decreased by 0.9 percentage points to 11.9%, compared to 12.8% for 2014.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for 2015 increased by 17.6% to RMB2,514.1 million, as compared to RMB2,138.1 million for 2014, which was mainly attributable to the increase in the Group's salary per capita and consultation fees during the period. Administrative expenses as a percentage of operating revenue decreased by 0.1 percentage point to 2.5%, as compared to 2.6% for 2014.

OTHER EXPENSES

Other expenses primarily include loss on impairment of assets (which includes bad debt provision on accounts receivable), loss on foreign exchange and non-operating expenses. Other expenses of the Group for the year ended 31 December 2015 was RMB2,347.7 million, representing an increase of 48.4% from RMB1,582.3 million in 2014, primarily due to the increase in bad debt provision on accounts receivable, which was offset by the decrease in loss on foreign exchange. Bad debt provision on accounts receivable increased by RMB855.9 million from the previous year primarily as a result of the increase in bad debt provision on accounts receivable from

international customers. Loss on foreign exchange decreased by RMB322.8 million from the previous year, and non-operating expenses increased by RMB150.1 million from the previous year.

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2015 amounted to RMB5,509.3 million, as compared to RMB5,153.0 million for 2014, reflecting mainly the increase in the overall profit of the Group for the period, while its operating profit margin was 5.5% as compared to 6.3% for 2014, reflecting primarily higher research and development costs of the Group as a percentage of operating revenue.

FINANCE COSTS

Finance costs of the Group for 2015 decreased by 18.7% to RMB1,269.1 million compared to RMB1,561.7 million for 2014. The decrease was attributable mainly to the Group's effort to strengthen control over financial costs, optimise its debt structure and lower interest expenses during the period.

INCOME TAX EXPENSE

The Group's income tax expense for 2015 was RMB563.2 million, which was 30.5% lower as compared to RMB810.6 million for 2014, reflecting mainly the application of the Company's profit for the period in making up losses for previous years and the decrease in the profit of certain subsidiaries of the Group for the period.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The Group's profit attributable to non-controlling interests for 2015 amounted to RMB115.8 million, representing an increase of 23.1% compared to RMB94.1 million for 2014, which was mainly attributable to the increase in the profit of Zhonghe Chunsheng Fund which had a higher percentage of minority interests for the period.

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for 2015 increased by 198.2% to RMB327.6 million, compared to RMB-333.6 million for 2014, mainly reflecting the increase in gains arising from change in the fair value of available-for-sale financial assets of Zhonghe Chunsheng Fund.

DEBT-EQUITY RATIO AND THE BASIS OF CALCULATION

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

The Group's debt-equity ratio for 2015 was 37.0%, decreasing by 18.0 percentage points as compared to 55.0% for 2014. The decrease reflected mainly the combined effect of the issue of the Medium Term Note by the Group and the ongoing improvement in its profitability.

LIQUIDITY AND CAPITAL RESOURCES

In 2015, the Group's development funds were financed mainly by cash generated from its operations, bank loans, the issue of debentures and the issue of Medium Term Notes. The Group's cash requirements related primarily to production and operating activities, repayment

of due liabilities, capital expenditure, interest and dividend payments and other contingent cash requirements. The Group has adopted an appropriate capital management policy and confirms that sufficient funds are in place to meet its debt repayment obligations as due, capital expenditure and the requirements of normal production operations.

Cash and cash equivalents of the Group as of 31 December 2015 amounted to RMB26,617.0 million held mainly in RMB and to a smaller extent in USD, EUR, HKD and other currencies.

CASH FLOW DATA

Item	<i>Unit: RMB in millions</i>	
	2015	2014
Net cash inflow from operating activities	5,640.4	1,101.9
Net cash outflow from investing activities	(1,868.8)	(2,022.3)
Net cash inflow (outflow) from financing activities	5,639.6	(1,915.9)
Net increase (decrease) in cash and cash equivalents	9,411.2	(2,836.3)
Cash and cash equivalents at year-end	26,617.0	17,230.1

OPERATING ACTIVITIES

The Group reported net cash inflow from operating activities of RMB5,640.4 million for 2015, compared to RMB1,101.9 million for 2014, mainly reflecting year-on-year increase in cash received from sales of goods and provision of services by RMB18,627.8 million, increase in other cash receipts relating to operating activities by RMB962.1 million, increase in tax refund received by RMB1,008.0 million, increase in cash paid for the purchase of goods and services by RMB10,877.3 million, increase in cash payments to and on behalf of employees by RMB3,147.0 million, increase in payments of tax expenses by RMB835.7 million, and increase in other cash payments relating to operating activities by RMB845.9 million.

INVESTING ACTIVITIES

The Group's net cash outflow from investing activities was RMB1,868.8 million for 2015, compared to RMB2,022.3 million for 2014, reflecting mainly the increase in cash received by the Group as investment income for the period by RMB499.0 million.

FINANCING ACTIVITIES

The Group's net cash inflow from financing activities for 2015 was RMB5,639.6 million, compared to net cash outflow of RMB1,915.9 million for 2014, reflecting mainly the receipt of RMB8,904.7 million in the Group's issue of the Medium Term Note.

CAPITAL EXPENDITURE

The Group's capital expenditure for 2015 amounted to RMB3,132.1 million, compared to RMB2,736.6 million in 2014, which was mainly applied in properties, plants and machinery, intangible assets, prepaid land leases and investment properties.

INDEBTEDNESS

Unit: RMB in millions

Item	31 December	
	2015	2014
Secured bank loans	524.7	606.6
Unsecured bank loans	18,016.8	20,474.2

Unit: RMB in millions

Item	31 December	
	2015	2014
Short-term bank loans	12,525.2	11,041.1
Long-term bank loans	6,016.3	10,039.7

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. Of the Group's short-term and long-term bank loans, RMB loans with amount of RMB4,902.2 million and RMB485.0 million respectively were subject to fixed interest rates, while USD and EUR loans were subject to floating interest rates. The Group's borrowings were mainly denominated in USD and EUR, apart from certain RMB loans.

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

The Group's bank loans in 2015 decreased by RMB2,539.3 million over the previous year mainly as a result of partial repayment of bank loans in light of improved operating cash flow.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

Item	Total	31 December 2015		
		Less than 1 year	2–5 years	More than 5 years
Bank loans	18,541.5	12,525.2	5,918.3	98.0
Operating lease obligation	411.5	223.7	125.6	62.2

CONTINGENT LIABILITIES

Unit: RMB in millions

Item	31 December	
	2015	2014
Guarantees given to banks in connection with borrowings to customers	50.0	67.4
Guarantees given to banks in respect of performance bonds	7,656.1	7,459.0
Total	7,706.1	7,526.4

CAPITAL COMMITMENTS

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

Unit: RMB in millions

Item	31 December	
	2015	2014
Land and buildings: Contracted, but not provided for	904.4	214.4
Investment in associates: Contracted, but not provided for	28.6	5.2

DETAILS OF THE SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES OF THE GROUP

Details of the subsidiaries of the Group as at 31 December 2015 are set out in the section headed “Report of the Board of Directors — (II) 12. Analysis of principal subsidiaries and investee companies” in the Annual Report.

Details of the joint ventures and associates of the Group as at 31 December 2015 are set out in Notes 18 and 19 to the financial statements prepared in accordance with HKFRSs in the Annual Report.

MATERIAL ACQUISITIONS AND DISPOSALS RELATED TO SUBSIDIARIES AND ASSOCIATES

The Group did not conduct any significant acquisitions or disposals related to subsidiaries in 2015. Details of progress of acquisitions and disposals related to subsidiaries commenced by the Company in previous years and 2015 are set out in the section headed “Material Matters — (V) Asset Transactions” in the Annual Report.

PROSPECTS FOR NEW BUSINESS

Details of the prospects for new business of the Group are set out in the section headed “Chairman’s Statement — Future Prospects” in the Annual Report.

EMPLOYEES

Details of the number of employees, training programmes, remuneration, remuneration policy, bonus and the share option scheme of the Group as at 31 December 2015 are set out in the sections headed “Directors, Supervisors, Senior Management and Employees,” “Corporate Governance Structure” and “Material Matters — (VI) Implementation and Impact of the Company’s Share Option Incentive Scheme” in the Annual Report.

CHARGES ON ASSETS

Details of the Group’s charges on assets as at 31 December 2015 are set out in Note 30 to the financial statements prepared under HKFRSs in the Annual Report.

PLANS FOR INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

Details of the Group’s investments and their performance and prospects as at 31 December 2015 are set out in the section headed “Material Matters — (V) Asset Transactions and (XIV) Third-Party Investments” in the Annual Report.

Details of future plans for investments or acquisition of capital assets are set out in the section headed “Report of the Board of Directors” in the Annual Report.

MARKET RISKS

For details of the Group’s exposure to market risks, please refer to the section 8.5.2 in this Announcement.

8.4 Proposal for profit distribution for 2015

Audited net profit of the Company for the year 2015 calculated in accordance with PRC ASBEs amounted to approximately RMB2,120,339,000. Together with undistributed profit of approximately RMB1,531,111,000 carried forward at the beginning of the year and after deducting 2014 dividend distribution to shareholders of approximately RMB687,508,000, statutory surplus reserves of approximately RMB253,697,000, profit available for distribution to shareholders amounted to approximately RMB2,710,245,000.

Audited net profit of the Company for the year 2015 calculated in accordance with HKFRSs amounted to approximately RMB2,038,133,000. Together with undistributed profit of approximately RMB1,493,589,000 carried forward at the beginning of the year and after

deducting 2014 dividend distribution to shareholders of approximately RMB687,508,000, statutory surplus reserves of approximately RMB253,697,000, profit available for distribution to shareholders amounted to approximately RMB2,590,517,000.

In accordance with the requirements of the Ministry of Finance of the People's Republic of China and the Articles of Association of ZTE Corporation, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is approximately RMB2,590,517,000. The Board of Directors of the Company has recommended as follows:

Proposed profit distribution for 2015: proposed payment of RMB2.5 in cash (before tax) for every 10 shares held on the basis of the number of shares held by shareholders (including A shareholders and H shareholders) registered at the close of business on the record dates for registration of shareholdings for the purpose of dividend payments.

Dividend payments are expected to be made to shareholders on 15 July 2016.

8.5 Business outlook for 2016 and risk exposures

8.5.1 Business outlook for 2016

Looking to 2016, “multiple connections and ultra-broadband” will become the new trademarks of the age of M-ICT, the mobile inter-connection of all things, and the development of the traditional telecommunications industry will be confronted with increasing opportunities as well as challenges. In connection with carriers' networks, the sophistication of 4G technologies has provided a tremendous boost to users' demand for smart mobile terminals and all types of mobile applications which has in turn driven investment requirements in the telecommunications industry, while concepts in the evolution of telecommunication operations and networks, such as “ubiquitous access, elastic network and digitalised service”, are underpinning the transformation of telecommunications carriers into information carriers. Such developments will present new opportunities to us. In connection with government and corporate business, the information revolution triggered by new technologies such as Cloud Computing, Internet of Things, Big Data and high-power wireless charge, the penetration and development of “Internet+”, the government's emphasis on information security, as well as the accelerated pace in the construction of Smart Cities, digitalisation of railway transport, and informatisation of the energy sector will also present new opportunities for development. In connection with the consumer business, as penetration and growth of smart phones in the global market slows down, market competition will enter a stage where success is determined by the overall strengths of an enterprise in branding, quality, value-for-money and technological innovation. In the meantime, enhanced consumer experience afforded by new-generation smart phones, integration of Big Data, Cloud Services and contents, and the development of wearable devices and technology-differentiated smart terminals are set to generate new demands in the market.

Given the challenges and opportunities described above, the Group will seek to “add value through information by leveraging opportunities present in the age of restructuring” in 2016, focusing on three major strategic directions, namely “in-depth development of the carriers' market; value creation in government and corporate business; integration and innovation in the consumers' market”, and driving business development in the “new sectors”. We will enhance our efforts in innovation and transformation and continue to strengthen project management to foster core competitive strengths in M-ICT and assure positive, sustainable development for the long term.

8.5.2 Risk Exposures

(1) Country risk

Given the complex nature of international economic and political conditions and the presence of the Group's business and branch organisations in over 160 countries, the Group will continue to be exposed to trade protection, debtors' risks, political risks or even warfare or the succession of political regimes in countries where the Group's projects are operated. Meanwhile, import and export regulation, tax compliance and antitrust measures of national governments around the world means that a very high level of operational and risk control capabilities is required of the Group. Currently, the Group conducts systematic management of country risks mainly through studies in the political and economic developments and policies of various countries, regular assessment, timely warning and proactive response.

(2) Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the protection and management of intellectual property rights. We maintain our investment in technology research and development each year at approximately 10% of our sales revenue. Trademarks of the Group's products and services are all registered, and such products and services are all protected under relevant patent rights. While the Group has adopted highly stringent measures to protect its intellectual property rights, potential disputes over intellectual property rights between the Group and other telecommunications equipment manufacturers, franchisee companies and carriers which partner with the Group cannot be totally ruled out. The Group will continue to drive the solution of related issues with an open-minded, cooperative and mutually beneficial approach.

(3) Exchange rate risk

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB. The Group seeks to mitigate the impact of exchange rate volatility on its operations on an ongoing basis by managing its foreign exchange risks through the use of measures such as the business strategic guidance, internal settlement management, adjustment of financing structure, internal exchange settlement and derivative financial instruments based on the principle of proactive exposure management, aiming to retain favourable exposures as appropriate, strictly control unfavourable exposures subject to apparent adverse developments or which are without value-protection features. Under the context of the admission of RMB into SDR, the Group will also actively facilitate RMB billing and settlement for overseas projects to lower its exchange rate risks in the long run.

(4) Interest rate risk

The interest rate risk of the Group is mainly associated with interest-bearing liabilities. Fluctuations in the interest rates of RMB or foreign currencies will result in changes in the total amount of interest payable by the Group and will therefore affect the Group's profitability. The Group seeks to lower its interest rate risk mainly by managing the total amount and structure of its interest-bearing liabilities. Control over the total amount of interest-bearing liabilities is mainly achieved by improving the cash turnover efficiency and increasing the free cash flow of the Group. Structural management of interest-bearing liabilities is achieved mainly through

portfolio control with a mixture of domestic and overseas, RMB and foreign currency, and long-term and short-term loans with fix or floating interests, supplemented by derivative instruments such as interest rate swaps, while exploring low-cost financing opportunities in the global market.

(5) Credit risk

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

9. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

9.1 Compliance of the Corporate Governance Code

The Company had fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules during the period from 1 January to 31 December 2015.

9.2 Securities transactions by Directors and Supervisors

The Directors and Supervisors of the Company confirmed that the Company has adopted the Model Code. Upon due enquiry with all Directors and Supervisors of the Company, the Company is not aware of any information that reasonably indicates non-compliance with code provisions set out in the Model Code by Director or Supervisor during the year.

10. FINANCIAL REPORTS

10.1 The Audit Committee of the Company has reviewed, in association with the management, the accounting principles and standards adopted by the Group, and has investigated issues relating to auditing, internal control and financial reporting, including the review of the consolidated and company balance sheets at 31 December 2015 and the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2015 prepared by the Group in accordance with PRC ASBEs and the consolidated and company statement of financial position at 31 December 2015 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2015 prepared in accordance with HKFRSs.

10.2 Audit opinion

The consolidated and company balance sheets as at 31 December 2015, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2015 prepared by the Group in accordance with PRC ASBEs have been audited by Ernst & Young Hua Ming LLP, who has issued a standard auditors' report with unqualified opinion (Ernst & Young Hua Ming (2016) SHENZI NO. 60438556_H01).

Ernst & Young issued an unqualified auditors' report following auditing in connection with the consolidated statement of financial position as at 31 December 2015, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2015 prepared by the Group in accordance with HKFRSs.

10.3 Comparative financial statements

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

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

10.4 Explanatory statement on changes in the accounting policies, accounting estimates, and auditing methods for the year in comparison with the last annual financial report.

Applicable N/A

10.5 Explanatory statement on rectification of significant accounting errors for the year requiring retrospective restatement.

Applicable N/A

10.6 Explanatory of changes to the scope of consolidation financial statement in comparison with the last annual financial report.

New subsidiaries established in 2015 included: tier-one subsidiaries Beijing Zhongbao Net Shield Technology Company Limited, ZTE (Wenzhou) Rail Communications Technology Company Limited, Changsha ZTE Smart Technology Company Limited, Henan ZTE Photovoltaic Technology Company Limited, Xinjiang ZTE Silk Road Network Technology Company Limited, Nanjing ZTE Investment Management Company Limited, ZTE (Shenyang) Financial Technology Company Limited, ZTE (Huai'an) Smart Industries Company Limited, Shenzhen ZTE Jinkong Commercial Factoring Company Limited, Shenzhen Zhongrui Testing Technology Company Limited and Shenzhen Zhiheng Technology Company Limited; tier-two subsidiaries Shanxi ZTE ICT Technology Company Limited, ZTE (Yinchuan) Smart City Research Institute (Company Limited), Dalian ZTE ICT Technology Company Limited, Suihua ZTE Smart City Development Company Limited, ZTE ICT Nantong Technology Company Limited, Zhongshan ZTE ICT Technology Company Limited, Shandong ZTE ICT Technology Company Limited, Zhejiang ZTE Smart City Information Technology Company Limited, ZTEsoft Netherlands B.V., Beijing ZTE Green Energy Automobile Company Limited, Shanghai Bose Information Technology Company Limited, Guangzhou Huijian Testing Technology Company Limited, Shanghai ZTE Wangsen Information Technology Company Limited, Guangxi ZTE ICT Company Limited, Shenzhen Green Pea Education Technology Company Limited and Jinsheng (Hong Kong) Company Limited; tier-three subsidiaries ZTE VESERVICE, C.A., Shandong ZTE Huida Information Technology Company Limited and Shandong Xingji Real Estates Company Limited; and tier-four subsidiaries NFS Netcare Field Services GmbH and NRS Netbuilt Rollout Services GmbH.

Anhui Media, a tier-one subsidiary of the Company, completed the deregistration with industrial and commercial administration authorities in 15 February 2015 in accordance with the Regulations for the Administration of Corporate Legal Persons of the People's Republic of China. Anhui Media had been deconsolidated from the consolidated statements of the Group

as from February 2015. Shanghai Zhongxing, a controlled subsidiary of the Company completed the disposal of 100% equity interests in ZTE Zhengzhou in August 2015 and ZTE Zhengzhou had been deconsolidated from the consolidated statements of the Group as from September 2015. The Company completed the disposal of 42% equity interests in Weipin Zhiyuan in November 2015 and Weipin Zhiyuan had been deconsolidated from the consolidated statements of the Group as from December 2015.

10.7 Explanatory statement from the Board of Directors and the Supervisory Committee of the Company on the accountant’s “qualified opinion” for the year.

Applicable N/A

By Order of the Board
Zhao Xianming
Chairman

Shenzhen, the PRC

6 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.

APPENDIX 1: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH PRC ASBEs

CONSOLIDATED BALANCE SHEET

31 December 2015

	<i>RMB'000</i>	
Assets	2015	2014
Current assets		
Cash	28,025,009	18,115,874
Derivative financial assets	10,110	240,973
Bills receivable	3,463,358	2,086,771
Trade receivables	25,251,287	25,152,963
Factored trade receivables	1,272,068	3,160,705
Other receivables	2,970,258	2,159,677
Prepayments	640,113	682,778
Inventories	19,731,741	19,592,298
Amount due from customers for contract works	13,928,446	11,033,468
Total current assets	95,292,390	82,225,507
Non-current assets		
Available-for-sale financial assets	2,381,467	1,739,664
Long-term trade receivables	362,831	266,501
Factored long-term trade receivables	1,593,528	1,701,978
Long-term equity investments	560,939	461,316
Investment properties	2,010,396	2,004,465
Fixed assets	7,692,175	7,348,292
Construction in progress	643,789	262,863
Intangible assets	4,224,446	3,269,633
Deferred development costs	789,815	1,578,567
Deferred tax assets	1,434,143	1,284,493
Long-term deferred assets	32,790	53,287
Other non-current assets	3,875,188	4,017,630
Total non-current assets	25,601,507	23,988,689
Total assets	120,893,897	106,214,196

CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2015

	<i>RMB'000</i>	
Liabilities	2015	2014
Current liabilities		
Short-term loans	7,907,572	10,998,077
Bank advances on factored trade receivables	1,273,346	3,175,432
Derivative financial liabilities	19,840	70,604
Bonds payable	4,000,000	—
Bills payable	9,885,129	10,381,688
Trade payables	22,932,866	19,244,400
Amount due to customers for contract works	4,423,103	3,825,106
Advances from customers	4,035,638	3,305,520
Salary and welfare payables	3,644,694	2,806,947
Taxes payable	(2,329,886)	(2,790,280)
Dividends payable	7,418	8,113
Other payables	6,005,130	7,531,970
Deferred income	438,920	451,507
Provisions	776,682	741,391
Long-term loans due within one year	4,617,604	6,174,257
Total current liabilities	67,638,056	65,924,732
Non-current liabilities		
Long-term loans	6,016,254	10,039,687
Bank advances on factored long-term trade receivables	1,593,528	1,701,978
Provision for retirement benefits	144,280	115,450
Deferred tax liabilities	52,769	159,340
Deferred income	759,394	631,149
Other non-current liabilities	1,341,011	1,349,356
Total non-current liabilities	9,907,236	13,996,960
Total liabilities	77,545,292	79,921,692

CONSOLIDATED BALANCE SHEET (CONTINUED)*31 December 2015*

	<i>RMB'000</i>	
Shareholder's equity	2015	2014
Shareholders' equity		
Share capital	4,150,791	3,437,541
Capital reserves	10,493,439	8,724,754
Other comprehensive income	(685,067)	(464,275)
Surplus reserve	2,022,709	1,769,012
Retained profits	13,678,222	11,411,542
	<hr/>	<hr/>
Total equity attributable to holders of ordinary shares of the parent	29,660,094	24,878,574
Other equity instruments		
Including: perpetual capital instruments	9,321,327	—
Non-controlling interests	4,367,184	1,413,930
	<hr/>	<hr/>
Total shareholders' equity	43,348,605	26,292,504
	<hr/>	<hr/>
Total liabilities and shareholders' equity	120,893,897	106,214,196
	<hr/> <hr/>	<hr/> <hr/>

Zhao Xianming
Legal representative

Wei Zaisheng
Chief Financial Officer

Shi Chunmao
Head of Finance Division

CONSOLIDATED INCOME STATEMENT
2015

	<i>RMB'000</i>	
	2015	2014
Operating revenue	100,186,389	81,471,275
Less: Operating costs	69,100,447	55,760,104
Taxes and surcharges	1,303,580	1,331,243
Selling and distribution costs	11,771,666	10,259,165
Administrative expenses	2,383,355	2,031,445
Research and development costs	12,200,542	9,008,537
Finance expenses	1,430,794	2,100,977
Impairment losses	2,187,471	1,202,232
Add: (Losses)/gains from changes in fair values	(183,682)	148,282
Investment income	695,619	134,474
Including: Share of profits/(losses) of associates and joint ventures	63,278	(53,043)
Operating profit	320,471	60,328
Add: Non-operating income	4,442,945	3,787,643
Less: Non-operating expenses	459,884	309,749
Including: Loss on disposal of non-current assets	28,874	35,661
Total profit	4,303,532	3,538,222
Less: Income tax	563,262	810,492
Net profit	3,740,270	2,727,730
Attributable to:		
Holders of ordinary shares of the parent	3,207,885	2,633,571
Holders of perpetual capital instruments	416,627	—
Non-controlling interests	115,758	94,159

CONSOLIDATED INCOME STATEMENT (CONTINUED)

2015

	<i>RMB'000</i>	
	2015	2014
Other comprehensive income, net of tax	<u>327,656</u>	<u>(333,604)</u>
Other comprehensive income attributable to ordinary equity holders of the parent of the parent, net of tax	(220,792)	(363,572)
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods		
Actuarial loss on defined benefit plans	(26,066)	(16,599)
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss in subsequent periods	<u>—</u>	<u>3,090</u>
	(26,066)	(13,509)
Other comprehensive income will be reclassified to profit and loss in subsequent periods		
Changes in the fair value of available-for-sale financial assets, net of tax	163,724	(40,800)
Hedges — effective portion of changes in fair value of hedging instruments arising during the year	8,499	3,965
Exchange differences on translation of foreign operations	(366,949)	(313,228)
	(194,726)	(350,063)
Other comprehensive income attributable to non-controlling interests, net of tax	<u>548,448</u>	<u>29,968</u>
Total comprehensive income	<u>4,067,926</u>	<u>2,394,126</u>
Attributable to:		
Ordinary equity holders of the parent	<u>2,987,093</u>	<u>2,269,999</u>
Perpetual capital instruments	<u>416,627</u>	<u>—</u>
Non-controlling interests	<u>664,206</u>	<u>124,127</u>
Earnings per share (RMB/share)		
Basic	<u>RMB0.78</u>	<u>RMB0.64</u>
Diluted	<u>RMB0.77</u>	<u>RMB0.64</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

RMB'000

	2015							Other equity instruments	Non-controlling interests	Total shareholders' equity
	Equity attributable to holders of ordinary shares of the parent						Including: perpetual capital instruments			
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total				
I. Current year's opening balance	3,437,541	8,724,754	(464,275)	1,769,012	11,411,542	24,878,574	—	1,413,930	26,292,504	
II. Changes during the year										
(I) Total comprehensive income	—	—	(220,792)	—	3,207,885	2,987,093	416,627	664,206	4,067,926	
(II) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	25,742	2,289,364	—	—	—	2,315,106	—	2,487,591	4,802,697	
2. Capital injection from other equity instrument holders	—	—	—	—	—	—	8,904,700	—	8,904,700	
3. Equity settled share expenses charged to equity	—	166,829	—	—	—	166,829	—	—	166,829	
4. Capital reduction by shareholders	—	—	—	—	—	—	—	(184,575)	(184,575)	
(III) Profit appropriation										
1. Appropriation to surplus reserves	—	—	—	253,697	(253,697)	—	—	—	—	
2. Distribution to shareholders	—	—	—	—	(687,508)	(687,508)	—	(13,968)	(701,476)	
(IV) Internal transfer of shareholders' equity										
1. Conversion of capital reserve into share capital	687,508	(687,508)	—	—	—	—	—	—	—	
III. Current year's closing balance	4,150,791	10,493,439	(685,067)	2,022,709	13,678,222	29,660,094	9,321,327	4,367,184	43,348,605	

RMB'000

	2014							Non-controlling interests	Total shareholders' equity
	Equity attributable to holders of ordinary shares of the parent								
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total			
I. Current year's opening balance	3,437,541	8,545,701	(100,703)	1,613,195	9,036,914	22,532,648	1,093,041	23,625,689	
II. Changes during the year									
(I) Total comprehensive income	—	—	(363,572)	—	2,633,571	2,269,999	124,127	2,394,126	
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	—	—	—	—	—	—	253,500	253,500	
2. Equity settled share expenses charged to equity	—	178,241	—	—	—	178,241	—	178,241	
3. Capital reduction by shareholders	—	—	—	—	—	—	(48,990)	(48,990)	
4. Disposal of fractional shares	—	812	—	—	—	812	—	812	
(III) Profit appropriation									
1. Appropriation to surplus reserves	—	—	—	155,817	(155,817)	—	—	—	
2. Distribution to shareholders	—	—	—	—	(103,126)	(103,126)	(7,748)	(110,874)	
III. Current year's closing balance	3,437,541	8,724,754	(464,275)	1,769,012	11,411,542	24,878,574	1,413,930	26,292,504	

CONSOLIDATED CASH FLOW STATEMENT
2015

	<i>RMB'000</i>	
	2015	2014
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	107,239,530	88,611,704
Refunds of taxes	7,239,108	6,231,137
Cash received relating to other operating activities	3,383,673	2,421,604
	<hr/>	<hr/>
Sub-total of cash inflows	117,862,311	97,264,445
	<hr/>	<hr/>
Cash paid for goods and services	78,561,538	67,684,267
Cash paid to and on behalf of employees	15,519,405	12,372,398
Cash paid for all types of taxes	7,444,009	6,608,317
Cash paid relating to other operating activities	8,932,694	8,086,828
	<hr/>	<hr/>
Sub-total of cash outflows	110,457,646	94,751,810
	<hr/>	<hr/>
Net cash flows from operating activities	7,404,665	2,512,635
	<hr/>	<hr/>
II. Cash flows from investing activities		
Cash received from sale of investments	1,609,118	1,314,820
Cash received from return on investment	654,663	155,642
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	23,734	72,015
Net cash received from the disposal of subsidiaries and other operating units	12,227	289,890
	<hr/>	<hr/>
Sub-total of cash inflows	2,299,742	1,832,367
	<hr/>	<hr/>
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	2,469,110	2,067,604
Cash paid for acquisition of investments	1,405,987	1,387,493
	<hr/>	<hr/>
Sub-total of cash outflows	3,875,097	3,455,097
	<hr/>	<hr/>
Net cash flows from investing activities	(1,575,355)	(1,622,730)
	<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

2015

RMB'000

	2015	2014
III. Cash flows from financing activities		
Cash received from capital injection	3,008,502	253,500
Including: Capital injection into subsidiaries by non-controlling shareholders	2,719,680	253,500
Cash received from the issuance of perpetual capital instruments	8,904,700	—
Cash received from borrowings	17,736,335	39,500,323
	<u>29,649,537</u>	<u>39,753,823</u>
Sub-total of cash inflow		
Cash repayment of borrowings	23,835,552	41,621,563
Cash payments for distribution of dividends, profits and for interest expenses	2,057,624	1,858,509
Including: Distribution of dividends, profits by subsidiaries to non-controlling shareholders	14,663	34,598
Cash paid in relation to other financing activities	174,400	—
	<u>26,067,576</u>	<u>43,480,072</u>
Sub-total of cash outflows		
Net cash flows from financing activities	<u>3,581,961</u>	<u>(3,726,249)</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>(24,415)</u>	<u>(51,790)</u>
V. Net increase in cash and cash equivalents	<u>9,386,856</u>	<u>(2,888,134)</u>
Add: cash and cash equivalents at beginning of year	17,230,140	20,118,274
VI. Net balance of cash and cash equivalents at the end of year	<u><u>26,616,996</u></u>	<u><u>17,230,140</u></u>

BALANCE SHEET

31 December 2015

	<i>RMB'000</i>	
Assets	2015	2014
Current assets		
Cash	17,708,219	10,025,991
Derivative financial assets	3,234	53,390
Bills receivable	1,461,254	1,873,999
Trade receivables	36,128,987	36,620,720
Factored trade receivables	445,819	1,259,713
Prepayments	28,871	66,692
Dividends receivable	3,473,753	2,487,128
Other receivables	8,659,093	6,338,933
Inventories	13,315,871	12,353,923
Amount due from customers for contract works	9,580,171	7,799,190
Total current assets	90,805,272	78,879,679
Non-current assets		
Available-for-sale financial assets	366,724	373,555
Long-term trade receivables	5,908,497	5,480,245
Factored long-term trade receivables	1,282,435	1,287,954
Long-term equity investments	7,350,908	6,884,411
Investment properties	1,603,107	1,597,919
Fixed assets	4,340,067	4,458,748
Construction in progress	270,243	11,909
Intangible assets	1,176,400	940,247
Deferred development costs	166,417	421,488
Deferred tax assets	671,519	674,629
Long-term deferred assets	32,388	44,518
Other non-current assets	3,745,208	3,879,675
Total non-current assets	26,913,913	26,055,298
Total assets	117,719,185	104,934,977

BALANCE SHEET (CONTINUED)

31 December 2015

RMB'000

Liabilities and shareholders' equity	2015	2014
Current liabilities		
Short-term loans	5,710,313	8,418,581
Derivative financial liabilities	6,421	17,587
Bank advances on factored trade receivables	446,283	1,274,440
Bonds payable	4,000,000	—
Bills payable	13,366,928	12,389,807
Trade payables	35,274,224	31,214,686
Amount due to customers for contract works	3,016,655	2,654,158
Advances from customers	3,761,156	3,411,519
Salary and welfare payables	1,253,431	771,370
Taxes payable	(2,018,958)	(2,377,915)
Dividends payable	184	156
Other payables	19,557,447	19,020,951
Deferred income	179,198	191,584
Provisions	448,459	388,995
Long-term loans due within one year	1,700,000	6,131,185
Total current liabilities	86,701,741	83,507,104
Non-current liabilities		
Long-term loans	1,469,570	2,980,100
Bank advances on factored long-term trade receivables	1,282,435	1,287,954
Provision for retirement benefits	144,280	115,450
Deferred tax liabilities	—	158,350
Deferred income	109,026	—
Other non-current liabilities	1,290,829	1,348,475
Total non-current liabilities	4,296,140	5,890,329
Total liabilities	90,997,881	89,397,433
Shareholders' equity		
Share capital	4,150,791	3,437,541
Capital reserves	8,483,084	8,740,683
Other comprehensive income	694,904	720,953
Surplus reserve	1,360,953	1,107,256
Retained profits	2,710,245	1,531,111
Shareholders' equity attributable holders of ordinary shares	17,399,977	15,537,544
Other equity instruments		
Including: perpetual capital instruments	9,321,327	—
Total shareholders' equity	26,721,304	15,537,544
Total liabilities and shareholders' equity	117,719,185	104,934,977

INCOME STATEMENT

2015

	<i>RMB'000</i>	
	2015	2014
Operating revenue	89,765,707	76,598,340
Less: Operating costs	74,906,434	64,426,341
Taxes and surcharges	700,642	733,974
Selling and distribution costs	7,191,037	6,522,405
Administrative expenses	1,459,750	1,224,755
Research and development costs	3,306,787	2,606,804
Finance expenses	578,649	1,404,784
Impairment losses	1,403,434	851,874
Add: Gains from changes in fair values	(33,803)	75,934
Investment income	1,361,581	2,017,647
Including: Share of profits/(losses) of associates and jointly-controlled entities	82,206	(58,304)
Operating profit	1,546,752	920,984
Add: Non-operating income	1,245,749	848,779
Less: Non-operating expenses	237,841	137,504
Including: Losses on disposal of non-current assets	14,508	21,221
Total profit	2,554,660	1,632,259
Less: Income tax	17,694	74,087
Net profit	2,536,966	1,558,172
Attributable to holders of ordinary shares	2,120,339	1,558,172
Attributable to holders of perpetual capital instruments	416,627	—
Other comprehensive income, net of tax		
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods		
Change in net liabilities arising from the re-measurement of defined benefit plans	(26,066)	(16,599)
Other comprehensive income will be reclassified to profit and loss in subsequent periods		
Exchange differences on translation of foreign operations	17	595
Other comprehensive income, net of income tax effect on respective items	(26,049)	(16,004)
Total comprehensive income	2,510,917	1,542,168
Attributable to:		
Holders of ordinary shares	2,094,290	1,542,168
Holders of perpetual capital instruments	416,627	—

STATEMENT OF CHANGES IN EQUITY

RMB'000

	2015						Total equity of holder of ordinary shares	Other equity instruments — Perpetual capital instruments	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit				
I. Current year's opening balance	3,437,541	8,740,683	720,953	1,107,256	1,531,111	15,537,544	—	15,537,544	
II. Changes during the year									
(I) Total comprehensive income	—	—	(26,049)	—	2,120,339	2,094,290	416,627	2,510,917	
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	25,742	263,080	—	—	—	288,822	—	288,822	
2. Equity settled share expenses charged to equity	—	166,829	—	—	—	166,829	—	166,829	
3. Capital injection from other equity instrument holders	—	—	—	—	—	—	8,904,700	8,904,700	
(III) Profit appropriation									
1. Appropriation to surplus reserves	—	—	—	253,697	(253,697)	—	—	—	
2. Distribution to shareholders	—	—	—	—	(687,508)	(687,508)	—	(687,508)	
(IV) Internal transfer of shareholders' equity									
1. Conversion of capital reserve into share capital	687,508	(687,508)	—	—	—	—	—	—	
III. Current year's closing balance	<u>4,150,791</u>	<u>8,483,084</u>	<u>694,904</u>	<u>1,360,953</u>	<u>2,710,245</u>	<u>17,399,977</u>	<u>9,321,327</u>	<u>26,721,304</u>	

RMB'000

	2014						Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit		
I. Current year's opening balance	3,437,541	8,561,630	736,957	951,439	231,882	13,919,449	
II. Changes during the year							
(I) Total comprehensive income	—	—	(16,004)	—	1,558,172	1,542,168	
(II) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholders	—	—	—	—	—	—	
2. Equity settled share expenses charged to equity	—	178,241	—	—	—	178,241	
3. Disposal of fractional shares	—	812	—	—	—	812	
(III) Profit appropriation							
1. Appropriation to surplus reserves	—	—	—	155,817	(155,817)	—	
2. Distribution to shareholders	—	—	—	—	(103,126)	(103,126)	
III. Current year's closing balance	<u>3,437,541</u>	<u>8,740,683</u>	<u>720,953</u>	<u>1,107,256</u>	<u>1,531,111</u>	<u>15,537,544</u>	

CASH FLOW STATEMENT
2015

	<i>RMB'000</i>	
	2015	2014
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	96,311,330	68,927,313
Refunds of taxes	4,569,644	3,561,374
Cash received relating to other operating activities	2,731,865	2,097,732
Sub-total of cash inflows	<u>103,612,839</u>	<u>74,586,419</u>
Cash paid for goods and services	85,230,933	61,745,917
Cash paid to and on behalf of employees	5,182,813	4,332,398
Cash paid for all types of taxes	887,274	761,629
Cash paid relating to other operating activities	6,491,762	5,764,856
Sub-total of cash outflows	<u>97,792,782</u>	<u>72,604,800</u>
Net cash flows from operating activities	<u>5,820,057</u>	<u>1,981,619</u>
II. Cash flows from investing activities		
Cash received from sale of investments	88,074	21,300
Cash received from return on investments	188,473	145,189
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	13,832	62,395
Net cash received from the disposal of subsidiaries	81,582	291,233
Sub-total of cash inflows	<u>371,961</u>	<u>520,117</u>
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	879,654	611,424
Cash paid for acquisition of investments	447,603	541,684
Sub-total of cash outflows	<u>1,327,257</u>	<u>1,153,108</u>
Net cash flows from investing activities	<u>(955,296)</u>	<u>(632,991)</u>

CASH FLOW STATEMENT (CONTINUED)

2015

RMB'000

	2015	2014
III. Cash flows from financing activities		
Cash received from investment	288,822	—
Cash received from the issuance of perpetual capital instruments	8,904,700	—
Cash received from borrowings	10,698,953	12,461,575
	<u>19,892,475</u>	<u>12,461,575</u>
Sub-total of cash inflows	19,892,475	12,461,575
Cash repayment of borrowings	15,600,702	14,409,081
Cash payments for distribution of dividends, profits and for interest expenses	1,669,644	1,322,215
	<u>17,270,346</u>	<u>15,731,296</u>
Sub-total of cash outflows	17,270,346	15,731,296
Net cash flows from financing activities	2,622,129	(3,269,721)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	122,991	(119,476)
V. Net increase in cash and cash equivalents	7,609,881	(2,040,569)
Add: cash and cash equivalents at beginning of year	9,715,869	11,756,438
	<u>17,325,750</u>	<u>9,715,869</u>
VI. Net balance of cash and cash equivalents at the end of year	17,325,750	9,715,869

**APPENDIX 2: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH HKFRSS
AND NOTES THERE TO**

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE
INCOME**

(Prepared under Hong Kong Financial Reporting Standards)

Year ended 31 December 2015

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	100,186,389	81,471,275
Cost of sales	<u>(71,093,321)</u>	<u>(57,759,027)</u>
Gross profit	29,093,068	23,712,248
Other income and gains	5,419,489	4,561,228
Research and development costs	(12,200,542)	(9,008,537)
Selling and distribution expenses	(11,940,953)	(10,391,579)
Administrative expenses	(2,514,135)	(2,138,123)
Other expenses	(2,347,593)	(1,582,298)
Finance costs	(1,269,080)	(1,561,674)
Share of profits and losses of:		
Joint ventures	(5,281)	716
Associates	68,559	<u>(53,759)</u>
PROFIT BEFORE TAX	4,303,532	3,538,222
Income tax expense	<u>(563,262)</u>	<u>(810,492)</u>
PROFIT FOR THE YEAR	<u>3,740,270</u>	<u>2,727,730</u>
Attributable to:		
Ordinary equity holders of the parent	3,207,885	2,633,571
Perpetual capital instruments	416,627	—
Non-controlling interests	115,758	94,159
	<u>3,740,270</u>	<u>2,727,730</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2015

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Hedges — effective portion of changes in fair value of hedging instruments arising during the year	8,499	3,965
Changes in fair value of available-for-sale investments, net of tax	712,418	(28,570)
Exchange differences on translation of foreign operations	<u>(367,195)</u>	<u>(295,834)</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>353,722</u>	<u>(320,439)</u>
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Actuarial loss on defined benefit plans	(26,066)	(16,599)
Share of investee results in other comprehensive income under the equity method which will not be reclassified to profit or loss in subsequent periods	<u>—</u>	<u>3,434</u>
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	<u>(26,066)</u>	<u>(13,165)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>327,656</u>	<u>(333,604)</u>
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	<u><u>4,067,926</u></u>	<u><u>2,394,126</u></u>
Attributable to:		
Ordinary equity holders of the parent	2,987,093	2,269,999
Perpetual capital instruments	416,627	—
Non-controlling interests	<u>664,206</u>	<u>124,127</u>
	<u><u>4,067,926</u></u>	<u><u>2,394,126</u></u>
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	<u><u>RMB0.78</u></u>	<u><u>RMB0.64</u></u>
Diluted	<u><u>RMB0.77</u></u>	<u><u>RMB0.64</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2015

	31 December 2015 <i>RMB'000</i>	31 December 2014 <i>RMB'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	8,368,754	7,664,442
Prepaid land lease payments	1,214,106	1,082,208
Intangible assets	3,772,451	3,741,514
Investment properties	2,010,396	2,004,465
Investments in joint ventures	77,341	67,607
Investments in associates	483,598	393,709
Available-for-sale investments	2,381,467	1,739,664
Long-term trade receivables	362,831	266,501
Factored long-term trade receivables	1,593,528	1,701,978
Deferred tax assets	1,434,143	1,284,493
Pledged deposits	3,515,601	3,744,472
Long-term prepayments, deposits and other receivables	359,587	273,158
	<hr/>	<hr/>
Total non-current assets	25,573,803	23,964,211
CURRENT ASSETS		
Prepaid land lease payments	27,704	24,478
Inventories	19,731,741	19,592,298
Amount due from customers for contract works	13,928,446	11,033,468
Trade and bills receivables	28,714,645	27,239,734
Factored trade receivables	1,272,068	3,160,705
Prepayments, deposits and other receivables	7,304,441	6,882,868
Derivative financial instruments	10,110	240,973
Pledged deposits	1,202,984	718,306
Time deposits with original maturity of over three months	205,029	167,428
Cash and cash equivalents	26,616,996	17,230,140
	<hr/>	<hr/>
Total current assets	99,014,164	86,290,398

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

Year ended 31 December 2015

	31 December 2015 <i>RMB'000</i>	31 December 2014 <i>RMB'000</i>
CURRENT LIABILITIES		
Trade and bills payables	32,817,995	29,626,088
Amount due to customers for contract works	4,423,103	3,825,106
Other payables and accruals	15,003,939	14,856,936
Derivative financial instruments	19,840	70,604
Interest-bearing bank borrowings	12,525,176	11,041,149
Bank advances on factored trade receivables	1,273,346	3,175,432
Tax payable	484,627	489,141
Dividends payable	7,418	8,113
Bonds payable	4,000,000	6,131,185
Provision	776,682	741,391
	<hr/>	<hr/>
Total current liabilities	71,332,126	69,965,145
	<hr/>	<hr/>
NET CURRENT ASSETS	27,682,038	16,325,253

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2015

	31 December 2015 <i>RMB'000</i>	31 December 2014 <i>RMB'000</i>
TOTAL ASSETS LESS CURRENT LIABILITIES	53,255,841	40,289,464
NON-CURRENT LIABILITIES		
Derivative financial instruments	—	881
Interest-bearing bank borrowings	6,016,254	10,039,687
Bank advances on factored long-term trade receivables	1,593,528	1,701,978
Financial guarantee contract	3,689	3,689
Deferred tax liabilities	52,769	159,340
Provision for retirement benefits	144,280	115,450
Other non-current liabilities	2,096,716	1,975,935
Total non-current liabilities	9,907,236	13,996,960
Net assets	43,348,605	26,292,504
EQUITY		
Equity attributable to ordinary equity holders of the parent		
Issued capital	4,150,791	3,437,541
Reserves	25,509,303	21,441,033
	29,660,094	24,878,574
Perpetual capital instruments	9,321,327	—
Non-controlling interests	4,367,184	1,413,930
Total equity	43,348,605	26,292,504

Zhao Xianming
Director

Wei Zaisheng
Director

1. BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2015. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group’s voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the ordinary equity holders of the parent of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described in the accounting policy for subsidiaries below. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group’s share of components previously recognised in other

comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following revised standards for the first time for the current year's financial statements.

Amendments to HKAS 19 Defined Benefit Plans: *Employee Contributions*
Annual Improvements to HKFRSs 2010-2012 Cycle
Annual Improvements to HKFRSs 2011-2013 Cycle

The nature and the impact of each amendment is described below:

- (a) Amendments to HKAS 19 apply to contributions from employees or third parties to defined benefit plans. The amendments simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. If the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction of service cost in the period in which the related service is rendered. The amendments have had no impact on the Group as there is no contribution from employees or third parties to defined benefit plans.
- (b) The *Annual Improvements to HKFRSs 2010-2012 Cycle* issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:
 - *HKFRS 8 Operating Segments*: Clarifies that an entity must disclose the judgements made by management in applying the aggregation criteria in HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics used to assess whether the segments are similar. The amendments also clarify that a reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker. The amendments have had no impact on the Group.
 - *HKAS 16 Property, Plant and Equipment* and *HKAS 38 Intangible Assets*: Clarifies the treatment of gross carrying amount and accumulated depreciation or amortisation of revalued items of property, plant and equipment and intangible assets. The amendments have had no impact on the Group as the Group does not apply the revaluation model for the measurement of these assets.
 - *HKAS 24 Related Party Disclosures*: Clarifies that a management entity (i.e., an entity that provides key management personnel service) is a related party subject to related party disclosure requirements. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. The amendment has had no impact on the Group as the Group does not receive any management services from other entities.

(c) The Annual Improvements to HKFRSs 2011-2013 Cycle issued in January 2014 sets out amendments to a number of HKFRSs. Details of the amendments that are effective for the current year are as follows:

- *HKFRS 3 Business Combinations*: Clarifies that joint arrangements but not joint ventures are outside the scope of HKFRS 3 and the scope exception applies only to the accounting in the financial statements of the joint arrangement itself. The amendment is applied prospectively. The amendment has had no impact on the Group as the Company is not a joint arrangement and the Group did not form any joint arrangement during the year.
- *HKFRS 13 Fair Value Measurement*: Clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 or HKAS 39 as applicable. The amendment is applied prospectively from the beginning of the annual period in which HKFRS 13 was initially applied. The amendment has had no impact on the Group as the Group does not apply the portfolio exception in HKFRS 13.
- *HKAS 40 Investment Property*: Clarifies that HKFRS 3, instead of the description of ancillary services in HKAS 40 which differentiates between investment property and owner-occupied property, is used to determine if the transaction is a purchase of an asset or a business combination. The amendment is applied prospectively for acquisitions of investment properties. The amendment has had no impact on the Group as there is no new acquisition of investment properties during the year.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Hong Kong Stock Exchange relating to the disclosure of financial information with reference to the Hong Kong Companies Ordinance (Cap. 622) during the current financial year. The main impact to the financial statements is on the presentation and disclosure of certain information in the financial statements.

3. ISSUE BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

HKFRS 9	<i>Financial Instruments</i> ²
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	<i>Investment Entities: Applying the Consolidation Exception</i> ¹
Amendments to HKFRS 11	<i>Accounting for Acquisitions of Interests in Joint Operations</i> ¹
HKFRS 14	<i>Regulatory Deferral Accounts</i> ³
HKFRS 15	<i>Revenue from Contracts with Customers</i> ²
Amendments to HKAS 1	<i>Disclosure Initiative</i> ¹
Amendments to HKAS 16 and HKAS 38	<i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> ¹
Amendments to HKAS 16 and HKAS 41	<i>Agriculture: Bearer Plants</i> ¹
Amendments to HKAS 27 (2011)	<i>Equity Method in Separate Financial Statements</i> ¹
<i>Annual Improvements 2012–2014 Cycle</i>	<i>Amendments to a number of HKFRSs</i> ¹

¹ Effective for annual periods beginning on or after 1 January 2016

² Effective for annual periods beginning on or after 1 January 2018

³ Effective for an entity that first adopts HKFRSs for its annual financial statements beginning on or after 1 January 2016 and therefore is not applicable to the Group

⁴ Effective date is to be determined and earlier application is permitted.

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects expected impact that the adoption of HKFRS 9 will have an impact on the classification and measurement of Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The Group expects the date to adopt the amendments is to be determined.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In September 2015, the HKICPA issued an amendment to HKFRS 15 regarding a one-year deferral of the mandatory effective date of HKFRS 15 to 1 January 2018. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

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

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

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss and other comprehensive income. The Group expects to adopt the amendments from 1 January 2016. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are to be applied prospectively. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016 as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

4. OPERATING SEGMENT INFORMATION

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

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

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

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

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

Business segments for reporting and disclosure purposes have been reclassified for the reporting period into carriers' networks (comprising mainly projects in collaboration with domestic and international telecommunications carriers), government and corporate business (comprising mainly projects in collaboration with domestic and international governments and corporations) and consumer business (comprising mainly businesses targeted at end-consumers) according to the nature of customers from which revenue is derived. The management of the Company is of the view that the classification of business segments according to the nature of customers from which revenue is derived will give a more accurate reflection of the current operating conditions as well as market and strategic positions of the Company and align more closely with the management model of the Company's business departments and its internal performance appraisal. The Company has classified its customers into three main categories, namely, carriers, government and corporate networks and end-consumers. Accordingly, its revenue and costs have been analysed into the aforesaid three major segments based on the source of end-users, and corresponding figures for 2014 have been restated on the same basis.

Year ended 31 December 2015	Carriers' networks <i>RMB'000</i>	Consumer business <i>RMB'000</i>	Government & corporate business <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Sales to external customers	<u>57,222,754</u>	<u>32,466,961</u>	<u>10,496,674</u>	<u>100,186,389</u>
	<u>57,222,754</u>	<u>32,466,961</u>	<u>10,496,674</u>	<u>100,186,389</u>
Segment results	13,738,093	1,376,493	2,896,110	18,010,696
Bank and other interest income				527,886
Dividend income and unallocated gains				4,891,603
Corporate and other unallocated expenses				(17,920,851)
Finance costs				(1,269,080)
Share of profits and losses of associates and joint ventures				<u>63,278</u>
Profit before tax				<u>4,303,532</u>
Segment assets	40,619,357	17,396,973	7,586,929	65,603,259
Investments in joint ventures				77,341
Investment in associates				483,598
Corporate and other unallocated assets				<u>58,423,769</u>
Total assets				<u>124,587,967</u>
Segment liabilities	7,800,164	2,068,528	1,456,923	11,325,615
Corporate and other unallocated liabilities				<u>69,913,747</u>
Total liabilities				<u>81,239,362</u>
Other segment information:				
Impairment losses recognised in profit or loss	1,249,402	708,884	229,185	2,187,471
Depreciation and amortisation	1,207,306	685,000	221,463	2,113,769
Capital expenditure*	<u>1,788,954</u>	<u>1,015,015</u>	<u>328,158</u>	<u>3,132,127</u>

* Capital expenditure consists of additions to property, plant and equipment, intangible assets, prepaid land lease payments and investment properties.

Year ended 31 December 2014	Carriers' networks <i>RMB'000</i>	Consumer business <i>RMB'000</i>	Government & corporate business <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue:				
Sales to external customers	43,943,780	28,643,949	8,883,546	81,471,275
	<u>43,943,780</u>	<u>28,643,949</u>	<u>8,883,546</u>	<u>81,471,275</u>
Segment results	10,539,878	1,073,525	2,507,360	14,120,763
Bank and other interest income				433,604
Dividend income and unallocated gains				4,127,624
Corporate and other unallocated expenses				(13,529,052)
Finance costs				(1,561,674)
Share of profits and losses of associates and joint ventures				(53,043)
Profit before tax				<u>3,538,222</u>
Segment assets	37,673,373	17,713,864	7,607,447	62,994,684
Investments in joint ventures				67,607
Investment in associates				393,709
Corporate and other unallocated assets				46,798,609
Total assets				<u>110,254,609</u>
Segment liabilities	8,390,249	1,923,530	1,694,257	12,008,036
Corporate and other unallocated liabilities				71,954,069
Total liabilities				<u>83,962,105</u>
Other segment information:				
Impairment losses recognised in profit or loss	648,457	422,685	131,090	1,202,232
Depreciation and amortisation	984,793	641,920	199,083	1,825,796
Capital expenditure*	<u>1,476,055</u>	<u>962,140</u>	<u>298,395</u>	<u>2,736,590</u>

Geographical information

(a) Revenue from external customers

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
The PRC (place of domicile)	53,108,499	40,583,527
Asia (excluding the PRC)	14,820,285	12,131,576
Africa	6,979,537	6,174,187
Europe, Americas and Oceania	25,278,068	22,581,985
	<u>100,186,389</u>	<u>81,471,275</u>

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

(b) Non-current assets

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
The PRC (place of domicile)	12,680,987	11,787,832
Asia (excluding the PRC)	1,329,223	1,198,456
Africa	354,310	375,623
Europe, Americas and Oceania	1,001,187	1,130,718
	<u>15,365,707</u>	<u>14,492,629</u>

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

5. REVENUE

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

An analysis of revenue is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Revenue		
Telecommunications system contracts	65,497,286	52,993,918
Sale of goods and services	34,557,773	28,366,199
Rental income	131,330	111,158

6. PROFIT BEFORE TAX

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Cost of goods and services	63,887,788	50,625,330
Depreciation	1,131,453	975,691
Amortisation of land lease payments	26,484	23,050
Amortisation of intangible assets other than deferred development costs	74,981	86,262
Research and development costs:		
Deferred development costs amortised	880,851	740,793
Current year expenditure	12,140,600	9,559,894
Less: Deferred development costs	<u>(820,909)</u>	<u>(1,292,150)</u>
	<u>12,200,542</u>	<u>9,008,537</u>
Fair value (gains)/losses, net*:		
Derivative instruments	189,614	(17,976)
Investment properties	(5,931)	(130,306)
Impairment of trade receivables*	1,602,446	675,522
Provision for warranties**	758,863	718,075
Provision for legal obligation*	120,882	63,442
Write-down of inventories to net realisable value**	567,014	523,950
Impairment of long term equity investment*	4,764	—
Impairment of items of property, plant and equipment*	13,247	2,760
Minimum lease payments under operating leases on land and buildings	629,481	705,114
Contingent rental income in respect of operating leases	(47,113)	(79,403)
Auditors' remuneration	7,337	6,674
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	14,522,965	11,550,588
Equity-settled share option expense	166,829	178,241
Retirement benefit scheme contributions:		
Defined benefit pension scheme	4,538	4,466
Defined contribution pension schemes	<u>1,086,682</u>	<u>927,972</u>
	<u>15,781,014</u>	<u>12,661,267</u>
Foreign exchange loss*	267,254	590,085
Loss on disposal of items of property, plant and equipment*	28,874	35,661
(Gain)/loss on disposal of subsidiaries*	(9,789)	4,933
Gain on deemed disposal of interest in an associate	—	(752)
Gain on disposal of derivative financial instruments	(299,573)	(146,039)
Gain on disposal of available-for-sale investments	<u>(297,974)</u>	<u>(13,483)</u>

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

** Provision for warranties and write-down of inventories to net realisable value are included in “Cost of sales” on the face of the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Interest on bank loans and other loans (including convertible bonds)	<u>883,609</u>	<u>1,036,315</u>
Total interest expense on financial liabilities not at fair value through profit or loss	883,609	1,036,315
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	<u>385,471</u>	<u>525,359</u>
	<u>1,269,080</u>	<u>1,561,674</u>

8. INCOME TAX

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Current — Hong Kong	8,300	12,332
Current — Mainland China	547,478	461,709
Current — Overseas	350,130	248,471
Deferred	<u>(342,646)</u>	<u>87,980</u>
Total tax charge for the year	<u>563,262</u>	<u>810,492</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

The Company was subject to an enterprise income tax rate of 15% for the year 2014 to 2016 as a national-grade hi-tech enterprise incorporated in Shenzhen.

9. DIVIDEND

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Proposed final — RMB0.25 (2014: RMB0.2) per ordinary share	<u>1,038,368</u>	<u>687,508</u>

The profit distribution proposal is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

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

The basic earnings per share amount is computed by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 4,127,352,000 (2014: 4,125,049,000) in issue during the year.

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

The calculations of basic and diluted earnings per share are as follows:

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	<u>3,207,885</u>	<u>2,633,571</u>
	Number of shares	
	2015	2014
	<i>'000</i>	<i>'000</i>
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	4,127,352	4,125,049
Effect of dilution — weighted average number of ordinary shares		
Share options	<u>52,784</u>	—
Adjusted weighted average number of ordinary shares in issue	<u>4,180,136</u>	<u>4,125,049</u>

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Trade and bills receivables	34,879,664	31,902,826
Impairment	(5,802,188)	(4,396,591)
	<u>29,077,476</u>	<u>27,506,235</u>
Current portion	(28,714,645)	(27,239,734)
	<u>362,831</u>	<u>266,501</u>
Long-term portion	362,831	266,501

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

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
Within 6 months	24,060,630	22,660,674
7 to 12 months	2,716,472	3,004,833
1 to 2 years	2,106,596	1,619,968
2 to 3 years	193,778	220,760
Over 3 years	—	—
	<u>29,077,476</u>	<u>27,506,235</u>
Current portion of trade and bills receivables	(28,714,645)	(27,239,734)
	<u>362,831</u>	<u>266,501</u>
Long-term portion	362,831	266,501

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

	2015 <i>RMB'000</i>	2014 <i>RMB'000</i>
At 1 January	4,396,591	3,834,169
Impairment losses recognised	1,820,368	758,331
Amount written off as uncollectible	(196,849)	(113,100)
Impairment losses reversed	(217,922)	(82,809)
	<u>5,802,188</u>	<u>4,396,591</u>
At 31 December	5,802,188	4,396,591

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB503,123,000 (2014: RMB588,727,000) with a carrying amount before provision of RMB503,123,000 (2014: RMB588,727,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	4,228,313	2,799,769
Less than one year past due	22,009,510	22,720,064
	<u>26,237,823</u>	<u>25,519,833</u>

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

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

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

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
The controlling shareholder	1,425	1,096
Joint ventures	70,990	418,061
Associates	20,332	6,963
Other related companies	300,287	157,968
	<u>393,034</u>	<u>584,088</u>

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

The Group has not pledged trade receivables but pledged RMB106,892,000 bills receivables. (2014: none and RMB44,028,000 to secure the bank borrowings).

12. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	32,391,107	29,175,980
7 to 12 months	264,027	298,251
1 to 2 years	123,011	14,258
2 to 3 years	10,327	114,309
Over 3 years	29,523	23,290
	<u>32,817,995</u>	<u>29,626,088</u>

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

	2015	2014
	<i>RMB'000</i>	<i>RMB'000</i>
The controlling shareholder	61,007	53,879
Joint ventures	11,973	20,669
Associates	1,650	2,171
Other related companies	105,262	179,761
	<u>179,892</u>	<u>256,480</u>

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

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

13. EVENTS AFTER THE REPORTING PERIOD

- (a) On 7 March 2016, Bureau of Industry and Security of the Department of Commerce of the United States of America (“BIS”) has added the Company, ZTE Kangxun Telecommunications Ltd. (“ZTE Kangxun”), ZTE Parsian (a subsidiary of the Company) and another Chinese company (out of the Group) to the Entity List (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 listed above, and a license review policy of presumption of denial shall apply.

On 24 March 2016, BIS has issued a ruling which will amend the Decision made on 7 March 2016. The ruling will create a temporary general license with the effect that the export restrictions on the Company and ZTE Kangxun under the Decision would not apply until 30 June 2016, unless amended. The temporary general license is renewable if the U.S. Government determines, in its sole discretion, that the Company and ZTE Kangxun are timely performing their undertakings to the U.S. Government and otherwise cooperating with the U.S. Government in resolving the matter.

The Company has been and will continue to be cooperative in the investigation by the relevant U.S. relevant governmental departments, actively communicate with the U.S. governmental departments to seek a final solution on the matter and strictly comply with relevant U.S. laws and regulations on export restrictions.

- (b) Pursuant to the profit distribution proposal recommended by the Board, cash dividend of RMB2.5 (before tax) for every 10 shares held will be paid on the basis of the total share capital of the Company of 4,153,471,165 shares as at 6 April 2016. The actual amount of dividend distribution will be adjusted on the basis of the total number of shares held by shareholders registered as at the close of business on the Record Date for dividend distribution. The first exercise period of the A share option incentive scheme of the Company commenced on 2 November 2015 and will last through 31 October 2016. As at 6 April 2016, there were 6,462,728 unexercised share options for the first exercise period under the A share option incentive scheme of the Company. Assuming such options will have been exercised in full prior to the close of business on the A share record date for dividend distribution, 4,159,933,893 shares in the Company will be entitled to the dividend, and the total amount of dividend payment will be not more than RMB1,040,000,000.