ZTE 中兴通讯股份有限公司
ZTE CORPORATION

stock code : 000063.SZ 763.HK

Annual Report 2015

Important

The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of the Company confirm that this 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 this report.

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

This 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.

The respective financial statements of the Group for the year ended 31 December 2015 were prepared in accordance with PRC Accounting Standards for Business Enterprises and with Hong Kong Financial Reporting Standards 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.

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.

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 this report.

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.

This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. Investors should beware of investment risks. The attention of investors is drawn to the section headed "Report of the Board of Directors — (IV) Business outlook for 2016 and risk exposures", which contains a description of the potential risks inherent in the operations of the Company.

This report has been prepared in Chinese and English respectively. In case of discrepancy, the Chinese version shall prevail, except for the financial report prepared in accordance with Hong Kong Financial Reporting Standards, of which the English version shall prevail.

China Securities Journal, Securities Times, Shanghai Securities News and http://www.cninfo.com.cn are designated media for the Company's information disclosure. Only information of the Company published in the aforesaid media should be relied upon. Investors are asked to beware of investment risks.

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Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary".

Company or ZTE	ZTE Corporation, a limited company incorporated in China, the shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively
Articles of Association	The Articles of Association of ZTE Corporation
Company Law	Company Law of the People's Republic of China
Securities Law	Securities Law of the People's Republic of China
Group	ZTE and one or more of its subsidiaries
Board of Directors	The board of directors of the Company
Directors	Members of the board of directors of the Company
Supervisory Committee	The supervisory committee of the Company
Supervisors	Members of the supervisory committee of the Company
China or PRC	The People's Republic of China
ITU	International Telecommunications Union, is a specialised agency of the United Nations for information and communication technologies
NDRC	National Development Reform Commission of China
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
CSRC	China Securities Regulatory Commission
Shenzhen CSRC	The CSRC Shenzhen Bureau
Shenzhen Stock Exchange	The Shenzhen Stock Exchange
Shenzhen Listing Rules	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
PRC ASBEs	PRC Accounting Standards for Business Enterprises (Generally accepted accounting principles in China)
HKFRSs	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards ("HKASs") and Interpretations)
China All Access	China All Access (Holdings) Limited
ZTE HK	ZTE (H.K.) Limited
Speed	Huizhou Speed Wireless Technology Co., Ltd.
Gongjin Electronics	Shenzhen Gongjin Electronics Co., Ltd.

Great Power	Guangzhou Great Power Energy & Technology Co., Ltd.
China-Hemp	China-Hemp Industrial Investment Co., Ltd. (renamed "Lianchuang Electronic Technology Co., Ltd." with effect from 3 March 2016; stock name has been changed to "Lianchuang Electronic")
Enablence Technologies	Enablence Technologies Inc.
ZTE Capital	Shenzhen ZTE Capital Management Company Limited
Zhonghe Chunsheng Fund	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I
Jiaxing Fund	Jiaxing Xinghe Equity Investment Partnership
SDR	Special drawing rights
Zhongxingxin	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited
Mobi Antenna	Mobi Antenna Technologies (Shenzhen) Co., Ltd.
Huatong	Huatong Technology Company Limited
Nanchang Software	Zhongxing Software Technology (Nanchang) Company Limited
Zhongxing Hetai	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
Zhongxing Development	Zhongxing Development Company Limited
Chongqing Zhongxing Development	Chongqing Zhongxing Development Company Limited
航天歐華	深圳市航天歐華科技發展有限責任公司
Xi'an Microelectronics	Xi'an Microelectronics Technology Research Institute
Aerospace Guangyu	Shenzhen Aerospace Guangyu Industrial Company Limited
Zhongxing WXT	Shenzhen Zhongxing WXT Equipment Company Limited
Zhongxing Software	Shenzhen Zhongxing Software Company Limited
ZTE Kangxun	Shenzhen ZTE Kangxun Telecom Company Limited
ZTE Group Finance	ZTE Group Finance Co., Ltd.
Medium Term Note(s) or Perpetual capital instruments	Perpetual Medium Term Notes
Shanghai Zhongxing	Shanghai Zhongxing Telecom Equipment Technologies Company Limited
ZTE Microelectronics	ZTE Microelectronics Technology Company Limited
Nubia	Nubia Technology Limited
ZTE We Link	Shenzhen ZTE We Link Technology Company
ZTEsoft	ZTEsoft Technology Company Limited
Latest Practicable Date	10 April 2016, being the latest practicable date for ascertaining the contents set out in this report prior to its printing

Glossary

This glossary contains definitions of certain technical terms used in this report as they relate to the Group. Some of these definitions may not correspond to standard industry definitions or usage.

2G	Second-generation mobile networks featuring digital wireless radio technology that enables larger network capacity, improved voice quality and more secure encryption, as well as seamless international roaming for users which includes GSM and CDMA. GSM (Global System for Mobile Communication) is a global system for cellular mobile communications originated in Europe using TDMA, while CDMA is a standard for spread spectrum technology. The data rate of 2G can reach 115.2Kbps. The data rate of GSM using EDGE (enhanced data rate for GSM evolution) can reach 384Kbps.
3G	Third-generation mobile networks supporting peak data rate of 144Kbps at mobile user speeds, 384Kbps at pedestrian user speeds and 2Mbps at fixed locations.
4G	Fourth-generation mobile networks operating according to IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, which support theoretical download rates of 1Gbit/s at fixed locations and 100Mbit/s in motion.
5G	Fifth-generation mobile communications, which is a general reference to the ensemble of post-4G broadband wireless communication technologies. The general view of the industry is that 5G is capable of providing faster data throughput (1,000 times faster than currently available) and more connections (100 times more than currently available), more efficient utilisation of energy (10 times of the current level of efficiency) and shorter end-to-end time delay (1/5 of the current length of time delay). It goes beyond human-to-human communication to cover a wide range of applications such as ultra-intensive networks, machine-to-machine communication and the internet of vehicles.
Pre-5G	The adoption of the 5G technology without modifying existing air interfaces standards, providing in advance a 5G-like user experience on existing terminals.
LTE	LTE (Long Term Evolution) which is the long-term evolution of 3G technology, refers to fourth-generation mobile communication technologies with OFDM as its core technology. LTE is being promoted by 3GPP and is continuously under evolution. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE of frequency division and TDD-LTE of time division. The mixed operation of FDD-LTE and TDD-LTE is supported. In terms of networking, its supports homogeneous networks formed by macro base stations as well as heterogeneous networks formed by macro base stations and micro base stations.
ICT	New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).
Cloud Radio	An innovative radio solution capable of automatic selection of optimal synchronization modes based on the properties of the mobile networks and mobile bearer conditions. It can effectively reduce inter-cell interference in LTE networks and significantly boost network performance in the cell edge.
QCell	QCell connects the BBU (base-band unit) to the PICO RRU (a small remote radio unit) and facilitates power supply to the PICO RRU through Ethernet, enabling LTE indoor coverage with the deployment of Ethernet cables only.

UBR	Ultra-broadband radio frequency that can support bandwidth of 170MHz at the 800MHz frequency band and 365MHz at the 1.8-2.1GHz frequency bands, which is significantly higher than conventional RRU (radio remote unit).
Magic Radio	An innovative technology which allows GSM and LTE to share the same frequency spectrum, hence supporting more GSM and LTE services within limited frequency spectrum width.
RCS	Rich Communication Suite, which helps carriers to develop the integrated ICT communications network business with the database of users' social connections, leveraging their strengths in network communications. By enabling manufacturers and corporations on the Internet to cooperate through integrated communication, RCS integrates existing VoIP and IM channels to into the integrated communications network and accumulates assets relating to users' information, thereby adding value to dataflow on the Mobile Internet.
PTN	Packet Transport Network, a network commonly using the MPLS-TP technology, designed to cater to the sudden nature of packet flow and the requirement for statistical multiplexing transmission and support multiple services provision with packet services as core services. PTN offers the advantage of lower total cost of use, while retaining the traditional strengths of optical transmission, such as high availability and reliability, efficient bandwidth and flow management, convenient OAM and network management, scalability and better security.
WDM	Wavelength Division Multiplexing, a technology that transmits a number of laser signals simultaneously onto a single optical fiber by using different wavelengths, resulting in the exponential increase of the transmission capacity of optical fiber.
OTN	Optical Transport Network, a transmission network formed at the optical layer based on the wavelength-division multiplexing technology. OTN solves the problems of traditional WDM networks, such as poor modulation in the no-wavelength/subwavelength services, weak network formation and weak protection, through the "digital transmission system" and "optical transmission system" regulated by a range of ITU-T recommendations such as G.872, G.709 and G.798.
PON	Provision of optical fiber access service through unpowered optical network technologies, using point-to-multipoint topological structures that enable conservation of optical fiber resources for the main trunk as well as flow management and security control functions. PON can be distinguished into FTTH, FTTDp, FTTB and FTTC based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON based on different technology standards.
IPTV	Internet Protocol Television is a brand new technology providing digital TV and a variety of other interactive services to home users utilising broadband networks and integrating Internet access, multimedia and communications in one device.
IDC	Internet Data Center, a site that houses servers of hosting companies, businesses or websites and provides maintenance and related services. It provides the infrastructure for the safe operation of various types of e-commercial activities and serves as the platform on which a company and its associates (distributors, suppliers and customers, etc) can carry out supply-chain management. IDC provides ICP, companies, media and various types of websites with safe and reliable specialised server maintenance, leasing, network bandwidth wholesale, ASP and EC services in large scale and with premium quality.

Glossary

IOT	Internet Of Things, also known as the sensor net, is a massive network connecting all sorts of information sensory devices, such as radio frequency identification units, ultra-red sensors, global positioning systems and laser scanners, to the Internet with the aim of connecting all things to the network for easy identification and management.
P-OTN	Packet Optical Transport Network, a network that facilitates MPLS-TP packet switch across an ODUk based on the uniform cell switch kernel, while supporting 100% packet to 100% OTN access in service modulation based on the PO hybrid line card. It can be extensively applied in the integrated carrier hosting of mobile backhaul, group customer lease line and home broadband, providing effective segregation of services of different natures.
SDN	Software Defined Network transforms a closed-end telecommunication equipment accommodating hardware and software into a novel architecture that features central control, open access and programmable software by separating the control face and the data face.
CDN	Content Delivery Network, a network structure that redirects a user's request to the nearest service node based on network flow and information of various nodes, such as connection and load status, distance from users and response time, on a real-time basis.
Mobile Internet	Internet access service facilitated through mobile terminals such as smart phones/handheld digital assistants, notebooks and Pad, etc. Enriched by the popularization of smart terminals, Mobile Internet services now include mobile computing, mobile music, smart phone games, positioning technology, wireless communities and wireless payments, etc.
Cloud computing	The concept underlining the fusion of traditional computing technologies such as grid computation and distributed computation with network technology development. The core idea is to centralise the management and modulation of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in business models such as SaaS, PaaS and IaaS.
Big Data	A data set that is too large and complex to be processed by existing conventional database management technologies and tools, and that requires the use of new data processing and management technologies in order to create value from the set in a speedy and economic manner. It has revolutionary long-term implications for the development of informatisation, smart applications and business models of the society. Big Data is often characterised by 4Vs: Volume, Variety, Velocity and Value.
Smart City	The application of information technologies such as Cloud Computing, Internet of Things and Big Data in combination with wireline and wireless broadband communication technologies to sense, analyse and integrate various key information of the core operation systems of the city, so as to make automated responses to various requirements such as livelihood, environmental protection, public security, urban services and industrial/commercial activities, in realisation of smart management and operation of cities, creating better lives for citizens and facilitating harmony in and sustainable development for the city.

Industry 4.0	A concept introduced by the German Federal Ministry of Education and Research and Federal Ministry of Economics and Technology at the 2013 Hanover Fair. It represents the fourth industrial revolution of humankind, following the three previous industrial revolutions characterised by the steam engine, mass production and information technology, respectively. It is based on cyber-physical systems and marked by a high level of digitalisation, Internet applications, and machine self-organization. It is essentially the application of the Internet of Things and service nets in manufacturing and the integration of industries and information based on the intelligent factory, aiming to drive the transformation of manufacturing into an intelligent operation.
M-ICT strategy	The strategy of ZTE is to be an “Enabler@M-ICT that facilitates the creation of value through information.” The letter “M” denotes a variety of meanings, which include: 1) Mobile: as handheld smart terminals become increasingly popular, ICT services are present everywhere; 2) M2M: the inter-connection of all things (Man-Man, Man-Machine, Machine-Machine); 3) Multiple connection: all-present connection; 4) Multiservice, More coverage and accessibility; 5) More secure, More reliable and easier to use.
M-ICT +	The implementation of the Internet+ strategy through M-ICT to assist the transformation of carriers and to help customers in the government and corporate service sector to increase efficiency and upgrade their operations, to the ends that the quality of people’s life in general is improved. Internet+ connects the Internet with traditional industries and incorporates the Internet characteristics of openness, inter-connection, collaborative sharing and business innovation into the manufacturing and service operations of traditional industries, so as to drive the upgrade of these traditional industries, increase social productivity and promote changes in lifestyle.
Cloud + Net + Map	The core technological model of ZTE Smart City 2.0. The “Cloud” refers to the cloud platform of the Big Data centre and upper-level applications supporting cloud services, such as the storage, sharing and retrieval of PB-grade Big Data. The “Net” refers to flexible city-wide nets with high bandwidth, such as >10,000 G optical backbone network, IOT and LPWA, supporting safe segregation, safe and reliable data transmission and flexible adaptation. The “Map” refers to multi-dimensional spatial node positioning and diversified spatial data services based on smart sensors and true 3D geographic information.
CGO Laboratory	Responsible for the incubation of innovation projects and the development and operation of Blue Ocean projects of the Company to support the implementation of the blue ocean strategy under the Company’s M-ICT strategy, in realisation of its strategic transformation to become “cooler, greener and more open.”
Wearable device	A new form of terminal device featuring the integration of software and hardware worn on the human body, capable of ongoing exchange and a considerable level of computation. It is a product arising from the ongoing developments of communications technologies, computer technologies and micro-electronic technologies under the computational concept of the “priority of people” and “human + machine unification.” It may come in the form of watches, bracelets, spectacles, helmets and footwear, etc.

Company Profile

The Company is a leading integrated telecommunications equipment manufacturer in the world market and a provider of global telecommunications solutions, with shares listed on the main board of the Shenzhen Stock Exchange and the Main Board of the Hong Kong Stock Exchange.

In November 1997, the Company conducted an initial public offering of A shares for listing on the main board of the Shenzhen Stock Exchange. The Company is currently the largest telecommunications equipment manufacturer in China's A share market. In December 2004, the Company conducted an initial public offering of H shares for listing on the Main Board of the Hong Kong Stock Exchange, becoming the first A-share company to be listed on the Main Board of the Hong Kong Stock Exchange.

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.

The Group is one of the major telecommunications equipment suppliers in China's telecommunications market and has also succeeded in gaining access to the international telecommunications market with respect to each of its major product segments. The Group has achieved a leading market position for its various telecommunications products in China with longstanding business ties with China's leading telecommunications service providers such as China Mobile, China Telecom and China Unicom, and is recognised as a "benchmark enterprise in Smart City". With respect to the global telecommunications market, the Group has provided innovative technology and product solutions to telecommunications service providers and government and corporate clients in more than 160 countries and regions, making contributions to facilitate communications via multiple means, such as voice, data, multi-media, wireless broadband and cable broadband, for users all over the world.

Corporate Information

1	Legal name (in Chinese)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2	Legal representative	Zhao Xianming
3	Secretary to the Board of Directors	Cao Wei
	Company Secretary	Feng Jianxiong
	Securities affairs representatives	Xu Yulong
	Correspondence Address	No. 55, Hi-tech Road South Shenzhen, Guangdong Province The People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	IR@zte.com.cn
4	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
	Website	http://www.zte.com.cn
	E-mail	IR@zte.com.cn
	Principal place of business in Hong Kong	36/F, Tower Two, Times Square 1 Matheson Street, Causeway Hong Kong
5	Authorised representatives	Shi Lirong Feng Jianxiong
6	Media designated for information disclosure by the Company	China Securities Journal, Securities Times Shanghai Securities News
	Authorised websites on which this report is made available	http://www.cninfo.com.cn http://www.hkexnews. hk
	Place where this report is available for inspection	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, The People's Republic of China

Corporate Information

7	Listing information	**A shares** Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063 **Corporate Bonds** (matured on 13 June 2015) Shenzhen Stock Exchange Abbreviated name of bond: 12中興01 Bond code: 112090 **H shares** Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763
8	Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–16, 17th Floor, Hopewell Centre 183 Queen's Road East, Wanchai, Hong Kong
9	Legal advisers	
	As to Chinese law	Beijing Jun He Law Offices 20th Floor, China Resources Building Beijing, The People's Republic of China
	As to Hong Kong law	Paul Hastings 21-22/F, Bank of China Tower, 1 Garden Road Hong Kong
10	Auditors	
	PRC	Ernst & Young Hua Ming LLP Level 16, Ernst & Young Tower Oriental Plaza No. 1 East Chang An Avenue Dong Cheng District Beijing, The People's Republic of China Signing Accountants: Liao Wenjia, Fu Jie
	Hong Kong	Ernst & Young 22/F, CITIC Tower, No. 1 Tim Mei Avenue Central, Hong Kong

11 Other relevant information

Initial registration

Date of registration	11 November 1997
Registered address	6/F, Building 710 Lian Tang Pengji Industrial Park Luohu District, Shenzhen Guangdong Province The People's Republic of China
Licence registration number	27939873-X
Tax registration	44030327939873X
Entity code (previously "Corporate Legal Person Code")	27939873-X

As at the end of the current year

Date of registration	23 October 2013
Registered address	ZTE Plaza Keji Road South, Hi-Tech Industrial Park Nanshan District, Shenzhen Guangdong Province The People's Republic of China
Licence registration number	440301103852869
Tax registration	44030127939873X
Entity code	27939873-X

Since the initial public offering of A shares and listing on the main board of the Shenzhen Stock Exchange, there has been no change to the principal business and controlling shareholder of the Company. During the year, there was no change to the registration details of the Company.

Chairman's Statement

DEAR SHAREHOLDERS,

I hereby present the annual report of the Group for the year ended 31 December 2015, and would like to express, on behalf of the Board of Directors, our sincere gratitude to all shareholders for their concern and support for ZTE.

The Group reported growth in operating revenue and net profit attributable to holders of ordinary shares of the listed Company for 2015 as it continued to strengthen its market development efforts and enhance control over financial costs.

OPERATING RESULTS

The Group's operating revenue for 2015 amounted to RMB100.19 billion, representing a year-on-year growth of 23.0%, while net profit attributable to holders of ordinary shares of the listed company amounted to RMB3.21 billion, representing a year-on-year growth of 21.8%. Basic earnings per share amounted to RMB0.78, improving by 21.9% as compared to the previous year. For 2015, the Group's operating revenue from the domestic market and the international market amounted to RMB53.11 billion and RMB47.08 billion, respectively.

BUSINESS DEVELOPMENT

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 modernisations and other developments.

In 2015, the Group worked proactively in the domestic market in support of the network construction and application requirements of domestic carriers and government and corporate clients and maintained quality growth by offering competitive innovative solutions on the back of application of new technologies in various industries. In the international market, 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.

CORPORATE GOVERNANCE

In 2015, the Company continued to improve its corporate governance systems and regimes, regulate operations and optimise internal control regimes in accordance with the requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies, Hong Kong Listing Rules and other relevant laws and regulations. During the year, the Company formulated its "2014 Summary Report and 2015 Work Plan for Internal Control and Audit" to confirm key tasks in internal control for 2015 and effectively rolled out internal control tasks as planned to enhance the standard of the Company's operations and management and risk aversion ability.

SUSTAINABLE DEVELOPMENT

Sustainable development represents an important element in the Group's corporate culture. We constantly update ourselves with the latest ideas and standards in sustainable development and seek in-depth understanding of the demands of our stakeholders, so as to ensure the incorporation of sustainable development into our corporate strategies and improve our fulfilment of corporate social responsibility on an ongoing basis. The Group is committed to creating and enhancing value for customers and partners and facilitating the smart transformation of the society as well as its own sustainable development through ongoing proprietary innovations, in a persistent drive for research, development and innovation as its core activity. We emphasise the breaking of internal barriers and the motivation of staff so that their talents and capabilities can be brought into full play in a workplace underpinned by equality and respect. Environmental protection is practiced in every segment of operation our operation and throughout the entire life cycle of our products. New products and services with higher commercial value and eco-efficiency are being launched on an ongoing basis in a scientifically rigorous manner. We help to improve the quality of life in general, as we enhance the ability of people of different places to build a digitalised society by applying our expertise and strengths in the communications sectors to bridge up digital gaps. The Group's efforts in sustainable development and corporate social responsibility has been widely recognised by governments, international organisations and media.

FUTURE PROSPECTS

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.

Zhao Xianming
Chairman

Shenzhen, the PRC

7 April 2016

Major Events of the Group

2015

January	2015	ZTE completed VoLTE large-capacity tests ahead of its peers.
March	2015	ZTE launched the Pre-5G pre-commercial base station.
March	2015	ZTE launched its White Paper for M-ICT Strategy announcing the production of epoch-making products.
March	2015	ZTE registered over 60,000 global patents, ranking among top three in the world in the application for international patents for 5 years in a row.
May	2015	OVUM: ZTE optical networks topped the Asia Pacific region with a 28% market shares.
July	2015	ZTE announced its M-ICT Strategy for Telecommunications Operations.
November	2015	ZTE won China Telecom's central procurement tender for core routers with its T8000 product.
December	2015	ZTE launched 3D-MIMO pre-commercial testing with success.
December	2015	Successful performance testing of ZTE's vIMS/vSBC run by the laboratory of Telefonica NFV.

Highlights of Accounting Data and Financial Indicators

(I) 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

(II) MAJOR ACCOUNTING DATA OF THE GROUP FOR THE YEAR PREPARED IN ACCORDANCE WITH PRC ASBEs

Unit: RMB in millions

Item	2015
Operating revenue	100,186.4
Operating profit	320.5
Total profit	4,303.5
Net profit attributable to holders of ordinary shares of the listed company Note	3,207.9
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company Note	2,577.9
Net cash flows from operating activities	7,404.7

Note: The Company completed the issue of 2015 Tranche I Medium Term Notes 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, similarly hereinafter.

Extraordinary gains or losses items and amounts that have been deducted are as follows:

Unit: RMB in millions

Item	2015
Non-operating income	939.2
Gains/(losses) from fair value change	(183.7)
Investment income	452.0
Less: Losses/(gains) on disposal of non-current assets	28.9
Less: Other non-operating expenses	431.0
Less: Effect of income tax	112.1
Less: Effect of non-controlling interests (after tax)	5.5
Total	**630.0**

Highlights of Accounting Data and Financial Indicators

Major accounting data of the year analysed by quarter is set out as follows:

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.

(III) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP FOR THE PAST THREE YEARS PREPARED IN ACCORDANCE WITH PRC ASBEs

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	**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	**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 1	**29,660.1**	24,878.6	19.22%	22,532.7
Share capital (million shares) Note 2	**4,150.8**	3,437.5	20.75%	3,437.5

Note 1: 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 2: 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.

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

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
Basic earnings per share (RMB/share) Note 1	**0.78**	0.64	21.88%	0.33
Diluted earnings per share (RMB/share) Note 2	**0.77**	0.64	20.31%	0.33
Basic earnings per share after extraordinary items (RMB/share) Note 1	**0.62**	0.50	24.00%	0.02
Weighted average return on net assets (%) Note 3	**12.28%**	11.10%	Increased by 1.18 percentage points	6.17%
Weighted average return on net assets after extraordinary items (%) Note 3	**9.87%**	8.74%	Increased by 1.13 percentage points	0.33%
Net cash flows from operating activities per share (RMB/share) Note 4	**1.78**	0.61	191.80%	0.63

Item	As at 31 December 2015	As at 31 December 2014	Year-on-year change	As at 31 December 2013
Net asset per share attributable to holders of ordinary shares of the listed company (RMB/share) Note 5	**7.15**	6.03	18.57%	5.46
Gearing ratio (%)	**64.14%**	75.25%	Decreased by 11.11 percentage points	76.39%

Highlights of Accounting Data and Financial Indicators

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.

3. 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	**630.0**	561.6	1,284.7

(IV) MAJOR FINANCIAL INFORMATION OF THE GROUP FOR THE PAST FIVE YEARS PREPARED IN ACCORDANCE WITH HKFRSs

Unit: RMB in millions

	Year ended 31 December				
Results	**2015**	2014	2013	2012 (Restate)	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

	As at 31 December				
Assets and liabilities	**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

Highlights of Accounting Data and Financial Indicators

(V) 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) Note 1	**0.78**	0.64	0.33	(0.69)	0.51
Net asset per share (RMB/share) Note 2	**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.

(VI) 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.

Summary of the Company's Business

I. 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.

II. 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.

III. MAJOR ASSETS

There was no significant change in the major assets of the Group during the year. For an analysis of the Group's assets and liabilities, please refer to the section headed "Report of the Board of Directors — (II) Management Discussion and Analysis under PRC ASBEs — 8. Analysis of the Group's assets and liabilities" in this report.

Summary of the Company's Business

IV. TECHNOLOGICAL INNOVATION

The Group continued to drive technological progress and enhance its core competitiveness in a systematic manner through ongoing development of technological capabilities and new products based on its profound understanding of the trends in the ICT industry, in persistent adherence to the principles of proprietary innovation. During the 2015, the Group introduced the "M-ICT+" concept of development on the back of the M-ICT strategy announced in 2014. With a strong emphasis on the "interconnection of all things and the cogeneration of value," vigorous efforts were made to expand our business in the carriers' market, government and corporate markets, consumer market and strategic emerging markets, striving to become a value enabler in the M-ICT era that facilitates value creation through information and unveils the new era of mobile inter-connection of all things.

In terms of product strategy, the Group remained focused on broadband-based products series, such as 4G, routers, PTN, WDM, OTN, PON, IPTV, multimedia video, IDC, Cloud Computing and smart terminals. Government and corporate markets and services, which were sectors holding out considerable market potential, also became a focus for development.

In connection with wireless products, the commercial application of multi-mode soft-baseband chips and digital intermediate frequency chips have provided strong assurance for our wireless broadband construction. With the launch of cutting-edge solutions, such as Cloud Radio, QCell, UBR and Magic Radio, the Group continued to maintain relatively strong growth in the market created by the deployment of new 4G networks in the PRC and elsewhere. The Group also achieved breakthroughs in the research of key 5G technologies covering a wide range of aspects, such as the design of network architectures, multi-antenna technologies, high-frequency communications, IOT (Internet of Things) integration and new businesses, while launching a number of unique labeling technologies. The Pre-5G base station of ZTE, which received the 2015 GTB Innovative Wireless Infrastructure Solution Award, was successfully deployed for the pre-commercial experimental bureaus and became commercially ready, providing a sound foundation for subsequent market consolidation, the upcoming tender of full frequency bands and global Pre-5G deployment.

In connection with wireline products, we secured our first central procurement orders from China Telecom with our core routers T8000. The delivery of P-OTN product, which featuring the integration of packet and optical network, for commercial scale application signified the further expansion of our capacity for optical transmission products. We continued to maintain our edge in access product technologies with the launch of optical access NGPON2 and copper-wire access G.fast, while the product competitiveness of fixed-line terminals was considerably enhanced with the large-scale dispatch of proprietary chips for fixed-line terminals. A series of SDN solutions were announced to address the SDN-based technological revolution of telecommunication networks.

In connection with Cloud Computing and IT products, the Group embraced opportunities presented by the Internet, Cloud, Big Data and intelligentisation, breaking into the high-end financial market with its Big Data and distributive database, while the deployment of data centres in the domestic and international markets was accelerated. We won the central procurement tender of China Mobile with our RCS products, while global market shares for online video and set-top box products were further enlarged. We also claimed leadership in market shares for the integrated CDN product in the carriers' market. Meanwhile, breakthroughs were made in the research of cutting-edge technologies such as Big Video, smart enquiry response systems and artificial intelligence, which were set to provide a new growth niche for the Group.

In connection with government and corporate business, the Group planned and developed the Smart City 2.0 Solution based on the sharing of Big Data at municipal level facilitated through the Cloud platform. This solution was focused on the upper-level design and planning of the city and applied technologies in Cloud Computing, the Internet and the Internet of Things for sensors, data collection, data erasure and data extrapolation, etc to provide safe and reliable visits and inter-connection in upper-level applications, forming a "Cloud + Net + Map" Smart City network. Currently, it has been implemented in more than 140 cities in China and over 40 countries elsewhere, making us a leader in the building of Smart Cities.

In connection with the consumer business, the smart phone terminal products of the Group were focused on high-end feature models to cater to mainstream buyers. The globally launched AXON series included AXON mini, the first Android phone in the world that fully supports 3D touch (pressure sensitive screen). In a further move to expand and innovate, the Group also launched the AXON Smart Watch and SPRO portable smart projector. In terms of technology, we continued with our sophisticated efforts in the creation of voice interactive platform and safe handset platform.

In 2015, the Group continued with its development of the "CGO Laboratory," which was specifically designated as the operating arm for innovative projects in strategic new business sectors established to further enhance the incubation of innovative projects and the development of new businesses and sectors. In line with the principle of being "Cool (pursuit of immaculate quality), Green (energy conservation) and Open (welcoming cooperation)", the CGO Laboratory was committed to cross-disciplinary innovation and commenced business deployments in innovative solutions such as smart manufacturing, drone communications, smart water supply and marine communication, low earth satellite communications, etc, with a view to the future development of M-ICT.

The Group generally maintains an annual R&D budget equivalent to approximately 10% of its sales revenue. Currently, the Group has 20 R&D centres in China, the United States, Sweden, France, Japan and Canada, as well as more than 10 joint innovation centres established in association with leading carriers to ensure success in the market through better assessment of market demand and customers' experience.

As at 31 December 2015, the Group held patent assets of over 66,000 items, including granted patents of over 24,000 items. With memberships at more than 70 international standardisation organisations and forums, convenorships and presenter roles at major international standardisation organisations taken up by more than 30 experts from the Group, the presentation of over 32,000 research papers in aggregate to international standardisation organisations and editorships and authorships for more than 250 international standards, the Group continued to foster strengths in technologies and patents for key products and technologies, ensuring ongoing enhancement in its ability to counter patent risks.

In 2015, the "Theoretical breakthroughs and technological innovations in lightning grounding for communication bureau (station) systems and applications in China and other countries" project, of which the Group was a participating member, garnered the Class II National Award for Progress in Science and Technology.

In 2015, the Group undertook leading roles in a number of key national technological projects, such as the "next-generation broadband wireless mobile communication network," in addition to the R&D and industrialisation of more than 10 projects including the National 863 Project, Industrial Transformation and Upgrade Project and Technological Upgrade Project.

"ZTE Forum for Cooperation of Enterprises, Academies and Research Institutes" has been formed to solicit memberships among leading domestic colleges and research institutes specialising in telecommunications technologies, in support of the government's call for the formation of a regime for cooperation in technological innovation, where the enterprise, academic and research sectors join forces in market-oriented initiatives under the leadership of business enterprises. By far 30 institutions have joined the Forum. The Group will continue to drive the establishment of united innovation centres and united laboratories in association with tertiary institutions and the joint undertaking of key national projects and industrialization projects of the National Development and Reform Commission.

Report of the Board of Directors

The Board of Directors hereby presents the audited operating results report together with the financial statements of the Group for the year ended 31 December 2015.

BUSINESS OF THE GROUP

The Group is principally engaged in 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.

FINANCIAL RESULTS

Please refer to page 166 and page 330 of this report for the results of the Group for the year ended 31 December 2015 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

FINANCIAL SUMMARY

Set out on pages 19–22 of this report are the results and financial position of the Group for the three financial years ended 31 December 2015 prepared in accordance with the PRC ASBEs.

Set out on page 23–24 of this report are the results and financial position of the Group for the five financial years ended 31 December 2015 prepared in accordance with HKFRSs, which have been extracted from the respective financial statements of the Group for each of the five financial years ended 31 December 2011, 2012, 2013, 2014 and 2015 prepared in accordance with HKFRSs.

(I) 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.

Report of the Board of Directors

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 set up 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 (II) headed "Management Discussion and Analysis under PRC ASBEs" and section (III) headed "Management Discussion and Analysis under HKFRSs" in this chapter.

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 this 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 this report.

(II) 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 this report.

1. Breakdown of indicators by industry, business segment and region 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)**

Report of the Board of Directors

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					
Operating revenue	**Operating costs**	**Gross profit margin**	Operating revenue	Operating costs	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)
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, 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 this report.

2. Indicators for major business accounting for over 10% of the Group's operating revenue for the year

Unit: RMB in millions

By business segment	Operating revenue	Operating costs	Gross profit margin
Carriers' networks	57,222.7	36,016.5	37.06%
Government and corporate business	10,496.7	6,230.7	40.64%
Consumer business	32,467.0	26,853.2	17.29%

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3. *Breakdown of the Group's costs by principal items*

Unit: RMB in millions

Industry	Item	2015 Amount	2015 As a percentage of operating costs	2014 Amount	2014 As a percentage of operating costs	Year-on-year increase/ decrease
Manufacturing of communication equipment	Raw materials	**54,436.1**	**78.78%**	43,414.0	77.86%	25.39%
	Engineering costs	**12,796.6**	**18.52%**	10,576.6	18.97%	20.99%
	Total	**67,232.7**	**97.30%**	53,990.6	96.83%	24.53%

4. *Breakdown of the Group's expenses by principal items*

Unit: RMB in millions

Item	2015	2014	Year-on-year increase/ decrease
Selling and distribution expenses	**11,771.7**	10,259.2	14.74%
General and administrative expenses	**2,383.4**	2,031.4	17.33%
Finance expenses	**1,430.8**	2,101.0	(31.90%) Note 1
Income tax	**563.3**	810.5	(30.50%) Note 2

Note 1: Attributable mainly to the Group's effort to strengthen control over financial costs, optimise its debt structure and lower interest expenses during the period.

Note 2: Attributable mainly to the application of the Company's profit for the period in making up losses for previous years and decrease in profit of certain subsidiaries for the period.

5. *Research and development expense of the Group*

Item	2015	2014	Year-on-year increase/decrease
Headcount of R&D personnel	**31,703**	27,101	16.98%
R&D personnel as a percentage of total headcount	**37.46%**	35.84%	Increased by 1.62 percentage points
Amount of R&D expense (RMB in million)	**12,200.5**	9,008.5	35.43% Note 1
R&D expense as a percentage of operating revenue	**12.18%**	11.06%	Increased by 1.12 percentage points
Amount of capitalised R&D expense (RMB in million)	**820.9**	1,292.2	(36.47%) Note 2
Capitalised R&D expense as a percentage of R&D expense	**6.73%**	14.34%	Decreased by 7.61 percentage points

Note 1: Attributable mainly to the continuous increase in the investment in the research and development of products such as 5G, high-end routers, LTE, SDN,GPON and core chips for the period.

Note 2: Mainly reflecting increased investments during the period in 5G and chips, which remained in the stage of research.

6. Breakdown of the Group's cash flow

Unit: RMB in millions

Item	2015	2014	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**117,862.3**	97,264.4	21.18%
Sub-total of cash outflows from operating activities	**110,457.6**	94,751.8	16.58%
Net cash flows from operating activities	**7,404.7**	2,512.6	194.70% Note 1
Sub-total of cash inflows from investing activities	**2,299.7**	1,832.4	25.50%
Sub-total of cash outflows from investing activities	**3,875.1**	3,455.1	12.16%
Net cash flows from investing activities	**(1,575.4)**	(1,622.7)	2.91%
Sub-total of cash inflows from financing activities	**29,649.5**	39,753.8	(25.42%)
Sub-total of cash outflows from financing activities	**26,067.5**	43,480.1	(40.05%) Note 2
Net cash flows from financing activities	**3,582.0**	(3,726.3)	196.13% Note 2
Net increase in cash and cash equivalents	**9,386.9**	(2,888.1)	425.02% Note 3

Note 1: Mainly reflecting the increase in cash received for the sales of goods and rendering of services;

Note 2: Mainly reflecting the decrease in cash paid for debt settlement;

Note 3: Mainly reflecting the increase in cash received for the issue of Medium Term Notes during the period.

For an explanation of reasons for the difference between net cash flows from operating activities and net profit of the Group for the year, please refer to Note V 53. Supplemental information on the cash flow statement to the financial statements prepared under PRC ASBEs.

7. Reasons for 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.

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(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. Analysis of the Group's assets and liabilities

(1) Change in assets

Unit: RMB in millions

Item	**As at 31 December 2015**		As at 31 December 2014		Year-on-year increase/ decrease in percentage of total assets (percentage points)
	Amount	**As a percentage of total assets**	Amount	As a percentage of total assets	
Total assets	**120,893.9**	**100%**	106,214.2	100%	—
Cash	**28,025.0**	**23.18%**	18,115.9	17.06%	6.12
Trade receivables	**25,251.3**	**20.89%**	25,153.0	23.68%	(2.79)
Inventories	**19,731.7**	**16.32%**	19,592.3	18.45%	(2.13)
Investment properties	**2,010.4**	**1.66%**	2,004.5	1.89%	(0.23)
Long-term equity investments	**560.9**	**0.46%**	461.3	0.43%	0.03
Fixed assets	**7,692.2**	**6.36%**	7,348.3	6.92%	(0.56)
Construction in progress	**643.8**	**0.53%**	262.9	0.25%	0.28

(2) Change in liabilities

Unit: RMB in millions

Item	**As at 31 December 2015**		As at 31 December 2014		Year-on-year increase/ decrease in percentage of total assets (percentage points)
	Amount	**As a percentage of total assets**	Amount	As a percentage of total assets	
Short-term loans	**7,907.6**	**6.54%**	10,998.1	10.35%	(3.81)
Long-term loans due within one year	**4,617.6**	**3.82%**	6,174.3	5.81%	(1.99)
Long-term loans	**6,016.3**	**4.98%**	10,039.7	9.45%	(4.47)

(3) Assets and liabilities at fair value

① Items relating to fair value measurement

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Amount purchased for the period	Amount disposed of for the period	Closing balance
Financial assets							
Including: 1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	—	—	—	—	—	—	—
2. Derivative financial assets	240,973	(181,278)	4,796	—	—	—	10,110
3. Available-for-sale financial assets	319,469	—	712,418	—	—	147,610	1,093,001
Sub-total of financial assets	560,442	(181,278)	717,214	—	—	147,610	1,103,111
Investment properties	2,004,465	5,931	—	—	—	—	2,010,396
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	**2,564,907**	**(175,347)**	**717,214**	**—**	**—**	**147,610**	**3,113,507**
Financial liabilities Note	71,485	(8,335)	3,703	—	—	—	19,840

Note: Financial liabilities comprise derivative financial liabilities.

There was no material change to the measurement attributes of the principal assets of the Company during the year.

② Fair value changes in items measured at fair value and their impact on the Company's profit

Assets of the Company are stated at historical costs, except for derivative financial instruments, equity investments at fair value through profit or loss, a small number of available-for-sale financial assets and investment properties which are measured at fair value. Gains or losses arising from fair value changes in the Company's derivative financial instruments measured at fair value were subject to uncertainties relating to fluctuations in RMB/USD and RMB/EUR forward exchange rates.

③ Internal control systems relating to fair value measurement

The Company has established a fair value measurement internal control system to be operated through collaboration of various departments under the leadership of the Chief Financial Officer. The "Fair Value Measurement Internal Control Measures" (《公允價值計量的內部控制辦法》) has been formulated as a complement to the "ZTE Accounting Policies" (《中興通訊會計政策》) and the "ZTE Internal Control System" (《中興通訊內部控制制度》) to regulate the application and disclosure of fair value measurements.

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(4) Financial assets and financial liabilities held in foreign currencies

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	240,973	(181,278)	4,796	—	10,110
Including: derivative financial assets	240,973	(181,278)	4,796	—	10,110
2. Loans and receivables	40,510,003	—	—	963,133	38,473,229
3. Available-for-sale financial assets	348,375	—	(93,785)	—	131,928
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	**41,099,351**	**(181,278)**	**(88,989)**	**963,133**	**38,615,267**
Financial liabilities	13,189,929	(8,335)	3,703	—	10,205,951

9. Major customers and suppliers

Sales by the Group in 2015 to its largest customer amounted to RMB18,843.2 million, accounting for 18.81% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB42,817.2 million, accounting for 42.74% of the total sales of the Group for the year. The five largest customers were not connected to the Company in any way. None of the Directors, Supervisors, senior management, key technical personnel, shareholders holding 5% or more of the shares, de facto controller and other connected parties of the Company had any direct or indirect interest in any of the aforesaid five largest customers. None of the Directors or Supervisors of the Company or their close associates or, to the knowledge of the Board of Directors, any of the shareholders holding 5% or more of the shares of the Company had any interest in any of the five largest customers of the Group. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs).

Purchases by the Group from its largest supplier amounted to RMB2,951.8 million in 2015, accounting for 5.15% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB8,376.7 million, accounting for 14.62% of the total purchases of the Group for the year. The Company and ZTE Capital in aggregate held 31% equity interests in Zhonghe Chunsheng Fund, which in turn held 3.35% equity interests in Gongjin Electronics, one of the top five suppliers of the Company. Save for the shareholding relationships described above, the five largest suppliers were not connected to the Company in any way. None of the Directors, Supervisors, senior management, key technical personnel, shareholders holding 5% or more of the shares, de facto controller and other connected parties of the Company had any direct or indirect interest in any of the aforesaid five largest suppliers. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs).

10. Analysis of investment

(1) Overview

The Group's third-party investments in 2015 amounted to approximately RMB560,939,000, representing an increase of 21.60% compared to approximately RMB461,316,000 reported for 2014.

(2) The Company did not conduct any significant equity investment or significant non-equity investment during the year.

(3) Investment in financial assets

① Investment in securities

A. Investment in securities as at the end of the year

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Fair-value change for the period	Fair-value change accounted for in equity	Purchase during the period	Disposal during the period	Gain/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	00633.HK	China All Access Note 1	32,619.22	Fair-value measurement	38,811.70	–	(8,766.30)	–	40,081.93	4,614.40	–	Available-for-sale financial assets	Internal funds
Convertible bonds Note 2	N/A	N/A	28,293.65	Cost method	–	–	–	28,293.65	28,543.41	552.84	–	Other receivables and other non-current assets	Internal funds
Stock	300322	Speed Note 3	762.79	Fair-value measurement	9,182.40	–	(8,419.61)	–	11,614.32	10,851.53	–	Available-for-sale financial assets	Issue proceeds
Stock	603118	Gongjin Electronics Note 3	4,274.93	Fair-value measurement	4,274.93	–	40,605.00	–	–	–	48,798.08	Available-for-sale financial assets	Issue proceeds
Stock	300438	Great Power Note 3	3,095.24	Fair-value measurement	3,095.24	–	31,240.40	–	–	–	37,350.00	Available-for-sale financial assets	Issue proceeds
Stock	002036	China-Hemp Note 4	3,266.00	Fair-value measurement	–	–	17,194.50	3,266.00	–	–	22,170.63	Available-for-sale financial assets	Issue proceeds
Stock	ENA:TSV	Enablence Technologies Note 5	1,393.10	Fair-value measurement	–	–	(612.19)	1,393.10	–	–	981.36	Available-for-sale financial assets	Internal funds
Other securities investments held at the end of the period			–	–	–	–	–	–	–	–	–	–	–
Total			**73,704.93**	**–**	**55,364.27**	**–**	**71,241.80**	**32,952.75**	**80,239.66**	**16,018.77**	**109,300.07**	**–**	**–**

Note 1: China All Access is a company listed on the Hong Kong Stock Exchange. The initial investment for the acquisition of convertible bonds of China All Access on 15 January 2013 by ZTE HK, a wholly-owned subsidiary of the Company, amounted to HKD201.5 million, equivalent to approximately RMB163.1 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.80941) on 31 January 2013. On 14 January 2015, ZTE HK converted the aforesaid convertible bonds into shares. The initial investment for the acquisition of shares of China All Access on 15 January 2013 by ZTE HK amounted to HKD201.5 million, equivalent to approximately RMB163.1 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.80941) on 31 January 2013.

Note 2: The initial investment for the acquisition of convertible bonds of China All Access on 26 February 2015 by ZTE HK, a wholly-owned subsidiary of the Company, amounted to HKD350.0 million, equivalent to approximately RMB282.9 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.80839) on 28 February 2015.

Note 3: Figures corresponding to Speed, Gongjin Electronics and Great Power are provided with Zhonghe Chunsheng Fund as the accounting subject.

Note 4: Figures corresponding to China-Hemp are provided with Jiaxing Fund as the accounting subject.

Report of the Board of Directors

Note 5: The initial investment for ZTE HK's acquisition of Enablence Technologies shares amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The book value of the investment as at the end of the reporting period was approximately HKD11,713,100, equivalent to approximately RMB9,813,600 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.83783) on 31 December 2015.

B. Details in investment in securities

a. Holdings of China All Access shares and convertible bonds

Pursuant to the "Resolution on the subscription for shares and convertible bonds of China All Access (Holdings) Limited by ZTE HK" considered and passed at the Thirty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 16 November 2012, ZTE HK, a wholly-owned subsidiary of the Company, entered into the "Agreement on the Subscription for Shares and Convertible Bonds of China All Access (Holdings) Limited" with China All Access on 16 November 2012. On 15 January 2013, ZTE HK completed subscription for convertible bonds with a principal amount of HKD201.5 million issued by China All Access for a total cash consideration of HKD201.5 million. On 14 January 2015, the HKD201.5 million China All Access convertible bonds held by ZTE HK were converted into 92,177,493 China All Access shares at a conversion price of HKD2.186 per share. ZTE HK, a wholly-owned subsidiary of the Company, entered into the "Agreement on the Subscription for Shares and Convertible Bonds of China All Access (Holdings) Limited" with China All Access on 16 November 2012. ZTE HK subscribed for 112 million shares allotted and issued by China All Access on 15 January 2013 for a total cash consideration of HKD201.5 million. As at the end of the year, ZTE HK no longer held any shares in China All Access.

Pursuant to "Resolution on the subscription of China All Access (Holdings) Limited convertible bonds by ZTE HK" considered and approved at the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, ZTE HK, a wholly-owned subsidiary of the Company, entered into the "Agreement in relation to the Subscription of China All Access (Holdings) Limited Convertible Bonds" with China All Access on 23 December 2014 for the subscription of HKD350,000,000 convertible bonds issued by China All Access at an annual interest rate of 6% and with the principle amount paid annually within two years. On 26 February 2015, ZTE HK completed the subscription of HKD350.0 million China All Access convertible bonds. On 30 June 2015, ZTE HK transferred China All Access convertible bonds with an amount of HKD350.0 million to Oriental (Asia) Investment Holdings Limited (東方(亞洲)投資控股有限公司) for a consideration of approximately HKD356,904,110, comprising HKD350,000,000 as the principal amount of the bonds and HKD6,904,110 as the interest income ZTE HK entitled to for the period of bond holding. As at the end of the year, ZTE HK no longer held any convertible bonds of China All Access.

b. Shareholdings in Speed

As at the end of the year, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund. Zhonghe Chunsheng Fund was a partnership reported in the consolidated financial statements of the Company. On 26 October 2015, Zhonghe Chunsheng Fund transferred 8.64 million shares in Speed (following the implementation of the 2014 plan for profit distribution and conversion of capital reserve of Speed), a company listed on the GEM Board of the Shenzhen Stock Exchange, held by it. As at the end of the year, Zhonghe Chunsheng Fund no longer held shares in Speed.

c. Shareholdings in Gongjin Electronics

As at the end of the year, Zhonghe Chunsheng Fund held 10,371,500 shares in or 3.35% of the total share capital of Gongjin Electronics (a company listed on the Shanghai Stock Exchange).

d. **Shareholdings in Great Power**

As at the end of the year, Zhonghe Chunsheng Fund held 3.00 million shares in Great Power, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.57% of the total share capital of Great Power.

e. **Shareholdings in China-Hemp**

As at the end of the year, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaxing Fund, which was a partnership reported in the consolidated financial statements of the Company. As at the end of the year, Jiaxing Fund held 7,198,300 shares in China-Hemp, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 1.21% of the total share capital of China-Hemp.

f. **Shareholdings in Enablence Technologies**

ZTE HK, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies on 4 December 2014. ZTE HK subscribed for 18 million shares issued by Enablence Technologies on 6 January 2015 for a total cash consideration of CAD2.70 million. As at the end of the year, ZTE HK held 18.00 million shares in Enablence Technologies, accounting for 4.29% of its total share capital.

C. Save as aforesaid, the Group did not hold any stocks in non-listed financial enterprises such as commercial banks, securities companies, insurance companies, trust companies and future companies, or conduct securities investment such as dealing in stocks of other listed companies during the reporting period.

② Derivative investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment Note 1	Initial investment amount in the derivative investment	Start date	End date	Opening balance of investment amount	Purchase during the period	Disposal during the period	Impairment provision (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets Note 2 of the Company at the end of the period (%)	Actual profit or loss for the reporting period
HSBC	N/A	No	Interest rate swap Note 3	–	2011/12/19	2016/7/8	31,002.50	–	–	–	32,470.00	1.09%	–
Standard Chartered Bank	N/A	No	Interest rate swap Note 3	–	2011/12/22	2016/7/8	31,002.50	–	–	–	32,470.00	1.09%	–
BOC	N/A	No	Foreign exchange forwards	–	2015/7/8	2016/9/16	195,576.94	196,827.30	347,037.81	–	45,366.43	1.53%	3,856.59
Santander S.A.	N/A	No	Foreign exchange forwards	–	2015/7/8	2016/3/10	28,709.56	63,939.27	64,299.92	–	28,348.91	0.96%	2,409.93
CITIC Bank	N/A	No	Foreign exchange forwards	–	2015/5/6	2016/8/24	32,336.23	137,034.44	119,529.87	–	49,840.80	1.68%	4,236.95
Other banks	N/A	No	Foreign exchange forwards	–	2015/7/8	2016/12/28	427,187.48	502,104.63	856,295.00	–	72,997.11	2.46%	6,205.46
Total				**–**	**–**	**–**	**745,815.21**	**899,905.64**	**1,384,227.60** Note 4	**–**	**261,493.25**	**8.81%**	**16,708.93**

Report of the Board of Directors

Source of funds for derivative investment	Internal funds
Litigation (if applicable)	Not involved in any litigation
Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)	"Announcement Resolutions of the Sixteenth Meeting of the Sixth Session of the Board of Directors" and "Announcement on the Application for Derivative Investment Limits for 2014," both dated 26 March 2014, and "Announcement Resolutions of the Twenty-fifth Meeting of the Sixth Session of the Board of Directors" and "Announcement on the Application for Derivative Investment Limits for 2015," both dated 25 March 2015.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	"Announcement on Resolutions of the 2013 Annual General Meeting" dated 29 May 2014 and "Announcement on Resolutions of the 2014 Annual General Meeting" dated 28 May 2015.
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	Value-protection derivative investments were conducted by the Company during 2015. The major risks and control measures are discussed as follows: 1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date; 2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company's budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company's current assets was insignificant; 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks;

	5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.
Changes in the market prices or fair values of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The Company has recognised gains from investments in derivatives during the reporting period. Total gains recognised for the reporting period amounted to RMB167.09 million, comprising losses from fair-value change of RMB132.48 million and recognised investment income of RMB299.57 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period	There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.
Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control	Independent Non-executive Directors' Opinion: The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.

Report of the Board of Directors

Note 1: Derivative investments are classified according to their types and the bankers involved.

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

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

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

(4) Entrusted fund management and entrusted loans

① Entrusted fund management

Unit: RMB in ten thousands

Name of trustee	Whether a connected transaction	Product type	Amount of entrusted investment	Commencement date	Maturity date	Method for determining remuneration	Principal amount returned for the period	Impairment provision amount (if any)	Estimated gain	Actual profit or loss for the reporting period	Actual recovery of profit or loss for the reporting period
China Development Bank Corporation, Shenzhen Branch	No	Bank investment product	1,500	2015–04–17	2015–07–14	Settlement upon maturity on an as-incurred basis	1,500	–	–	19.35	19.35
China Development Bank Corporation, Shenzhen Branch	No	Bank investment product	1,900	2015–05–15	2015–08–13	Settlement upon maturity on an as-incurred basis	1,900	–	–	24.83	24.83
China Guangfa Bank Co., Ltd, Shenzhen Branch	No	Bank investment product	3,990	2015–06–23	2015–07–24	Settlement upon maturity on an as-incurred basis	3,990	–	–	17.28	17.28
China Merchants Bank, Licheng Sub-branch, Quanzhou	No	Bank investment product	320	2014–12–25	2015–03–10	Settlement upon maturity on an as-incurred basis	320	–	–	0.63	0.63
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	500	2015–01–12	2015–01–28	Settlement upon maturity on an as-incurred basis	500	–	–	1.13	1.13
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	800	2015–01–13	2015–02–16	Settlement upon maturity on an as-incurred basis	800	–	–	3.95	3.95
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,500	2015–01–19	2015–02–26	Settlement upon maturity on an as-incurred basis	1,500	–	–	8.43	8.43
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	500	2015–02–03	2015–04–08	Settlement upon maturity on an as-incurred basis	500	–	–	4.65	4.65
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	500	2015–03–04	2015–04–20	Settlement upon maturity on an as-incurred basis	500	–	–	3.28	3.28
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000	2015–03–11	2015–05–29	Settlement upon maturity on an as-incurred basis	1,000	–	–	11.47	11.47
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	800	2015–03–11	2015–07–10	Settlement upon maturity on an as-incurred basis	800	–	–	14.85	14.85
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	500	2015–04–20	2015–06–01	Settlement upon maturity on an as-incurred basis	500	–	–	3.05	3.05
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	500	2015–04–27	2015–10–15	Settlement upon maturity on an as-incurred basis	500	–	–	13.12	13.12

Name of trustee	Whether a connected transaction	Product type	Amount of entrusted investment	Commencement date	Maturity date	Method for determining remuneration	Principal amount returned for the period	Impairment provision amount (if any)	Estimated gain	Actual profit or loss for the reporting period	Actual recovery of profit or loss for the reporting period
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	500	2015–06–02	2015–08–11	Settlement upon maturity on an as-incurred basis	500	–	–	4.70	4.70
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	500	2015–06–10	2015–09–18	Settlement upon maturity on an as-incurred basis	500	–	–	6.99	6.99
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	200	2015–06–19	2015–07–21	Settlement upon maturity on an as-incurred basis	200	–	–	0.86	0.86
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	250	2015–06–25	2015–08–24	Settlement upon maturity on an as-incurred basis	250	–	–	2.10	2.10
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	800	2015–07–15	2015–10–08	Settlement upon maturity on an as-incurred basis	800	–	–	8.57	8.57
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	200	2015–07–23	2016–01–20	Settlement upon maturity on an as-incurred basis	–	–	–	–	–
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	60	2015–07–28	2015–10–26	Settlement upon maturity on an as-incurred basis	60	–	–	0.62	0.62
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	30	2015–08–05	2015–11–16	Settlement upon maturity on an as-incurred basis	30	–	–	0.36	0.36
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	450	2015–08–19	2015–11–19	Settlement upon maturity on an as-incurred basis	450	–	–	4.76	4.76
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	245	2015–09–02	2015–12–02	Settlement upon maturity on an as-incurred basis	245	–	–	2.63	2.63
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	500	2015–09–22	2015–11–17	Settlement upon maturity on an as-incurred basis	500	–	–	3.15	3.15
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	550	2015–10–20	2015–12–22	Settlement upon maturity on an as-incurred basis	550	–	–	3.70	3.70
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	700	2015–10–26	2015–12–28	Settlement upon maturity on an as-incurred basis	700	–	–	4.59	4.59
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	537	2015–01–06	T+1 redemption	Investment income for the previous month cut off at dividend record date of each month	537	–	–	16.11	16.11
China Merchants Bank, Zhongguancun Sub-branch, Beijing	No	Bank investment product	1,000	2015–05–26	2015–08–26	Settlement upon maturity on an as-incurred basis	1,000	–	–	13.88	13.88
China Merchants Bank, Water Flowers Sub-branch, Shenzhen	No	Bank investment product	500	2015–05–07	2015–12–14	Settlement upon maturity on an as-incurred basis	500	–	–	9.6	9.6
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	150	2015–10–09	2015–11–13	Settlement upon maturity on an as-incurred basis	150	–	–	0.3	0.3
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	800	2015–10–09	2015–12–11	Settlement upon maturity on an as-incurred basis	800	–	–	3.5	3.5

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Name of trustee	Whether a connected transaction	Product type	Amount of entrusted investment	Commencement date	Maturity date	Method for determining remuneration	Principal amount returned for the period	Impairment provision amount (if any)	Estimated gain	Actual profit or loss for the reporting period	Actual recovery of profit or loss for the reporting period
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	45	2015-10-09	2015-12-29	Settlement upon maturity on an as-incurred basis	45	–	–	0.15	0.15
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	150	2015-11-13	2015-12-29	Settlement upon maturity on an as-incurred basis	150	–	–	0.12	0.12
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	225	2015-12-16	2015-12-29	Settlement upon maturity on an as-incurred basis	225	–	–	0.36	0.36
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	150	2015-12-16	2016-01-20	Settlement upon maturity on an as-incurred basis	–	–	–	–	–
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	350	2015-12-16	2016-03-16	Settlement upon maturity on an as-incurred basis	–	–	–	–	–
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	2,000	2015-10-09	2016-01-11	Settlement upon maturity on an as-incurred basis	–	–	–	–	–
Total			**25,202**	**–**	**–**	**–**	**22,502**	**–**	**–**	**213.07**	**213.07**

Source of funds for entrusted investment	Internal funds
Aggregate amount of overdue and outstanding principal and gain	Nil
Litigation incurred (if applicable)	N/A
Date of announcement of the Board of Directors regarding the approval of entrusted investment (if any)	"Announcement Resolutions of the Twenty-fifth Meeting of the Sixth Session of the Board of Directors" published on 25 March 2015
Date of announcement of the general meeting regarding the approval of entrusted investment (if any)	N/A
Whether there are entrusted investment plans in future	Yes

② **During the year, the Company did not enter into any entrusted loans.**

(5) Use of Issue Proceeds

① **Overview of Corporate Bonds (12中興01)**

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

As considered and approved at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2012 of the Company, proceeds from the Issue shall be applied to the repayment of bank loans and provision of additional working capital for the Company. The actual use of the proceeds shall be determined by the Board of Directors, as authorised by the general meeting, based on the fund requirements of the Company. For details, please refer to the Overseas Regulatory Announcement published by the Company on 11 July 2012. As at 31 December 2012, proceeds from the Issue had been fully utilised.

② **Commitment of issue proceeds**

☐ Applicable ✓ N/A

③ **Change in the use of issue proceeds**

☐ Applicable ✓ N/A

11. Material asset and equity disposal by the Group

The Group did not conduct any material disposals of assets and equity interests during the year. For details of assets transactions by the Group, please refer to the section headed "Material Matters (V). Asset Transactions" in this report.

12. Analysis of principal subsidiaries and investee companies

Unit: RMB in millions

Name of company	Corporate type	Principal business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Software development	RMB51.08 million	21,389.5	5,651.5	18,459.6	(769.7)	1,439.1
Xi'an Zhongxing New Software Company Limited	Subsidiary	Communications equipment/ terminal equipment	RMB600 million	2,838.5	1,317.5	2,220.8	(82.4)	233.2
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	Subsidiary	Sales of communications products and engineering services	RMB200 million	6,012.3	946.9	4,792.7	230.5	172.5
ZTE Capital	Subsidiary	Trustee management of venture funds	RMB30 million	2,095.2	2,167.9	–	160.8	158.2
Zhongxing Telecom Pakistan (Private) Ltd.	Subsidiary	Sales of communications products and engineering services	PKR37,919,000	438.7	94.5	541.8	176.2	136.2
ZTE (USA), Inc.	Subsidiary	Sales of communications products and engineering services	USD30 million	3,703.6	295.7	8,574.9	105.8	62.6
中興通訊(俄羅斯)有限公司	Subsidiary	Sales of communications products and engineering services	RUB23.18 million	751.8	(74.0)	1,017.3	59.8	39.7
ZTE Supply Chain Co., Ltd.	Subsidiary	Supply chain management and related supporting services	RMB30 million	955.2	(25.8)	1,173.4	(146.6)	(129.6)
ZTE (Thailand) Co., Ltd.	Subsidiary	Sales of communications products and engineering services	THB50 million	1,295.2	(27.8)	1,016.7	(167.1)	(183.7)
ZTE Telecom India Private Ltd.	Subsidiary	Sales of and technical support for communications products	INR2,242,658,600	2,643.9	(1,278.7)	899.2	(400.0)	(400.0)
ZTE DO BRAZIL LTDA	Subsidiary	Production and sales of communications products	BRL6.50 million	637.5	(1,891.1)	448.6	(684.5)	(706.4)

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For information of other subsidiaries and principal investee companies, please refer to Note XV 5. Long-term equity investments and Note VII to the financial report prepared in accordance with PRC ASBEs.

For the year, 11 subsidiaries reported year-on-year difference of more than 30% in operating results. Such difference had a material impact on the consolidated operating results of the Company. Zhongxing Software, Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited, Zhongxing Telecom Pakistan (Private) Ltd., ZTE (USA), Inc. and 中興通訊(俄羅斯)有限公司 reported year-on-year net profit growth of 33.87%, 65.23%, 64.89%, 60.93% and 120.17%, respectively, reflecting mainly improvements in gross margin. Xi'an Zhongxing New Software Company Limited reported year-on-year net profit growth of 45.66% which was mainly attributable to the increase in VAT rebates for software products received. ZTE Capital reported year-on-year net profit growth of 3,128.57% which was mainly attributable to the increase in gains from share trading. ZTE Supply Chain Co., Ltd. reported year-on-year decline in net profit by 26,020.00%, which was mainly attributable to the increase in impairment provisions. ZTE (Thailand) Co., Ltd. reported year-on-year decline in net profit by 239.80%, reflecting mainly the decrease in gross profit. ZTE Telecom India Private Ltd. reported year-on-year decline in net profit by 656.33%, which was mainly attributable to the decrease in gross profit and the increase in impairment provisions for trade receivables. Net profit of ZTE DO BRAZIL LTDA decreased by 72.33%, year-on-year, reflecting mainly the impact of exchange rate volatility.

For details of subsidiaries acquired or disposed of during the year and their effect, please refer to Note VI to the financial report prepared in accordance with PRC ASBEs.

13. There was no structured entity under the control of the Company within the meaning of "ASBEs No. 41 — Disclosure of Interests in Other Entities."

14. Records of reception of investors, communications and press interviews during the year

During the year, the Company hosted 22 receptions of investors for research purposes, receiving 39 institutional investors but no individual investor or other researchers. For details, please refer to the following table. The Company did not disclose, reveal or divulge unpublished material information to such investors.

Nature	Time	Location	Mode	Audience received	Key contents of discussion	Index of research
External meetings	January 2015	Shanghai	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	January 2015	Shenzhen	Guosen Securities investors' meeting	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2015	Shenzhen	Sinolink Securities investors' meeting	Customers of Sinolink Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2015	Shenzhen	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	April 2015	Hong Kong	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	May 2015	Hong Kong	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2015	Hong Kong	BNP investors' meeting	Customers of BNP	Day-to-day operations of the Company	Published announcements and regular reports
	May 2015	Hong Kong	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	May 2015	Xiamen	Shenyin Wanguo investors' meeting	Customers of Shenyin Wanguo	Day-to-day operations of the Company	Published announcements and regular reports
	June 2015	Shanghai	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2015	Shanghai	Zheshang Securities investors' meeting	Customers of Zheshang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2015	Shanghai	Haitong Securities investors' meeting	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2015	Beijing	BOCI investors' meeting	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
	June 2015	Kunming	Essence Securities investors' meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2015	Shenzhen	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	September 2015	Shenzhen	BOCI investors' meeting	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
	October 2015	Hong Kong	Jefferies investors' meeting	Customers of Jefferies	Day-to-day operations of the Company	Published announcements and regular reports
	November 2015	Beijing	Merrill Lynch investors' meeting	Customers of Merrill Lynch	Day-to-day operations of the Company	Published announcements and regular reports
	November 2015	Beijing	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	November 2015	Shanghai	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	November 2015	Singapore	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	December 2015	Tokyo	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2015	Shanghai	Haitong Securities investors' meeting	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2015	Nanjing	Huatai Securities investors' meeting	Customers of Huatai Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2015	Shenzhen	Huachuang Securities investors' meeting	Customers of Huachuang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2015	Shenzhen	CITIC Securities investors' meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2015	Shenzhen	China Merchants Securities investors' meeting	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2015	Shenzhen	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
Company presentation	March 2015	Hong Kong	Results presentation	Analysts and investors	2014 Annual Report	Published announcements and regular reports
				Overseas investors		
Company visits by investors	January to December 2015	Company	Verbal	Jana Partners, Value Partners, Resona Bank HK, Samsung Securities, Cantor Fitzgerald, East Capital, Neuberger Berman Investment Management, BNP, Matthews International Funds, Allianz Global Investments, Mizuho Securities Asia Limited, Merrill Lynch Securities, Nezu Asia Capital, AIA Group, CLSA, Baillie Gifford & Co., Hermes Investment Management, Newport Asia LLC, Wells Capital Management, GIC, Cavalry Asset Management, JPMorgan China Region Fund, Tongyang Asset Management, Prudential Life Insurance (Korea), BOCI	Day-to-day operations of the Company	Published announcements and regular reports
				Domestic investors		
	January to December 2015	Company	Verbal	China Securities, New China Asset, First Capital Securities, Truvalue Asset Management, Founder Securities, 嘉謨資本, CJAM, Infore Capital, CSAM, Harvest Fund, China Merchants Securities, Dongguan Securities	Day-to-day operations of the Company	Published announcements and regular reports

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(III) 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 this 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

	2015		2014	
Business segment	**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

	2015		2014	
Region	**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

	2015		2014	
Business segment	**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

	2015		2014	
Business segment	**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 rose 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 dropped 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.

Report of the Board of Directors

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

Unit: RMB in millions

Item	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

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

Unit: RMB in millions

	31 December	
Item	**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.

Report of the Board of Directors

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

		31 December 2015		
Item	Total	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

	31 December	
Item	**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

	31 December	
Item	**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 this 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.

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 this 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 this 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 this 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.

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 this 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 this report.

MARKET RISKS

For details of the Group's exposure to market risks, please refer to the section headed "Report of the Board of Directors — (IV) Business outlook for 2016 and risk exposures."

Report of the Board of Directors

(IV) Business outlook for 2016 and risk exposures

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.

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.

(V) Other Matters in the Report of the Board of Directors

1. Fixed assets

Details of changes in fixed assets of the Group for the year are set out in Note 13 to the financial statements prepared in accordance with HKFRSs.

2. Bank loans and other borrowings

Details of bank loans and other borrowings of the Group as at 31 December 2015 are set out in Note 30 to the financial statements prepared in accordance with HKFRSs.

Report of the Board of Directors

3. Reserves

Details of the reserves and changes in the reserves of the Group and the Company for the year are set out in Note 38 and 52 to the financial statements prepared in accordance with HKFRSs.

4. Pre-emptive rights

There is no provision under the Company Law or the Articles of Association regarding pre-emptive rights that requires the Company to offer new shares to its existing shareholders on a pro-rata basis.

5. Share capital

Details of the share capital of the Company, together with the changes in the share capital and the reasons therefor, are set out in Note 36 to the financial statements prepared in accordance with HKFRSs and the section headed "Changes in shareholdings and information of shareholders (I) Changes in share capital during the year" in this report.

6. Competing interest

None of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

7. List of Directors

The list of Directors of the Company is set out in the section headed "Directors, Supervisors, Senior Management and Employees — (II) 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" in this report.

8. Approved indemnity clause

The Company has made proper insurance arrangements for the office of its Directors, Supervisors and senior management personnel to ensure that timely and comprehensive compensation may be made in respect of economic losses incurred by third parties as a result of the discharge of duties by such Directors, Supervisors and senior management personnel. In accordance with the provisions of Section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong), the aforesaid approved indemnity clause for the benefit of the Directors was effective at the time when the report of the Board of Directors prepared by the Directors was adopted in accordance with Section 391(1)(a) of the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

9. Taxation

In accordance with the Law on Individual Income Tax of the People's Republic of China and its regulations for implementation, dividends/bonuses obtained by overseas resident individual shareholders from shares issued in Hong Kong by Mainland non-foreign-invested enterprises shall be subject, under the category of "interests, dividend, and bonus income," to individual income tax to be withheld and paid on behalf of such shareholders by the withholding agent in accordance with the law. The Company shall withhold and pay on behalf of such shareholders such tax amounts in accordance with "Notice on the Charge and Management of Individual Income Tax After the Repeal of the Document Guo Shui Fa [1993] No. 045" (Guo Shui Han [2011] No. 348) 《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號》 issued by the State Administration of Taxation, "Tax Arrangements on Dividends Paid to Hong Kong Residents by Mainland Companies" issued by the Hong Kong Stock Exchange and pertinent laws and regulations. Shareholders are advised to consult their tax advisors on implications relating to PRC, Hong Kong and other taxes involved in the ownership and disposal of H shares of the Company.

Material Matters

(I) PROFIT DISTRIBUTION

1. 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 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 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.

2. Formulation, implementation and adjustment of profit distribution policies

According to the Articles of Association of ZTE, aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years; the profit distribution plan of the Company should be formulated by the Board of Directors and approved by the general meeting. Following a resolution on the profit distribution plan by the general meeting, the Board of Directors should complete the distribution of dividend (or shares) within two months after the general meeting; when the Board of Directors of the Company formulates a profit distribution proposal, the views of Independent Non-executive Directors should be sufficiently heard and an independent opinion should be furnished by the Independent Non-executive Directors; after the announcement of the profit distribution plan is published in accordance with the law, the views and propositions of shareholders, the minority shareholders in particular, should be sufficiently heard. If the Board of Directors has not drawn up a cash profit distribution proposal, the reasons for not making the profit distribution and the use of funds not applied to profit distribution and retained at the Company should be disclosed in regular reports, and the Independent Non-executive Directors should furnish an independent opinion thereon.

Material Matters

The 2014 plan for profit distribution and conversion of capital reserve of the Company was considered and approved at the 2014 Annual General Meeting held on 28 May 2015 and distribution was completed on 17 July 2015. A cash dividend of RMB2.0 (before tax) was paid for every 10 shares held and 2 bonus shares were issued by way of conversion of capital reserve for every 10 shares held on the basis of the total share capital of the Company of 3,437,541,278 as at the record date (comprising 2,807,955,833 A shares and 629,585,445 H shares). The record date for A shares is 16 July 2015 and the ex-dividend date for A shares is 17 July 2015. Trading of the new A shares started on 17 July 2015. The record date for H shares is 8 June 2015 and the dividend payment date for H shares is 17 July 2015. The listing date of the bonus H shares was 17 July 2015. For details, please refer to the relevant announcement published by the Company on 10 July 2015.

Aggregate profit distribution of the Company in the form of cash in 2013-2015 accounted for 130.02% of the annual average profit available for distribution in the past three years, in compliance with Article 234 of the Articles of Association which states that "Aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years."

The Company did not make any adjustments or changes to its profit distribution policy during the year.

3. Profit distribution or conversion of capital reserve in the past three years (including the reporting period)

Year	Profit distribution or conversion of capital reserve plan or proposal	Implementation
2015	The profit distribution proposal: 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.	Subject to consideration and approval at the 2015 Annual General Meeting of the Company.
2014	The plan for profit distribution and conversion of capital reserve: Cash dividend of RMB2.0 (before tax) for every 10 shares held and bonus issue of 2 shares for every 10 shares by way of conversion of capital reserve held based on the total share capital of 3,437,541,278 shares of the Company as at 31 December 2014.	Considered and approved at the 2014 Annual General Meeting of the Company.
2013	The profit distribution plan: Cash dividend of RMB0.3 (before tax) for every 10 shares held based on the total share capital of 3,437,541,278 shares of the Company as at 31 December 2013.	Considered and approved at the 2013 Annual General Meeting of the Company.

Details of cash dividend distribution for the past three years (including the reporting period):

Unit: RMB in ten thousands

Year	Cash distribution Amount (before tax)	Net profit attributable to holders of ordinary shares of the listed company in the consolidated statements	Cash distribution as a percentage of net profit attributable to holders of ordinary shares of the listed company in the consolidated statements	Profit of the year available for distribution
2015	103,836.78 Note 1	320,788.50	32.37%	259,051.70
2014	68,750.83	263,357.10	26.11%	149,358.90
2013	10,312.62	135,765.70	7.60%	13,605.60
Accumulated cash distribution amount in the past three years as a percentage of average annual profit available for distribution (%)				130.02%

Note 1: The amount of dividend distribution in cash (before tax) for 2015 is calculated 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 the said options are fully exercised prior to the close of business on the A Share Record Date, 4,159,933,893 shares in the Company will be entitled to dividend payment, which will result in a total dividend amount of not more than RMB1,040 billion.

Note 2: The Company did not conduct cash distribution by way of any other means.

(II) MATERIAL LITIGATION AND ARBITRATION

During the year, the Group did not incur any material litigation or arbitration. Progress during the year of immaterial litigation and arbitration proceedings incurred prior to the year and other litigation and arbitration proceedings incurred during the year are set out as follows:

1. In August 2005, an Indian consultant firm instituted an overseas arbitration to claim indemnity against the Company for a total amount of approximately USD1.714 million in respect of advisory fees, agency fees and related damages. The consultant firm subsequently raised its total claim amount to approximately USD2.27 million.

   The case was heard before an arbitration court formed by International Chamber of Commerce ("ICC") in Singapore during 25-28 July 2008. The Company was represented at all arbitration sessions. On 23 July 2010, the arbitration court issued its arbitration award on the arbitration fees, legal fees and travel expenses relating to the case and ruled that the Company should pay a total of USD1.323 million to the said consultant firm. Subsequent to the consultant firm's application to the High Court of Delhi in India on 28 September 2010 for the enforcement of the arbitration award, the Company filed an objection to the enforcement of the arbitration award on the grounds that the said consultant firm no longer carried the status of a corporate. On 23 September 2011, the High Court of Delhi in India ruled to reject the said consultant firm's application

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for the enforcement of the arbitration award. It also ruled that the said consultant firm may re-submit its application for the enforcement of the arbitration award after restoring its corporate status. On 30 April 2013, the High Court of Delhi in India received the application for the enforcement of arbitration award re-submitted by the said consultant firm, and the case is currently pending judgement by the court.

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

2. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB47,304,800). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB20,338,500) be paid by the Company. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. There was no substantial progress of the case during the reporting period.

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

3. Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court of Shenzhen ("Nanshan Court"), pleading for the revocation of the contract and court order of the evacuation of the work sites by China Construction Fifth Division, as well as a penalty payment for work delay in the amount of RMB24.912 million and damages of RMB11.319 million payable to the Company. Nanshan Court handed down the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth Division be revoked and a penalty payment in the amount of RMB12.817 million be payable by China Construction Fifth Division. China Construction Fifth Division filed an appeal against the aforesaid judgement with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth Division's case with Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth Division's case with Shenzhen Intermediate Court in May 2014, Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth Division was not required to pay the penalty payment of RMB12.817 million to the Company. In response to the aforesaid second trial judgement, the Company had applied to Guangdong Higher Court for retrial. On 21 January 2016, Guangdong Higher Court accepted the application for retrial and decided to proceed with retrial of the case.

   In October and November 2009, the Company further instituted two lawsuits with Nanshan Court, demanding China Construction Fifth Division to undertake a penalty payment for work delay in the amount of RMB30.615 million and the payment of RMB39.537 million, representing the amount of work payments in excess of the total contract amount. Currently, the above cases are under trial suspension.

In July 2009, China Construction Fifth Division instituted a lawsuit with the Shenzhen Intermediate Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75.563 million for raw materials and staff deployment. The Shenzhen Intermediate Court handed down a first trial judgement in November 2012, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest, damages for work suspension of approximately RMB953,000 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division has filed an appeal with Guangdong Higher Court against the said judgement, and Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth Division amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company. In response to the aforesaid second trial judgement, the Company had applied to the Supreme People's Court for retrial, which application was rejected by the Supreme People's Court. Subsequently, the Company filed a protest against such second trial judgement with Guangdong Provincial People's Procuratorate, which admitted the Company's application and referred the case to the Supreme People's Procuratorate for protest. On 24 December 2015, the Supreme People's Procuratorate filed a protest with the Supreme People's Court.

In July 2014, China Construction Fifth Division instituted a lawsuit with Nanshan Court, demanding the refund of RMB24.596 million together with interest of RMB9.118 million (tentatively accrued to 10 July 2014, although it should be accrued to the date on which the contract work amounts are settled in full), being indemnity claim amounts under a bank performance guarantee letter withheld by the Company. Currently, the above case is under trial suspension.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the aforesaid cases will not have any material adverse impact on the financial conditions and operating results of the Group.

4. A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

   On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. As at the end of the reporting period, the arbitration court had yet to make a final ruling.

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

5. In May 2011 and May 2012, ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, and the Company respectively received statements of claim filed by Huawei Technologies Co., Ltd ("Huawei") to the District Court of Dusseldorf, Germany, claiming that ZTE Deutschland and the Company had infringed 4 of its patents. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 21 March 2013, the district court rejected all allegations of Huawei in connection with the infringement on its EP 2033335 patent by the Company's LTE systems products and terminals. Huawei appealed to the Court of Appeal on 22 April 2013 and applied for the appeal case to the terminated on 3 May 2013. As of now, the other three patents are pending court trial or judgement.

   In May 2012, ZTE Deutschland received statements of claim filed by Huawei to the Court of Mannheim, Germany, claiming that ZTE Deutschland had infringed its patent rights. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 15 March 2013, the Court of Mannheim, Germany made a judgement to reject all allegations of Huawei in connection with the infringement by the LTE terminals of ZTE Deutschland, but was of the view that the LTE systems products sold by ZTE Deutschland in Germany had infringed on "a derived encryption function" of the said patent. In respect of the infringement ruled by the judgement, ZTE Deutschland and Huawei each filed an appeal to the High Court of Karlsruher, Germany on 19 April 2013. Court trial of the case has been suspended pending the procedures of the European Court of Justice for determining relevant principles for the standard patents, and has not resumed as of now. As such patent is not used in the relevant products currently sold by the Company, the litigation will not have any substantial impact on the local sales of the Company.

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

   In addition to instituting lawsuits in other countries against the Company and its wholly-owned subsidiaries for infringements of patent rights or trademarks, Huawei also filed a lawsuit with Shenzhen Intermediate Court in 2011 alleging the Company's infringement of 4 of its patent rights and demanding the Company to discontinue such infringement and pay an amount of compensation. The Company responded actively by filing a case with Shenzhen Intermediate Court alleging Huawei's infringement of 3 patent rights of the Company, demanding Huawei to discontinue such infringement and pay an amount of compensation. Trials of the aforesaid domestic cases have commenced. Shenzhen Intermediate Court has ruled to reject one of the aforesaid applications by Huawei for lawsuit on infringements of patent rights and such ruling has taken effect. In June 2015, Shenzhen Intermediate Court ruled to approve the withdrawal of remaining cases under litigation by the Company and Huawei, respectively, upon which the litigation procedures relating to the patent infringement cases between the Company and Huawei at Shenzhen Intermediate Court was closed.

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

6. On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the works performed by the Company and demanding a total compensation amount of USD23.35 million from the Company, comprising USD22.25 million as reimbursement of the cost of network reconstruction and USD1.10 million as the cost for supervising and managing construction work quality of the entire network. It also applied for the termination of the payment of outstanding project fees with an amount of USD4,213,600. The counsel engaged by the Company has submitted a defense in a timely manner. On 3 February 2016, the Business Arbitration Tribunal of Guayaquil made a final ruling that the Company should pay a compensation of USD7,822,500 to the operator. It also ruled to revoke the operator's application to terminate payment of outstanding project fees with an amount of USD4,213,600.

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

7. On 26 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by the Company and ZTE USA, a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its initial determination in respect of the case, ruling that one of the patent relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of ITC.

   On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case

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and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA have engaged a legal counsel to conduct active defense of the case and will file an appeal based on the verdicts on the three patents involved in the litigation ruled by the court to have been subject to infringement.

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

8. On 20 May 2013, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB160 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that: (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527. A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil received the judgement of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. The case is currently pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State.

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

9. In May 2012, Flashpoint Technology, Inc., a U.S. company, filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in image processing technologies. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a limited exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of Delaware, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of Delaware has been suspended. On 1 October 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

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

10. In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. There has been no substantial progress in the litigation process.

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

11. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB52,147,500). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB51,932,300) together with accrued interests and an adjustment amount for inflation. As of now, the Brazilian company has not filed any appeal.

    On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB138 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

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

12. In February 2013, Vringo Germany GmbH ("Vringo Germany") filed a patent litigation with the Court of Mannheim, Germany against the Company and ZTE Deutschland, a wholly-owned subsidiary of the Company, pleading for the UMTS products of the Company and ZTE Deutschland with TSTD (Time Switched Transmitter Diversity) functions to be ruled to have infringed upon the patent rights of Vringo Germany. In December 2013, the Court of Mannheim, Germany handed down the first trial judgement, ruling that the Company and ZTE Deutschland had infringed upon the patent rights and issuing an injunction order against the Company and ZTE Deutschland in respect of the UMTS products with TSTD functions. The Company and ZTE Deutschland filed an appeal to the aforesaid court in January 2014, pleading for the rejection of the patent infringement claims of Vringo Germany and revocation of the injunction order. Vringo Germany withdrew its litigation in October 2014. In December 2014, Vringo Germany filed a patent litigation with the Court of Dusseldorf, Germany in respect of the patents involved against the Company and ZTE Service GmbH ("ZTE Service"),

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a wholly-owned subsidiary of the Company. As the UMTS products of the Company, ZTE Deutschland and ZTE Service sold in Germany do not support TSTD functions, the injunction order will not have any impact on the business of the Company, ZTE Deutschland and ZTE Service in Germany.

In February 2014, Vringo Infrastructure Inc. ("Vringo") filed a patent litigation with the High Court of Delhi, India against the Company and ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary of the Company, pleading for the GSM products of the Company and ZTE India supporting Macro to Micro Handover Algorithm functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the High Court of Delhi, India. In February 2014, the High Court of Delhi, India issued a provisional injunction order against the Company and ZTE India in respect of the GSM products with Macro to Micro Handover Algorithm functions. In April 2014, the Company and ZTE India filed an application to the High Court of Delhi, India for the revocation of the provisional injunction order. In August 2014, the High Court of Delhi, India revoked such provisional injunction order.

In April 2014, Vringo filed a patent litigation with the Court of Rio, Brazil against the Company and ZTE Brazil, a wholly-owned subsidiary of the Company, pleading for the UMTS and LTE products of the Company and ZTE Brazil supporting RNC Relocation functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the Court of Rio, Brazil. In April 2014, the Court of Rio, Brazil issued a provisional injunction order against the Company and ZTE Brazil in respect of UMTS and LTE products supporting RNC Relocation functions. In April 2014, the Company and ZTE Brazil filed an application to the Court of Rio, Brazil for the revocation of the provisional injunction order. The Court of Rio, Brazil denied the application of the Company and ZTE Brazil. As of now, the provisional injunction order remains in effect. The Company and ZTE Brazil will actively pursue various legal means to seek the revocation of such provision injunction order. The provision injunction order affects only the UMTS and LTE products of the Company and ZTE Brazil supporting RNC Relocation functions sold in Brazil.

In June 2014, Vringo filed a patent litigation with the Court of Bucharest, Romania against the Company and ZTE Romania SRL ("ZTE Romania"), a wholly-owned subsidiary of the Company, pleading for the LTE products of the Company and ZTE Romania supporting Circuit Switched Fall Back functions to be ruled to have infringed upon the patent rights of Vringo and applied for the issue of a provisional injunction order by the court. In July 2014, the Court of Bucharest issued a provisional injunction order against ZTE Romania in respect of LTE products, which came into effect upon delivery in September 2014. ZTE Romania subsequently filed an appeal to the Court of Appeal of Bucharest. In October 2014, the Court of Appeal of Bucharest ruled to suspend the implementation of the provisional injunction order. In January 2015, the Court of Appeal of Bucharest ruled to uphold the provisional injunction order. As of now, the provisional injunction order remains in effect. The Company and ZTE Romania will actively pursue various legal means to seek the removal of such provision injunction order.

In March 2014, the Company filed an antitrust litigation with Shenzhen Intermediate Court against the alleged abuse of market dominance of Vringo, and Shenzhen Intermediate Court has accepted such filing; the Company also filed an application for antitrust investigation to the EU Commission in April 2014 and the EU Commission has accepted such filing. Meanwhile, the Company has also filed litigations in the PRC, Germany, India, Brazil and Romania against Vringo for its patents to be ruled invalid.

On 25 November 2015, the Company signed the "Global Settlement Agreement" with Vringo, pursuant to which Vringo granted a global license to the Company in respect of its patent pack, while the two parties agreed to each withdraw all disputes in various countries, including patent infringement litigations and patent invalidity litigations.

Based on the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

13. In August 2013, Dataquill Limited of the United States filed a claim with the Eastern District Court of Texas, alleging infringement upon five of its patent rights by smart phones sold in the United States by the Company, ZTE USA and ZTE Solutions, Inc., both wholly-owned subsidiaries of the Company. Defendants in this case included other companies in the industry. In March 2015, Dataquill Limited has withdrawn the Company and ZTE Solution, Inc. from defendants. In June 2015, the jury of the Eastern District Court of Texas issued its verdict in respect of the aforesaid case which ruled that the products of ZTE USA subject to the infringement allegations to have infringed upon two patent rights involved, and that ZTE USA was required to pay a compensation amount of approximately USD31.50 million. In December 2015, ZTE USA and Dataquill Limited jointly petitioned to the Eastern District Court of Texas for the termination of the case. The judge approved and terminated the litigation procedures of the case, and the two parties started negotiations for settlement. In January 2016, Dataquill Limited signed the "Settlement and Patent License Agreement" with the Company and ZTE USA. Pursuant to the terms of motion of the two parties, the litigation procedures were closed after the settlement agreement came into effect upon execution, upon which the litigation procedures relating to patent infringement cases between Dataquill Limited on the one hand and the Company and ZTE USA on the other were closed in full.

    Based on the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2015 where PKR amounts are translated at the exchange rate of PKR1:RMB0.0620 and BRL amounts are translated at the exchange rate of BRL1:RMB1.6632.

(III) APPROPRIATION AND REPAYMENT OF NON-OPERATING FUNDS BY CONTROLLING SHAREHOLDER AND ITS CONNECTED PARTIES

1. There was no appropriation and repayment of non-operating funds of the Company by the controlling shareholder and its connected parties during the year.

2. Statement on fund appropriation issued by Ernst & Young Hua Ming LLP

The "Statement on Amounts Receivable from the Controlling Shareholder and Other Connected Parties by ZTE Corporation" issued by Ernst & Young Hua Ming LLP was set out in the overseas regulatory announcement published by the Company on 6 April 2016.

(IV) THE COMPANY WAS NOT SUBJECT TO BANKRUPTCY, REORGANISATION OR RELATED ACTIONS DURING THE YEAR

(V) ASSET TRANSACTIONS

The Group was not engaged in any material acquisition, disposal or business merger commencing or subsisting during the year.

1. Progress of asset disposal disclosed by the Group

On 16 November 2012, the Company and CCB International (Shenzhen) Investment Co., Ltd. ("CCBI") entered into the "Equity Transfer Agreement for the Transfer of 30% Equity Interests in Shenzhen Changfei Investment Company Limited" (the "Former Equity Transfer Agreement"), pursuant to which the Company would, among other things, transfer its 30% equity interests in Shenzhen Changfei Investment Company Limited ("Changfei") to CCBI

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and provide an undertaking of compensation in respect of the operating results of Changfei for the years 2012 to 2016. For details, please refer to the "Discloseable Transactions — Disposal of Equity Interest in Shenzhen Changfei Investment Company Limited" published by the Company on 16 November 2012.

On 23 December 2014, the Company and CCBI entered into the "Variation of the Equity Transfer Agreement in relation to the Transfer of 30% Equity Interests in Shenzhen Changfei Investment Company Limited" (the "Variation Agreement"), pursuant to which the Company agreed to the transfer by CCBI of its 30% equity interests in Changfei to a third party not related to the Company. The undertaking of compensation and other obligations of ZTE under the Former Equity Transfer Agreement shall automatically be terminated as from the date on which the transfer consideration is received by CCBI from the third party. The aforesaid matter was considered and approved at the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014. CCBI received the transfer consideration from the third party on 12 August 2015 and the undertaking of compensation and other obligations of the Company under the Former Equity Transfer Agreement ended thereupon.

2. Other disposals of assets

(1) Disposal of equity interests in LiveCom Limited

Newinfo Holdings Limited ("Newinfo"), a wholly-owned subsidiary of ZTE HK which is, in turn, a wholly-owned subsidiary of the Company, holds 56% equity interests in LiveCom Limited ("LiveCom"). Owing to the requirements of its strategic development, Newinfo entered into the "Equity Transfer Agreement for the Transfer of 51% equity interests in LiveCom Limited" with Shenzhen Jufei Optoelectronics Company Limited ("Jufei Optoelectronics") on 22 July 2015, pursuant to which Newinfo proposed to dispose of 51% equity interests in LiveCom it held to Jufei Optoelectronics for RMB90 million (the "Transfer"). Following the completion of the Transfer, Newinfo will hold 5% equity interests in LiveCom and LiveCom will be deconsolidated from the Company's financial statements. The Transfer is expected to increase the Company's investment gains for 2015 by approximately RMB53.10 million to RMB73.10 million. The exact amount of the effect of the Transfer is subject to figures audited by the accountant. The aforesaid matter has been considered and approved at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors. For details, please refer to the "Announcement Resolutions of the Twenty-eighth Meeting of the Sixth Session of the Board of Directors" published by the Company on 22 July 2015. Taking into consideration the international nature of the development strategy of LiveCom, its operating requirements and other factors, Jufei Optoelectronics intends to conduct the acquisition with Jufei (Hong Kong) Development Limited (聚飛（香港）發展有限公司) ("Jufei Hong Kong"), its wholly-owned subsidiary, as the acquiring party in the acquisition of LiveCom. As a change in the acquiring party is involved, Newinfo intends to enter into the "Supplemental Agreement in respect of the Transfer of 51% Equity Interests in LiveCom Limited" with Jufei Optoelectronics and Jufei Hong Kong to agree on the change of the acquiring party from Jufei Optoelectronics to Jufei Hong Kong. The aforesaid matter has been considered and approved at the Thirty-sixth Meeting of the Sixth Session of the Board of Directors. For details, please refer to the Announcement Resolutions of the Thirty-sixth Meeting of the Sixth Session of the Board of Directors published by the Company on 23 December 2015.

(2) Asset Reorganisation by Shenzhen Xingfei Technology Company Limited, an investee of the Company, with Fujian Start Group Co., Ltd.

Pursuant to the "Agreement for Asset Purchase with the Issue of Shares and Cash Payment Between Fujian Start Group Co., Ltd. and Shenzhen Changfei Investment Company Limited, Shenzhen Teng Xing Wang Da Company Limited, ZTE Corporation, Chen Feng, and 深圳市隆興茂達投資管理有限合夥企業（有限合夥）" (the "Asset Purchase Agreement") entered into by the Company on 14 August 2015, the Company will dispose of 4.9% equity interests in Shenzhen Xingfei Technology Company Limited to Fujian Start Group Co., Ltd. for a consideration of RMB10 million in cash plus 9,482,218 consideration shares to be issued by Fujian Start Group Co., Ltd. to the Company. The aforesaid matter has been considered and approved at the Twenty-ninth Meeting of the Sixth Session of the Board of Directors. For details, please refer to the "Announcement Resolutions of the Twenty-ninth Meeting of the Sixth Session of the Board of Directors" published by the Company on 14 August 2015. The registration of the aforesaid change in equity interests of Shenzhen Xingfei Technology Company Limited with industrial and commercial administration authorities was completed on 21 January 2016. The Company has fulfilled the payment of the consideration for the transaction under the aforesaid Asset Purchase Agreement to Fujian Start Group Co., Ltd.

(VI) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME (THE "SCHEME")

1. Summary of the Scheme

(1) Objective

The Scheme has been implemented by the Company to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibilities of the management and key personnel of the Company and retain talent, so as to facilitate sustainable development of the Company and ensure the realisation of its development targets.

(2) Scheme participants and their adjustments

Scheme participants of the Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to the Company's overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses and immediate or close family members).

Pursuant to the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" ("Share Option Incentive Scheme (Revised Draft)") considered and passed at the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 of the Company, it was resolved that a total of 103,200,000 share options shall be granted to the Directors, senior management and key business personnel of the Company.

Prior to the grant of share options under the Scheme of the Company, 3 persons were removed from the list of qualified participants of the Scheme and a total of 211,000 share options were cancelled pursuant to the Share Option Incentive Scheme (Revised Draft), pertinent laws and regulations and the approval granted by the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013. As a result, the number of scheme participants was adjusted from 1,531 to 1,528 and the number of share options to be granted under the Scheme was adjusted from 103,200,000 to 102,989,000.

Pursuant to the "Resolution on the Adjustment of the Number and Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules" considered and passed at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors of the Company held on 22 July 2015, it was approved that the exercise price of the share options shall be adjusted to RMB13.66 after the implementation of the 2013 profit distribution plan; after the implementation of the 2014 plan for profit distribution and conversion of capital reserve, the number of share options was adjusted to 123,586,800 and the exercise price was adjusted to RMB11.22.

Pursuant to the "Resolution on the Adjustment of Participants and Number of Share Options for the First Exercise Period of the Share Option Incentive Scheme" considered and approved at the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, the adjustment of the number of

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participants and the number of share options granted under the Scheme was approved. After the adjustment, the number of participants under the Scheme was adjusted from 1,528 to 1,429, the number of share options granted from 123,586,800 to 116,613,000, the number of participants entitled to exercise share options for the first exercise period from 1,528 to 1,424, and the number of exercisable share options for the first exercise period from 37,076,040 to 34,884,360.

(3) Number of underlying shares and maximum share options that may be granted to scheme participants

Each share option granted shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the Scheme at the exercise price and subject to the conditions of exercise. The source of shares under the Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. The total number of underlying A shares in respect of the share options to be granted under the Scheme is 116,613,000 A shares, accounting for approximately 2.8% of the Company's total share capital in issue as at the Latest Practicable Date prior to the printing of this report and approximately 3.4% of its A shares in issue as at Latest Practicable Date prior to the printing of this report.

Unless approved by the shareholders in a general meeting, the aggregate number of A shares to be issued to a scheme participant upon exercise of his share options under the Scheme or other effective share option incentive schemes of the Company (if any) at any time must not exceed 1% of the Company's total share capital of the same class, and the maximum entitlement which may be granted to a scheme participant (including exercised, cancelled and outstanding share options) within any 12-month period shall not exceed 1% of the Company's total share capital of the same class.

(4) Date of grant, validity period, vesting period, exercise period and exercisable percentage

The Scheme shall remain in force for 5 years from the date of grant (i.e. 31 October 2013). Subject to the fulfillment of the exercise conditions, share options granted under the Scheme can be exercised by the following proportion after the expiry of the 2-year vesting period from the date of grant:

Exercise period	Duration	Exercisable share options as a percentage of the total number of share options granted
First exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of grant and ending on the last trading day of the 36-month period from the date of grant	30%
Second exercise period	Commencing from the first trading day after expiry of the 36-month period from the date of grant and ending on the last trading day of the 48-month period from the date of grant	30%
Third exercise period	Commencing from the first trading day after expiry of the 48-month period from the date of grant and ending on the last trading day of the 60-month period from the date of grant	40%

Pursuant to the "Resolution of ZTE Corporation on the Fulfillment of Exercise Conditions for the First Exercise Period of the Share Option Incentive Scheme" considered and approved at the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, the exercise conditions for the first exercise period under the Share Option Incentive Scheme of the Company was deemed fulfilled and the exercise period shall be from 2 November 2015 to 31 October 2016.

(5) Exercise price and basis of determination

The exercise price of the share options shall be RMB13.69 per A share. The initial exercise price is the higher of the following:

① closing price of the A Shares quoted on the Shenzhen Stock Exchange on the last trading day immediately preceding the date on which the Scheme was announced (i.e. 12 July 2013), which was RMB13.69 per A share; and

② the average closing price of the A Shares quoted on the Shenzhen Stock Exchange for the last 30 trading days immediately preceding the date on which the Scheme was announced, which was RMB12.61 per A share.

During the validity period of the Scheme, in the event of any dividend distribution, capitalisation issue, bonus issue, sub-division or rights issue or consolidation of shares in relation to the A shares of the Company before the exercise of the share options, an adjustment to the exercise price shall be made accordingly.

Following the implementation of the implementation of the 2013 profit distribution plan and the 2014 plan for profit distribution and conversion of capital reserve of the Company, the exercise price of the share options was adjusted to RMB11.22. For details, please refer to the section headed "(2) Scheme participants and their adjustments" above. Upon fulfilment of the conditions for exercise, scheme participants are entitled by each option granted to purchase one A share of the Company at a price of RMB11.22 per A share.

(6) Approval procedures fulfilled

The Scheme implemented by the Company has been approved by regulatory authorities including SASAC, CSRC and Hong Kong Stock Exchange and the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. For details, please refer to the "Announcement of Matters relating to the Grant of Share Options" published by the Company on 31 October 2013.

2. Share options granted to scheme participants during the year and the exercise thereof

Share options under the Scheme shall be exercised on a voluntary basis. During the year, a total of 25,741,682 options were exercised at an exercise price of RMB11.22, as compared to the closing price of RMB18.63 of the A shares as at the end of the year. The number of A shares of the Company has increased by 25,741,682 shares as a result of the exercise, and proceeds received from the exercise of share options have been placed in a designated account of the Company. As considered and approved at the Thirty-second Meeting of the Sixth Session of the Board of Directors held on 27 October 2015, the Company cancelled a total of 6,973,800 share options previously granted to participants of the Scheme who no longer qualified as such and participants who did not fulfill the exercise conditions for the first exercise period.

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Name of participant	Position of participant	Number of unexercised options at the beginning of the reporting period Note 1	Number of options granted during the reporting period	Number of options exercisable during the reporting period	Number of options exercised during the reporting period	Number of outstanding options at the end of the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period	Weighted average closing price (RMB/share) Note 2
Zhao Xianming	Chairman, Executive Director and President	600,000	0	180,000	100,000	500,000	0	0	19.11
Zhang Jianheng	Non-executive Director	36,000	0	10,800	0	36,000	0	0	—
Xie Weiliang	Former Non-executive Director	36,000	0	10,800	0	36,000	0	0	—
Wang Zhanchen	Former Non-executive Director	36,000	0	10,800	0	36,000	0	0	—
Zhang Junchao	Former Non-executive Director	36,000	0	10,800	10,800	25,200	0	0	18.80
Dong Lianbo	Former Non-executive Director	36,000	0	10,800	0	36,000	0	0	—
Fan Qingfeng	Executive Vice President	600,000	0	180,000	180,000	420,000	0	0	18.14
Zeng Xuezhong	Executive Vice President	540,000	0	162,000	162,000	378,000	0	0	18.78
Xu Huijun	Executive Vice President	420,000	0	126,000	126,000	294,000	0	0	18.14
Pang Shengqing	Executive Vice President	540,000	0	162,000	162,000	378,000	0	0	18.00
Zhang Zhenhui	Executive Vice President	234,000	0	70,200	70,200	163,800	0	0	17.60
Chen Jianzhou	Executive Vice President	540,000	0	162,000	80,000	460,000	0	0	18.80
Tian Wenguo	Former Executive Vice President	240,000	0	72,000	72,000	168,000	0	0	19.11
Qiu Weizhao	Former Executive Vice President	600,000	0	180,000	180,000	420,000	0	0	17.58
Ye Weimin	Former Senior Vice President	480,000	0	144,000	144,000	336,000	0	0	18.23
Zhu Jinyun	Former Senior Vice President	540,000	0	162,000	162,000	378,000	0	0	17.99
Zhang Renjun	Former Senior Vice President	420,000	0	126,000	0	420,000	0	0	—
Cheng Lixin	Former Senior Vice President	240,000	0	72,000	72,000	168,000	0	0	18.59
Xiong Hui	Former Senior Vice President	480,000	0	144,000	51,700	428,300	0	0	18.63
Huang Dabin	Former Senior Vice President	300,000	0	90,000	90,000	210,000	0	0	18.08
Feng Jianxiong	Former Board Secretary	480,000	0	144,000	144,000	336,000	0	0	19.13
Other scheme participants	—	116,152,800	0	32,654,160	23,934,982	85,244,018	6,973,800	0	18.44
Total	**—**	**123,586,800**	**0**	**34,884,360**	**25,741,682**	**90,871,318**	**6,973,800**	**0**	**18.43**

Note 1: The number of options outstanding at the beginning of the reporting period has been adjusted according to the 2014 plan for profit distribution and conversion of capital reserve.

Note 2: The weighted average closing price of the A shares of the Company on the trading date immediately preceding the exercise date.

For details of the date of grant, validity period, vesting period, exercise period and exercise price under the Scheme in respect of the share options set out in the table above, please refer to the section headed "Summary of the Scheme" above.

3. Valuation and accounting policies relating to the share options and impact on the financial conditions and operating results of the Company

(1) Valuation of the options

The Company has adopted the Binomial Tree model to calculate the value of the share options. The date of grant (31 October 2013) has been adopted as the measurement date and the estimated value of the share options is RMB5.36 per A share, representing 35.31% of the market price of the A shares on the date of grant. Data used in and results of the calculation are as follows:

Factors	Amount of factors and description
Exercise price	RMB13.69 per A share
Market price	RMB15.18 per A share, being the closing price of the A shares on the date of grant
Expected life	The scheme participants shall exercise all his/her options exercisable in the first, second and third exercise period within the third year, the fourth year and the fifth year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first, second and third exercise period being 40.25%, 39.69% and 43.18% respectively.
Expected dividend (Note 1)	RMB0.18 per share
Risk-free interest rate (Note 2)	The risk-free interest rate for the first, second and third exercise period being 3.34%, 3.40% and 3.46% respectively.
Value of share options per A share	RMB5.36

Note 1: The expected dividend was calculated based on the historical dividends of the Company.

Note 2: The Company adopted the three-year, four-year and five-year national bond yield rates as quoted by Reuters as at the date of grant as the risk-free interest rates for the first, second and third exercise period, respectively.

Note 3: The calculation results of the value of the share options are subject to a number of assumptions of the parameters used herein and the limitation of the model adopted, therefore the estimate value of the share options may be subjective and subject to uncertainties.

(2) Accounting policies relating to the share options and impact on the financial conditions and operating results of the Company

In accordance with “ASBEs No. 11 — Share-based Payment,” services rendered by participants during the period may be charged to relevant costs or expenses and the capital reserve at the fair value on the date of grant based on the Company’s best estimates of exercisable share options. Costs and expenses which have been recognised will not be adjusted during the exercise period of the share options. At each balance sheet date, exercised share options are recognized in the capital reserve. Specific accounting treatments of share options and the impact on the Company’s financial conditions and operating results of the year are set out in Note XI to the financial statements prepared under PRC ASBEs and Note 37 to the financial statements prepared under HKFRSs.

(VII) INFORMATION ON THE CORPORATE BONDS OF THE COMPANY

To meet the Company’s working capital requirements, further improve its debt structure and lower its finance costs, the Company was given approval to issue corporate bonds with a nominal value of not more than RMB6 billion (the “Issue”) in accordance with relevant provisions of the Company Law, Securities Law, Trial Measures for the Issue of Corporate Bonds and other pertinent laws, regulations and regulatory documents, following consideration

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and approval at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 March 2012 and the First Extraordinary General Meeting of 2012 of the Company held on 11 April 2012 and approval by the CSRC by virtue of the document Zheng Jian Xu Ke [2012] No. 754. The bonds were issued at a price of RMB100 each with a coupon interest rate of 4.20% for a term of 3 years. The Issue was conducted by way of a combination of online offering to public investors and offline bid placing to institutional investors. Corporate bonds under the Issue were listed on Shenzhen Stock Exchange on 16 July 2012 under the bond code "112090" and the abbreviated bond name "12中興01".

The corporate bond interest payments for 2013 and 2014 were completed on 13 June 2013 and 13 June 2014, respectively, and the amount of each interest payment was RMB252 million. The corporate bonds matured on 13 June 2015 and redemption and interest payment with an aggregate amount of RMB6,252 million was completed. For details please refer to the "Overseas Regulatory Announcement" published by the Company on 8 June 2015.

(VIII) REGISTRATION AND ISSUE OF MEDIUM TERM NOTE BY THE COMPANY

To further facilitate the Company's business development and optimise its debt structure, the Company applied to National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) for the registration and issue of Medium Term Note with an amount of not more than RMB9 billion. The Medium Term Note is a medium term note under which the issuer does not specify due dates but has the options of redeeming the note and deferring interest payments, while creditors are, usually, not entitled to demand redemption but are entitled to interest payments as agreed.

The aforesaid matter was considered and approved at the Twentieth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2014 of the Company. For details please refer to the "Announcement Resolutions of the Twentieth Meeting of the Sixth Session of the Board of Directors" and "Announcement on Resolutions of the First Extraordinary General Meeting of 2014" published by the Company on 22 August 2014 and 15 October 2014, respectively. The National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) has accepted the registration of the RMB9 billion Medium Term Note of the Company. For details, please refer to the "Announcement on the Approval of Registration for the Issue of Medium Term Note" published by the Company on 15 December 2014.

On 27 January 2015, the Company completed the issue of 2015 Tranche I Medium Term Notes for an amount of RMB6 billion. For details, please refer to the "Announcement on the Result of the Medium Term Notes Issue" published by the Company on 27 January 2015. On 6 February 2015, the Company completed the issue of 2015 Tranche II Medium Term Notes for an amount of RMB1.5 billion. For details, please refer to the "Announcement on the Result of the Medium Term Notes Issue" published by the Company on 6 February 2015. On 20 November 2015, the Company completed the issue of 2015 Tranche III Medium Term Notes for an amount of RMB1.5 billion. For details, please refer to the "Announcement on the Result of the Medium Term Notes Issue" published by the Company on 20 November 2015.

(IX) REGISTRATION AND ISSUE OF SUPER AND SHORT-TERM COMMERCIAL PAPER BY THE COMPANY

To meet the working capital requirements of the Company, optimise debt structure and lower finance cost, the Company applied to the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) for the registration and issue of super and short-term commercial paper ("SCP") with an amount of not more than RMB8,000 million. SCP is a debenture with the status of corporate person and typically higher credit ratings, issued by non-financial enterprises in the interbank bond market for a term of not more than 270 days.

The aforesaid matter was considered and approved at the Twenty-fifth Meeting of the Six Session of the Board of Directors and the 2014 Annual General Meeting of the Company. For details, please refer to the "Announcement Resolutions of the Twenty-fifth Meeting of the Sixth Session of the Board of Directors" and the "Announcement on Resolutions of the 2014 Annual General Meeting" published by the Company on 25 March 2015 and 28 May 2015, respectively. The National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) has accepted the registration of the RMB8,000 million SCP of the Company. For details, please refer to the "Announcement on the Approval of Registration for the Issue of Super and Short-term Commercial Paper" published by the Company on 20 August 2015.

On 9 September 2015, the Company completed the issue of 2015 Tranche I SCP for an issue amount of RMB4 billion. For details, please refer to the "Announcement on the Information of the Issue of 2015 Tranche I Super and Short-term Commercial Paper" published by the Company on 9 September 2015.

(X) WAIVER OF RIGHTS BY THE COMPANY

1. Waiver of First Right of Refusal in respect of Shanghai Zhongxing

Shanghai Zhongxing, a subsidiary of the Company, has applied for quotation on the National Equities Exchange and Quotations ("NEEQ") subject to compliance with relevant national laws, regulations and policies. In accordance with the "Rules for the Operation of the National Equities Exchange and Quotations System (Trial)" (《全國中小企業股份轉讓系統業務規則（試行）》) and "Guidelines for Basic Standards Applicable to Conditions for Quotation on the National Equities Exchange and Quotations System (Trial)" (《全國中小企業股份轉讓系統股票掛牌條件適用基本標準指引（試行）》) and other relevant regulations, Shanghai Zhongxing was to settle the issue of employees' shares currently held by a nominee, namely, the employees' shares equivalent to 10% equity interests in Shanghai Zhongxing held by Mr. Liu Bobin (劉伯斌) on behalf of the employees of Shanghai Zhongxing were to be transferred to 2 limited partnership enterprises of which limited partners were Shanghai Zhongxing employees who were effective owners of the said shares. ZTE has proposed to waive its first right of refusal. The aforesaid matter has been considered and approved at the Thirty-third Meeting of the Sixth Session of the Board of Directors. For details, please refer to the "Announcement on the Waiver of Rights" published by the Company on 11 November 2015.

2. Waiver of preemptive subscription rights in respect of ZTE Microelectronics

To meet the needs of its business development, ZTE Microelectronics, a subsidiary of the Company, has proposed to enlarge its share capital and bring in National Integrated Circuit Industry Investment Fund Co., Ltd.* (國家集成電路產業投資基金股份有限公司) ("IC Fund") as strategic investor. The Company will waive the preemptive rights of subscription and capital contribution to the share capital increase of ZTE Microelectronics. The aforesaid matter has been considered and approved at the Thirty-fourth Meeting of the Sixth Session of the Board of Directors. For details, please refer to the "Announcement Introduction of a Strategic Investor by a Subsidiary and Waiver of Preemptive Subscription Rights by the Company" published by the Company on 23 November 2015.

3. Waiver of preemptive subscription rights in respect of Nubia

To meet the needs of its business development, Nubia Technology, a subsidiary of the Company, has proposed to enlarge its share capital and introduce 蘇寧潤東股權投資管理有限公司 as investor. The Company will waive the preemptive right of subscription and capital contribution to the share capital increase of Nubia. The aforesaid matter has been considered and approved at the Thirty-eighth Meeting of the Sixth Session of the Board of Directors. For details, please refer to the "Announcement Introduction of a Strategic Investor by a Subsidiary and Waiver of Preemptive Subscription Rights by the Company" published by the Company on 31 December 2015.

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(XI) QUOTATION OF SUBSIDIARIES OF THE COMPANY ON THE NATIONAL EQUITIES EXCHANGE AND QUOTATIONS

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

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

2. Application by ZTE We Link for quotation on the National Equities Exchange and Quotations

The Company has proposed to convert ZTE We Link, a subsidiary of Nubia Technology Limited (a subsidiary of the Company) into a joint stock company. Upon completion of such conversion, it has been proposed that ZTE We Link will apply for quotation on the National Equities Exchange and Quotations subject to compliance with relevant national laws, regulations and policies. The aforesaid matter has been considered and approved at the Thirty-sixth Meeting of the Sixth Session of the Board of Directors. For details, please refer to the "Voluntary Announcement — Potential Quotation of ZTE We Link on the National Equities Exchange and Quotations" and "Overseas Regulatory Announcement" published by the Company on 23 December 2015.

3. Application by ZTEsoft for quotation on the National Equities Exchange and Quotations

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

(XII) TERMINATION OF THE PRELIMINARY A-SHARE REPURCHASE PLAN BY THE COMPANY

The "Resolution of ZTE Corporation on the Preliminary A-Share Repurchase Plan for an Amount Not Exceeding RMB1 Billion" was considered and approved at the Twenty-seventh Meeting of the Sixth Session of the Board of Directors of the Company held on 13 July 2015.

Following the irrational volatility in July and August of 2015, the A-share securities market had generally been stabilised as of now. After the publication of the Company's 2015 Interim Report, the closing price of the Company's A shares had not been lower than the upper limit of the repurchase price during the period from 27 August 2015 to 11 November 2015. Meanwhile, the Company was of the view that the application of funds previously intended to be used to repurchase shares in the research and development of strategic products and the expansion of core markets would be more conducive to the enhancement of the Company's core strengths. In view of the above and after careful deliberations, the Board of Directors of the Company had arrived at the conclusion that it was no longer in the best interests of the Company and its shareholders to proceed with the previous preliminary share repurchase plan and had accordingly resolved to terminate the preliminary A-share repurchase plan. The aforesaid matter has been considered and approved at the Thirty-third Meeting of the Sixth Session of the Board of Directors held on 11 November 2015. For details, please refer to the "Announcement on the Termination of the Preliminary A-Share Repurchase Plan" published by the Company on 11 November 2015.

(XIII) EXECUTION OF STRATEGIC COOPERATION AGREEMENT

On 8 December 2015, the Company, ZTE 9 (Wuxi) Co., Ltd (中興九城網絡科技無錫有限公司) and Shanghai Oriental Pearl Media Co., Ltd. (上海東方明珠新媒體股份有限公司) entered into a strategic cooperation agreement in connection with the establishment of strategic partnership in the areas of cloud computing, CDN, home terminals, value-added television services, video resource cooperation, resource-sharing, etc. The agreement is a framework agreement for strategic cooperation only. The Company needs to enter into separate agreements with the other parties. The Company will fulfil approval procedures and its obligations in information disclosure in accordance with Shenzhen Listing Rules, Hong Kong Listing Rules and other pertinent laws and regulations. For details, please refer to the "Announcement on Execution of Strategic Cooperation Agreement" published by the Company on 8 December 2015.

(XIV) THIRD-PARTY INVESTMENTS

1. Changsha Base Project

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

2. Guangzhou Research Institute Project

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

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(XV) EXPORT RESTRICTIONS IMPOSED ON THE COMPANY BY THE U.S. DEPARTMENT OF COMMERCE

The Company notes that the Bureau of Industry and Security of the Department of Commerce ("BIS") of the United States of America ("U.S.") has added the Company, ZTE Kangxun Telecommunications Ltd., ZTE Parsian and Beijing 8-Star International Co. to the Entity List on 7 March 2016 (the "**Decision**"). Pursuant to the Decision, with effect from 8 March 2016, suppliers of items subject to the Export Administration Regulations shall be required to apply for a license for the supplies of such items to the Company and the other three companies, and a license review policy of presumption of denial shall apply. On 24 March 2016, BIS amended the aforesaid Decision by creating a temporary general license with the effect that the export restrictions on the Company and ZTE Kangxun Telecommunications Ltd. under the Decision would not apply until 30 June 2016. The Company is currently cooperating with the U.S. Commerce Department, the U.S. Department of Justice, the U.S. Department of Treasury and other relevant U.S. government departments in their investigations of the Company's compliance with the U.S. Export Administration Regulations (the "Investigations"). As at 6 April 2016, the Investigations are still in progress, which may result in criminal and civil liabilities under U.S. laws. The potential impact of the Investigations and related potential legal liabilities on the results and financial position of the Group cannot be fully assessed by the Company at present. The Company will continue to actively cooperate with the relevant U.S. government departments to duly resolve the matters as soon as practicable. For details of the aforesaid matter, please refer to the respective relevant announcements published on 9 March 2016, 23 March 2016, 28 March 2016, and "Updated Information in relation to Export Restrictions by the U.S. Commerce Department and Announcement Regarding the Revision of Preliminary Results for the Year ended 31 December 2015" published on 6 April 2016.

(XVI) SIGNIFICANT CONNECTED TRANSACTIONS

1. SIGNIFICANT CONNECTED TRANSACTIONS UNDER APPLICABLE LAWS AND REGULATIONS OF THE PRC

(1) Connected transactions in the ordinary course of business

The connected transactions disclosed in the following table represent continuing connected transactions in 2015 reaching the benchmark for public disclosure as defined under the Shenzhen Listing Rules.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Whether approved cap has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin and its subsidiaries	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Continuing connected transactions in respect of the Group's purchases from connected parties were conducted in the ordinary course of business of the two parties on normal commercial terms and terms no less favourable than those available to or from (as the case may be) independent third parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1-RMB30,000 per unit depending on level of sophistication; Cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; Shelters: RMB5,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB11,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	59,411.00	1.11%	No	Commercial acceptance bill	N/A	2012-12-29	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party		Communication antenna: RMB100-RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100-9,999 per unit depending on technical parameters and functional features; Feeder: RMB1-200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1-100 per piece depending on technical parameters and functional features.	86,033.50	1.61%	No	Commercial acceptance bill	N/A	2012-12-29 2015-3-26 2015-5-29	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201522 "Announcement on Resolutions of the 2014 Annual General Meeting"
Huatong	Subsidiary of a company for which a natural person related to the Company concurrently acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	3,774.51	0.07%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company concurrently acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	4,229.52	0.08%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

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Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Whether approved cap has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxing Hetai and its subsidiaries	Subsidiary of a company for which a natural person related to the Company concurrently acted as chairman	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.	3,431.36	0.06%	No	Tele-transfer	N/A	2014-5-30 2015-4-24	Announcement No. 201424 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201515 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Development	A Company for which a natural person related to the Company concurrently acted as chairman	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m.; Lease of parking spaces (from 1 January 2015 to 17 April 2015): 25 ground level parking spaces and 138 underground parking spaces; Lease of parking spaces (from 18 April 2015 to 17 April 2017): 25 ground level parking spaces and 127 underground parking spaces by the Company from the connected party		From 1 January 2015 to 17 April 2015: monthly rent of RMB130/sq.m.; monthly rent of ground level parking spaces of RMB150 each; monthly rent of underground parking spaces of RMB500 each. (Property management undertaken by ZTE and no management fees are payable.) From 18 April 2015 to 17 April 2017: monthly rent of RMB145/sq.m.; monthly rent of ground level parking spaces of RMB350 each; monthly rent of underground parking spaces of RMB600 each. (Property management undertaken by ZTE and no management fees are payable.)	4,346.58	5.64%	No	Tele-transfer	N/A	2012-12-29 2015-3-26	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Chongqing Zhongxing Development	Subsidiary of a company for which a natural person related to the Company concurrently acted as chairman	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. and 97 parking spaces by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, from the connected party		Monthly rent of RMB50/sq.m. and RMB45/sq.m. for the office (for a maximum leased GFA of 18,532.08 sq.m.) and cafeteria (for a maximum leased GFA of 1,467.92 sq.m.) respectively; monthly garden area management fee of RMB3/sq.m. based on actual GFA leased; monthly rent of parking space: RMB150 each.	895.65	1.16%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of a company for which a natural person related to the Company concurrently acted as chairman	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		For the six months ended 30 June 2015: Rent: RMB68/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB42/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB110/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB41/sq.m./month for hotel and related equipment and facilities in Xi'an. For the six months ended 31 December 2015: Rent: RMB74/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB53/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB116/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB53/sq.m./month for hotel and related equipment and facilities in Xi'an.	7,367.67	20.19%	No	Tele-transfer	N/A	2014-5-30 2015-4-24	Announcement No. 201424 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201515 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Whether approved cap has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxing Hetai and its subsidiaries	Subsidiary of a company for which a natural person related to the Company concurrently acted as chairman	Financial services	The provision of deposit services by ZTE Group Finance to the connected party		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; in case the interest rate announced by PBOC was not applicable, ZTE Group Finance would pay interest to the connected party at a rate not higher than the interest rate level adopted by similar businesses carried out by other independent financial institutions.	4,612.71 Note 1	0.85%	No	Tele-transfer	N/A	2015-3-26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna	A company at which a supervisor of the Company's controlling shareholder acted as director	Financial services	The provision of bill discounting services by ZTE Group Finance to the connected party		Bill discounting services were conducted during the ordinary course of business of the two parties based on normal commercial terms. The interest rate for discounting was determined on the basis of the rediscount rate announced by the PBOC taking into account prevailing market levels and in compliance with relevant guidelines and requirements of the PBOC.	11,209.99 Note 2	2.30%	No	Tele-transfer	N/A	2015-3-26 2015-5-29	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201522 "Announcement on Resolutions of the 2014 Annual General Meeting"
航天歐華	Subsidiary of a company for which a Director of the Company acted as director	Sale of products	The sale of digital communications products and communications products by the Company to the connected party		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	58,832.60	0.59%	No	Tele-transfer or bank acceptance bill	N/A	2014-10-24	Announcement No. 201446 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company concurrently acted as chairman	Sales of products and rendering of services	The provision by the Company to the connected party of software and hardware equipment and engineering services required for smart campus and campus IT development, and integrated solutions for smart traffic, city emergency command system, smart military camp and government/corporate IT systems		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	503.09	0.01%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				–	–	244,648.18	N/A	–	–	–	–	–

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations.
Effect of the connected transaction on the independence of the listed company	All transactions between the Company and the connected parties were in compliance with pertinent national laws and regulations without any compromise to the interest of the Company and its shareholders. The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2015 be capped at RMB1,100 million (before VAT);

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	At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Mobi Antenna, a connected party, by the Group in 2015 be capped at RMB900 million (before VAT); at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015 and the 2014 Annual General Meeting held on 28 May 2015, it was considered and approved that the cap for estimated purchases from Mobi Antenna, a connected party, by the Group in 2015 be revised to RMB1,500 million (before VAT); At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated purchases from Huatong and Nanchang Software, both connected parties, by the Company in 2015 be capped at RMB60 million and RMB51 million, respectively (before VAT); At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated sales of products and rendering of services to Nanchang Software, a connected party, by the Company in 2015 be capped at RMB29 million (before VAT); At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB50.80 million for a term commencing on 18 April 2013 and ending on 17 April 2015; at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB54 million for a term commencing on 18 April 2015 and ending on 17 April 2017; At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the annual rent payable by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB13 million for a term commencing on 1 January 2015 and ending on 31 December 2017; At the Eighteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 29 May 2014, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2014 and ending on 30 June 2015; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB75 million for the period commencing on 1 July 2014 and end on 30 June 2015; at the Twenty-sixth Meeting of the Sixth Session of the Board of Directors of the Company held on 23 April 2015, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2015 and ending on 30 June 2016; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB85 million for the period commencing on 1 July 2015 and end on 30 June 2016; At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the estimated daily deposit balance (principal cum interest) of the deposit service provided by ZTE Group Finance to Zhongxing Hetai and its subsidiaries in 2015 shall be capped at RMB70 million; At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015 and the 2014 Annual General Meeting held on 28 May 2015, it was considered and approved that the estimated daily balance of outstanding discounted bills (principal cum interest) of the bill discounting service provided by ZTE Group Finance to Mobi Antenna in 2015 shall be capped at RMB300 million; At the Twenty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 23 October 2014, it was considered and approved that the estimated sales of digital communications products and communications products to 航天歐華 by the Company in 2015 be capped at RMB1,000 million (before VAT); and Please refer to the above table for details of the execution of the aforesaid connected transactions.
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

Note 1: The amount represented the estimated maximum daily deposit balance (principal cum interest) for the 12 months ended 31 December 2015.

Note 2: The amount represented the estimated maximum daily balance of outstanding discounted bills (principal cum interest) for the 12 months ended 31 December 2015.

Note 3: ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2015, and the funds utilised for settlement were limited to the cash deposits placed with ZTE Group Finance by Zhongxing Hetai and its subsidiaries. No handling fees were charged for such settlement service.

Note 4: For details of "Approved Cap", please refer to the section headed "Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)".

Note 5: For details of the connected transactions, please refer to Note X to the financial statements prepared under PRC ASBEs.

(2) The Company did not conduct any connected transactions arising from asset and equity acquisitions or disposals during the year.

(3) The Company did not enter into any material connected transactions involving joint investment in third parties during the year.

(4) Creditors and debtors with connected parties

During the year, the Company did not incur any creditors or debtors with connected parties of a non-operating nature.

(5) Other material connected transactions

At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, the following connected transactions were considered and passed (for details, please refer to the "Announcement of Resolutions of the Thirty-first Meeting of the Sixth Session of the Board of Directors", "Continuing Connected Transactions — Purchases of Raw Materials from Zhongxingxin" and the Overseas Regulatory Announcement published by the Company on 22 September 2015 and the Announcement on Resolutions of the First Extraordinary General Meeting published by the Company on 25 November 2015):

① The aggregate amount of continuing connected transactions in respect of estimated purchases of raw materials from Zhongxingxin, a connected party, by the Group in 2016-2018 shall be capped at RMB800 million, RMB900 million and RMB1,000 million (before VAT), respectively;

② The aggregate amount of continuing connected transactions in respect of estimated purchases of raw materials from Mobi Antenna, a connected party, by the Group in 2016–2018 shall be capped at RMB1,700 million, RMB1,900 million and RMB2,100 million (before VAT), respectively;

③ The estimated daily balance of outstanding discounted bills (principal cum interest) of the continuing connected transactions in respect of bill discounting service provided by ZTE Group Finance to Mobi Antenna, a connected party, in 2016-2018 shall be capped at RMB400 million, RMB450 million and RMB500 million, respectively;

④ The aggregate amount of continuing connected transactions in respect of sales of digital communications products and communications products to 航天歐華, a connected party, by the Group in 2016–2018 shall be capped at RMB1,000 million, RMB1,100 million and RMB1,100 million (before VAT), respectively;

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2. Continuing connected transactions under the Hong Kong Listing Rules

In accordance with Chapter 14A of the Hong Kong Listing Rules, the following connected transactions are required to be disclosed in this report. Details of related parties under HKFRSs are set out in Note 46 to the financial statements prepared under HKFRSs. Save as disclosed herein below, there were no other connected transactions which should be deemed as "connected transactions" or "continuing connected transactions" as defined under Chapter 14A of the Hong Kong Listing Rules and disclosed in accordance with the requirements of Chapter 14A of the Hong Kong Listing Rules.

The Group has entered into connected transaction framework agreements with the following connected parties, and has fulfilled the statutory procedures of reporting and announcement under Chapter 14A of the Hong Kong Listing Rules based on the estimated annual cap of each connected transaction. For details, please refer to the "Continuing Connected Transactions — Purchases of Raw Materials from Zhongxingxin" published on 28 December 2012. The Company hereby confirms that the disclosures requirements under Chapter 14A of the Hong Kong Listing Rules have been complied with.

(1) Purchases of raw materials by the Company from Zhongxingxin and its subsidiaries comprising primarily cabinets and accessories, cases and accessories, shelters, railings, antenna poles, optical products, refined processing products, packaging materials, FPC, R-FPC and components

- *Description of the connected relationship between the parties to the transaction:*

Zhongxingxin is the largest shareholder of the Company. As controlling shareholder of the Company, Zhongxingxin is a connected person of the Company under the Hong Kong Listing Rules. As associates of Zhongxingxin, the subsidiaries of Zhongxingxin are connected persons of the Company under the Hong Kong Listing Rules.

- *Total transaction amount in 2015:*

Approximately RMB594,110,000

- *Price and other terms:*

As considered and approved at the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, the "Zhongxingxin Purchase Framework Agreement" was entered into between the Group and Zhongxingxin dated 28 December 2012 in respect of the purchase of raw materials by the Group from Zhongxingxin and its subsidiaries effective from 1 January 2013 to 31 December 2015 with the purchase amounts for 2013-2015 capped at RMB900 million, RMB1,000 million and RMB1,100 million (before VAT), respectively.

A potential supplier must pass the Group's internally formulated qualification procedures based on qualifications, product quality and price in order to become an approved supplier of the Group. Zhongxingxin and its subsidiaries were selected through the Group's qualification and bidding procedures as described above. The Directors confirm that the prices of the said purchases of raw materials from Zhongxingxin and its subsidiaries were determined on an arm's length basis and on normal commercial terms. Prices at which transactions under the Zhongxingxin Purchase Framework Agreement are conducted will be determined on an arm's length basis. The Group will settle the payment by commercial acceptance bill for the products within 210 days from the date of inspection and acceptance of the products.

Pursuant to and subject to the terms of the Zhongxingxin Purchase Framework Agreement, the Group will issue purchase orders to (or enter into individual agreements with) Zhongxingxin and its subsidiaries from time to time, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery schedules, locations and modes, as well as other contract details. The annual cap for purchase in 2015 was estimated at RMB1,100 million (before VAT).

- *Purpose of the transaction:*

Zhongxingxin and its subsidiaries were selected as suppliers through the Group's qualification and bidding procedures as they have consistently been able to meet the Group's stringent demands for fast product turnaround time, high product quality and timely delivery. As the Group consider that having reliable and cooperative suppliers is important and beneficial to us, purchasing components required for the Group's products from Zhongxingxin and its subsidiaries allows us to secure essential control over the supply of most of the raw materials of our production by being able to ensure the quality and timely delivery of such raw materials.

(2) The Independent Non-executive Directors of the Company have reviewed each of the aforesaid continuing connected transactions of the Group and confirmed that:

- the transactions were conducted in the ordinary and usual course of business of the Company;
- the transactions were entered into on normal commercial terms or above;
- the transactions were conducted in accordance with the terms of the agreements governing them and the terms of the transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- the Company had established sufficient and efficient internal control procedures in relation to the aforesaid connected transactions.

(3) The auditors of the Company have examined the aforesaid continuing connected transactions and confirmed to the Board of Directors of the Company that, in relation to the continuing connected transactions:

- no matters had come to the attention of the auditors causing the auditors to believe that the disclosed continuing connected transactions had not been approved by the Board of Directors of the Company;
- no matters had come to the attention of the auditors causing the auditors to believe that such continuing connected transactions had not been conducted in accordance with the pricing policies of the Group in all material aspects (where goods or services are being supplied or rendered by the Company);
- no matters had come to the attention of the auditors causing the auditors to believe that such continuing connected transactions had not been conducted in accordance with the terms of the agreements governing them in all material aspects; and
- no matters had come to the attention of the auditors causing the auditors to believe that such continuing connected transactions had exceeded the relevant annual caps as disclosed by announcements.

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(XVII) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. **There was no trust, contract management or lease of assets of other companies by the Company or of the Company's assets by other companies commencing or subsisting during the year.**

2. **Third-party guarantees of the Group**

(1) New third-party guarantee during the year

Provision of guarantee for ZTE HK or ZTE Netherlands by the Company

With a view to further optimising the long-term and short-term debt financing structure of the Company and the subsidiaries included in its consolidated financial statements, reducing exposure to assets and liabilities denominated in foreign currencies, and meeting working capital requirements for the Company's medium- to long-term development at appropriate financial costs, the Company has proposed to seek outside Mainland China medium- to long-term debt financing (including but not limited to banks facilities and issue of bonds) with ZTE HK or ZTE COOPERATIEF UA ("ZTE Netherlands"), each a wholly-owned subsidiary, as the principal. In view of the current financial conditions and credit rating of ZTE HK and ZTE Netherlands, the Company has proposed to provide guarantee for ZTE HK or ZTE Netherlands by way of joint liability assurance for an amount of not more than EUR200 million (or the equivalent in other currencies, calculated according to the Company's foreign currency statement book exchange rate) in relation to the aforesaid debt financing, in order to secure debt financing at favourable costs.

The aforesaid matter was considered and approved at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company and the 2014 Annual General Meeting. For details please refer to the "Announcement Resolutions of the Twenty-fifth Meeting of the Sixth Session of the Board of Directors" and "Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary" published by the Company on 25 March 2015 and "Announcement on Resolutions of the 2014 Annual General Meeting" published on 28 May 2015.

ZTE Netherlands (as borrower) entered into respective loan agreements with Bank of China Limited, Luxembourg Branch ("BOC Luxembourg") and Banco Santander, S.A., Hong Kong Branch ("Santander HK") for amounts of EUR70 million and EUR30 million, respectively, in June 2015. Meanwhile, the Company entered into guarantee agreements with BOC Luxembourg and Santander HK, respectively, to provide guarantee to BOC Luxembourg and Santander HK for amounts of not more than EUR70 million and EUR30 million, respectively, by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE Netherlands.

(2) New third-party guarantees subsequent to the end of the year

A. Guarantee for ZTE Malaysia

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

The aforesaid matter has been considered and approved at the Thirty-ninth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary Meeting of 2016 of the Company. For details, please refer to the "Announcement Resolutions of the Thirty-ninth Meeting of the Sixth Session of the Board of Directors" and "Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary" published on 7 January 2016 and the "Announcement of Resolutions of the First Extraordinary Meeting of 2016" published on 3 March 2016 by the Company.

B. Guarantee for ZTE Indonesia

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

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

(3) Third-party guarantees as at the end of the reporting period

Third-party guarantees provided by the Company and subsidiaries (excluding guarantees on behalf of subsidiaries)								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Djibouti Telecom S.A.	19 April 2007 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Zena Technologies & Telecommunication Systems Co. WLL Note 1	18 December 2013 201375	KWD0.82 million	25 January 2014	KWD0.82 million	Guarantee by pledge	Commencing on the date of submission of the tender for the GPON Project II of the Ministry of Communications of Kuwait and ending on the date of announcement of the tender award for the project	Yes	No
Total amount of third-party guarantee approved during the reporting period (A1)		–		Total amount of third-party guarantee actually incurred during the reporting period (A2)			–	
Total amount of third-party guarantee approved as at the end of the reporting period (A3)		RMB50 million		Total amount of third-party guarantee actually incurred as at the end of the reporting period (A4)			RMB50 million	

Material Matters

Guarantees provided by the Company on behalf of subsidiaries								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Closed Joint-Stock Company CJSC TK Mobile Note 2	12 May 2009 200917	USD70.60 million	N/A	–	Pledge of equity	–	N/A	No
ZTE (H.K.) Limited Note 3	9 April 2011 201112 9 July 2011 201130	USD900 million	8 July 2011	USD450 million Note 3	Joint liability assurance	From the effective date of the assurance guarantee to the expiry of 60 months from the date of the facility agreement	No	No
ZTE France SASU Note 4	14 December 2011 201152	EUR10 million	N/A	–	Assurance	From maturity to the date on which performance of obligations of ZTE France under the "SMS Contract" and "PATES Contract" expires or terminates (whichever is later)	No	No
PT. ZTE Indonesia Note 5	13 September 2013 201362	USD40 million	23 October 2013	USD40 million	Joint liability	From maturity to the date on which performance of material obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed	No	No
PT. ZTE Indonesia Note 5	13 September 2013 201362	USD15 million	11 September 2013	USD15 million	Joint liability	From maturity to 5 March 2017 or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed (whichever is later)	No	No
ZTE (H.K.) Limited Note 6	27 March 2014 201413	Not more than USD600 million or RMB4,000 million	18 July 2014	USD450 million	Joint liability assurance	Not more than 5 years (from the date on which the debt financing agreement comes into effect)	No	No
			12 January 2015	EUR40 million	Joint liability assurance	From 12 January 2015 to (1) 6 months after 12 January 2018, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
			20 March 2015	USD60 million	Joint liability assurance	From 20 March 2015 to 20 March 2019	No	No
ZTE (H.K.) Limited Note 7	23 August 2014 201435	RMB2,000 million	30 December 2014	RMB1,500 million	Joint liability assurance	Not more than 3 years (from the date on which the resolution of the general meeting takes effect)	Yes	No
ZTE (Malaysia) Corporation SDN. BHD Note 8	24 September 2014 201440	USD20 million	27 November 2014	USD20 million	Joint liability	Commencing on the date on which the "UM Wireless Capacity Expansion Contract" comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Malaysia under the "UM Wireless Capacity Expansion Contract" is completed.	No	No
ZTE (Malaysia) Corporation SDN. BHD Note 8	24 September 2014 201440	USD2 million	4 January 2015	USD2 million	Joint liability	Not more than 3 years from the date on which the bank letter of guarantee comes into effect upon issuance.	No	No

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Guarantees provided by the Company on behalf of subsidiaries								
ZTE (H.K.) Limited or ZTE COOPERATIEF UA Note 9	26 March 2015 201511	EUR200 million	24 June 2015	EUR70 million	Joint liability assurance	From 24 June 2015 to 22 December 2018	No	No
			24 June 2015	EUR30 million	Joint liability assurance	From 24 June 2015 to (1) 6 months after 24 June 2018, or (2) the irrevocable settlement in full by ZTE Netherlands of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)		RMB1,418,820,000		Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)			RMB1,395,802,000	
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)		RMB13,834,399,000		Total amount of guarantee on behalf of subsidiaries actually incurred as at the end of the reporting period (B4)			RMB7,727,452,000	

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Guarantees provided by Subsidiaries on behalf of other subsidiaries								
Shenzhen Zhongxing ICT Company Limited Note 10	N/A	RMB160 million	30 December 2014	RMB160 million	Joint liability	5 years (from the date of drawdown)	No	No
西安中興通訊終端科技有限公司 Note 11	N/A	RMB60.005 million	13 March 2015	RMB60.005 million	Joint liability	5 years	No	No
深圳市中興新能源汽車服務有限公司 Note 12	N/A	RMB60 million	29 December 2015	RMB60 million	Joint liability assurance	12 years (from the date of drawdown)	No	No
Total amount of guarantee for subsidiary approved during the reporting period (C1)		RMB120,005,000		Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)			RMB120,005,000	
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)		RMB280,005,000		Total amount of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)			RMB280,005,000	

Total amount guaranteed by the Company (sum of the three categories aforesaid)			
Total amount of guarantee approved during the reporting period (A1+B1+C1)	RMB1,538,825,000	Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)	RMB1,515,807,000
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)	RMB14,164,404,000	Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)	RMB8,057,457,000
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company			27.17%
Including:			
Amount of guarantee provided on behalf of shareholders, de facto controllers and their connected parties (D)		0	
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (E)		RMB7,727,452,000	
Amount of total guarantee exceeding 50% of net assets (F)		0	
Aggregate amount of the three guarantee amounts stated above (D+E+F)		RMB7,727,452,000	
Statement on liability incurred during the reporting period or potential joint liability for debt settlement (if any) in respect of outstanding guarantees		N/A	
Statement on provision of guarantee to third parties in violation of stipulated procedures (if any)		N/A	

Material Matters

Note 1: It was considered and approved at the Twelfth Meeting of the Sixth Session of the Board of Directors that a Letter of Guarantee for Tender with an amount of 0.82 million KWD be provided by the Company for Zena Technologies & Telecommunication Systems Co. WLL, its agent company in Kuwait. The said Letter of Guarantee for Tender was issued in January 2014 and revoked in February 2015, upon which the Company's liability for guarantee was released.

Note 2: It was considered and approved at the Twenty-fourth of the Fourth Session of the Board of Directors that the 51% equity interests in Closed Joint-Stock Company CJSC TK Mobile ("CJSC TK Mobile") held by the Company be applied as a security against a bank loan extended to CJSC TK Mobile. Since the gearing ratio of CJSC TK Mobile above 70%, the aforesaid guarantee was considered and approved at the First Extraordinary General Meeting of 2009. As at the end of the reporting period, CJSC TK Mobile had settled the bank loans in full and the performance of the loan agreement had been completed. The relevant agreement for the guarantee provided by the Company in respect of CJSC TK Mobile's bank loans by way of pledge of equity had not been signed and the guarantee would no longer be performed.

Note 3: In July 2011, ZTE HK, a wholly-owned subsidiary of the Company, entered into a USD900 million syndicate loan agreement with 10 international banks including BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance for an amount of not more than USD900 million in favour of the lending banks for ZTE HK. The aforesaid guarantee was considered and passed at the Seventeenth Meeting of the Fifth Session of the Board of Directors of the Company. As the amount guaranteed by the Company in respect of the syndicate loan of ZTE HK exceeded 10% of the net assets of the Company, and the gearing ratio of ZTE HK was above 70%, the aforesaid guarantee was submitted to the 2010 Annual General Meeting of the Company and was considered and approved. In July 2014, ZTE HK made a repayment of USD450 million in loans to the lending banks. In accordance with the guarantee agreement, the amount of guarantee should be the amount due and outstanding under the syndicate loan agreement, therefore the amount of joint liability assurance provided thereafter by the Company for ZTE HK in favour of the lending banks has been adjusted to not more than USD450 million.

Note 4: It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France, a wholly-owned subsidiary of the Company under the 2010 SMS Execution Contract ("SMS Contract") and the PATES-NG Execution Contract ("PATES Contract"). As at the end of the reporting period, the guarantee provided by the Company in respect of the performance obligations of ZTE France was undergoing registration procedures of the State Administration of Foreign Exchange and had yet to be performed.

Note 5: It was considered and approved at the Ninth Meeting of the Sixth Session of the Board of Directors that a performance guarantee of USD40 million be provided by the Company for ZTE Indonesia, a wholly-owned subsidiary of the Company, and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD15 million. Since the gearing ratio of ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the Third Extraordinary General Meeting of 2013. As at the end of the reporting period, a USD15 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's bank credit facilities had been executed and the USD40 million performance guarantee agreement had been signed.

Note 6: The Company proposed to seek medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company would provide guarantee by way of joint liability assurance for an amount of not more than USD600 million (or not more than RMB4,000 million) in relation to the aforesaid debt financing of ZTE HK. The aforesaid guarantee was considered and passed at the Sixteenth Meeting of the Sixth Session of the Board of Directors. As the amount guaranteed by the Company in respect of the syndicate loan of ZTE HK exceeded 10% of the net assets of the Company, and the gearing ratio of ZTE HK was above 70%, the aforesaid guarantee was submitted to the 2013 Annual General Meeting of the Company and was considered and approved. The total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) represented the higher of USD600 million or RMB4,000 million. In July 2014, ZTE HK entered into a USD450 million syndicate loan agreement with 12 international banks including BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide joint liability assurance for an amount of not more than USD450 million in favour of the lending banks for ZTE HK. ZTE HK entered into a EUR40 million loan agreement with Banco Santander, S.A. and a USD60 million loan agreement with DBS Bank in January and March 2015, respectively. At the same time, the Company entered into guarantee agreements with Banco Santander, S.A. and DBS Bank, respectively, to provide guarantee to Banco Santander, S.A. and DBS Bank for amounts of not more than EUR40 million and USD60 million, respectively, by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE HK.

Note 7: The Company conducted overseas debt financing (including but not limited to bank loans and the issue of corporate bonds) of not more than RMB2,000 million with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee for ZTE HK by way of joint liability assurance for an amount of not more than RMB2,000 million in relation to the aforesaid debt financing for a term of not more than 3 years (from the date on which the resolution of the general meeting takes effect). The aforesaid guarantee was considered and passed at the Twentieth Meeting of the Sixth Session of the Board of Directors of the Company. As the gearing ratio of ZTE HK was above 70%, the aforesaid guarantee was submitted to the 2014 First Extraordinary General Meeting of the Company and was considered and approved. ZTE HK entered into a loan agreement with a total amount of RMB1,500 million with BOC London in December 2014. At the same time, the Company entered into a guarantee agreement with BOC London to provide joint liability assurance for an amount of not more than RMB1,500 million for ZTE HK. The principal amount together with accrued interests of the aforesaid loan was settled in full on 29 December 2015.As at the end of the reporting period, the guarantee agreement between the Company and BOC London had been terminated.

Note 8: At the Twenty-first Meeting of the Sixth Session of the Board of Directors, it was considered and approved that the Company would provide a USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, and apply to relevant banks for the issuance of a USD2 million bank letter of guarantee. As the gearing ratio of ZTE Malaysia was above 70%, the aforesaid guarantee was considered and approved at the First Extraordinary General Meeting of 2014 of the Company. As at the end of the reporting period, the USD20 million performance guarantee provided by the Company for ZTE Malaysia and the USD2 million bank letter of guarantee issued by relevant banks, applied for by the Company on behalf of ZTE Malaysia had come into effect.

Note 9: The Company conducted outside Mainland China medium- to long-term debt financing (including but not limited to banks facilities and issue of bonds) with ZTE HK or ZTE Netherlands, each a wholly-owned subsidiary, as the principal. The Company provided guarantee for ZTE HK or ZTE Netherlands by way of joint liability assurance for an amount of not more than EUR200 million (or the equivalent in other currencies, calculated according to the Company's foreign currency statement book exchange rate) in relation to the aforesaid debt financing in relation to the aforesaid debt financing for a term of not more than 5 years (from the date on which the debt financing agreement takes effect). The aforesaid matter was considered and approved at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company. As the gearing ratios of both ZTE HK and ZTE Netherlands were above 70%, the aforesaid guarantee was submitted to the 2014 Annual General Meeting of the Company and was considered and approved. ZTE Netherlands entered into respective loan agreements with BOC Luxembourg and Santander HK for amounts of EUR70 million and EUR30 million, respectively, in June 2015. At the same time, the Company entered into guarantee agreements with BOC Luxembourg and Santander HK, respectively, to provide guarantee to BOC Luxembourg and Santander HK for amounts of not more than EUR70 million and EUR30 million, respectively, by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE Netherlands.

Note 10: It was considered and approved at the board meeting and general meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide guarantee by way of joint liability assurance for an amount of RMB160 million in respect of the project financing of ZTE ICT, a wholly-owned subsidiary of the Company, for a term of 5 years (from the date of issuance of the loan). As at the end of the reporting period, the aforesaid guarantee documents had come into effect and the other shareholder of ZTE ICT (holding a 10% interest in ZTE ICT) had provided a counter-guarantee for RMB16 million in favour of ZTE Group Finance in respect of the aforesaid guarantee.

Note 11: It was considered and approved at the board meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide joint liability guarantee for an amount of not more than RMB60.005 million in respect of the performance of the "Smart Phone Manufacturing Equipment Lease Contract" by 西安中興通訊終端科技有限公司, a wholly-owned subsidiary of the Company, for a term of 5 years. As at the end of the reporting period, the aforesaid guarantee documents had come into effect.

Note 12: It was considered and approved at the board meeting and general meeting of 中興新能源汽車有限責任公司, a subsidiary of the Company, that 中興新能源汽車有限責任公司 would provide guarantee by way of joint liability assurance for an amount of not more than RMB60.00 million in respect of a project financing for 深圳市中興新能源汽車服務有限公司, its wholly-owned subsidiary, for a term of 12 years (from the date of drawdown). As at the end of the reporting period, the aforesaid guarantee documents had come into effect.

Note 13: The guaranteed amounts are translated at the book exchange rates of the Company as at 31 December 2015: USD1: RMB6.4940, EUR1: RMB7.0941.

Note 14: All third party guarantees of the Company have been submitted to the Board of Directors for its review and come into effect with the approval of two-thirds of the members of the Board of Directors. Third party guarantees which are further subject to consideration and approval at the general meeting in accordance with relevant regulations have come into effect with the approval of the general meeting following approval by the Board of Directors.

Material Matters

3. A special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company has been furnished by Independent Non-Executive Directors of the Company, Mr. Richard Xike Zhang, Mr. Chen Shaohua, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang as follows:

(1) As at 31 December 2015, the transfer of funds between the Company and the controlling shareholder and other connected parties represented transactions in the ordinary course of business. Neither the controlling shareholder of the Company nor other connected parties had appropriated the Company's funds for non-operating purposes or compromised the interests of the Company and its shareholders. As required by CSRC, the Independent Non-executive Directors of the Company have conducted reviews in the light of the "Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2003] No. 56) and are of the view that the Company has diligently implemented the relevant provisions under the notice and have not found any matter which is in breach of the notice.

(2) As at 31 December 2015, the balance of guarantees provided by the Company actually incurred was approximately RMB8,057,457,000, accounting for 27.17% of the owner's equity attributable to holders of ordinary shares of the parent company as at 31 December 2015. The amount of third-party guarantee (excluding guarantees on behalf of subsidiaries) actually incurred by the Company and its subsidiaries during the 2015 reporting period was RMB0. The balance of third-party guarantee actually incurred by the Company and its subsidiaries (excluding guarantees on behalf of subsidiaries) as at the end of the 2015 reporting period was approximately RMB50,000,000. Third-party guarantees on behalf of subsidiaries actually incurred actually incurred by the Company and its subsidiaries during the 2015 reporting period amounted to approximately RMB1,515,807,000. The balance of third-party guarantees actually incurred by the Company and its subsidiaries on behalf of subsidiaries as at the end of the 2015 reporting period was approximately RMB8,007,457,000. For details of the third party guarantees of the Company, please refer to the sub-section headed "2. Third-party guarantees of the Group" in this section. The information on guarantees disclosed in the 2015 Annual Report of the Company is true and accurate, and the Company had not been engaged in any guarantees or connected-party guarantees in breach of relevant regulations.

(3) In accordance with the "Notice regarding Third-party Guarantees Provided by Listed Companies" (Zheng Jian Fa [2005] No. 120), the Shenzhen Listing Rules, the Hong Kong Listing Rules and other pertinent regulations, the Company has specified the scope of authority for the Board of Directors and the general meeting in approving third-party guarantees in the Articles of Association, and has formulated "the ZTE Measures for the Administration of Third-party Guarantees", in which the approval process of third-party guarantees to be made by the Company and its subsidiaries is specifically provided for to regulate third-party guarantees of the Company and effectively control risks arising therefrom.

(4) The Independent Non-executive Directors of the Company have conducted reviews in light of the "Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2003] No. 56), the "Notice regarding the Regulation of Third-party Guarantees Provided by Listed Companies" (Zheng Jian Fa [2005] No. 120), and the Articles of Association, and are of the opinion that the decision making procedures for third-party guarantees of the Company during the reporting period are in compliance with the Articles of Association and relevant regulations mentioned above, and there has been no infringement on the interests of the Company and its shareholders.

4. Entrusted investments and entrusted loans of the Group

For details of the entrusted investment and entrusted loans of the Group during the year, please refer to the section headed "Report of the Board of Directors — (II) Management and Discussion and Analysis under PRC ASBEs — 10. Analysis of Investment" in this report.

5. Progress of material contracts entered into during or prior to the year

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 follows:

No.	Contents of material contracts	Date of domestic announcements	Pricing principle	Transaction prices	Whether a connected transaction	Performance status as at the end of the reporting period
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	30 April 2007	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	Under normal progress
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Under normal progress
3	Network Supply Agreement and Managed Service Agreement between the Company and its subsidiary ZTE Corporation South Africa (PTY) Limited on the one hand and Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited, on the other	27 January 2010	By reference to market prices	USD378 million	No	Under normal progress
4	Framework Agreement of Chipset Procurement for Calendar Years 2012-2015 between the Company and Qualcomm	21 February 2012	By reference to market prices	Subject to the long-term supply contracts signed between the two parties and specific purchase orders	No	Ended on 31 December 2015 upon expiry

(XVIII) UNDERTAKING

1. Undertakings by the Company or shareholders interested in 5% or more of the shares in the Company made during the reporting period or made during prior periods but subsisting during the reporting period

(1) Undertaking given upon the initial public offering or any refinancing exercise

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

(2) Undertaking given to other minority shareholders of the Company

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

Material Matters

2. Undertaking by the Directors and senior management of the Company to increase shareholdings in the Company

As disclosed in the "Announcement Undertaking of Directors and Senior Management to Increase Shareholdings in the Company" published by the Company on 8 July 2015, 11 members of the directors and senior management of the Company, including Director Mr. He Shiyou and senior management members Messrs. Zhang Zhenhui, Qiu Weizhao, Chen Jianzhou, Fan Qingfeng, Pang Shengqing, Zhang Renjun, Ye Weimin, Xiong Hui, Chen Jie and Feng Jianxiong (Secretary to the Board of Directors), have undertaken to increase their shareholdings in the Company for an amount of not less than RMB1.60 million in the coming 6 months in manners permissible under pertinent laws and regulations, and have further undertaken not to sell the shares in the Company so acquired within a period of 6 months.

As of 29 July 2015, 11 members of the directors and senior management of the Company, including Director He Shiyou and senior management members Messrs Zhang Zhenhui, Qiu Weizhao, Chen Jianzhou, Fan Qingfeng, Pang Shengqing, Zhang Renjun, Ye Weimin, Xiong Hui, Chen Jie and Feng Jianxiong (Secretary to the Board of Directors), have fulfilled and completed their undertaking to increase shareholdings in the Company by way of direct personal acquisition or through private asset management plans of securities companies. The aggregate amount of increased shareholdings was approximately RMB1.7061 million. Among them, Chen Jie increased shareholdings in the Company through direct personal acquisition, while the remaining 10 Directors and members of senior management increased their holdings of the Company's shares indirectly through an asset management plan operated by Shanghai Guotai Junan Securities Asset Management Co. Ltd. For details, please refer to the "Announcement Fulfillment and Completion of Undertaking of Directors and Senior Management to Increase Shareholdings in the Company" and "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 30 July 2015 and 26 August 2015, respectively.

3. Company statement on meeting original profit forecasts for assets or projects and the reasons therefor, where such profit forecasts have been made and the reporting period falls within the profit forecast period

☐ Applicable ✓ N/A

(XIX) EXPLANATORY STATEMENT FROM THE BOARD OF DIRECTORS, THE SUPERVISORY COMMITTEE AND THE INDEPENDENT NON-EXECUTIVE DIRECTORS OF THE COMPANY ON THE ACCOUNTANT'S "QUALIFIED OPINION" FOR THE YEAR.

☐ Applicable ✓ N/A

(XX) 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

(XXI) EXPLANATORY STATEMENT ON RECTIFICATION OF SIGNIFICANT ACCOUNTING ERRORS FOR THE YEAR REQUIRING RETROSPECTIVE RESTATEMENT

☐ Applicable ✓ N/A

(XXII) 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 Financial Holding Factoring Limited Company, 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.

(XXIII) APPOINTMENT OF AUDITORS BY THE COMPANY

Ernst & Young Hua Ming LLP ("Ernst & Young Hua Ming") and Ernst & Young acted as the Group's PRC and Hong Kong auditors, respectively. For further details, please refer to the section of this report headed "Corporate Governance Structure Part II — VI. Auditors' Remuneration".

(XXIV) DURING THE PAST THREE YEARS, NONE OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDER, DE FACTO CONTROLLER OR ACQUIRER WAS SUBJECT TO INVESTIGATION BY COMPETENT AUTHORITIES, ENFORCEMENT BY JUDICIARY OR DISCIPLINARY AUTHORITIES, DETAINMENT BY JUDICIAL AUTHORITIES OR PROSECUTION FOR CRIMINAL CHARGES, CASE INVESTIGATION OR ADMINISTRATIVE PENALTY BY CSRC, PROHIBITION FROM PARTICIPATION IN THE SECURITIES MARKET, OPINION OF DEEMED INAPPROPRIATENESS, MATERIAL ADMINISTRATIVE PUNISHMENT BY ENVIRONMENTAL PROTECTION, SECURITY REGULATION, TAXATION AND OTHER ADMINISTRATIVE AUTHORITIES OR PUBLIC CENSURE BY THE STOCK EXCHANGE.

(XXV) THERE WAS NO NON-COMPLIANCE WITH VALID COURT JUDGEMENT ON THE PART OF OR OVERDUE DEBTS OF A SUBSTANTIAL NATURE OWED BY THE COMPANY OR ITS CONTROLLING SHAREHOLDER DURING THE YEAR.

Material Matters

(XXV) ALLEGED ILLICIT TRADING IN SHARES OF THE COMPANY BY DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR SHAREHOLDERS HOLDING 5% OR MORE OF THE SHARES OF THE COMPANY IN RESPECT OF WHICH THE RETRIEVAL OF GAINS FROM ALLEGED ILLICIT TRADING HAS BEEN ANNOUNCED BY THE COMPANY

☐ Applicable ✓ N/A

(XXVII) PROSPECTS OF SUSPENSION OR TERMINATION OF LISTING AFTER THE PUBLICATION OF THE ANNUAL REPORT

☐ Applicable ✓ N/A

(XXVIII) OTHER SIGNIFICANT EVENTS

Save as aforesaid, no other significant events as specified under Rule 67 of the Securities Law and Article 30 of the Measures for the Administration of Information Disclosure by Listed Companies and events that were significant in the judgment of the Board of Directors of the Company occurred to the Company during the year.

(XXIX) THERE WERE NO OTHER DISCLOSEABLE MATERIAL MATTERS OCCURRING TO THE SUBSIDIARIES OF THE COMPANY DURING THE YEAR THAT REMAINED UNDISCLOSED

(XXX) PERFORMANCE OF CORPORATE SOCIAL RESPONSIBILITY BY THE COMPANY

The Company has incorporated environmental protection into every stage of operation of ZTE and the entire life cycle of its products. New products and new services commanding higher commercial value and environmental efficiency are being launched on an ongoing basis in a scientifically rigorous manner, while the green and eco-friendly strategy is being implemented across all segments, including product development, manufacturing, supply chain, logistics and engineering, in a bid to explore a sustainable green path of development. In 2015, the Company did not violate any laws or incur any relevant penalties in relation to environmental protection.

The Company and its staff have been committed to rewarding the society and the cities and countries where the Company operates. In 2015, the Company continued to conduct feature community welfare projects under its brand name in line with its aim to "promote charity, fulfill social responsibility and advance community welfare development." Stronger efforts were made to integrate its community welfare resources and enhance the "ZTE Community Welfare Foundation" as well as to encourage and promote various types of philanthropist activities, in a bid to offer assistance to the underprivileged to the best of our ability in compassionate dedication to our society. We started a number of community welfare projects in aid for the underprivileged, disaster relief, environmental protection and incentives for technological development, which were operated in accordance with standardized rules and regulations, under improved organisational structures and with higher level of transparency.

For details of the social welfare activities (including donations) of and performance of corporate social responsibility by the Company, please refer to the "2015 Sustainable Development Report" published by the Company on http://www.cninfo.com.cn on 7 April 2016.

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE YEAR

Unit: shares

	At the beginning of the year		Increase/decrease as a result of the change during the year (+, -)					At the end of the year	
	Number of shares	Percentage	New issue Note 1	Bonus issue	Transfer from capital reserve Note 2	Others Note 3	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	**6,770,578**	**0.19%**	**1,355,025**	**—**	**1,207,406**	**–481,773**	**2,080,658**	**8,851,236**	**0.20%**
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	—	—	—	—	—	—	—	—	—
Comprising: domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	6,770,578	0.19%	1,355,025	—	1,207,406	–481,773	2,080,658	8,851,236	0.20%
II. Shares not subject to lockup	**3,430,770,700**	**99.81%**	**24,386,657**	**—**	**686,300,849**	**481,773**	**711,169,279**	**4,141,939,979**	**99.80%**
1. RMB ordinary shares	2,801,185,255	81.49%	24,386,657	—	560,383,760	481,773	585,252,190	3,386,437,445	81.59%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	629,585,445	18.32%	—	—	125,917,089	—	125,917,089	755,502,534	18.21%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	**3,437,541,278**	**100.00%**	**25,741,682**	**—**	**687,508,255**	**—**	**713,249,937**	**4,150,791,215**	**100.00%**

Note 1: During the year, a total of 25,741,682 A share options were exercised by participants in the share option incentive scheme of the Company, and the number of A shares of the Company increased by 25,741,682 shares correspondingly;

Note 2: On 17 July 2015, the Company implemented the 2014 plan for profit distribution and conversion of capital reserve, whereby 2 bonus shares were issued for every 10 shares held on the basis of a total share capital of 3,437,541,278 shares. Following such implementation, the total share capital of the Company increased by 687,508,255 shares;

Note 3: In accordance with relevant domestic regulations, shares held by the Directors, Supervisors or senior management shall be subject to lock-up or unlocking on a pro-rata basis.

Changes in Shareholdings and Information of Shareholders

(II) CHANGES IN SHARES SUBJECT TO LOCK-UP DURING THE YEAR

Unit: shares

No.	Name of shareholders subject to lock-up	Number of A shares subject to lock-up as at 31 December 2014	Number of A shares released from lock-up during the year Note 1	Increase in the number of A shares subject to lock-up during the year Note 2	Number of A shares subject to lock-up at the end of the year	Reason for lock-up	Date of unlocking
1	Hou Weigui	973,103	—	194,621	1,167,724	Restricted senior management shares	—
2	Chen Jie	558,437	45,000	108,762	622,199	Restricted senior management shares	—
3	Yin Yimin	474,624	—	94,925	569,549	Restricted senior management shares	—
4	Pang Shengqing	316,051	—	184,710	500,761	Restricted senior management shares	—
5	Shi Lirong	412,882	—	82,576	495,458	Restricted senior management shares	—
6	Xu Huijun	420,709	105,177	157,606	473,138	Restricted senior management shares	—
7	Fan Qingfeng	361,875	90,469	189,281	460,687	Restricted senior management shares	—
8	Zhu Jinyun	361,844	90,461	175,777	447,160	Restricted senior management shares	—
9	Ye Weimin	297,936	22,500	163,087	438,523	Restricted senior management shares	—
10	Zeng Xuezhong	320,700	76,425	170,355	414,630	Restricted senior management shares	—
11	Others	2,272,417	303,513	1,292,503	3,261,407	Restricted senior management shares	—
Total		**6,770,578**	**733,545**	**2,814,203**	**8,851,236**	**—**	**—**

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

Note 2: The increase in the number of shares subject to lock-up is attributable to (1) the implementation of the 2014 plan for profit distribution and conversion of capital reserve by the Company on 17 July 2015; (2) the exercise of A share options by the Directors and senior management of the Company. Pursuant to relevant domestic regulations, up to 25% of shares not subject to lock-up acquired by the Directors, Supervisors and senior management are disposable during the year of acquisition; (3) in accordance with relevant domestic regulations, a lock-up shall apply to shareholdings of departed Directors, Supervisors and senior management.

(III) ISSUE AND LISTING OF SECURITIES DURING THE YEAR

1. On 31 October 2013, the Company granted 102,989,000 A share options to 1,528 Scheme Participants. Registration for the A share options granted has been completed. The option code is "037032" and the abbreviated name is "中興JLC1". Following the implementation of the 2014 plan for profit distribution and conversion of capital reserve, it was considered and approved at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors of the Company held on 22 July 2015 that the number of A share options would be adjusted to 123,586,800. At the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, it was considered and approved that the number of A share options granted would be adjusted to 116,613,000. During the year, a total of 25,741,682 A share options

were exercised by participants in the share option incentive scheme of the Company, and the number of A shares of the Company increased by 25,741,682 shares correspondingly. The matters had no material impact on the structure of assets and liabilities of the Company.

2. On 17 July 2015, the Company implemented the 2014 plan for profit distribution and conversion of capital reserve, whereby 2 bonus shares were issued for every 10 shares held on the basis of a total share capital of 3,437,541,278 shares. Following such implementation, the total share capital of the Company increased by 687,508,255 shares. The matters had no material impact on the structure of assets and liabilities of the Company.

3. The Company had no employees' shares.

(IV) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY AS AT THE END OF THE YEAR

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. 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

Changes in Shareholdings and Information of Shareholders

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	1. Zhongxingxin was neither a connected party nor a concerted party of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.
Description of involvement in financing and securities lending businesses of top 10 shareholders (if any)	N/A

Note 1: During the 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.

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 report, 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.

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, Aerospace Guangyu and 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:

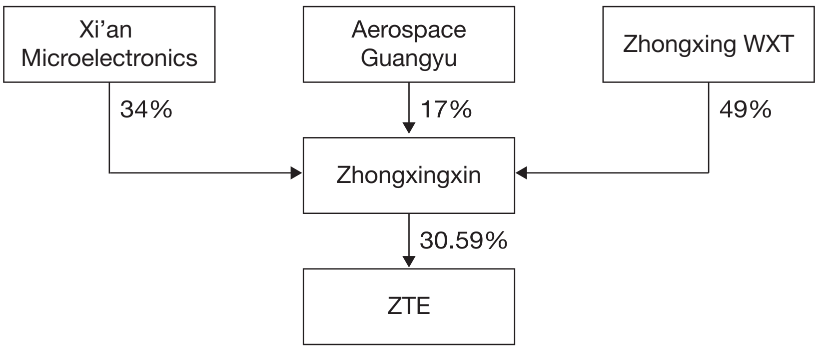
Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tian Dongfang and its organization number is H0420141-X. It is the only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

Changes in Shareholdings and Information of Shareholders

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:



4. **The Company had no other corporate shareholder who was interested in more than 10% of its shares.**

5. **During the year, no controlling shareholder, parties to reorganisation or other entities of undertaking were subject to restrictions against the sell-down of the Company's shares.**

6. **Interests of substantial shareholders of the Company in shares and underlying shares**

As at 31 December 2015, the following shareholders held interests or short positions in 5% or more in any class of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shares held	Shareholding as an approximate percentage (%) of: Note	
			Total share capital	Class shares
Zhongxingxin	Beneficial owner	1,269,830,333 A shares (L)	30.59% (L)	37.40% (L)
Zhongxing WXT	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A shares (L)	30.59% (L)	37.40% (L)
Xi'an Microelectronics	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A shares (L)	30.59% (L)	37.40% (L)

Name	Capacity	Number of shares held	Shareholding as an approximate percentage (%) of: Note Total share capital	Class shares
China Aerospace Electronics Technology Research Institute	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A shares (L)	30.59% (L)	37.40% (L)
China Aerospace Science and Technology Corporation	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A shares (L)	30.59% (L)	37.40% (L)
JPMorgan Chase & Co.	Beneficial owner	62,294,605 H shares (L)	1.50% (L)	8.25% (L)
	Investment manager	2,645,742 H shares (S)	0.06% (S)	0.35% (S)
	Custodian corporation/approved lending agent	37,008,523 H shares (P)	0.89% (P)	4.90% (P)
Capital Research and Management Company	Interests of corporation controlled by the substantial shareholder	38,410,000 H shares (L)	0.93% (L)	5.08% (L)
BlackRock, Inc.	Investment manager	43,470,352 H shares (L)	1.05% (L)	5.75% (L)
Baillie Gifford & Co	Interests of corporation controlled by the substantial shareholder	38,164,720 H shares (L)	0.92% (L)	5.05% (L)
Chiltonlink Limited	Interests of corporation controlled by the substantial shareholder	37,808,480 H shares (L)	0.91% (L)	5.00% (L)
PineBridge Investment, L.P.	Interests of corporation controlled by the substantial shareholder	37,808,480 H shares (L)	0.91% (L)	5.00% (L)
Li Tzar Kai, Richard	Interests of corporation controlled by the substantial shareholder	37,808,480 H shares (L)	0.91% (L)	5.00% (L)

(L) — long position, (S) — short position, (P) — lending pool

Note: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital (4,150,791,215 shares), total number of A shares (3,395,288,681 shares) and total number of H shares (755,502,534 shares) as at 31 December 2015.

Save as disclosed above, as at 31 December 2015, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

7. 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.

8. Public float

As at the latest practicable date prior to the publication of this report, so far as the Company and the Board of Director was aware of based on publicly available information, the Company's public float is in compliance with the minimum requirement for public float under the Hong Kong Listing Rules.

Directors, Supervisors, Senior Management and Employees

(I) BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Brief biographies of Directors

Mr. Hou Weigui, born 1941, worked with China Aerospace Factory No. 691 as head of the technology division prior to 1984. In 1984, he went to Shenzhen to establish Shenzhen Zhongxing Semiconductor Co., Ltd., serving as general manager of the company. He was President of the Company from October 1997 to February 2004 and was Chairman and Non-executive Director of the Company from February 2004 to March 2016. Mr. Hou has extensive experience in the telecommunications sector and in corporate and business management.

Mr. Zhao Xianming, born 1966, is Chairman, Executive Director and President of the Company. Mr. Zhao graduated from the Harbin Institute of Technology in 1997 specialising in telecommunications and electronic systems with a doctorate degree in engineering. He joined the Company in 1998 to be engaged in the research, development and management of CDMA products. He had been head of the research and development group, project manager and general product manager from 1998 to 2003. In 2004, he was appointed Senior Vice President of the Company in charge of the CDMA Division and the Wireless Product Operations. From January 2014 to December 2015, he was Chief Technology Officer (CTO) and Executive Vice President of the Company in charge of the Strategic and Platform Operations and System Product Operations of the Company. He has been Executive Director of the Company since November 2015 and Chairman and President of the Company since April 2016. Mr. Zhao has many years of experience in the telecommunications industry and over 25 years of management experience.

Mr. Zhang Jianheng, born 1961, is Vice Chairman and Non-executive Director of the Company. Mr. Zhang graduated from Dalian Institute of Technology in 1982 majoring in Chemical Machinery and currently holds the title of senior engineer. Mr. Zhang worked with the No. 1 Film Factory under the Ministry of Chemical Industry from 1982 to 1989 and with No. 1 Film Factory of China Lucky Film Corporation from 1989 to 1996. He was appointed director of China Lucky Film Corporation in 1996, and went on to serve as deputy general manager and general manager of that company until 2011. During this period, he also concurrently acted as general manager (vice chairman) and chairman of Lucky Film Co., Ltd. Since November 2012 he has been chairman of China Lucky Group Corporation. In November 2011 he was appointed deputy general manager of China Aerospace Science and Technology Corporation, a position that he has been holding since. He has been non-executive director and board chairman of China Aerospace International Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) since March 2012, and has been Vice Chairman and Non-executive Director of the Company since April 2012. Mr. Zhang brings with him a wealth of experience in management and operation.

Mr. Luan Jubao, born 1962, is Vice Chairman and Non-executive Director of the Company. Mr. Luan graduated from the Department of Metal Materials and Processes of Harbin Institute of Technology in 1983 majoring in welding and from Zhongnan University of Economics and Law in 2000 with an MBA degree, and currently holds the professional title of researcher-grade senior engineer. Mr. Luan worked with Wanshan Plant of the 066 Base of the Ministry of Aerospace Industry from 1983 to 1993. From 1993 to 2000 he had been principal deputy plant manager and plant manager of Wanshan Plant of the 066 Base of the headquarters of China Aerospace. From 2000 to 2006 he was plant manager of Hongfeng Plant of the 066 Base of China Aerospace Science and Industry Corporation. From 2006 to 2008, he was head of the technology centre of Research Institute No. 9 of China Aerospace Science and Industry Corporation. From February 2008 to July 2008, he was chairman of 萬山特種車輛有限公司 under Research Institute No. 9 of China Aerospace Science and Industry Corporation. From July 2008 to October 2014 he was general manager of Henan Aerospace Science and Industry Corporation and chief of the Henan Aerospace Administration. Since October 2014 he has been director and general manager of CASIC Shenzhen (Group) Company Limited and Shenzhen Aerospace Guangyu Industrial Company Limited. Mr. Luan has been Vice Chairman and Non-executive Director of the Company since November 2015. He has extensive experience in management and operations.

Mr. Shi Lirong, born 1964, is Non-Executive Director of the Company. Mr. Shi graduated from Tsinghua University in 1984 majoring in wireless and information technology with a bachelor's degree and Shanghai Jiaotong University in 1989 majoring in telecommunications and electronic engineering with a master's degree, and currently holds the title of senior engineer. Mr. Shi served as an engineer and head of the production department in Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993. From 1993 to 1997, he was deputy general manager of Zhongxingxin. He was in charge of the Company's overall marketing operations from 1997 to 2007 and global sales from 2007 to 2010. He was Executive Director of the Company from February 2001 to March 2016 and President of the Company from March 2010 to March 2016. He has been Non-executive Director of the Company since March 2016. Mr. Shi has many years of experience in the telecommunications industry and over 25 years of management experience.

Mr. Wang Yawen, born 1963, is Non-executive Director of the Company. Mr. Wang graduated from the Department of Physics of Central China Normal University in 1985 with a bachelor's degree in science and from Harbin Institute of Technology in 2006 with a master's degree in management specializing in management science and engineering, and currently holds the professional title of researcher. From 1985 to 2000, Mr. Wang worked with Institute No. 19 of China Academy of Launch Vehicle Technology successively as deputy head of the editorial office, head of the offset printing office, head of the phototypesetting centre, head of the technology department, deputy head of the Institute and head of the Institute. From September 2000 to January 2003, he was executive deputy general manager of 中國遠望（集團）總公司. Since February 2003, he has been deputy general manager of 中國航天時代電子公司. From February 2003 to January 2015, he also served successively as general manager and chairman of 中國時代遠望科技有限公司. He has been deputy dean of China Aerospace Electronics Technology Research Institute from February 2009 to the present. He has also been director and president since June 2008 and vice chairman since June 2014 of China Aerospace Times Electronics Co., Ltd. (a company listed on Shanghai Stock Exchange). He has been Non-executive Director of the Company since November 2015. Mr. Wang has extensive experience in management and operations.

Mr. Tian Dongfang, born 1960, is Non-executive Director of the Company. Mr. Tian graduated from Chengdu Institute of Telecommunication in 1982 majoring in solid state devices and currently holds the professional title of researcher. From August 1982 to September 2014 he had been section head, deputy head, executive deputy head and head of Xi'an Microelectronics Technology Research Institute. He has been chief economist of China Aerospace Electronics Technology Research Institute and head of Xi'an Microelectronics Technology Research Institute since September 2014. Mr. Tian has been Non-executive Director of the Company since November 2015. He has extensive experience in management and operations.

Mr. Zhan Yichao, born 1963, is Non-executive Director of the Company. Mr. Zhan graduated from the Department of Finance and Accounting of Jiangxi University of Finance and Economics in 1986 majoring in accounting and from International East-West University of the United States in 1999 with an MBA degree, and currently holds the professional title of senior accountant. Mr. Zhan had been deputy manager, manager and deputy general manager of Shenzhen Aerospace Guangyu Industrial Company Limited from August 1986 to October 2004. From October 2004 to August 2005, he had been director and deputy general manager of 上海久聯證券經紀有限責任公司. From August 2005 to August 2014 he had been director/deputy general manager and director/general manager of 航天證券有限責任公司. Since August 2014, he has been director and deputy general manager of CASIC Shenzhen (Group) Company Limited and director of Shenzhen Aerospace Guangyu Industrial Company Limited. Mr. Zhan has been Non-executive Director of the Company since November 2015. He has extensive experience in management and operations.

Directors, Supervisors, Senior Management and Employees

Mr. Yin Yimin, born 1963, is Executive Director of the Company. Mr. Yin graduated from the Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1988 with a master's degree in engineering, majoring in telecommunications and electronic systems, and currently holds the title of senior engineer. Mr. Yin had served as a manager of the research and development department of Shenzhen Zhongxing Semiconductor Co., Ltd. since 1991, and as deputy general manager of Zhongxingxin between 1993 and 1997. From 1997 to March 2010 he served as the Company's Vice President, Senior Vice President and President, being in charge of different divisions such as research and development, marketing, sales and handsets operations. He has been Executive Director of the Company since November 1997. Mr. Yin is concurrently chairman of Zhongxingxin, chairman and general manager of Shenzhen ZTE Capital Management Company Limited. Mr. Yin has many years of experience in the telecommunications industry and over 25 years of management experience.

Mr. Wei Zaisheng, born 1962, is currently Executive Director, Executive Vice President and Chief Financial Officer of the Company in charge of corporate finance and investment management of the Group. Mr. Wei obtained a master's degree in business administration from Peking University in 2004. He joined Shenzhen Zhongxing Semiconductor Co., Ltd. in 1988 and served as chief financial officer and assistant to the general manager of Zhongxingxin, controlling shareholder of the Company, from 1993 to 1997. He was Senior Vice President of the Company from 1997 to 1999 and has been Executive Vice President of the Company in charge of the Financial System of the Company since 1999. He has been Executive Director of the Company since March 2016. He was appointed member of Accounting Informatisation Committee and member of XBRL Regional Steering Committee (China) by the Ministry of Finance in November 2008, and was appointed member of the Accounting Standards Strategic Committee by the Ministry of Finance in December 2014. He was appointed a guidance expertise for the special support plan under the national training programme for leaders in the accounting profession in June 2015. He is concurrently director of Zhongxingxin, controlling shareholder of the Company, and chairman of ZTE Group Finance Co. Ltd. Mr. Wei has many years of experience in the telecommunications industry and over 27 years of management experience.

Mr. Xie Weiliang, born 1956, graduated from the Faculty of Politics, National University of Defense Technology in 1982 and currently holds the title of professor. Mr. Xie served as the head of Nanjing Aerospace Management Cadres Institute from 2001 to 2003, and as director and general manager of Shenzhen Aerospace Guangyu Industrial Company Limited from 2003 to November 2015. From 2003 to January 2014 he was director and general manager of CASIC Shenzhen (Group) Company Limited. From January 2014 to September 2014 he was chairman and CPC committee secretary of CASIC Shenzhen (Group) Company Limited. Since October 2014 he has been inspector (bureau-level) of CASIC Shenzhen (Group) Company, Limited. He was chairman of Zhongxingxin from May 2013 to August 2015 and Vice Chairman and Non-executive Director of the Company from February 2004 to November 2015. Mr. Xie has substantial experience in management and business operations.

Mr. Wang Zhanchen, born 1952, graduated from Xi'an Artillery Engineering Institute in 1976 and currently holds the title of senior engineer. Mr. Wang served as factory manager of Beijing Xinghua Machinery Factory of China Academy of Launch Vehicle Technology during 1997 to 2001. He was vice chairman of China Aerospace Times Electronics Co., Ltd. from June 2008 to June 2014 and Non-executive Director of the Company from March 2010 to November 2015. Mr. Wang has substantial experience in management and business operations.

Mr. Zhang Junchao, born 1953, graduated from Department (I) of Electronic and Wireless Engineering, Xi'an Jiaotong University in 1977 and currently holds the title of researcher. Mr. Zhang served as the deputy head of Foundational Electronic Technology Institute of China Aerospace Science and Technology Corporation from 2000 to March 2003, head of Shaanxi Management Division of China Aerospace Times Electronics Corporation (renamed as "China Academy of Aerospace Electronics Technology") and head of Xi'an Microelectronics Technology Institute from May 2003 to January 2014 and deputy head of China Academy of Aerospace Electronic Technology from September 2010 to January 2014. He was Non-executive Director of the Company from February 2004 to November 2015. Mr. Zhang has substantial experience in management and business operations.

Mr. Dong Lianbo, born 1957, graduated from Northeastern University in 2001 majoring in Business Administration and currently holds the titles of researcher-grade senior engineer. Mr. Dong served as director and deputy general manager of Shenyang Aerospace Xinguang Group from 2001 to 2002, deputy team head of the Shenzhen Business Integration Working Group of China Aerospace Science and Industry Corporation from 2002 to 2003 and director and deputy general manager of CASIC Shenzhen (Group) Company Limited and director of Shenzhen Aerospace Guangyu Industrial Company Limited from 2003 to 2014. Since January 2014, he has been head of first inspection team of China Aerospace Science and Industry Corporation. He was Non-executive Director of the Company from February 2004 to November 2015. Mr. Dong has substantial experience in management and business operations.

Mr. He Shiyou, born 1966, graduated from Beijing University of Posts and Telecommunications in 1990 with a master's degree in engineering, specialising in electromagnetic field and microwave technology and currently holds the title of senior engineer. Mr. He joined Zhongxingxin in 1993 and had since served as chief engineer of the Nanjing Research Centre and deputy head of the Shanghai Research Centre. He was the Company's Vice President from 1998 to 1999, responsible for divisions such as research and development and marketing. From 1999 to 2014, he had been Senior Vice President and Executive Vice President of the Company responsible for Marketing Division II and the Handset Division of the Company. He was Executive Director of the Company from February 2001 to November 2015. He has been chairman and general manager of 中興健康科技有限公司 since August 2014. He has many years of experience in the telecommunications industry as well as over 23 years of management experience.

Mr. Tan Zhenhui, born 1944. Mr. Tan graduated from Southeast University in 1987 with a doctorate degree in engineering specialising in telecommunications and electronic systems, and currently holds the title of professor. Mr. Tan is currently chairman of the Academic Committee and a professor of Beijing Jiaotong University, where he has been serving since August 1982 as faculty dean, vice chancellor and chancellor. He was Independent Non-executive Director of the Company from March 2010 to March 2016. Mr. Tan is well qualified, both academically and professionally, and vastly experienced in the telecommunications sector.

Mr. Richard Xike Zhang, born 1970, is Independent Non-executive Director of the Company. Mr. Zhang graduated from J. L. Kellogg School of Management at Northwestern University in the United States in 1993 with a master's degree in finance. Mr. Zhang was mentioned among the most outstanding graduates of U.S. colleges by USA Today, a mainstream news media in the United States. From August 1993 to July 2008, Mr. Zhang was employed by McKinsey & Company, holding the positions of Director (Senior Partner) for global operations and chairman of McKinsey's Shanghai Office. As the first McKinsey Partner with a Mainland Chinese background in McKinsey's 80-year history, he served clients primarily in the telecommunications, technology, and automobile sectors. Mr. Zhang assumed the role of Partner and Head of Greater China of Apax Partners in August 2008. In January 2013, he was promoted to the position of Equity Partner while continuing to serve as the head of Apax Greater China with responsibilities covering Apax funds investment operations in Mainland China, Hong Kong, Taiwan and Southeast Asia. He has been Independent Non-executive Director of the Company since June 2013. Mr. Zhang was also a member of the "Young Leaders Group" of the Boao Forum for Asia. Since January 2015, Mr. Zhang has been a founding board member of the Future Forum, China's first non-profitmaking organisation for cutting-edge technologies bringing together entrepreneurs, investors and scientists. Mr. Zhang brings with him extensive experience in management consulting and investment.

Mr. Chen Shaohua, born 1961, Independent Non-executive Director of the Company. He obtained his MBA degree at Dalhousie University, Canada in 1987 and his doctoral degree in Economics (Accounting) at Xiamen University in 1992. With the title of Accounting Professor, Mr. Chen is currently professor and tutor to doctoral candidates of the Accounting Department, School of Management and deputy director of the Accounting Development Research Centre (a key humanities and science research base designated by the Ministry of Education) of Xiamen University. Mr. Chen has been Independent Non-executive Director of the Company since July 2015. He has been teaching assistant, lecturer and associate professor of the Accounting Department of Xiamen University, as well as visiting professor at Virginia Union University. He has also been a certified public accountant at the Xiamen University Accounting Firm and Xiamen Yongda Accounting Firm. Mr. Chen is currently also president of the Accounting Association of Xiamen Foreign Investment Enterprises, vice president of the Xiamen Association of Chief Accountants, as well as an independent non-executive director of Sinoma International Engineering Co., Ltd. (a company listed on Shanghai Stock Exchange), Tianma Microelectronics Co., Ltd. (a company listed on Shenzhen Stock Exchange), Fujian Septwolves Industrial Co., Ltd. (a company listed on Shenzhen Stock Exchange) and 大博醫療科技股份有限公司, respectively. Mr. Chen was an Independent Non-executive Director of the Company from July 2003 to July 2009. Mr. Chen has strong academic and professional background as well as proven experience in accounting and finance.

Mr. Lü Hongbing, born 1966, Independent Non-executive Director of the Company. He graduated in 1988 with a bachelor's degree in law and further obtained a master's degree in law in 1991 from East China University of Political Science and Law. Since September 2009, he has been studying for a doctoral degree in management engineering at University of Science and Technology of China. He is a qualified lawyer of China. Mr. Lü is currently the principal executive partner of Grandall Law Firm. Mr. Lü has been Independent Non-executive Director of the Company since July 2015. He has previously worked with East China University of Political Science and Law, Shanghai Wanguo Securities Co., Ltd., Shanghai Wanguo Law Firm, Grandall (Shanghai) Law Firm. He is currently vice president of All China Lawyers Association, committee member and deputy head of the society and legal system committee of the 12th Shanghai Committee of the Chinese People's Political Consultative Conference, arbitrator of Shanghai International Economic and Trade Arbitration Committee, Shanghai International Arbitration Centre, Shanghai Arbitration Committee and Shanghai Court of Financial Arbitration, respectively, advisory member of the Restructuring Committee of CSRC, member of the Listing Committee of Shanghai Stock Exchange, adjunct or part-time professor at Fudan University and China Renmin University and an independent non-executive director of Shimao Property Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) and Shanghai Shentong Metro Co., Ltd. (a company listed on Shanghai Stock Exchange), respectively. Mr. Lü has strong academic and professional background as well as proven experience in the legal sector.

Mr. Bingsheng Teng, born 1970, Independent Non-executive Director of the Company. He graduated from the City University of New York with a doctoral degree in strategic studies in 1998. Mr. Teng taught at the School of Business of George Washington University from 1998 to 2006 as assistant professor and associate professor of strategic management and tutor to doctoral candidates at George Washington University (with tenure), and was in charge of the doctoral programme in strategic studies of the school. In 2003, Mr. Teng was conferred the title of Wendell and Louis Crain Research Scholar of the School of Business of George Washington University. He joined Cheung Kong Group School of Business (CKGSB) in late 2006 and has been associate professor and director of CKGSB Center for Multinational Corporations Research since 2007 and associate dean of CKGSB since 2009. He has been Independent Non-executive Director of the Company since July 2015. He is concurrently an independent non-executive director of Shandong Gold Mining Co., Ltd. (a company listed on Shanghai Stock Exchange). Mr. Teng has strong academic and professional background as well as proven experience in corporate strategic management.

Mr. Zhu Wuxiang, born 1965, Independent Non-executive Director of the Company. He graduated from Tsinghua University in 2002 a doctorate degree, specialising in quantitative economics. He has been studying and working at Tsinghua University since 1982 and is currently deputy head, tutor to doctoral candidates and professor of the Department of Finance of the School of Economics and Management, Tsinghua University. Mr. Zhu has been Independent Non-executive Director of the Company since March 2016. Mr. Zhu is concurrently independent non-executive director of Beijing Properties (Holdings) Ltd. (a company listed on The Stock Exchange of Hong Kong Limited), China Fortune Land Development Co., Ltd. (a company listed on Shanghai Stock Exchange), Dongxing Securities Co., Ltd. (a company listed on Shanghai Stock Exchange) and Offshore Oil Engineering Co., Ltd (a company listed on Shanghai Stock Exchange), as well as supervisor of Unisplendour Corporation Limited (a company listed on Shenzhen Stock Exchange) and Everbright Securities Company Limited (a company listed on

Shanghai Stock Exchange), respectively. Mr. Zhu was Independent Non-executive Director of the Company from July 2003 to July 2009. Mr. Zhu has strong academic background and proven experience in financial management and business model research.

Ms. Qu Xiaohui, born 1954, graduated from Xiamen University in July 1989 with a doctorate degree in Economics (Accounting) and currently holds the title of accounting professor. She was named a Fulbright Scholar under the U.S. Fulbright Scholar Program in May 2001. Ms. Qu is the first female PhD in accounting and female tutor for doctorate candidates in accounting in China, as well as the promoter of the project hypothesis procedure for the creation of a professional master's degree in accounting (MPAcc) in China. Since August 1989, she has been engaged in teaching and academic research at the Department of Accounting of Xiamen University. She was Independent Non-executive Director of the Company from July 2009 to July 2015. Ms. Qu is concurrently independent non-executive director of each of Guangzhou Baiyun Electric Equipment Co., Ltd., 廈門市美亞柏科信息有限公司 (a company listed on the Shenzhen Stock Exchange), SDIC Essence (Holdings) Co., Ltd. (known as Sinotex Investment & Development Co., Ltd. prior to July 2015) (a company listed on the Shanghai Stock Exchange) and Essence Securities Co., Ltd. and chief financial advisor of Xiamen NetinNet Software Co., Ltd. Ms. Qu is well qualified, both academically and professionally, and vastly experienced in the accounting and finance sector.

Mr. Wei Wei, born 1965, graduated from Huazhong University of Science and Technology in 2004 with a doctorate degree in management science and engineering. Mr. Wei was a post-doctorate fellow at Chinese Economic Research Centre at the Peking University from July 2004 to June 2006. He has worked in Xinjiang Technology College and Xinjiang University. He was Assistant to the Dean of Shenzhen School of Business of Peking University from July 2006 to September 2007 and associate dean of HSBC Business School of Peking University and the head of the Research Centre of Doers' Group Business Model of HSBC Business School of Peking University from October 2007 to April 2015. He was Independent Non-executive Director of the Company from July 2009 to July 2015. Mr. Wei is concurrently independent non-executive director of each of Dalian Zhangzidao Fishery Group Company Limited (a company listed on Shenzhen Stock Exchange), Telling Telecommunication Holding Co., Ltd. (a company listed on Shenzhen Stock Exchange), Skyworth Digital Holdings Limited (a company listed on the Hong Kong Stock Exchange) and AVIC International Holdings Limited (a company listed on the Hong Kong Stock Exchange). Mr. Wei is well qualified, both academically and professionally, and vastly experienced in corporate management.

Mr. Chen Naiwei, born 1957, graduated from the Graduate School of Macau University of Science and Technology in 2007 with a doctorate degree in Law. He holds the title of professor in Law and is a qualified lawyer in China. Mr. Chen has served as head of the Law Faculty and head of the Intellectual Property Research Centre of Shanghai Jiaotong University. He has been a partner and senior lawyer of Shanghai Allbright Law Offices since 2001. Mr. Chen was Independent Non-executive Director of the Company from July 2009 to July 2015. He is concurrently independent non-executive director of each of Shanghai Pharmaceuticals Holding Co., Ltd. (a company listed on the Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited), Shanghai Taisheng Wind Power Equipment Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Shanghai Kinlita Chemical Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and Shanghai Jiaoyun Group Co., Ltd. (a company listed on the Shanghai Stock Exchange). Mr. Chen is well qualified, both academically and professionally, and vastly experienced in the legal sector.

2. Brief biography of Secretary to the Board of Directors/Company Secretary

Ms. Cao Wei, born 1976, is the Secretary to the Board of Directors of the Company. She graduated from Xiamen University in 1998 with a bachelor's degree in finance and from City University of Hong Kong in 2007 with a Master of Arts in International Accounting. Ms. Cao has been involved in financial operations and information disclosure since joining the Company in July 1998. From 2011 to April 2016, she was the securities affairs representative of the Company. Since April 2016, she has been the Secretary to the Board of Directors of the Company.

Directors, Supervisors, Senior Management and Employees

Mr. Feng Jianxiong, born 1974, is the Company Secretary of the Company. Mr. Feng graduated from Tianjin University of Finance and Economics with a bachelor's degree in economics, majoring in international finance, and from CEIBS in 2012 with a master's degree in Business Administration. He joined Zhongxingxin, controlling shareholder of the Company, in July 1996, and was the Secretary to the Board of Directors of the Company from 2000 to March 2016, with spells as heads of the Investment Department, Securities and Finance Department and Securities and Investor Relations Department of the Company during the period. He has been the Company Secretary of the Company since 2004. Mr. Feng has many years of experience in the telecommunications industry and over 16 years of management experience.

3. Brief biographies of Supervisors

Mr. Xie Daxiong, born 1963, is Chairman of the Supervisory Committee of the Company. Mr. Xie is a professor-grade senior engineer. He graduated from the Nanjing University of Science and Technology in 1986 with a master's degree in engineering, specialising in applied mechanics. Mr. Xie joined Zhongxingxin, controlling shareholder of the Company, in 1994 and had been the head of the Nanjing Research Institute of Zhongxingxin. From 1998 to 2004, Mr. Xie had been CDMA Product Manager and General Manager of CDMA Division of the Company. From 2004 to 2012, he was Executive Vice President of the Company in charge of the Company's technology planning and strategy. He has been Chairman of the Supervisory Committee of the Company since March 2013, As a national-level candidate of the talent programme, Mr. Xie is entitled to special government grants awarded by the State Council. He was also a recipient of the first Shenzhen Mayor Award. Mr. Xie has many years of experience in the telecommunications industry and over 19 years of management experience.

Mr. Zhou Huidong, born 1976, is Supervisor of the Company and Head of the Financial Control Department. He joined the Company in July 1998 upon graduation from Peking University with a bachelor's degree majoring in finance and accounting. He graduated from Guanghua School of Management of Peking University in July 2014 with a master's degree. Mr. Zhou has been with the Company since July 1998. He is a certified public accountant and a certified tax agent.

Ms. Xu Weiyan, born 1962, is Supervisor of the Company and is currently Head of the Internal Control and Audit Department of the Company. Ms. Xu graduated from the Department of History of Liaoning Normal University in July 1988 with a bachelor's degree in History and was qualified as an economist in 1992. She worked with Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993 and with Zhongxingxin, controlling shareholder of the Company, from 1993 to 1997, holding various positions such as secretary to the company's finance committee and deputy head of the president's office. She has been working for the Company since 1997, holding positions such as Head of the Tender Department.

Mr. Chang Qing, born 1955. Mr, Chang holds the title of senior engineer, having graduated from the Department of Physics of the Northwest University specialising in semi-conductor and obtained a bachelor of science degree in February 1982. From March 1993 to August 1996 he was executive deputy general manager of Shenzhen Zhongxing WXT Equipment Company Limited. He was general manager of Shenzhen Zhongxingxin Telecommunications Equipment Company Limited overseeing the northeastern regional market from September 1996 to October 1997, general manager (Northeast Region) of the Company and Head of the Marketing Division VII from November 1997 to February 2000, and general manager of 陝西中興百綠環保工程有限責任公司 from March 2000 to March 2008. He was Supervisor of the Company from March 2013 to March 2016. He is currently assistant to the general manager of Zhongxingxin, controlling shareholder of the Company.

Mr. Wang Junfeng, born 1966, is Supervisor of the Company. Mr. Wang graduated from Shenyang Metallurgical Engineering Institute (瀋陽冶金機械專科學校) in July 1989 specialising in industrial enterprise planning and statistics and holds the title of senior accountant and certified safety works engineer. From 1989 to 1995, Mr. Wang had been auditor at the legal compliance department, head of the cost office under the financial department and head of the financial department of Shenyang Xinyang Machinery Co. (瀋陽新陽機器製造公司). From 1995 to 2003, he had been deputy manager, manager and deputy general manager of the finance department of Xinyang Electronic Machine Co., Ltd. (深圳新陽電子機械有限公司). From 2003 to 2005, he was the office manager of the machinery business department of CASIC Shenzhen (Group) Company Limited. From 2005 to 2009, he was financial controller of Shenzhen Aero-Startech Co., Ltd. (深圳市航天斯達泰電子科技有限公司). He is currently deputy chief accountant of CASIC Shenzhen (Group) Company Limited, which he has been working with since 2009, having served as financial controller of the electric sector and head of the finance centre. He is currently the deputy chief accountant of CASIC Shenzhen (Group) Company Limited. Mr. Wang has been Supervisor of the Company since March 2016.

Ms. Xia Xiaoyue, born 1975, is Supervisor of the Company. Ms. Xia graduated from the Department of Finance of Nankai University in July 1998 with a bachelor's degree in Economics. Ms. Xia has been working with the Company since 1998 in such capacities as Head of Supplies Department, Head of Planning Department and Manager (Incentives) of the Appraisal Office. She is currently Director of Human Resources of the headquarters and Deputy Head of the Department of Human Resources, and has been Supervisor of the Company since March 2016.

Ms. He Xuemei, born 1970, is chairperson of the labor union of the Company. Ms. He obtained a bachelor's degree in mechanical engineering in 1991 and a second bachelor's degree in business administration in 1995, both from Chongqing University, where she had worked at the Student Affairs Department. Ms. He has worked with ZTE Kangxun and the Network Operations Division of the Company after joining the Company in January 1998.

4. Brief biographies of Senior Management

Mr. Zhao Xianming, President of the Company. Please refer to the section headed "Brief biography of Directors" for his biography.

Mr. Wei Zaisheng, Executive Vice President and Chief Financial Officer of the Company. Please refer to the section headed "Brief biography of Directors" for his biography.

Mr. Fan Qingfeng, born 1968, has been Executive Vice President of the Company since March 2008. He is currently in charge of the public relations and legal matters of the Company. Mr. Fan graduated from Liaoning Engineering Technology University in 1992 with a bachelor's degree specialising in industrial electrical automation, and from Tsinghua University in 2006 with a master's degree in business administration. Mr. Fan joined Zhongxingxin in 1996. From 1997 to 2008, Mr. Fan acted as project manager of regional office, manager of regional office, regional general manager, Division Deputy General Manager and Senior Vice President of the Company. Mr. Fan has many years of experience in the telecommunications industry and over 18 years of management experience.

Mr. Zeng Xuezhong, born 1973, has been Executive Vice President of the Company since January 2014 and is currently in charge of the Terminals Division. Mr. Zeng graduated from Tsinghua University with a bachelor's degree in science, specialising in modern applied science, in 1996 and with an EMBA degree in 2007. Mr. Zeng joined Zhongxingxin in 1996. From 1997 to 2006, Mr. Zeng had been senior project manager, assistant to regional general manager, manager of Guiyang Office, manager of Kunming Office, Deputy General Manager and General Manager of Marketing Division II and Vice President of the Company. Since 2006, he had been Senior Vice President of the Company in charge of Marketing Division III. Since January 2014, he has been Executive Vice President of the Company in charge of the Terminals Division of the Company. Mr. Zeng has many years of experience in the telecommunications industry and over 17 years of management experience.

Mr. Xu Huijun, born 1973, has been Executive Vice President of the Company since March 2016 and is currently in charge of the R&D platform, technology planning and System Product Division of the Company. Mr. Xu graduated from Tsinghua University in 1998 with a master's degree in engineering, specialising in electronic engineering. He joined the Company in 1998 and had served as a project manager of the General Product Division and the head

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of Beijing Research Centre from 1998 to 2003. He has been in charge of the General Product Division, Engineering Services under the Sales System and Wireless Product Division of the Company after appointment as Senior Vice President of the Company in 2004. He was Senior Vice President of the Company from 2004 to March 2016. Mr. Xu has many years of experience in the telecommunications industry and over 17 years of management experience.

Mr. Pang Shengqing, born 1968, has been Executive Vice President of the Company since March 2016 and is currently in charge of the Government and Corporate Sectors Division of the Company. Mr. Pang is an engineer. He graduated from Huazhong University of Science and Technology with a doctorate degree in engineering in 1995, specialising in mechanical manufacturing. He was awarded the Guangdong Science and Technology Award in May 2002. Mr. Pang joined Zhongxingxin, controlling shareholder of the Company, in 1995. From 1996 to 1997, he was deputy head of the Shenzhen R&D Centre of Zhongxingxin. From 1998 to 2000, Mr. Pang was involved in research and development of the Company's CDMA core technology and hardware systems. Mr. Pang was Deputy General Manager of the CDMA Division from 2001 to 2004 and general manager of Marketing Division I of the Sales System of the Company from 2005 to 2011, and general manager of the System Product Solutions Division of the Company from 2012 to 2013, and general manager of the Government and Corporate Sectors Division from 2014 to 2015. He was Senior Vice President of the Company from 2005 to March 2016. Mr. Pang has many years of experience in the telecommunications industry and over 17 years of management experience.

Mr. Zhang Zhenhui, born 1973, has been Executive Vice President of the Company since March 2016 and is currently in charge of Marketing Division III of the Company. Mr. Zhang graduated from Harbin University of Science and Technology in 1993 with a bachelor's degree in engineering, majoring in equipment engineering and management. In 1998, he received a master's degree in management science from Jiangsu University. In 2004, he received a doctorate degree in management science and engineering from Southeast University. Mr. Zhang had served as manager of Shijiazhuang Office and manager of Taiyuan Office of the Company from 2002 to 2006 after joining the Company in 2001. He was Deputy General Manager of Marketing Division III of the Company from 2006 to 2014, and has been General Manager of Marketing Division III of the Company since 2014. He was Senior Vice President of the Company from January 2014 to March 2016. Mr. Zhang has many years of experience in the telecommunications industry and over 12 years of management experience.

Mr. Chen Jianzhou, born 1970, has been Executive Vice President of the Company since March 2016 and is currently in charge of human resources, processes and quality control of the Company. Mr. Chen graduated from Tsinghua University in 1995 with a master's degree in engineering, majoring in signals and information systems. Mr. Chen joined the Company in 1995 to be engaged in research and development as well as technical support. He was Head of the Human Resources Centre of the Company from 1996 to 2003 and Head of ZTE Academic Institute from 2003 to 2010. From October 1997 to February 2004, he acted as Supervisor of the Company. In 2011, he served as Assistant to the President responsible for the Company's Architecture and Processes. From 2012 to 2013, Mr. Chen was in charge of Processes and Human Resources of the Company. He was Senior Vice President of the Company from March 2012 to March 2016. Mr. Chen has many years of experience in the telecommunications industry and over 19 years of management experience.

Mr. Tian Wenguo, born 1969, is currently in charge of the development of the Company's new energy business. Mr. Tian graduated from Harbin Institute of Technology in 1991 with a bachelor's degree in engineering, specialising in electromagnetic surveys and devices. In 2006, he graduated from Tsinghua University with a master's degree in business administration. Mr. Tian joined Zhongxingxin, controlling shareholder of the Company, in 1996. Mr. Tian was manager of the Company's Chongqing Sales Office and general manager (Southwest Region) from 1997 to 2002 and Senior Vice President and General Manager of Marketing Division II of the Company from 2002 to 2005. He was in charge of the Market and Operations System from 2005 to 2007, the Market System from 2007 to 2008, Product Marketing System from 2008 to 2010, the Logistics Department from 2010 to 2012 and sales and engineering services from 2012 to 2015. Since January 2016, he has been in charge of the development of the Company's new energy business. He was Executive Vice President of the Company from 2005 to March 2016. Mr. Tian has many years of experience in the telecommunications industry and over 18 years of management experience.

Mr. Qiu Weizhao, born 1963, is currently in charge of property development (including administration), external certification, internal control and audit of the Company. Mr. Qiu graduated from Xi'an University of Electronic Technology in 1988, specialising in telecommunications and electronic systems with a master's degree in engineering. Mr. Qiu was in charge of the Logistics System of the Company from 1998 to 2007 and Human Resources and Administration System from 2008 to 2012, and Logistics and Administration from September 2012 to 2015. From January 2016, he has been in charge of property development (including administration), external certification, internal control and audit of the Company. He was Executive Vice President of the Company from 2007 to March 2016. Mr. Qiu has many years of experience in the telecommunications industry and over 27 years of management experience.

Ms. Chen Jie, born 1958, has been Senior Vice President of the Company since 2002 and is currently in charge of strategic planning and IT operations of the Company. Ms. Chen graduated from Nanjing Institute of Posts and Telecommunications (now known as "Nanjing University of Posts and Telecommunications") in 1989 specialising in telecommunications and electronic systems and from the New York University in 1995 specialising in computer science and technology with a double master's degree. Ms. Chen holds the titles of senior researcher and senior engineer. From 1989 to 1992, Ms. Chen was manager of the Development Department of Shenzhen Zhongxing Semiconductor Co., Ltd. She worked as senior researcher and manager of Research Department of AT&T Bell Laboratories in U.S. from 1995 to 1998. From 1998 to 2002, she served as general manager of the Company's U.S. subsidiary. She served as general manager of the Networking Operations Division on a concurrent basis following appointment as Senior Vice President of the Company in 2002. She has been responsible for the global research and development of wireline products of the Company for a substantial period from 2007 onwards, having been general manager of the Wireline and Services Products Division under the Marketing System and general manager of the Wireline Division and Wireline Product Division, respectively under the Product Research and Development System. Ms. Chen has demonstrated strong research and development capabilities and expertise with many years of management experience in both the domestic and international telecommunications industry.

Mr. Ye Weimin, born 1966, has been Senior Vice President of the Company since 2001 and is currently in charge of supply chain of the Company. Mr. Ye graduated from Shanghai Jiaotong University in 1988 with a bachelor's degree in engineering, majoring in computer science and engineering. He graduated from Rennes-Shanghai Jiaotong University in 2007 with a doctor degree in business administration (DBA) conferred by ESC Rennes School of Business. He has been involved in the research and development as well as engineering work of the first 10,000-line digital programme-control PBX and mobile communication systems of the Company after joining Zhongxingxin, controlling shareholder of the Company, in 1994. From 1997 to 2001, he had served as Chief Officer of the Central Laboratory, Head of Quality Control Department and the Customer Services Department of the Mobile Division and Deputy General Manager of Marketing Division III of the Company. Since 2001, he has been Senior Vice President of the Company in charge of the Mobile Division (research and operation of mobile communication system products), Marketing Division V (Sales in America and Africa), Handset Logistics Team, Procurement Tender Team, China Terminal Business Division and supply chain management. Mr. Ye has many years of experience in the telecommunications industry and over 23 years of management experience at intermediate and senior levels.

Mr. Zhu Jinyun, born 1972, has been Senior Vice President of the Company since 2009. He is currently in charge of the Company's Cloud Computing and IT Products Operations. Mr. Zhu graduated from Harbin Engineering University in 1998 with a master's degree in engineering, specialising in communications and electronic systems. He joined the Company in 1998 to be engaged in the research and development and management of CDMA products. From 2000 to 2008, Mr. Zhu had been head of the CDMA Hardware Development Department, general project manager for various products under the CDMA Division and general project manager for WCDMA products.

Directors, Supervisors, Senior Management and Employees

From 2009 to 2012, he was General Manager of Marketing Division IV of the Company. Since 2013, he has been general manager of the Cloud Computing and IT Products Operations. Mr. Zhu has many years of experience in the telecommunications industry and over 16 years of management experience.

Mr. Zhang Renjun, born 1969, has been Senior Vice President of the Company since 2009 and is currently in charge of overseas marketing of the Company's system products (including Marketing Divisions I, II and V). Mr. Zhang graduated from Northeastern University in 1990 with a bachelor's degree in engineering, specialising in automated controls. Mr. Zhang joined Shenzhen Zhongxing Semiconductor Co., Ltd in 1992. From 2000 to 2011, he had been Deputy General Manager of Marketing Division I, Deputy General Manager of Marketing Division IV, Head of the MTO Division and Director of the PMO Division, both under the Sales System, and General Manager of Marketing Division II. Mr. Zhang has many years of experience in the telecommunications industry and over 16 years of management experience.

Mr. Cheng Lixin, born 1966, has been Senior Vice President of the Company since April 2013 and is currently in charge of the North America Operations of the Terminal Business Division of the Company. Mr. Cheng graduated from Zhejiang University in 1989 with a Bachelor's Degree in Engineering, majoring in Radio Engineering, and completed EMBA studies in the U.S. in 1997. Mr. Cheng worked at Nanjing Panda Ltd. as an engineer and a project manager from 1989 until 1992. From 1992 to 2001, he had been project manager, production engineering manager, deputy general manager of supply chain division, general manager of sales division and vice president of sales and supply at Nanjing Ericsson Panda Ltd. From 2001 to 2004, Mr. Cheng served as sales director at Ericsson Wireless Inc in the U.S. From 2004 to 2006, He had been director, president and chief sales officer at Axesstel Inc in the U.S. From 2006 to 2010, he served as President of ALA Group, Inc. Mr. Cheng joined the Company in 2010 as Deputy General Manager of Marketing Division IV and General Manager of North America Region of the Company and CEO of ZTE (USA) Inc. He has been Senior Vice President of the Company since April 2013 and was in charge of Marketing Division IV of the Company. Mr. Cheng has over 26 years of experience in the telecommunications industry and top-level management at multinational corporations.

Mr. Xiong Hui, born 1969, has been Senior Vice President of the Company since January 2014 and is currently in charge of Marketing Division V of the Company. Mr. Xiong graduated from Sichuan University in 1990 majoring in Materials Studies, with a bachelor's degree in engineering. He received a master's degree in management, specialising in management science and engineering, in 1998 and a doctorate degree in enterprise management in 2007, both from the University of Electronic Science and Technology of China. Mr. Xiong joined the Company in 1998. He had been Head of Business Technology Section at the Company's Chongqing Sales Office, Head of Planning Department, Head of HR Department, Deputy General Manager of the Handset Division, General Manager of U.S. Operations of the Handset Division, and General Manager of European and U.S. Operations of the Handset Division from 1998 to 2012. He has been General Manager of Marketing Division V of the Company since 2013. Mr. Xiong has many years of experience in the telecommunications industry and over 19 years of management experience.

Mr. Huang Dabin, born 1971, has been Senior Vice President of the Company since August 2015 and is in charge of Marketing Division II of the Company. Mr. Huang graduated from Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1995 with a master's degree in engineering, specialising in communications and electronic systems. Mr. Huang joined the Company in 1995. From 1999 to August 2013, he had been deputy director of ZTE Nanjing Research Institute, deputy general manager of Marketing Division II, deputy general manager of Network Division, deputy general manager of Marketing Division IV, chief executive officer of ZTE Telecom India Pvt. Ltd., dean of ZTE Academy and head of business centre of Solution Division. Since August 2013, he has been general manager of the Marketing Division II of the Company. Mr. Huang has many years of experience in the telecommunications industry, with over 16 years in management positions.

Ms. Cao Wei, Secretary to the Board of Directors of the Company. Please refer to the section headed "Brief biography of Secretary to the Board/Company Secretary" for her biography.

Mr. Feng Jianxiong was Secretary to the Board of Directors of the Company from 2000 to March 2016. Please refer to the section headed "Brief biography of Secretary to the Board/Company Secretary" for his biography.

(II) 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 Note 1	Term of office ending on Note 1	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 Note 2
Directors of the Company Note 3															
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 Note 6	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 Note 6	Male	52	Director	Incumbent	11/2015	3/2016	–	–	–	–	–	–	0.8	Yes
7	Tian Dongfang Note 6	Male	55	Director	Incumbent	11/2015	3/2016	–	–	–	–	–	–	0.8	Yes
8	Zhan Yichao Note 6	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 Note 6	Male	59	Vice Chairman	Resigned	3/2013	11/2015	32,760	–	–	6,552	39,312	Note 11	9.2	Yes
12	Wang Zhanchen Note 6	Male	63	Director	Resigned	3/2013	11/2015	–	–	–	–	–	–	9.2	No
13	Zhang Junchao Note 6	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 Note 6	Male	58	Director	Resigned	3/2013	11/2015	32,760	–	–	6,552	39,312	Note 11	9.2	Yes
15	He Shiyou Note 6	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 Note 7	Male	45	Independent Non-executive Director	Incumbent	6/2013	3/2016	–	–	–	–	–	–	13.0	Yes
18	Chen Shaohua Note 8	Male	54	Independent Non-executive Director	Incumbent	7/2015	3/2016	–	–	–	–	–	–	5.8	Yes
19	Lü Hongbing Note 8	Male	49	Independent Non-executive Director	Incumbent	7/2015	3/2016	–	–	–	–	–	–	5.8	Yes
20	Bingsheng Teng Note 8	Male	45	Independent Non-executive Director	Incumbent	7/2015	3/2016	–	–	–	–	–	–	5.8	Yes
21	Qu Xiaohui Note 8	Female	61	Independent Non-executive Director	Resigned	3/2013	7/2015	–	–	–	–	–	–	7.2	Yes
22	Wei Wei Note 8	Male	50	Independent Non-executive Director	Resigned	3/2013	7/2015	–	–	–	–	–	–	7.2	Yes
23	Chen Naiwei Note 8	Male	58	Independent Non-executive Director	Resigned	3/2013	7/2015	–	–	–	–	–	–	7.2	Yes
Supervisors of the Company Note 4															
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 Note 9	Female	45	Supervisor	Resigned	3/2013	9/2015	60,260	–	–	12,052	72,312	Note 11	81.1	No

Directors, Supervisors, Senior Management and Employees

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 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 Note 2
Senior management of the Company Note 5															
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
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 Jianxiong	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 "BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT".

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

Note 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 Shiyou, 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 shares 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 od A shares.

Note 13: Eleven members of the Directors and senior management of the Company, including Director Mr. He Shiyou 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 this report. The personages who acted as supervisors of the Company during 2015 did not hold any share options of A shares of the Company.

(III) INFORMATION CONCERNING PERSONAGES WHO ACTED AS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING 2015 HOLDING POSITIONS IN CORPORATE SHAREHOLDERS OF THE COMPANY

Name	Name of shareholder	Position in the shareholder	Commencement of term of office	Conclusion of term of office	Whether remuneration is received from shareholders entities
Luan Jubao	Zhongxingxin	Vice chairman	August 2015	August 2018	No
	CASIC Shenzhen (Group) Company Limited	Director/general manager	October 2014	Incumbent	Yes
Tian Dongfang	Zhongxingxin	Vice chairman	August 2015	August 2018	No
Zhan Yichao	Zhongxingxin	Director	August 2015	August 2018	No
	CASIC Shenzhen (Group) Company Limited	Director/deputy general manager	August 2014	Incumbent	Yes
Yin Yimin Note 1	Zhongxingxin	Chairman	August 2015	August 2018	No
Wei Zaisheng Note 1	Zhongxingxin	Director	August 2015	August 2018	No
Xie Weiliang Note 1	Zhongxingxin	Chairman	May 2013	August 2015	No
	CASIC Shenzhen (Group) Company Limited	Inspector (bureau level)	October 2014	Incumbent	Yes
Dong Lianbo	CASIC Shenzhen (Group) Company Limited	Head of first inspection team of CASIC	January 2014	Incumbent	Yes
Chang Qing Note 2	Zhongxingxin	Assistant to general manager	April 2008	Incumbent	Yes
		Chairman of labour union	December 2012	November 2015	No

Note 1: As considered and approved at the general meeting of Zhongxingxin, the term for the eighth session of the board of directors of Zhongxingxin will commence on August 2015 and end on August 2018, and Mr. Xie Weiliang has ceased to be chairman of Zhongxingxin as from August 2015; Mr. Yin Yimin was appointed chairman of Zhongxingxin in August 2015; and Mr. Wei Zaisheng's term of office at Zhongxingxin was changed such that it commenced in August 2015 and end in August 2018.

Note 2: Mr. Chang Qing has ceased to be chairman of the labour union as from November 2015.

(IV) INFORMATION CONCERNING PERSONAGES WHO ACTED AS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING 2015 HOLDING MAJOR POSITIONS IN OTHER ENTITIES

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Hou Weigui Note 1	Held positions in 12 subsidiaries including Zhongxing Software	Chairman	No
	Zhongxing WXT	Chairman	No
	Zhongxing Development	Chairman	No
	Zhongxing Energy Company Limited	Chairman	No
	Zhongxing Energy (Tianjin) Company Limited	Chairman	No
	天津中興資本管理有限公司	Chairman	No
Zhao Xianming Note 2	Held positions in 9 subsidiaries including ZTE Integration Telecom Company Limited	Chairman	No
Zhang Jianheng	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
	China Aerospace International Holding Limited	Non-executive director and chairman of the board	No
	China Lucky Group Corporation	Chairman	No
	China Aerospace Investment Holdings Limited	Chairman	No
Luan Jubao	Aerospace Guangyu	Director/general manager	No
Shi Lirong Note 3	Held positions in 2 subsidiaries including ZTE Kangxun	Director	No
	Zhongxing WXT	Director	No
Wang Yawen	中國航天時代電子公司	Deputy general manager	No
	China Aerospace Electronics Technology Research Institute	Deputy head	Yes
	China Aerospace Times Electronics Co., Ltd.	Vice chairman/president	No
	鄭州航天電子技術有限公司	Chairman	No
	桂林航天電子有限公司	Chairman	No
	杭州航天電子技術有限公司	Chairman	No
	北京時代民芯科技有限公司	Chairman	No
Tian Dongfang	China Aerospace Electronics Technology Research Institute	Chief economist	No
	Xi'an Microelectronics	Head	Yes
	西安西嶽電子技術有限公司	Chairman	No
	西安太乙電子有限公司	Chairman	No
	Shenzhen Zhongxing Information Company Limited	Chairman	No
Zhan Yichao	Aerospace Guangyu	Director	No
	昆明航天科工投資發展有限公司	Chairman	No
	三亞航天科工投資發展有限公司	Chairman	No
	西藏林芝航天科工投資發展有限公司	Chairman	No
	三亞中興睿海投資有限公司	Chairman	No
Yin Yimin Note 4	Zhongxing WXT	Deputy chairman	No
	Shenzhen Hekang Investment Management Company Limited	Executive director	No
	ZTE Capital Shenzhen	Chairman/general manager	No
	Zhonghe Chunsheng Fund	Executive manager	No
	Jiaxing Xinghe Capital Management Company Limited	Executive director	No
		General manager	Yes
	ZTE Kangxun	Director	No
Wei Zaisheng	Held positions in 18 subsidiaries including ZTE Group Finance	Chairman/director	No
	Zhongxing WXT	Director	No
	Shenzhen Capital Group Co., Ltd.	Supervisor	No
He Shiyou	Zhongxing WXT	Supervisor	No
	中興健康科技有限公司	Chairman/general manager	No
Tan Zhenhui	Beijing Jiaotong University	Director of University Academic Committee/ professor	Yes

Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Richard Xike Zhang	Apax Partners	Equity Partner and Head of Greater China	Yes
Chen Shaohua	大博醫療科技股份有限公司	Independent non-executive director	Yes
	Sinoma International Engineering Co., Ltd	Independent non-executive director	Yes
	Fujian Septwolves Industrial Co., Ltd.	Independent non-executive director	Yes
	Tianma Microelectronics Co., Ltd	Independent non-executive director	Yes
Lü Hongbing	Shimao Property Holdings Limited	Independent non-executive director	Yes
	Shanghai Shentong Metro Co., Ltd.	Independent non-executive director	Yes
	德邦基金管理有限公司	Independent non-executive director	Yes
	上海醫藥（集團）有限公司	Director	Yes
	百聯集團有限公司	Director	Yes
	上海電氣（集團）總公司	Director	Yes
Bingsheng Teng	Shandong Gold Mining Co., Ltd.	Independent non-executive director	Yes
Qu Xiaohui [Note 6]	Xiamen University	Professor	Yes
	Guangzhou Baiyun Electric Equipment Co., Ltd.	Independent non-executive director	Yes
	Xiamen NetinNet Software Company Limited	Financial advisor	Yes
	Sinotex Investment & Development Co.,Ltd. (renamed SDIC Essence (Holdings) Co., Ltd. in July 2015)	Independent non-executive director	No
	Essence Securities Co., Ltd. (安信證券股份有限公司)	Independent non-executive director	Yes
	廈門市美亞柏科信息有限公司	Independent non-executive director	Yes
Wei Wei [Note 7]	Peking University HSBC Business School	Associate professor	Yes
	Dalian Zhangzidao Fishery Group Company Limited	Independent non-executive director	Yes
	Telling Telecommunication Holding Co., Ltd.	Independent non-executive director	Yes
	Skyworth Digital Holdings Limited	Independent non-executive director	Yes
	AVIC International Holdings Limited	Independent non-executive director	Yes
Chen Naiwei	Shanghai Allbright Law Offices	Partner/lawyer	Yes
	Fudan University	Professor	Yes
	Shanghai Pharmaceuticals Holding Co., Ltd.	Independent non-executive director	Yes
	Shanghai Taisheng Wind Power Equipment Co., Ltd.	Independent non-executive director	Yes
	Shanghai Kinlita Chemical Co., Ltd.	Independent non-executive director	Yes
	Shanghai Jiaoyun Group Co., Ltd.	Independent non-executive director	Yes
Xie Daxiong [Note 8]	Held positions in 2 subsidiaries including Zhongxing Software	Chairman/director	No
Zhou Huidong [Note 9]	Held positions in 27 subsidiaries including ZTE Group Finance	Supervisor/chairman of supervisor committee/ director	No
	Zhongxing Hetai	Supervisor	No
	Shanghai ZTE Straw Communication Limited (上海中興思秸通訊有限公司)	Supervisor	No

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
	中興耀維科技江蘇有限公司	Chairman of supervisor committee	No
Xu Weiyan Note 10	Held positions in 3 subsidiaries including ZTE Kangxun	Supervisor/chairman of supervisor committee	No
	Puxing Mobile Tech Company Limited (普興移動通訊設備有限公司)	Chairman of supervisor committee	No
Fan Qingfeng	Held positions in 3 subsidiaries including ZTE Technology & Service Company Limited (深圳市中興通訊技術服務有限責任公司)	Chairman/director	No
Zeng Xuezhong	Held positions in 5 subsidiaries including Shenzhen ZTE Mobile Telecom Company Limited (renamed Nubia Technology Limited (努比亞技術有限公司) in March 2015)	Chairman	No
	ZTE 9 (Wuxi) Co., Ltd. (中興九城網絡科技無錫有限公司)	Chairman	No
	Shenzhen Weipin Zhiyuan Information Technology Company Limited (深圳微品致遠信息科技有限公司)	Chairman	No
Xu Huijun	Held positions in 3 subsidiaries including ZTE Technology & Service Company Limited (深圳市中興通訊技術服務有限責任公司)	Chairman/director/chairman of supervisory committee	No
	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No
Pang Shengqing	Held positions in 16 subsidiaries including Shanghai Zhongxing Software Company Limited	Chairman/director	No
	KAZNURTEL Limited Liability Company	Director	No
Zhang Zhenhui	Held positions in 4 subsidiaries including Anhui Wantong Postal and Telecom Company Limited	Chairman/director	No
Tian Wenguo	Held positions in 24 subsidiaries including ZTE Supply Chain Co., Ltd.	Chairman/director	No
Qiu Weizhao	ZTE Microelectronics	Director	No
Chen Jie	Held positions in 16 subsidiaries including ZTEsoft Technology Company Limited	Chairman	No
Zhu Jinyun	Held positions in 2 subsidiaries including Zhongxing (Shenyang) Finance Technology Company Limited	Director/chairman	No
	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No
Zhang Renyun	Held positions in 2 subsidiaries including ZTE Japan K.K.	Director/chairman	No
Cheng Lixin	Held positions in 3 subsidiaries including ZTE (USA), Inc	Chairman/director/general manager	Note 13
Huang Dabin	深圳市訊聯智付網絡有限公司	Director	No
Feng Jianxiong	Held positions in 2 subsidiaries including ZTE Capital	Director/supervisor	No

Note 1: Mr. Hou Weigui was appointed chairman of 北京中興網捷科技有限公司 in August 2015.

Note 2: Mr. Zhao Xianming was appointed chairman of Zhongxing (Shenyang) Finance Technology Company Limited, chairman of Wuxi Zhongxing Huitong Technology Company Limited and chairman of ZTE Microelectronics in July 2015, September 2015 and December 2015, respectively.

Note 3: Mr. Shi Lirong has ceased to be director of ZTE Microelectronics as from December 2015.

Note 4: Mr. Yin Yimin was appointed director of ZTE Kangxun in September 2015.

Note 5: Mr. Xie Weiliang has ceased to be general manager of Aerospace Guangyu as from November 2015.

Note 6: Ms. Qu Xiaohui was appointed independent non-executive director of SDIC Essence (Holdings) Co., Ltd, independent non-executive director of Essence Securities Co., Ltd and independent non-executive director of 廈門市美亞柏科信息股份有限公司 in May 2015, July 2015 and August 2015, respectively; and has ceased to be independent non-executive director of Taikang Life Insurance Co., Ltd. and independent non-executive director of Yunnan Baiyao Group Co., Ltd. as from July 2015 and November 2015, respectively. She has ceased to be head of the research center for accounting development and dean of Financial Management and Accounting Research Institute of Xiamen University as from November 2015.

Note 7: Mr. Wei Wei has ceased to be associated dean of Peking University HSBC Business School as from April 2015.

Note 8: Mr. Xie Daxiong has ceased to be director of Anhui ZTE Communications and Media Company Limited as from February 2015.

Note 9: Mr. Zhou Huidong was appointed chairman of supervisory committee of each of 北京中興網捷科技有限公司 and 深圳市中興通訊資產管理有限公司 and supervisor of 深圳市中興通訊節能服務有限責任公司 in January 2015; chairman of supervisory committee of Shenzhen Guoxin Electronics Development Company Limited and Xi'an Zhongxing Jing Cheng Communication Company Limited in March 2015; supervisor of Beijing Zhongbao Not Shield Technology Company Limited (北京市中保網盾科技有限公司) in April 2015; chairman of supervisory committee of 中興耀維科技江蘇有限公司 in June 2015; supervisor of Zhongxing (Shenyang) Finance Technology Company Limited in July 2015; supervisor of each of Xinjiang ZTE Silk Road Network Technology Company Limited (新疆中興絲路網絡科技有限公司), 中興捷維通訊技術有限責任公司 and Henan ZTE Photovoltaic Technology Company Limited (河南中興光伏科技有限責任公司) in September 2015; director of Shenzhen ZTE Financial Holding Factoring Limited Company in October 2015; and supervisor of ZTE Guotong Special Equipment and Technology (Beijing) Company Limited in November 2015.

Note 10: Ms. Xu Weiyan was appointed chairman of supervisory committee of Xi'an Zhongxing Jing Cheng Communication Company Limited in October 2015 and supervisor of ZTE (Heyuan) Company Limited in December 2015.

Note 11: Mr. Chang Qing has ceased to be director of 陝西中興百綠環保工程有限責任公司 as from May 2015.

Note 12 Ms. He Xuemei has ceased to be director and general manager of 深圳市中興宜和投資發展有限公司 as from March 2015.

Note 13: Mr. Cheng Lixin received remuneration from ZTE (USA), Inc.

(V) DECISION-MAKING PROCESS, BASES FOR DETERMINATION AND ACTUAL PAYMENT OF REMUNERATION FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Allowances for Directors are based on recommendations of the Remuneration and Evaluation Committee of the Board of Directors made with reference to the duties of Directors at the Company and markets levels represented by other listed companies in the same industry and determined upon consideration and approval by the Board of Director and the General Meeting.

Allowances for Supervisors are based on recommendations of the Supervisory Committee made with reference to the duties of Supervisors and markets levels represented by other listed companies in the same industry and determined upon consideration and approval by the General Meeting.

The remuneration for senior management personnel is based on the results of annual performance appraisals conducted by the Remuneration and Evaluation Committee and determined upon consideration by the Board of Director.

Remuneration for the Directors, Supervisors and senior management are determined and payable by the Company in accordance with the aforesaid provisions and procedures.

(VI) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE YEAR

1. Changes in Directors during the year

The term of office of each of Ms. Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei, Independent Non-executive Directors of the Sixth Session of the Board of Directors of the Company, 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).

Mr. Xie Weiliang, Mr. Dong Lianbo, the Non-executive Directors of the Company and Mr. He Shiyou, the Executive Director of the Company, owing to changes in their duties, 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 the 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 Company; and Mr. Zhao Xianming was elected Executive Director for a term commencing on the date on which the appointment was considered and approved at the general meeting 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).

On 30 December 2015, the Company published the "Announcement — Resignation of Independent Non-executive Director," which announced that Independent Non-executive Director Mr. Tan Zhenhui had resigned as Independent Non-executive Director and a member of each of the specialist committees of the Board of Directors of the Company for personal reasons. As Mr. Tan's resignation will result in the number of Independent Non-executive Directors of the Company being reduced to less than one-third of the total number of Directors on the Board of Directors, in accordance with requirements set out in the Company Law of the People's Republic of China, Guiding Opinion on the Establishment of the Independent Director System at Listed Companies (《關於在上市公司建立獨立董事制度的指導意見》) and other pertinent laws and regulations and provisions of the Articles of Association of the Company, Mr. Tan's resignation will come into effect after a new of Independent Non-executive Director has been elected at the general meeting of the Company. Until then, Mr. Tan will continue to perform his duties as an Independent Non-executive Director and a member of each of the specialist committees of the Board of Directors in accordance with pertinent laws and regulations and provisions of the Articles of Association of the Company.

2. Changes in Supervisors during the year

On 6 September 2015, the Supervisory Committee of the Company received a written Resignation Report from Ms. He Xuemei, Staff Representative Supervisor. Ms. He Xuemei tendered her resignation from the office of Staff Representative Supervisor of the Company for personal reasons. The resignation of Ms. He Xuemei came into effect upon the delivery of the Resignation Report at the Supervisory Committee.

3. Changes in senior management during the year

At the Seventh Meeting of the Nomination Committee of the Sixth Session of the Board of Directors of the Company held on 25 August 2015 and 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, general manager of the Marketing Division II, be appointed Senior Vice President of the Company for a term commencing on the date on which the resolution was considered and passed at the said meeting of the Board of Directors of the Company and ending upon the conclusion of the term of office of the Sixth Session of the Board of Directors of the Company (namely 29 March 2016).

Please refer to sections (III) and (IV) in this chapter for details of positions at corporate shareholders and major positions at other entities held by personages who acted as Directors, Supervisors and senior management of the Company during 2015.

(VII) CHANGE IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY AFTER YEAR-END

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. Yin Yimin, Mr. Zhao Xianming 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 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. For details please refer to the "Announcement on Resolutions of the First Extraordinary General Meeting of 2016" published by the Company on 3 March 2016.

At the First Extraordinary General Meeting of 2016 of the Company held on 3 March 2016, Ms. Xu Weiyan and Mr. Wang Junfeng were elected Shareholders' Representative Supervisors of the Seventh Session of the Supervisory Committee of the Company. On 17 February 2016, Mr. Xie Daxiong, Mr. Zhou Huidong and Ms. Xia Xiaoyue were elected Staff Representative Supervisors of the Seventh Session of the Supervisory Committee of the Company through democratic elections by the staff representatives of the Company. The office of the Seventh Session of the Supervisory Committee of the Company shall commence on 30 March 2016 and end on 29 March 2019. For details please refer to the "Announcement on Resolutions of the First Extraordinary General Meeting of 2016" published by the Company on 3 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 elected Chairman of the Company, Mr. Zhang Jianheng and Mr. Luan Jubao were each elected Vice Chairman of the Company; Mr. Zhu Wuxiang, Mr. Luan Jubao, Mr. Shi Lirong, Mr. Wang Yawen, Mr. Richard Xike Zhang, Mr. Lü Hongbing and Mr. Bingsheng Teng were elected members of the Nomination Committee of the Seventh Session of the Board of Directors of the Company; Mr. Chen Shaohua, Mr. Luan Jubao, Mr. Tian Dongfang, Mr. Zhan Yichao, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang were elected members of the Audit Committee of the Seventh Session of the Board of Directors of the Company; Mr. Bingsheng Teng, Mr. Zhang Jianheng, Mr. Shi Lirong, Mr. Richard Xike Zhang, Mr. Chen Shaohua and Mr. Zhu Wuxiang were elected members of the Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors of the Company.

At the First Meeting of the Seventh Session of the Supervisory Committee of the Company held on 6 April 2016, Mr. Xie Daxiong was elected Chairman of the Supervisory Committee of the Company.

Pursuant to the Resolution on the Appointment of the New Session of Senior Management of the Company considered and passed at the First Meeting of the Nomination Committee of the Seventh Session of the Board of Directors of the Company held on 5 April 2016 and the First Meeting of the Seventh Session of the Board of Directors of the Company held on 5 April 2016, it was approved that Mr. Zhao Xianming be appointed President of the Company; Mr. Wei Zaisheng, Mr. Fan Qingfeng, Mr. Zeng Xuezhong, Mr. Xu Huijun, Mr. Pang Shengqing, Mr. Zhang Zhenhui and Mr. Chen Jianzhou be each appointed Executive Vice President of the Company; Mr. Wei Zaisheng be appointed Chief Financial Officer of the Company; and Ms. Cao Wei be appointed Secretary to the Board of Directors of the Company and removed from the position of securities affairs representative of the Company. The term of office of the aforesaid new session of senior management shall commence on the date on which the appointment was considered and approved at the said meeting of the Board of Directors and end on the date of conclusion of the term of office of the Seventh Session of the Board of Directors of the Company (namely, 29 March 2019).

(VIII) INFORMATION ON GROUP EMPLOYEES

As at the end of the year, the Group had 84,622 employees (including 60,758 as employees of the parent company), with an average age of 30. There were 100 retired employees, including 75 retired employees in respect of which expenses were payable by the Company.

1. Classification by specialisation as follows:

Specialisation	Headcount	As an approximate percentage of total headcount
Research and development	31,703	37.5%
Marketing and sales	13,187	15.6%
Customer service	13,581	16.0%
Manufacturing	19,974	23.6%
Financial	870	1.0%
Administration	5,307	6.3%
Total	**84,622**	**100.0%**

2. Classification by academic qualifications as follows:

Academic qualifications	Headcount	As an approximate percentage of total headcount
Doctorate degree	481	0.6%
Master's degree	23,666	28.0%
Bachelor's degree	32,734	38.7%
Others	27,741	32.7%
Total	**84,622**	**100.0%**

3. Remuneration Package and Training for Employees

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical insurance, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans organised by the relevant government authorities, under which the Group paid monthly contributions towards each employee's social insurance in an amount equivalent to a specified percentage of his/her monthly salaries.

Staff training provided by the Group includes induction training, skills training for specific positions, management training and training for management officers. After completion of induction training, new employees will receive general training that lasts for six months to one year depending on their positions. In-service staff may conduct self-learning based on their aptitude assessment results and personal career planning and take part in group training on a selective basis, according to qualifications required for various positions. Integrated management training comprises lectures, online learning and action-based learning. For in-service management officers, the Group conducts reading classes, close-ended training and guided reading.

Corporate Governance Structure

The Company has prepared the "Corporate Governance Work Report" and the "Corporate Governance Report" in accordance with different requirements in form and content of PRC securities regulatory authorities and the Hong Kong Listing Rules, respectively. To avoid undue repetitions and to keep the presentation lucid, a cross-referencing approach has been adopted.

PART I: CORPORATE GOVERNANCE WORK REPORT PREPARED IN ACCORDANCE WITH PRC SECURITIES REGULATORY REQUIREMENTS

I. Status of Corporate Governance

The Company continued to improve its corporate governance systems and regimes, regulate operations and optimise internal control regimes in accordance with requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of CSRC.

During the year, in accordance with the "Notice on the Publication of Supplementary Guidelines for Corporate Internal Control" (《關於印發企業內部控制配套指引通知》) jointly promulgated by 5 ministries and ministerial commissions including the Ministry of Finance and the CSRC and the "Notice on the Proper Implementation of Pilot Internal Control Standards of Listed Companies in Shenzhen" (《關於做好深圳轄區上市公司內部控制規範試點有關工作的通知》) and the "Notice on Further Procuring Work relating to the Implementation of Internal Control Rules for Shenzhen Listed Companies" (《關於進一步做好深圳轄區上市公司內控規範實施有關工作的通知》) issued by the Shenzhen CSRC, the "2014 Summary Report and 2015 Work Plan for Internal Control and Audit" has been formulated and reviewed at the Fifteenth meeting of the Audit Committee of the Sixth Session of the Board of Directors and the Twenty-fifth Meeting of the Sixth Session of the Board of Directors.

At the end of the year, the status of corporate governance of the Company was in compliance with provisions of regulatory documents relating to the governance of listed companies published by the CSRC. The Company has not received any documents relating to administrative regulatory measures adopted by regulatory authorities in China against the Company.

(I) Shareholders and general meetings: The Company has established a corporate governance structure to ensure that all shareholders, minority shareholders in particular, can fully exercise their rights and enjoy equal status. Sufficient time is provided at general meetings of shareholders, which are convened legally and validly, for the discussion of each proposal, to provide a good opportunity for communications between the Board of Directors and the shareholders. In accordance with the revised Rules for General Meetings of Listed Companies, the Company has introduced online voting to afford convenience for shareholders participating in its General Meetings, as well as the practice of separately disclosing the votes of minority shareholders in announcements of resolutions of general meetings to give an adequate account of the views of minority shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or contact and communicate with the Company through its designated e-mail address and the investors' relations interactive platform of the Shenzhen Stock Exchange. The Company has also set up an "Investor Protection Promotion" column on its website to collect, compile, publish or cite information relating to investor protection.

(II) Controlling shareholder and the listed company: The Company's controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without compromising the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles of Association. The staffing, assets, financial affairs, organisation and business of the controlling shareholder of the Company are independent from those of the listed company, with the controlling shareholder and listed company each carrying out independent auditing and assuming its own responsibilities and risks. The controlling shareholder of the Company was not engaged in any direct or indirect interference with the decision-making and business activities of the Company in circumvention of the general meeting.

(III) Directors and the Board: The Company appoints directors in strict compliance with the criteria and procedures set out its Articles of Association, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Board of Directors has a reasonable mix of expertise and acts in the best interests of the Company in good faith. The Company has formulated the Rules of Procedure of the Board Meetings, and board meetings are convened and held in strict compliance with the Articles of Association and Rules of Procedure of the Board Meetings. To optimise the corporate governance structure, three specialised committees — the Nomination Committee, Audit Committee and Remuneration and Evaluation Committee — have been established by the Board of Directors in accordance with the Governance Standards for Listed Companies. The majority of members and the respective convenors of these committees are Independent Non-executive Directors, providing scientific and professional opinions for reference by the Board of Directors in its decision-making.

(IV) Supervisors and the Supervisory Committee: The Supervisors possess professional knowledge and work experience in management, accounting and other areas and are elected by way of cumulative voting. They monitor the financial affairs and supervise the lawful and regulatory performance of duties by the Company's Directors, the Chief Executive Officer and other members of the senior management to safeguard the legal rights and interests of the Company and shareholders. The Company has formulated the Rules of Procedure for Supervisory Committee Meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles of Association and the Rules of Procedure for Supervisory Committee Meetings.

(V) Performance appraisal and incentive mechanism: During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Scheme for the Administration of Senior Management's Performance. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of Association. In order to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's operation, the Remuneration and Evaluation Committee of the Board of Directors has formulated the Share Option Incentive Scheme of the Company, which has been approved at the general meeting of the Company. The grant of share options was completed in October 2013 and registration was completed in November 2013. In November 2015, the exercise conditions for the first exercise period under the share option incentive scheme was fulfilled. Participants under the share option incentive scheme may exercise their share options eligible to be exercised in the first exercise period during the first exercise period from 2 November 2015 to 31 October 2016.

Corporate Governance Structure

(VI) Stakeholders: The Company respects the legal rights and interests of banks and other stakeholders such as creditors, employees, consumers, suppliers, and the community, and works actively with these stakeholders to promote the sustainable and healthy development of the Company.

(VII) Information disclosure and transparency: The Secretary to the Board of Directors and dedicated officers are responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. Relevant information is disclosed in compliance with relevant PRC laws and regulations and the Articles of Association in a true, accurate, complete and timely manner, ensuring that all shareholders have equal access to information. There were no instances of controlling shareholders or de facto controllers owning information otherwise not publicly disclosed or other irregularities in corporate governance during the year.

(VIII) Rules and regulations established

No.	Title	Date of disclosure [Note]
1	Articles of Association	3 March 2016
2	Rules of Procedure of the General Meetings	20 May 2009
3	Rules of Procedure of the Board Meetings	26 May 2012
4	Rules of Procedure of the Supervisors' Meetings	7 April 2006
5	Working Rules for the Nomination Committee of the Board of Directors	27 April 2013
6	Working Rules for the Audit Committee of the Board of Directors	28 October 2015
7	Working Rules for the Remuneration and Evaluation Committee of the Board of Directors	29 March 2012
8	System of Derivative Investment Risk Control and Information Disclosure	28 April 2010
9	System for the Administration of External Information Users	9 April 2010
10	System of Accountability for Significant Errors in Information Disclosure of Annual Reports	9 April 2010
11	System of Registration of Owners of Inside Information	23 August 2012
12	Specific System for the Selection and Appointment of Accountants' Firms	20 August 2009
13	System of Annual Report Duties for Independent Directors	14 March 2008
14	Guidelines for Work of the Audit Committee of the Board of Directors relating to the Annual Report	14 March 2008
15	Independent Director System	26 June 2007
16	Administrative Measures for Guest Reception and Promotion	26 June 2007
17	Administrative Rules of the Company on Issue Proceeds	26 June 2007
18	Internal Control System	21 August 2014
19	Administrative Rules for Information Disclosure	26 June 2007
20	Implementation Rules for the Dealings in Company's Shares by Directors, Supervisors, Senior Management and Their Related Parties	26 June 2007
21	Regulations for the Administration of Information Disclosure pertaining to Debt Financing Instruments in the Inter-bank Bond Market	16 January 2015
22	Administrative Rules for Investments in Securities	26 March 2015

Note: The dates on which the latest revised versions of the above rules and regulations being posted on http://www.cninfo.com.cn.

II. Implementation of specific corporate governance activities and the establishment and implementation of the system of registration of owners of inside information

1. Implementation of specific corporate governance activities

To further facilitate the Company's business development and optimise its debt structure, the Company applied to the PRC interbank bond market (中國銀行間債券市場) for the registration and issue of Medium Term Note and SCP and formulated the Regulations for the Administration of Information Disclosure pertaining to Debt Financing Instruments in the Inter-bank Bond Market (銀行間債券市場債務融資工具信息披露管理制度), which was considered and approved at the Twenty-fourth Meeting of the Sixth Session of the Board of Directors on 15 January 2015.

To regulate the Company's management and information disclosure of investments in securities and safeguard the lawful interests of investors, the Company formulated the Administrative Rules for Investments in Securities (證券投資管理制度) of the Company in accordance with Guidelines on the Shenzhen Stock Exchange for the Standard Operation of Listed Company on the Main Board (《深圳證券交易所主板上市公司規範運作指引》) promulgated by the Shenzhen Stock Exchange, as well as provisions of relevant laws, administrative rules and regulatory documents, which was considered and approved at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors on 25 March 2015.

In accordance with the latest requirements set out in the revised Rules Governing the Listing of Securities of the Stock Exchange which will come into effect on 1 January 2016, the Board of Directors has to observe continuing obligations to monitor the risk management and internal control system of the issuer. The Board of Directors or the Audit Committee may be held expressly responsible therefore. Amendments to relevant terms of the Audit Committee Working Rules were considered and approved at the Thirty-second Meeting of the Sixth Session of the Board of Directors on 27 October 2015.

The aforesaid documents were published on http://www.cninfo.com.cn on 16 January, 26 March and 28 October 2015, respectively.

2. Establishment and implementation of the System of Registration of Owners of Inside Information

To regulate the Company's management of inside information, enhance confidential treatment of inside information and safeguard fairness in information disclosure, the Company formulated the System of Registration of Owners of Inside Information in accordance with provisions of relevant laws and regulations, which was considered and passed at the Thirtieth Meeting of the Fourth Session of the Board of Directors of the Company on 27 October 2009. The amendment of the system was considered and approved at the Thirty-second Meeting of the Fifth Session of the Board of Directors of the Company held on 22 August 2012 and published on http://www.cninfo.com.cn on 28 October 2009 and 23 August 2012, respectively. During the year, the Company diligently implemented relevant provisions of the System of Registration of Owners of Inside Information and vigorously commenced work in inside information management.

No instances of owners of inside information trading in the Company's shares with the benefit of inside information during the year have been identified. Neither the Company nor its relevant personnel had been subjected to regulatory measures or administrative punishment by regulatory authorities as a result of alleged involvement in inside trading.

Corporate Governance Structure

III. Information on general meetings convened

The 2014 Annual General Meeting of the Company was held on 28 May 2015 by way of a combination of on-site voting and online voting. For relevant details, please refer to the "Announcement on Resolutions of the 2014 Annual General Meeting of ZTE Corporation" published by the Company on 29 May 2015 at http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

The First Extraordinary General Meeting of 2015 of the Company was held on 25 November 2015 by way of a combination of on-site voting and online voting. For relevant details, please refer to the "Announcement on Resolutions of the First Extraordinary General Meeting of 2015 of ZTE Corporation" published by the Company on 26 November 2015 at http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

IV. Performance of duties by Independent Non-executive Directors

During the year, the Independent Non-executive Directors played a significant role in optimising the corporate governance structure of the Company and protecting the interests of minority shareholders. During the year, the Independent Non-executive Directors of the Company did not dispute any resolutions passed at the Board meetings and other matters of the Company. In relation to important matters on which they were required to give independent opinions (including connected transactions, third-party guarantees and third-party investments), the Independent Non-executive Directors have diligently reviewed the matters concerned and have issued independent opinions in writing. By providing valuable and professional recommendations on major decisions by the Company, the Independent Non-executive Directors have improved the rationality and objectiveness of the Company's decisions.

Attendance of Independent Non-executive Directors of the Company at Board meetings and general meetings in 2015 was as follows:

Independent Non-executive Directors	Number of Board meetings required to attend	Number of personal attendance (including video conference)	Number of attendance via communications	Attendance by proxy	Absence	Failure to attend in person at two consecutive meetings	Number of general meetings required to attend	Attendance at general meetings
Qu Xiaohui Note 1	4	2	2	0	0	No	1	0
Wei Wei Note 1	4	0	2	2	0	Yes Note 2	1	1
Chen Naiwei Note 1	4	1	2	1	0	No	1	0
Tan Zhenhui	15	7	7	1	0	No	2	2
Richard Xike Zhang	15	7	7	1	0	No	2	0
Chen Shaohua Note 1	11	6	5	0	0	No	1	0
Lü Hongbing Note 1	11	5	5	1	0	No	1	0
Bingsheng Teng Note 1	11	3	5	3	0	Yes Note 3	1	0

Note 1: The term of office of each of Ms. Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei, Independent Non-executive Directors of the Sixth Session of the Board of Directors of the Company, 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 of the Company for a term commencing on 22 July 2015 and ending on the date of conclusion of the term of the Sixth Session of the Board of Directors (namely, 29 March 2016).

Note 2: Independent Non-executive Director Mr. Wei Wei was not able to attend the Twenty-fifth Meeting and the Twenty-sixth Meeting of the Sixth Session of the Board of Directors due to work reasons and appointed in writing Independent Non-executive Director Mr. Tan Zhenhui to vote on his behalf at both meetings.

Note 3: Independent Non-executive Director Mr. Bingsheng Teng was not able to attend the Thirty-fourth Meeting and the Thirty-fifth Meeting of the Sixth Session of the Board of Directors due to work reasons and appointed in writing Independent Non-executive Directors Mr. Chen Shaohua and Mr. Tan Zhenhui to vote on his behalf at the meetings, respectively.

The Company has adopted recommendations in respect of the Company proposed by the Independent Non-executive Directors. For details, please refer to the "2015 Report on the Performance of Duties by Independent Non-executive Directors" published on http://www.cninfo.com.cn on 7 April 2016.

V. Performance of principal duties by specialised committees of the Board of Directors

During the year, the specialist committees under the Board of Directors of the Company convened meetings and performed their duties in strict accordance with the provisions and requirements of the Articles of Association, Rules of Procedure of the Board Meetings and their respective working rules, playing an important role in ensuring scientific decision making at the Board of Directors to furnish opinions and recommendations in respect of matters such as the Company's financial information and its disclosure, internal audit system and its implementation, internal control system and risk management system, material connected transactions, nomination of candidates for Directors and senior management and management of remuneration and performance of Directors and senior management.

1. Performance of principal duties by the Audit Committee

During the year, the Audit Committee diligently performed its duties in accordance with the "Working Rules for the Audit Committee" and the "Guidelines for Work of the Audit Committee relating to the Annual Report" and performed duties such as the vetting of the annual auditing and supervision and inspection of the building and improvement of the Company's internal controls.

(1) Issue of three review opinions on the 2015 financial report of the Company

Members of the Audit Committee boast rich expertise and experience in financial operations. During the year, the Audit Committee issued three review opinions on the annual financial report in accordance with relevant requirements of the CSRC.

The Audit Committee first examined the unaudited financial statements and issued an opinion in writing. The Audit Committee was of the view that: relevant accounting standards had been appropriately applied and all significant accounting systems adopted had been consistent with those adopted for 2014; key financial indicators calculated on the basis of data from the 2015 management accounts were consistent with preliminary judgements made by the Committee members based on known facts and comparison with financial indicators of 2014. The passing of the financial statements to the PRC and Hong Kong auditors for auditing was approved.

Following timely review of the preliminary opinion of the audit report and discussions with the PRC and Hong Kong auditors, the Audit Committee was of the view that the preliminary audit results of the 2015 annual report was in compliance with the accounting standards for business enterprises and their practice notes and the HKFRSs.

Finally, the Audit Committee reviewed the audit opinion of the PRC and Hong Kong auditors and the audited financial report of the Company for 2015. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2015 and approved the submission of the report for consideration by the Board of Directors.

Corporate Governance Structure

(2) Supervision of the audit work of the accountants' firms

To ensure the conduct of auditing work in an orderly manner given the complex nature of the Company's business, the PRC and Hong Kong auditors of the Company had finalised the audit timetable for the year in January 2016. In accordance with "Guidelines for Work of the Audit Committee relating to the Annual Report", the Company arranged the timely report of such audit timetable to the Audit Committee. Following discussion with the accountants' firms, the Audit Committee was of the view that the annual audit timetable scheduled by the Company according to actual circumstances was appropriate, and the Audit Committee concurred with the annual audit plan arranged by the accountants' firms. During the course of audit, members of the Audit Committee held discussions with principal officers in charge of the assignment to inform themselves of the progress of audit and concerns of the accountants. Such concerns were then communicated to relevant departments of the Company in a timely manner. The Audit Committee also issued two letters to the accountants' firms requesting auditors in charge of the assignment to expedite their work in accordance with the original timetable.

(3) Summary report on the 2015 audit work performed by the accountants' firms

The PRC and Hong Kong auditors of the Company performed auditing on the Company's annual report during the period from October 2015 to April 2016. During such period, the PRC and Hong Kong auditors of the Company and the Audit Committee held discussions on the annual audit plan, and issues identified in the audit process were also brought to the attention of the Audit Committee in a timely manner. The preliminary audit opinion was submitted to the Audit Committee for consideration. The PRC and Hong Kong auditors of the Company completed the full audit process and acquired sufficient and appropriate audit evidence after about 6 months of auditing work. The audit reports by PRC and Hong Kong auditors with unqualified opinion were then submitted to the Audit Committee.

The PRC auditors of the Company performed auditing on the internal control of the Company's financial reporting during the period from October 2015 to April 2016. During such period, the PRC auditors of the Company conducted enquiry, testing and evaluation in respect of our internal control in accordance with the annual audit plan. The PRC auditors of the Company completed the full audit process and acquired sufficient and appropriate audit evidence. The internal control audit report unqualified opinion were then submitted to the Audit Committee.

During the course of the annual audit, the Audit Committee held discussions and exchanged views with the PRC and Hong Kong auditors of the Company, and also examined the annual audit report furnished by the PRC and Hong Kong auditors. The Audit Committee was of the view that the PRC and Hong Kong auditors of the Company were capable of performing their tasks in strict accordance with audit regulations, focusing on knowledge of the Company and the environment in which it operated, understanding the building, improvement and implementation of the Company's internal control, demonstrating acute risk awareness and completing the audit work in accordance with the audit timetable. The auditors maintained their independence and prudence in the course of audit and completed the audit of the Company's 2015 financial report and internal control audit in a satisfactory manner.

(4) Recommendations on the appointment of PRC and Hong Kong auditors

Based on cooperation with Ernst & Young Hua Ming LLP and Ernst & Young over the years, the Audit Committee was of the view that the PRC and Hong Kong auditors of the Company are major accountants' firms with high calibre professional teams, full qualifications for the practice, rich practical experience and stringent internal management. As such, the Audit Committee recommends the Board of Directors to re-appoint Ernst & Young Hua Ming LLP as PRC auditors and Ernst & Young as Hong Kong auditors of the Company for the financial reports of 2016, and to re-appoint Ernst & Young Hua Ming LLP as the internal control auditor of the Company for 2016.

(5) Supervision of measures to improve the Company's internal control system

The Audit Committee is highly concerned with the establishment of a department with appropriate staffing for the inspection and supervision of the Company's internal control. The Internal Control and Audit Department serves as the day-to-day executive arm of the Audit Committee to implement supervision and inspection of internal controls on behalf of the Audit Committee. The Audit Committee actively supports the Internal Control and Audit Department to perform its audit functions in accordance with the law and fulfill the supervisory role of the audit function. During the year, the Audit Committee received the report of the Internal Control and Audit Department on internal control and audit, reviewed the derivative and securities investments of the Company and made recommendations in respect of risk control in the Company's derivative and securities investments.

2. Performance of principal duties by the Remuneration and Evaluation Committee

During the year, Remuneration and Evaluation Committee diligently performed its duties in accordance with the "Working Rules for the Remuneration and Evaluation Committee" and made recommendations to the Board of Directors with respect to the performance and remuneration package of the senior management personnel of the Company, the adjustment of the number and exercise price of share options under the Share Option Incentive Scheme and the further purchase of the "Directors', Supervisors' and Senior Management's Liability Insurance", and other important tasks, and advised on matters pertaining to the exercise of share options for the First Exercise Period under the Share Option Incentive Scheme of the Company. For details, please refer to the "Opinion of the Remuneration and Evaluation Committee of the Board of Directors on Matters pertaining to the Exercise of Share Options for the First Exercise Period under the Share Option Incentive Scheme" published by the Company on 28 October 2015 on http://www.cninfo.com.cn.

3. Performance of principal duties by the Nomination Committee

During the year, the principal work of the Nomination Committee included the consideration of resolutions on the nomination of the Director candidates and employment of senior management personnel, and the review of the structure, headcount and composition (in terms of skills, know-how and experience) of the Board of Directors.

VI. Performance of duties by the Supervisory Committee

Having conducted diligent supervision and inspection in relation to matters such as the legal compliance of the Company's operation, the financial conditions, connected transactions and third-party investments of the Company during the year in accordance with the provisions of pertinent PRC laws and regulations and the Articles of Association, the Supervisory Committee of the Company does not express any dissent as a result of its supervision over these matters.

VII. The Company's independence from its controlling shareholder and integrity in staffing, assets, finance, business and organisation

The Company is independent of its controlling shareholder Zhongxingxin in respect of the staff, assets, finance, business and organisation. Each of the Company and Zhongxingxin is audited independently and assumes its own responsibilities and risks.

With respect to **staffing**, the Company is fully independent in matters including the management of labour, human resources and salaries. Members of the senior management receive their remuneration from the Company and do not receive any remuneration from the controlling shareholder or take up other major positions other than as directors.

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With respect to **assets**, the Company's assets are fully independent and the Company has clear ownership of its assets. The Company has independent production systems, supplementary production systems and ancillary facilities. Intangible assets such as industrial property rights, trademarks, and other non-patentable technologies are owned by the Company. The Company's procurement and sales systems are independently owned by the Company.

With respect to **finance**, the Company has an independent financial department. It has established an independent accounting and auditing system and a financial management system, and maintains an independent bank account.

With respect to **business**, the Company's business is fully independent from the controlling shareholder. Neither the controlling shareholder nor its subsidiaries are engaged in any business identical or similar to that of the Company.

With respect to **organisation**, the Board of Directors, the Supervisory Committee and other internal organizations of the Company operate in complete independence from the controlling shareholder. There are no subordinate relationships between the controlling shareholder (and its functional departments) and the Company (and its functional departments).

VIII. Establishment and Implementation of the Appraisal and Incentive Mechanism for Senior Management

The Company has established a performance appraisal system for senior management and an incentive mechanism linking remuneration to the Company's results and the individual staff member's performance. The Remuneration and Evaluation Committee is mainly responsible for formulating and examining proposals for the management of remuneration and performance of the Directors and senior management of the Company, conducting annual performance appraisals for the senior management of the Company and determining the remuneration of the senior management based on the results of the appraisal for implementation after consideration and approval by the Board of Directors.

IX. Internal Control

In order to enhance internal control, improve the Company's operational management standard and risk aversion ability and ensure the asset, the Company has established a reasonable and effectively operating internal control regime in accordance with provisions of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies, Rules for Corporate Internal Control and Supplementary Guidelines for Corporate Internal Control and other pertinent laws, regulations and regulatory documents.

1. Overview of internal control development and improvement

The Company's internal control establishment has basically covered all operating segments of the Company, including production operations, financial management, organization, personnel management, and information disclosure, etc. The Company has, taking into account its specific conditions, developed a comprehensive internal control system.

2. Establishment of internal control departments and internal control implementation

The Company has established an all-encompassing and multi-level structure for internal control development comprising mainly the Board of Directors, the Audit Committee, the risk control work steering group, the Internal Control and Audit Department Risk Control Team, the risk control directors and managers of various business units. In 2015, the Company focused on the following internal control operations:

The Company's internal control work during the first quarter of 2015 mainly involved overall review and evaluation of its internal control work in 2014, completion of the Self-assessment Report on Internal Control of the Company in 2014 and inspection of the compliance of derivative investments in 2014. For details, please refer to the section headed "Material Matters" in the 2015 first quarterly report of the Company.

During the second quarter of 2015, the Company was primarily involved in the engagement of an independent consultant agency to provide specific training in accordance with regulatory requirements for risk management and internal control, conduct of activities to draw conclusions in risk management and internal control practices and efforts to enhance expertise and internal control standards. For details, please refer to the section headed "Material Matters" in the 2015 interim report of the Company.

During the third quarter of 2015, the Company systematically developed the application of the internal control manual, renewed key control points of various business segments, carried out self-assessment of internal control with the establishment of specific internal control items in key areas, and enhanced the development of corporate culture in relation to risk management and internal control. For details, please refer to the section headed "Material Matters" in the 2015 third quarterly report of the Company.

Internal control performed during the fourth quarter of 2015:

(1) Reviewing risk management and internal control in 2015, assessing the progress of risk control in key business operations such as sales, purchase, research and development and legal compliance, and starting to formulate the internal control plan for 2016.

(2) Conducting analyses on key risks faced by the Company's operations, with special emphasis on risks associated with supply chains and channels for terminals in the context of industrial transformation in China coupled with intense competition in the domestic market for terminals.

(3) Working with Ernst and Young Hua Ming (LLP) on the audit of the Company's internal control for 2015.

(4) Review and publication of the 2015 internal control handbook of the Company, and commencement of survey and research on the application of the internal control handbook and its impact on risks.

(5) Development of corporate culture in relation to risk management and internal control, such as the sharing of experiences and know-how in risk management and internal control for key business activities through various channels.

3. The 2015 Internal Control Assessment Report published by the Company

The Company has conducted an assessment on the effectiveness of its internal control as at 31 December 2015 (being the record date for the internal control assessment report) in accordance with the Basic Rules for Corporate Internal Control, its supplementary guidelines and other internal control regulatory requirements and taking into account its internal control system and assessment methods, based on general as well as specific supervision of internal control. Based on the work of identifying significant deficiencies in the Company's internal control in relation to financial reporting and non-financial reporting, as at the record date for the internal control assessment report, the Company has no significant deficiency in internal control in relation to financial reporting and was not aware of any significant deficiency in internal control in relation to non-financial reporting.

Corporate Governance Structure

Total assets of units being assessed accounted for more than 89% of the total assets as recorded in the consolidated financial statements of the Company, while the aggregate operating revenue of such units also accounted for more than 89% of the total operating revenue recorded in the consolidated financial statements of the Company. For the principal units under assessment and standards for assessing deficiencies in financial reports and non-financial reports and other details of the Company's internal control, please refer to the "2015 Internal Control Assessment Report of ZTE Corporation" published by the Company on 7 April 2016 on http://www.cninfo.com.cn.

4. Internal control audit report furnished by the audit firm

In accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the China Code of Ethics for Certified Public Accountants, Ernst & Young Hua Ming LLP conducted an audit on the effectiveness of internal control in relation to the financial reporting of the Company for the year ended 31 December 2015, and is of the view that the Company has maintained effective internal control in financial reporting in all material aspects in accordance with the Basic Rules for Corporate Internal Control and pertinent provisions.

For the internal control audit report of the Company, please refer to the "Internal Control Audit Report of ZTE Corporation" published by the Company on 7 April 2016 on http://www.cninfo.com.cn.

PART II: CORPORATE GOVERNANCE REPORT PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF THE HONG KONG LISTING RULES

The Company is dedicated to improving its corporate governance standards and strives to increase its enterprise value by adopting stringent corporate governance practices, with a view to ensuring sustainable development, fulfilling corporate responsibilities as a listed company, and maximizing value for its shareholders in the long term.

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.

I. Shareholders' Rights and Investors' Relations

(I) Shareholders' rights

The Company adopts relevant measures to facilitate and ensure the smooth exercise of shareholders' rights in strict compliance with the Company Law, Securities Law, Hong Kong Listing Rules and other relevant laws and regulations of the PRC or otherwise and in accordance with pertinent requirements under the Articles of Association.

Details of the shareholding structure of the Company are set out in the section of this report headed "Changes in Shareholdings and Information of Shareholders".

The Company has always maintained effective communications with its shareholders by reporting the Group's results and operations to shareholders through numerous official channels, such as disclosures in annual reports, interim reports and quarterly reports. Shareholders may also express their views or exercise their rights through communication channels set up by the Company, such as the shareholders' hotline and e-mail contacts. The Company's website is updated regularly to provide investors and the public with timely information of the Company's latest developments. Shareholders may also submit their enquiries and questions to the Board of Directors in writing through the company secretary. For the contact information of the company secretary, please refer to the section headed "Corporate Information" in this report.

The circular and the notice of general meeting of the Company is in strict compliance with pertinent provisions of the Company Law, the Articles of Association and the Hong Kong Listing Rules in terms of dates, contents, delivery modes, announcement methods and shareholders' voting procedures, ensuring the smooth exercise of shareholders' right to participate in general meetings. Shareholders holding 10% of above of the shares of the Company alone or in aggregate shall be entitled to request the Board of Directors or Supervisory Committee to convene an extraordinary general meeting or to unilaterally convene such extraordinary general meeting. For details, please refer to Articles 74, 75 and 76 of the Articles of Association. Shareholders holding 3% of above of the shares of the Company alone or in aggregate shall be entitled to propose ex tempore motions 10 days prior to the convening of the general meeting and submit the same in writing to the convener of the general meeting. For details, please refer to Article 78 of the Articles of Association. In accordance with Article 100 of the Articles of Association, the Directors, Supervisors and senior management of the Company shall be required to give explanations in response to queries and suggestions of shareholders. In 2015, the Company convened 2 general meetings. For details, please refer to the section headed "III Information on general meetings convened" in Part I of this chapter.

(II) Investors' relations

The Company is committed to the development of investors' relations programmes and sound communications with investors are being maintained via our investors' relations hotline, e-mail and investor reception. The Company regards the convening of its annual general meeting as one of the most important annual events for the Company. All Directors and key senior management members will attend the meeting on a best effort basis and engage in direct dialogue with the shareholders during the arranged Q&A sessions. Details of the Company's reception of investors during 2015 are set out in the section of this report headed "Report of the Board of Directors (II) 14. Records of reception of investors, communications and press interviews during the year".

In the coming year, the Company will further enhance communications with investors with the hope that they will offer more support and concern for the Company on the back of better understanding.

According to the results of implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve, articles 24 and 27 of the Articles of Association have been amended. Details of the amendments are as follows:

Article 24

The original article which reads: Subsequent to its establishment, the Company issued 3,437,541,278 ordinary shares, comprising 629,585,445 H Shares, accounting for 18.31% of the total number of ordinary shares issuable by the Company; and 2,807,955,833 Domestic Shares, accounting for 81.69% of the total number of ordinary shares issuable by the Company.

Is amended to read: Subsequent to its establishment, the Company issued 4,125,049,533 ordinary shares, comprising 755,502,534 H Shares, accounting for 18.31% of the total number of ordinary shares issuable by the Company; and 3,369,546,999 Domestic Shares, accounting for 81.69% of the total number of ordinary shares issuable by the Company.

Article 27

The original article which reads: The registered capital of the Company shall be RMB3,437,541,278.

Is amended to read: The registered capital of the Company shall be RMB4,125,049,533.

Corporate Governance Structure

To meet the requirements of the Company's business development, the amendment of the definition of the term "other senior management personnel" in the Company's Articles of Association which reads "Executive Vice Presidents, Senior Vice Presidents, Secretary to the Board of Directors, Chief Financial Officer and persons designated or confirmed by the Board of Directors of the Company from time to time based on actual needs" to read "Executive Vice Presidents, Secretary to the Board of Directors, Chief Financial Officer and persons designated or confirmed by the Board of Directors of the Company from time to time based on actual needs" with the deletion of the words "Senior Vice Presidents" was considered and approved at the First Extraordinary Meeting of 2016 held by the Company on 3 March 2016. Articles 10, 160, 179, 181 and 186 has also been amended accordingly.

II. Board of Directors

Members of the Board of Directors seek to act in the best interests of the Company, providing leadership and supervision over the Company and assuming joint and individual responsibility to all shareholders of the Company in respect of the management, control and operations of the Company.

(I) Functions of the Board of Directors

The Board of Directors is responsible for convening general meetings, reporting its work to the general meeting, implementing resolutions of the general meeting in a timely manner, monitoring the development of the overall operational strategy of the Company, deciding on the operational plan and investment proposal of the Company, as well as supervising and guiding the management of the Company. The Board of Directors should also monitor the business and financial performance of the Company and formulate the annual financial budgets and final accounts of the Company.

The Directors confirm that it is their responsibility to prepare financial statements in respect of each financial year to give a true and fair report on the Group's conditions, as well as the results and cash flow accounts for the relevant periods. The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in preparing the financial statements for the year ended 31 December 2015. After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

(II) Composition of the Board of Directors

The Sixth Session of the Board of Directors of the Company comprises 14 Directors, including 1 Chairman and 2 Vice Chairmen. Except for the Executive Director and Chief Executive Officer (Mr. Shi Lirong) and 2 Executive Directors (Mr. Yin Yimin and Mr. Zhao Xianming), all Directors are Non-executive Directors independent of the management, including 5 Independent Non-executive Directors, namely Mr. Tan Zhenhui, Mr. Richard Xike Zhang, Mr. Chen Shaohua, Mr. Lü Hongbing and Mr. Bingsheng Teng, who possess academic and professional qualifications as well as substantial experience in the telecommunications, financial, legal and management sectors and who have influence in relevant sectors and are proactive in the performance of their duties, and 6 Non-executive Directors, namely Mr. Hou Weigui, Mr. Zhang Jianheng, Mr. Luan Jubao, Mr. Wang Yawen, Mr. Tian Dongfang and Mr. Zhan Yichao, who have extensive business and management experience. Their presence enables stringent review and control of the management procedures and safeguards the interests of shareholders as a whole, including minority shareholders. The profile and terms of office of the Directors are set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees". The composition of the Board of Directors was in compliance with the provisions of Rule 3.10(1) and (2) and Rule 3.10A of the Hong Kong Listing Rules.

The Company confirms that it has received annual written confirmations of independence from all the Independent Non-executive Directors regarding their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules. In accordance with the guidelines on independence set out in the Hong Kong Listing Rules, the Company is of the opinion that all the Independent Non-executive Directors are independent persons.

There were no financial, business, family or other material/relevant connections among members of the Board of Directors of the Company.

(III) Term of office, appointment and removal of Directors

A Director (including Non-executive Director) of the Company is appointed for a term of 3 years and is eligible for re-election upon conclusion of each term. An Independent Non-executive Director can hold office for a maximum of 6 years. The term of office of Mr. Richard Xike Zhang as Independent Non-executive Director of the Sixth Session of the Board of Directors commenced on 30 June 2013 and shall end on 29 March 2016. The term of office of each of Mr. Chen Shaohua, Mr. Lü Hongbing and Mr. Bingsheng Teng as Independent Non-executive Director of the Sixth Session of the Board of Directors commenced on 22 July 2015 and shall end on 29 March 2016. The term of office of each of Mr. Luan Jubao, Mr. Wang Yawen, Mr. Tian Dongfang, Mr. Zhan Yichao as Non-executive Director and Mr. Zhao Xianming as Executive Officer of the Sixth Session of the Board of Directors commenced on 25 November 2015 and shall end on 29 March 2016. Other than the above, the term of office of all Directors of the Sixth Session of the Company commenced on 30 March 2013 and shall end on 29 March 2016.

The appointment and removal of Directors is subject to the approval of the general meeting of the Company. Each Director has entered into a Director's Service Contract with the Company. The changes in the Directors of the Company during the year are set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees (VI) Changes in Directors, Supervisors and Senior Management of the Company During the Year".

(IV) Board Meetings

1. The Articles of Association requires that the Board of Directors convene at least 4 meetings a year. In 2015, the Board of Directors of the Company convened 15 meetings. In 2015, the Company convened 2 general meetings. Attendance of Directors at the meetings of the Board of Directors and the general meetings in 2015 was set out in the following table:

Number of meetings		**Board meetings 15**		**General meetings 2**	
Directors	**Attendance in person**	**Attendance by proxy**	**Attendance** Note	**Attendance in person**	**Attendance** Note
Chairman and Non-executive Director					
Hou Weigui	15	0	15/15	2	2/2
Vice Chairman and Non-executive Director					
Zhang Jianheng	10	5	10/15	0	0/2
Xie Weiliang (resigned with effect from 25 November 2015)	10	1	10/11	1	1/1
Luan Jubao (appointed with effect from 25 November 2015)	4	0	4/4	0	0/0

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Number of meetings	Board meetings 15			General meetings 2	
Directors	Attendance in person	Attendance by proxy	Attendance Note	Attendance in person	Attendance Note
Non-executive Director					
Wang Zhanchen (resigned with effect from 25 November 2015)	10	1	10/11	1	1/1
Zhang Junchao (resigned with effect from 25 November 2015)	11	0	11/11	0	0/1
Dong Lianbo (resigned with effect from 25 November 2015)	6	5	6/11	0	0/1
Wang Yawen (appointed with effect from 25 November 2015)	4	0	4/4	0	0/0
Tian Dongfang (appointed with effect from 25 November 2015)	4	0	4/4	0	0/0
Zhan Yichao (appointed with effect from 25 November 2015)	4	0	4/4	0	0/0
Executive Director					
Shi Lirong	12	3	12/15	2	2/2
Yin Yimin	14	1	14/15	1	1/2
He Shiyou (resigned with effect from 25 November 2015)	10	1	10/11	0	0/1
Zhao Xianming (appointed with effect from 25 November 2015)	4	0	4/4	0	0/0
Independent Non-executive Director					
Qu Xiaohui (resigned with effect from 21 July 2015)	4	0	4/4	0	0/1
Wei Wei (resigned with effect from 21 July 2015)	2	2	2/4	1	1/1
Chen Naiwei (resigned with effect from 21 July 2015)	3	1	1/4	0	0/1
Tan Zhenhui	14	1	14/15	2	2/2
Richard Xike Zhang	14	1	14/15	0	0/2
Chen Shaohua (appointed with effect from 22 July 2015)	11	0	11/11	0	0/1
Lü Hongbing (appointed with effect from 22 July 2015)	10	1	10/11	0	0/1
Bingsheng Teng (appointed with effect from 22 July 2015)	8	3	8/11	0	0/1

Note: Attendance by proxy was not counted for the percentage of attendance. The percentage of attendance of Directors resigning or being appointed during the year was arrived at on the basis of Board meetings and general meetings held during the period while they were in office.

2. As stipulated by the Articles of Association, all Directors should be given 14 days' notice prior to the commencement of a regular Board meeting and 3 days' notice prior to the commencement of an interim Board meeting. The secretary to the Board of Directors should provide details of a regular Board of Directors meeting (including information in relation to each of the meetings of specialized committees of the Board of Directors) not later than 3 days prior to the commencement of the meeting to ensure all Directors are briefed on matters to be considered in the meeting in advance.

As for interim Board of Directors meetings which are convened by way of voting via telecommunication means at the request of the Company's management, information about the meeting would be provided simultaneously to all Directors via email and facsimile and sufficient time would be given to the Directors to consider the matters. The secretary to the Board of Directors would respond to any questions raised by the Directors and take appropriate action in a timely manner to assist the Directors to ensure that the procedures of the Board of Directors are in compliance with the applicable regulations, such as the Company Law, the Articles of Association and the Hong Kong Listing Rules.

3. Minutes of each Board meetings should be signed by the attending Directors and minute-takers, and be kept for a term of 10 years, during which the minutes are available for Directors' inspection from time to time upon their request.

4. Where any matters (including connected transactions) to be considered by the Board of Directors of the Company are deemed by the Board of Directors to involve a material conflict of interest, abstention measures are adopted and the Directors who are by any means connected with such transactions would abstain from voting.

(V) Respective scopes of delegation and duties of the Board of Directors and the management

The scopes of delegation and duties of the Board of Directors and the management have been clearly defined. Duties of the Board of Directors are set forth in Article 160 of the Articles of Association, summary of which can be found in the section headed "II (I) Functions of the Board of Directors" under Part II of this chapter. The management should be responsible for day-to-day operation and management and be accountable to the Board of Directors by furnishing adequate information to the Board of Directors and the specialised committees in a timely manner to enable them to make informed decisions. Each Director is entitled to obtain further information from the management of the Company.

(VI) Chairman and the Chief Executive Officer

During the year, the offices of the Chairman and that of the Chief Executive Officer of the Company are two distinctively separated positions, assumed by two different persons. Their respective duties and functions are clearly defined in the Articles of Association. Duties of the Chairman and the Chief Executive Officer are set forth in Articles 164 and 181 of the Articles of Association, respectively.

The Chairman of the Company is responsible for the operation of the Board of Directors and advising the Board of Directors and the Company on the overall strategy and policies of the Company so as to ensure that all Directors act in the best interest of the shareholders.

The Chief Executive Officer of the Company is responsible for leading the management team of the Company to take charge of the day-to-day management and operation of the Company in accordance with the objectives and directions set by the Board of Directors and the risk management and internal control policy and procedures of the Company.

The Chief Executive Officer of the Company maintains ongoing communications with the Chairman and all Directors and reports his work to the Board of Directors regularly to ensure that all Directors are well informed of any material business development.

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(VII) Measures Taken to Ensure the Performance of Duties by Directors

1. The Company would supply the Director with all the relevant and necessary information when the Director takes office and thereafter will supply, on a regular basis, information that would help the Directors understand the business and operating conditions of the Company. The Company would subsequently provide the Directors with the newly promulgated laws and regulations as well as information and development concerning the Company, such as its internal publications, and arrange for the Directors to attend relevant continuing professional training courses at the cost of the Company, in order to assist them to fully understand their duties as a director under the requirements of the Hong Kong Listing Rules and other relevant laws and regulations, as well as gaining comprehensive insight in the Company's operation in a timely manner. To ensure adequate performance of duties by the Independent Non-executive Directors, the Company will organise on-site visits and communications with the Chief Financial Officer and Auditor for the Independent Non-executive Directors.

2. According to records maintained by the Company, the Directors of the Company received the following training focused on the roles, functions and duties of directors of listed companies in 2015:

Contents	Laws, regulations and rules	
Directors	Reading materials	Attendance at talks or seminars
Chairman and Non-executive Director		
Hou Weigui	√	—
Vice Chairman and Non-executive Director		
Zhang Jianheng	√	—
Xie Weiliang (resigned with effect from 25 November 2015)	√	—
Luan Jubao (appointed with effect from 25 November 2015)	√	√
Non-executive Director		
Wang Zhanchen (resigned with effect from 25 November 2015)	√	—
Zhang Junchao (resigned with effect from 25 November 2015)	√	—
Dong Lianbo (resigned with effect from 25 November 2015)	√	—
Wang Yawen (appointed with effect from 25 November 2015)	√	√
Tian Dongfang (appointed with effect from 25 November 2015)	√	√
Zhan Yichao (appointed with effect from 25 November 2015)	√	√
Executive Director		
Shi Lirong	√	—
Yin Yimin	√	—
He Shiyou (resigned with effect from 25 November 2015)	√	—
Zhao Xianming (appointed with effect from 25 November 2015)	√	√
Independent Non-executive Director		
Qu Xiaohui (resigned with effect from 21 July 2015)	√	√
Wei Wei (resigned with effect from 21 July 2015)	√	√
Chen Naiwei (resigned with effect from 21 July 2015)	√	√
Tan Zhenhui	√	√
Richard Xike Zhang	√	—
Chen Shaohua (appointed with effect from 22 July 2015)	√	√
Lü Hongbing (appointed with effect from 22 July 2015)	√	√
Bingsheng Teng (appointed with effect from 22 July 2015)	√	—

3. Whenever the Directors of the Company are required to provide an opinion in relation to matters including provision of third party guarantees, appropriation of funds and connected transactions, the Company would engage relevant independent professional bodies, such as auditors, independent financial advisors and lawyers, to provide independent and professional advice so as to assist the Directors in performing their duties.

4. In respect of potential legal risks arising from the performance of duties by the Directors, Supervisors and senior management and with the mandate of the general meeting, at the Thirtieth Meeting of the Sixth Session of the Board of Directors held on 26 August 2015, the "Resolution on Directors', Supervisors' and Senior Management's Liability Insurance" was considered and passed, whereby the Company's contract with Chartis Insurance Company Limited, Shenzhen Branch was extended for one year with a compensation limit of RMB100 million per annum.

III. Specialised Committees under the Board of Directors

There are 3 specialised committees under the Board of Directors of the Company, namely the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee. On 2 April 2013, the Sixth Session of the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee was elected at the First Meeting of the Sixth Session of the Board of Directors of the Company. On 1 July 2013, the resolution on the election of a new member as replacement to the Nomination Committee and the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors was considered and approved at the Fifth Meeting of the Sixth Session of the Board of Directors of the Company, whereby Mr. Richard Xike Zhang, Independent Non-executive Director, was elected a new member as replacement to the Nomination Committee and the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors. On 22 July 2015, the resolutions on the election of new members as replacement to the Nomination Committee, the Audit Committee and the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors was considered and approved at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors of the Company, whereby Mr. Lü Hongbing, and Mr. Bingsheng Teng, Independent Non-executive Directors were elected new members as replacement to the Nomination Committee of the Sixth Session of the Board of Directors, Mr. Chen Shaohua, Mr. Lü Hongbing and Mr. Bingsheng Teng, Independent Non-executive Directors, were elected new members as replacement to the Audit Committee of the Sixth Session of the Board of Directors, and Mr. Chen Shaohua and Mr. Bingsheng Teng, Independent Non-executive Directors, were elected new members as replacement to the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors. On 25 November 2015, the resolutions on the election of new members as replacement to the Nomination Committee and the Audit Committee of the Sixth Session of the Board of Directors was considered and approved at the Thirty-fifth Meeting of the Sixth Session of the Board of Directors of the Company, whereby Mr. Luan Jubao and Mr. Wang Yawen, Non-executive Directors were elected new members as replacement to the Nomination Committee of the Sixth Session of the Board of Directors, and Mr. Tian Dongfang and Mr. Zhan Yichao, Non-executive Directors were elected new members as replacement to the Audit Committee of the Sixth Session of the Board of Directors. Specific working rules have been formulated for each of the specialised committees, stipulating, among other things, the duties and powers of these committees. The working rules of each of the specialised committees have been posted on the website of the Hong Kong Stock Exchange and the website of the Company. The order of meeting for the specialised committees is conducted in accordance with the provisions of the "Working Rules for the Remuneration and Evaluation Committee", "Working Rules for the Nomination Committee" and "Working Rules for the Audit Committee", and is implemented by reference to the statutory procedures for meetings of the Board of Directors.

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(I) The Remuneration and Evaluation Committee

1. The role and functions of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee is responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management of the Company based on the management policies and structures for the remuneration and performance of Directors and senior management laid down by the Board of Directors.

2. Members and Meetings of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee comprises 6 members, including 4 Independent Non-executive Directors and 2 Non-executive Directors. As at the end of the year, the convenor of the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors is Mr. Bingsheng Teng, Independent Non-executive Director. Members of the committee include Mr. Hou Weigui, Mr. Zhang Jianheng, Mr. Tan Zhenhui, Mr. Richard Xike Zhang and Mr Chen Shaohua. The Remuneration and Evaluation Committee held 6 meetings in 2015. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in Person Note	Attendance by Proxy Note
Wei Wei (resigned with effect from 21 July 2015)	2/3	1/3
Bingsheng Teng (appointed with effect from 22 July 2015)	2/3	1/3
Hou Weigui	4/6	2/6
Zhang Jianheng	3/6	3/6
Qu Xiaohui (resigned with effect from 21 July 2015)	3/3	0/3
Tan Zhenhui	6/6	0/6
Richard Xike Zhang	5/6	1/6
Chen Shaohua (appointed with effect from 22 July 2015)	3/3	0/3

Note: The percentage of attendance of members resigning or being appointed during the year was arrived at on the basis of the number of meetings of the Remuneration and Evaluation Committee held during the period while they were in office.

3. The decision-making process and criteria for determining remuneration for Directors and senior management

The Remuneration and Evaluation Committee makes recommendations to the Board of Directors on the allowances for Directors by reference to the work performance of the Directors of the Company as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval both by the Board of Directors and the general meeting, namely in the manner set out in Code B.1.2(c)(ii) of Appendix 14 to the Hong Kong Listing Rules.

The Remuneration and Evaluation Committee reviews implementation of remuneration appraisals on an annual basis to determine the annual remuneration budget. It also conducts annual performance appraisals in respect of each senior management personnel of the Company and determines the remuneration of such senior management personnel based on the results of such appraisals for implementation after consideration and approval by the Board of Directors.

4. Work of the Remuneration and Evaluation Committee during the year

The Remuneration and Evaluation Committee held 6 meetings in 2015 mainly to:

a) consider the preliminary drafts of the Company's evaluation and incentive plans for the senior management personnel of 2015;

b) consider the resolution on the performance of and annual bonus amount for the President of the Company for 2014, and submit the same to the Board of Directors of the Company for consideration and approval;

c) consider the resolution on the performance of and annual bonus amount for other senior management personnel of the Company for 2014, and submit the same to the Board of Directors of the Company for consideration and approval;

d) consider the resolution on the principles for determining the 2014 annual bonus amount for the Chairman of the Board of Directors and the Chairman of the Supervisory Committee;

e) consider the report on the Company's implementation of remuneration matters in 2014;

f) consider the report on the Company's remuneration budget in 2015;

g) consider the resolution on Performance Management Measures for the President of the Company for 2015, and submit the same to the Board of Directors of the Company for consideration and approval;

h) consider the resolution on Performance Management Measures for other senior management personnel of the Company for 2015, and submit the same to the Board of Directors of the Company for consideration and approval;

i) consider the resolution on the election of the convenor of the Remuneration and Evaluation Committee of the Sixth Session of the Board of Directors of the Company;

j) consider the resolution on the adjustment of the number and exercise price of the share options under the share option incentive scheme in accordance with the rules, and submit the same to the Board of Directors of the Company for consideration and approval;

k) consider the resolution of the Company on the renewal of "Directors', Supervisors' and senior management's liability insurance," and submit the same to the Board of Directors of the Company for consideration and approval;

l) consider the resolution of the Company on the adjustment of participants and number of share option for the first exercise period of the share option incentive scheme, and submit the same to the Board of Directors of the Company for consideration and approval;

m) consider the resolution of the Company on fulfilment of the exercise conditions for the first exercise period of the share option incentive scheme, and submit the same to the Board of Directors of the Company for consideration and approval;

n) consider the resolution of the Company on the exercise of the share option under the share option incentive scheme on a voluntary basis, and submit the same to the Board of Directors of the Company for consideration and approval;

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o) consider the resolution of the Company on the cancellation of certain share options, and submit the same to the Board of Directors of the Company for consideration and approval.

(II) The Nomination Committee

1. The role and functions of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee considers the criteria, procedures and duration of appointment for Directors and senior management of the Company in accordance with relevant laws and regulations and the Articles of Association and taking into account the actual conditions of the Company. The Nomination Committee then submits a proposal to the Board of Directors and general meetings (if applicable) for approval, and implements the decisions.

2. Members and Meetings of the Nomination Committee

The Nomination Committee comprises 7 members, including 4 Independent Non-executive Directors and 3 Non-executive Directors. As at the end of the year, the convenor of the Nomination Committee of the Sixth Session of the Board of Directors is Mr. Tan Zhenhui, Independent Non-executive Director, and members of the committee include Mr. Hou Weigui, Mr. Luan Jubao, Mr. Wang Yawen, Mr. Richard Xike Zhang, Mr. Lü Hongbing and Mr. Bingsheng Teng.

The Nomination Committee held 4 meetings in 2015. Attendance at the meeting was as follows:

Members of the Nomination Committee	Attendance in Person Note	Attendance by Proxy Note
Tan Zhenhui	4/4	0/4
Hou Weigui	4/4	0/4
Xie Weiliang (resigned with effect from 25 November 2015)	4/4	0/4
Wang Zhanchen (resigned with effect from 25 November 2015)	4/4	0/4
Luan Jubao (appointed with effect from 25 November 2015)	0/0	0/0
Wang Yawen (appointed with effect from 25 November 2015)	0/0	0/0
Wei Wei (resigned with effect from 21 July 2015)	1/2	1/2
Chen Naiwei (resigned with effect from 21 July 2015)	2/2	0/2
Richard Xike Zhang	3/4	1/4
Lü Hongbing (appointed with effect from 22 July 2015)	2/2	0/2
Bingsheng Teng (appointed with effect from 22 July 2015)	0/2	2/2

Note: The percentage of attendance of members resigning or being appointed during the year was arrived at on the basis of the number of meetings of the Nomination Committee held during the period while they were in office.

3. The criteria and procedures for the nomination and recommendation of Directors and senior management and the board diversity policy

(1) The Nomination Committee conducts extensive searches for candidates for Directors and senior management both internally in the Company, its subsidiaries or associate companies and externally in the open market after considering the Company's requirements for new Directors and senior management. With the consent of the nominees, a meeting of the Nomination Committee will be convened to examine the qualifications of the initial nominees based on the terms for appointment of Directors and senior management. Prior to the election of new Directors, the Nomination Committee will propose candidates for Directors to the Board of

Directors and furnish the Board of Directors with relevant information. Prior to the appointment of new senior management personnel, the Nomination Committee will also propose to the Board of Directors candidates to be appointed as senior management personnel and furnish the Board of Directors with relevant information.

(2) The Nomination Committee shall recommend candidates for Directors and new senior management appointments to the Board of the Directors in accordance with qualifications for directors and senior management set out in the Company Law, Guiding Opinion of the China Securities Regulatory Commission on the Establishment of the Independent Director System at Listed Companies (《中國證監會關於在上市公司建立獨立董事制度的指導意見》), Measures of the Shenzhen Stock Exchange for the Registration of Independent Directors (《深圳證券交易所獨立董事備案辦法》), the Hong Kong Listing Rules, the Articles of Association and the Rules of Procedures of the Board of Directors, etc.

(3) The Nomination Committee has formulated a Board Diversity Policy, which has been set out in the Working Rules of the Nomination Committee. The Board Diversity Policy primarily states that the Company will consider board diversity from several perspectives when determining the composition of the Board, including but not limited to age, cultural and education background, professional experience, skills and know-how. All appointments of the Board of Directors are based on meritocracy, and candidates are being considered under objective conditions taking into account the benefits of board diversity. The composition of the Board of Directors of the Company is basically in line with the diversity principle. For details, please refer to "II (II) Composition of the Board of Directors" in Part II of this chapter.

4. Work of the Nomination Committee during the year

The Nomination Committee held 4 meetings in 2015 mainly to:

a) consider the structure, members and composition of the Company's Board of Directors;

b) consider the resolution on the proposed nomination of candidates for Independent Non-executive Directors, and submit the same to the Board of Directors and general meeting of the Company for consideration and approval;

c) consider the resolution on the proposed appointment of senior management personnel and submit the same to the Board of Directors of the Company for consideration and approval;

d) consider the resolution on the proposed nomination of candidates for Non-executive Directors, and submit the same to the Board of Directors and general meeting of the Company for consideration and approval.

(III) The Audit Committee

1. The role and functions of the Audit Committee

The Audit Committee is primarily responsible for making recommendations to the Board of Directors on the appointment and removal, remuneration and terms of engagement of external auditors, supervising the Company's internal audit system and its implementation, examining the financial information of the Company and its disclosure (including the inspection of the completeness of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports, as well as the review of significant opinions on financial reporting contained in the statements and reports), assessing the financial controls, internal controls and risk management system of the Company, and reviewing material connected transactions.

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2. Members and Meetings of the Audit Committee

The Audit Committee comprises 7 members, including 4 Independent Non-executive Directors and 3 Non-executive Directors. As at the end of the year, the convenor of the Audit Committee of the Sixth Session of the Board of Directors is Mr. Chen Shaohua, Independent Non-executive Director, and members of the committee include Mr. Hou Weigui, Mr. Tian Dongfang, Mr. Zhan Yichao, Mr. Tan Zhenhui, Mr. Lü Hongbing and Mr. Bingsheng Teng. The composition of the Audit Committee was in compliance with the provisions of Rule 3.21 of the Hong Kong Listing Rules.

The Audit Committee held 8 meetings in 2015. Attendance at the meetings was as follows:

Members of the Audit Committee	Attendance in person Note	Attendance by proxy Note
Qu Xiaohui (Resigned with effect from 21 July 2015)	4/4	0/4
Chen Shaohua (Appointed with effect from 22 July 2015)	4/4	0/4
Hou Weigui	7/8	1/8
Zhang Junchao (Resigned with effect from 25 November 2015)	7/8	1/8
Dong Lianbo (Resigned with effect from 25 November 2015)	4/8	4/8
Tian Dongfang (Appointed with effect from 25 November 2015)	0/0	0/0
Zhan Yichao (Appointed with effect from 25 November 2015)	0/0	0/0
Wei Wei (Resigned with effect from 21 July 2015)	3/4	1/4
Chen Naiwei (Resigned with effect from 21 July 2015)	3/4	1/4
Tan Zhenhui	8/8	0/8
Lü Hongbing (Appointed with effect from 22 July 2015)	4/4	0/4
Bingsheng Teng (Appointed with effect from 22 July 2015)	2/4	2/4

Note: The percentage of attendance of members resigning or being appointed during the year was arrived at on the basis of the number of meetings of the Audit Committee held during the period while they were in office.

3. Work of the Audit Committee during the year

In 2015, the Audit Committee held 8 meetings mainly to:

a) consider the financial report of the Company for the year ended 31 December 2014, and submit the same to the Board of Directors of the Company for consideration and approval;

b) receive the report of Ernst & Young on the audit plan relating to the financial report of the Company in 2014;

c) receive the report of Ernst & Young on the preliminary audit results relating to the financial report of the Company in 2014;

d) consider whether actions taken by the management in litigations in which the Company or any members of the Group is a defendant are appropriate;

e) receive the report of Ernst & Young on the financial audit of the Company in 2014;

f) receive the report of Ernst & Young on the internal control audit of the Company in 2014;

g) receive the explanatory statement of Ernst & Young on the 2014 continuing connected transactions of the Company;

h) consider the summary report on the audit of the Company performed by the PRC and Hong Kong auditors in 2014 and submit the same to the Board of Directors of the Company for consideration and approval;

i) consider the audit fees payable to the PRC and Hong Kong auditors for the year ended 31 December 2014 and submit the same to the Board of Directors of the Company for consideration and approval;

j) consider resolutions on the appointment of the PRC and Hong Kong auditors of the Company for 2015 and submit the same to the Board of Directors and general meeting of the Company for consideration and approval;

k) consider the resolution on the write-off of bad debts of the Company for the second half of 2014 and submit the same to the Board of Directors of the Company for consideration and approval;

l) consider the report of the Company on derivative investments in 2014;

m) consider the resolution on the application for investment limits in derivative products of the Company for 2015 and submit the same to the Board of Directors and the general meeting of the Company for consideration and approval;

n) consider the resolution of the Company on the application of idle internal funds to invest in investment products and submit the same to the Board of Directors for approval;

o) consider the "Resolution on the Formulation of Administrative Rules for Investments in Securities of the Company" and submit the same to the Board of Directors for consideration and approval;

p) consider the statement on the Company's investments in securities in 2014 and submit the same to the Board of Directors for consideration and approval;

q) consider resolution of the Company on continuing connected transactions in respect of the execution of the Property Leasing Agreement with Zhongxing Development, a connected party, and submit the same to the Board of Directors for consideration and approval;

r) consider resolution of the Company on continuing connected transactions in respect of the execution of the Financial Service Agreement with Zhongxing Hetai, a connected party, and submit the same to the Board of Directors for consideration and approval;

s) consider resolution of the Company on continuing connected transactions in respect of the execution of the Financial Service Agreement with Mobi Antenna, a connected party, and submit the same to the Board of Directors and the general meeting of the Company for consideration and approval;

t) consider the resolution of the Company on revising the cap for the aggregate transaction amount in continuing connected transactions with Mobi Antenna, a connected party, relating to the purchase of raw materials in 2015 and submit the same to the Board of Directors and the general meeting of the Company for consideration and approval;

u) consider the assessment report on internal control of the Company for the year ended 31 December 2014;

v) consider the report of the Company on the "2014 Summary Report and 2015 Work Plan for Internal Control and Audit";

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w) consider the report on the preparation of the Company's First Quarterly Report of 2015 and submit the same to the Board of Directors of the Company for consideration and approval;

x) consider the report of the Company on derivative investments in the first quarter of 2015;

y) consider the resolution of the Company on the continuing connected transaction relating to the Property and Equipment and Facilities Lease Framework Agreement entered into with Zhongxing Hetai, and submit the same to the Board of Directors of the Company for consideration and approval;

z) consider the resolution of the Company on the continuing connected transaction relating to the Hotel Service Purchase Framework Agreement entered into with Zhongxing Hetai, and submit the same to the Board of Directors of the Company for consideration and approval;

aa) consider the resolution of the Company on the election of the convenor of the Audit Committee of the Sixth Session of the Board of Directors;

bb) consider the interim financial report of the Company for the six months ended 30 June 2015 and submit the same to the Board of Directors of the Company for consideration and approval;

cc) receive the summary report of Ernst & Young on its advisory work for the preparation of the Company's interim financial report for the first half of 2015;

dd) consider the internal control and audit work report of the Company for the six months ended 30 June 2015;

ee) consider the resolution on the write-off of bad debts of the Company for the first half of 2015 and submit the same to the Board of Directors of the Company for consideration and approval;

ff) review the report of the Company on derivative investments for the first half of 2015;

gg) review the report of the Company on investments in securities for the first half of 2015;

hh) consider the resolution of the Company on the continuing connected transaction relating to the purchase of raw materials with Zhongxingxin, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

ii) consider the resolution of the Company on continuing connected transaction in respect of the sale of products by the Company to 航天歐華, a connected party, and submit the same to the Board of Directors of the Company for consideration and approval;

jj) consider the resolution of the Company on the continuing connected transaction relating to the purchase of raw materials with Mobi Antenna, a connected party, and submit the same to the Board of Directors of the Company and the general meeting of the Company for consideration and approval;

kk) consider the resolution of the Company on continuing connected transaction in respect of the provision of financial services by the Company to Mobi Antenna, the connected party, and submit the same to the Board of Directors of the Company and the general meeting of the Company for consideration and approval;

ll) consider the report on the preparation of the Company's Third Quarterly Report of 2015 and submit the same to the Board of Directors of the Company for consideration and approval;

mm) review the report of the Company on derivative investments in the first three quarters of 2015;

nn) consider the resolution of the Company on the amendment of the "Working Rules for the Audit Committee" and submit the same to the Board of Directors of the Company for consideration and approval.

(IV) Corporate governance functions

The Board of Directors is charged with duties in corporate governance, procuring the management to establish a compliant organisational structure and regime and to abide by the Corporate Governance Code and other laws and regulations relevant to corporate governance in day-to-day management. During the year, the Board of Directors examined the Company's compliance with corporate governance policies and codes. In accordance with the Articles of Association and Rules of Procedure of the Board Meetings, the Board of Directors is responsible for the following corporate governance functions:

1. Formulating and reviewing the corporate governance policies and practices of the Company;

2. Reviewing and monitoring training and continuous professional development of the Directors and senior management;

3. Reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory provisions;

4. Formulating, reviewing and monitoring the code of conduct for employees and Directors; and

5. Reviewing the Company's compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the disclosures in its corporate governance report.

IV. Remuneration and Interests of Directors, Supervisors and the President

(I) Remuneration

Please refer to the section of this report headed "Directors, Supervisors, Senior Management and Employees — (II) 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" for details of the annual remuneration of the Directors, Supervisors and senior management of the Company.

Further details of the remuneration of Directors and Supervisors for 2015 are set out in Note 8 to the financial statements prepared in accordance with HKFRSs.

(II) Interests

1. Service contracts and contractual interests of Directors and Supervisors

The Company did not enter into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) with any Director or Supervisor.

2. Interests of Directors and Supervisors or entities which are connected to the Directors and Supervisors in transactions, arrangements and contracts

None of the Directors and Supervisors of the Company or entities which are connected to the Directors and Supervisors was or had been materially interested, either directly or indirectly, in any transactions, arrangements and contracts of significance to which the Group is a party subsisting during or at the end of 2015.

Corporate Governance Structure

3. 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 report headed “Directors, Supervisors, Senior Management and Employees — (II) 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 SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 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.

4. 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.

V. Remuneration Package and Retirement Benefits for Employees

The remuneration package for the Group’s employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical care insurance, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans organised by the relevant government authorities, under which we paid monthly contributions towards each employee’s social insurance in an amount equivalent to a specified percentage of his/her monthly salaries. Further details of the remuneration of top 5 employees of the Company for 2015 are set out in Note 9 to the financial statements prepared in accordance with HKFRSs.

Details of staff retirement benefits provided by the Group are set out in Note 32 to the financial statements prepared in accordance with HKFRSs.

VI. Auditors’ Remuneration

Ernst & Young Hua Ming LLP (“Ernst & Young Hua Ming”) and Ernst & Young acted as the Group’s PRC and Hong Kong auditors, respectively.

Ernst & Young Hua Ming has been appointed the Company’s PRC auditor for 11 consecutive years since 2005. Ernst & Young has been appointed the Company’s Hong Kong auditor for 12 consecutive years since 2004. The undersigning accountants of Ernst & Young Hua Ming are Ms. Liao Wenjia and Ms. Fu Jie. Ms. Liao Wenjia has been providing audit services to the Company for 4 years and the year under review was the first year for which she acted in the capacity of undersigning accountant. Ms. Fu Jie has been providing audit services to the Company for 8 years and the year under review was the fourth year for which she acted in the capacity of undersigning accountant.

Financial report audit fees payable to the PRC auditor and the Hong Kong auditor for 2015 were paid in a consolidated manner, whereby an aggregate audit fee of RMB6.20 million was paid to Ernst & Young Hua Ming and Ernst & Young.

Ernst & Young Hua Ming was appointed the Company's internal control auditor for 2015. The amount of 2015 internal control audit fee paid to Ernst & Young Hua Ming by the Company was RMB880,000.

In 2015, Ernst & Young provided tax return and tax advisory services to the Company and its subsidiaries ZTE HK and Xinxun International (Hong Kong) Limited for a fee of HKD106,100; Ernst & Young (China) Advisory Limited ("Ernst & Young Consulting") provided advisory services to the Company relating to its 2015 sustainable development report for a fee of RMB140,000; Ernst & Young Hua Ming provided advisory services relating to the capital verification report to the Company for a fee of RMB48,000. Save as the aforesaid three instances, Ernst & Young Hua Ming, Ernst & Young and Ernst & Young Consulting did not provide other significant non-audit services to the Group.

Item	Amount	Auditor
Audit fees 2015	RMB6.20 million	Ernst & Young Hua Ming (PRC) Ernst & Young (Hong Kong)
Internal control audit fees 2015	RMB880,000	Ernst & Young Hua Ming
Fees for tax return and tax advisory services 2015	HK106,100	Ernst & Young
Fees for advisory services relating to the 2015 sustainable development report	RMB140,000	Ernst & Young Consulting
Fees for advisory services relating to the capital verification report	RMB48,000	Ernst & Young Hua Ming

VII. Company Secretary

The Company Secretary is responsible for facilitating the procedures of the Board of Directors of the Company and communications among Directors, between Directors and shareholders and among the management. A brief biography of the Company Secretary is set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees (I) Brief Biographies of Directors, Supervisors and Senior Management". In 2015, the Company Secretary received more than 15 hours of training to update his professional skills and expertise.

VIII. Accountability and Audit

The Directors of the Company confirm that they are responsible for preparing the accounts and providing balanced, objective assessments which are clear and easy to understand in the consolidated financial statements of the annual reports, interim reports and quarterly reports, other inside information announcements and other financial disclosures required under the Hong Kong Listing Rules, and disclosing information to regulatory authorities in accordance with statutory requirements.

If the Directors become aware of significant uncertainties or conditions that might have an adverse material impact on the ability of the Company to operate as a going concern, the Directors must provide a clear disclosure and detailed discussion of such uncertainties in the corporate governance report.

A statement of the Company's Hong Kong auditor on its reporting responsibility and views on the financial statements of the Company for the year ended 31 December 2015 is set out in the Independent Auditors' Report on pages 328–329 of this report.

Corporate Governance Structure

IX. Internal Control

The Board of Directors of the Company is responsible for reviewing the Company's internal control systems to ensure its effective implementation. The Board of Directors has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the internal control systems of the Company and its subsidiaries. The Board of Directors are responsible for reviewing resources on the financial reporting functions, qualification and experience of the staff and whether the courses and budget for staff training are sufficient.

The Company continued to improve its internal control system in 2015. During the year, the Company was primarily involved in the engagement of an independent consultant agency to provide specific training in accordance with regulatory requirements for risk management and internal control; ongoing identification and control of risks inherent in the operations of the Company with a special emphasis on risks facing the government and corporate sector, the outsourcing of contract work and the supply chains and channels for terminals; further work in internal control handbook updating and self-assessment of internal control on the basis of internal control work conducted in 2014. All in all, the Company has established and effectively implemented an internal control regime that meets its operational needs and covers all segments of the Company's operation. The Company will continue to adjust and improve the development of its internal control regime in a timely manner in response to changes in internal and external conditions.

The Audit Committee under the Board of Directors convenes regular meetings each year in accordance with relevant laws and regulations to review the effectiveness of and identify rooms for further improvements in financial, operational and compliance supervisory and internal control system. Reports are being submitted to the Board of Directors of the Company on the implementation of internal control system.

The internal control system of the Company was designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks arising from the malfunctioning of operating systems or failures to attain the Company's objectives. The Board of Directors is of the view that the internal control system was in normal operation during the financial year ended 31 December 2015.

During the year, the Company performed self-inspection on its corporate governance and self-assessment on its internal control. An assessment report on internal control has been prepared as a result. For details of the Company's internal control in 2015, please refer to the section headed "Part I. IX — Internal Control" in this chapter.

Report of the PRC Auditors

Ernst & Young Hua Ming (2016) Shen Zi No. 60438556_H01

EY 安永

To the Shareholders of ZTE Corporation:

We have audited the accompanying financial statements of ZTE Corporation which comprise the consolidated and company balance sheets as at 31 December 2015, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2015 and notes to the financial statements.

I. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The management of ZTE Corporation is responsible for the preparation and fair presentation of financial statements. Such responsibility includes: (1) preparation of the financial statements in accordance with the Accounting Standards for Business Enterprises to ensure fair representation; (2) the design, implementation and maintenance of necessary internal controls so that the financial statements are free from material misstatement whether due to fraud or error.

II. RESPONSIBILITY OF THE CERTIFIED PUBLIC ACCOUNTANT

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the Chinese Auditing Standards issued by the Chinese Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements of the Chinese Certified Public Accountants and plan and perform the audit to obtain a reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, certified public accountants consider the internal control relevant to the entity's preparation of financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Report of the PRC Auditors (continued)

III. OPINION

In our opinion, the financial statements have been prepared in accordance with Accounting Standards for Business Enterprises, and present fairly, in all material aspects, the consolidated and company financial position as at 31 December 2015 and the consolidated and company results of operations and cash flows of ZTE Corporation for the year ended 31 December 2015.

Ernst & Young Hua Ming LLP

Beijing, the People's Republic of China

Chinese Certified Public Accountant:
Liao Wenjia (廖文佳)

Chinese Certified Public Accountant:
Fu Jie (傅捷)

6 April 2016

Consolidated Balance Sheet

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Assets	Note V	2015	2014
Current assets			
Cash	1	**28,025,009**	18,115,874
Derivative financial assets	2	**10,110**	240,973
Bills receivable	3	**3,463,358**	2,086,771
Trade receivables	4	**25,251,287**	25,152,963
Factored trade receivables	4	**1,272,068**	3,160,705
Other receivables	5	**2,970,258**	2,159,677
Prepayments	6	**640,113**	682,778
Inventories	7	**19,731,741**	19,592,298
Amount due from customers for contract works	8	**13,928,446**	11,033,468
Total current assets		**95,292,390**	82,225,507
Non-current assets			
Available-for-sale financial assets	9	**2,381,467**	1,739,664
Long-term trade receivables	10	**362,831**	266,501
Factored long-term trade receivables	10	**1,593,528**	1,701,978
Long-term equity investments	11	**560,939**	461,316
Investment properties	12	**2,010,396**	2,004,465
Fixed assets	13	**7,692,175**	7,348,292
Construction in progress	14	**643,789**	262,863
Intangible assets	15	**4,224,446**	3,269,633
Deferred development costs	16	**789,815**	1,578,567
Deferred tax assets	17	**1,434,143**	1,284,493
Long-term deferred assets		**32,790**	53,287
Other non-current assets	19	**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)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Liabilities	Note V	2015	2014
Current liabilities			
Short-term loans	20	**7,907,572**	10,998,077
Bank advances on factored trade receivables	4	**1,273,346**	3,175,432
Derivative financial liabilities	21	**19,840**	70,604
Bonds payable	22	**4,000,000**	—
Bills payable	23	**9,885,129**	10,381,688
Trade payables	24	**22,932,866**	19,244,400
Amount due to customers for contract works	8	**4,423,103**	3,825,106
Advances from customers	25	**4,035,638**	3,305,520
Salary and welfare payables	26	**3,644,694**	2,806,947
Taxes payable	27	**(2,329,886)**	(2,790,280)
Dividends payable	28	**7,418**	8,113
Other payables	29	**6,005,130**	7,531,970
Deferred income		**438,920**	451,507
Provisions	30	**776,682**	741,391
Long-term loans due within one year	31	**4,617,604**	6,174,257
Total current liabilities		**67,638,056**	65,924,732
Non-current liabilities			
Long-term loans	32	**6,016,254**	10,039,687
Bank advances on factored long-term trade receivables	10	**1,593,528**	1,701,978
Provision for retirement benefits	26	**144,280**	115,450
Deferred tax liabilities	17	**52,769**	159,340
Deferred income		**759,394**	631,149
Other non-current liabilities	33	**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)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Shareholder's equity	Note V	**2015**	2014
Shareholders' equity			
Share capital	34	**4,150,791**	3,437,541
Capital reserves	35	**10,493,439**	8,724,754
Other comprehensive income	36	**(685,067)**	(464,275)
Surplus reserve	37	**2,022,709**	1,769,012
Retained profits	38	**13,678,222**	11,411,542
Total equity attributable to holders of ordinary shares of the parent		**29,660,094**	24,878,574
Other equity instruments			
Including: perpetual capital instruments	39	**9,321,327**	—
Non-controlling interests		**4,367,184**	1,413,930
Total shareholders' equity		**43,348,605**	26,292,504
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**120,893,897**	106,214,196

The financial statements set out on pages 163 to 327 have been signed by:

Legal representative: Zhao Xianming　　Chief Financial Officer: Wei Zaisheng　　Head of Finance Division: Shi Chunmao

Consolidated Income Statement

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	2015	2014
Operating revenue	40	**100,186,389**	81,471,275
Less: Operating costs	40	**69,100,447**	55,760,104
Taxes and surcharges	41	**1,303,580**	1,331,243
Selling and distribution costs	42	**11,771,666**	10,259,165
Administrative expenses	43	**2,383,355**	2,031,445
Research and development costs		**12,200,542**	9,008,537
Finance expenses	46	**1,430,794**	2,100,977
Impairment losses	47	**2,187,471**	1,202,232
Add: (Losses)/gains from changes in fair values	44	**(183,682)**	148,282
Investment income	45	**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	48	**4,442,945**	3,787,643
Less: Non-operating expenses	48	**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	50	**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
Other comprehensive income, net of tax		**327,656**	(333,604)
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax		**(220,792)**	(363,572)
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)
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss in subsequent periods		**–**	3,090
		(26,066)	(13,509)
Other comprehensive income that will be reclassified to profit and loss in subsequent periods			
Changes in the fair value of available-for-sale financial assets		**163,724**	(40,800)
Effective portion of hedging instruments		**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		**548,448**	29,968
Total comprehensive income		**4,067,926**	2,394,126
Attributable to:			
Holders of ordinary shares of the parent		**2,987,093**	2,269,999
Holders of perpetual capital instruments		**416,627**	—
Non-controlling interests		**664,206**	124,127
Earnings per share (RMB/share)	51		
Basic		**RMB0.78**	RMB0.64
Diluted		**RMB0.77**	RMB0.64

Consolidated Statement of Changes in Equity

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	2015								
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total	Including: perpetual capital instruments	Minority interests	Total shareholders' equity
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

	2014							
	Equity attributable to holders of ordinary shares of the parent							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total	Minority interests	Total shareholders' equity
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

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	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	52	**3,383,673**	2,421,604
Sub-total of cash inflows		**117,862,311**	97,264,445
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	52	**8,932,694**	8,086,828
Sub-total of cash outflows		**110,457,646**	94,751,810
Net cash flows from operating activities	53	**7,404,665**	2,512,635
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
Sub-total of cash inflows		**2,299,742**	1,832,367
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
Sub-total of cash outflows		**3,875,097**	3,455,097
Net cash flows from investing activities		**(1,575,355)**	(1,622,730)
III. Cash flows from financing activities			
Cash received from capital injection		**3,008,502**	253,500
Including: Capital injection into subsidiaries by minority 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
Sub-total of cash inflows		**29,649,537**	39,753,823
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 minority shareholders		**14,663**	34,598
Cash paid in relation to other financing activities	52	**174,400**	—
Sub-total of cash outflows		**26,067,576**	43,480,072
Net cash flows from financing activities		**3,581,961**	(3,726,249)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		**(24,415)**	(51,790)
V. Net increase in cash and cash equivalents		**9,386,856**	(2,888,134)
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	53	**26,616,996**	17,230,140

Balance Sheet

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Assets	Note XV	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	1	**36,128,987**	36,620,720
Factored trade receivables	1	**445,819**	1,259,713
Prepayments		**28,871**	66,692
Dividend receivable		**3,473,753**	2,487,128
Other receivables	2	**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	3	**366,724**	373,555
Long-term trade receivables	4	**5,908,497**	5,480,245
Factored long-term trade receivables	4	**1,282,435**	1,287,954
Long-term equity investments	5	**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)

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Liabilities and shareholders' equity	Note XV	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

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note XV	2015	2014
Operating revenue	6	**89,765,707**	76,598,340
Less: Operating costs	6	**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	7	**1,361,581**	2,017,647
Including: Share of profits/(losses) of associates and jointly-controlled entities	7	**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: Loss 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 that 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 Attributable to:		**2,510,917**	1,542,168
Ordinary shareholders		**2,094,290**	1,542,168
Holders of perpetual capital instruments		**416,627**	—

Statement of Changes in Equity

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	2015							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit/	Total ordinary shareholders' equity	Other equity instruments — Perpetual capital instruments	Total shareholders' equity
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	4,150,791	8,483,084	694,904	1,360,953	2,710,245	17,399,977	9,321,327	26,721,304

	2014					
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit/	Total shareholders' equity
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	3,437,541	8,740,683	720,953	1,107,256	1,531,111	15,537,544

Cash Flow Statement

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	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	**103,612,839**	74,586,419
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	**97,792,782**	72,604,800
Net cash flows from operating activities	**5,820,057**	1,981,619
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	**371,961**	520,117
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	**1,327,257**	1,153,108
Net cash flows from investing activities	**(955,296)**	(632,991)
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
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
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
VI. Net balance of cash and cash equivalents at the end of year	**17,325,750**	9,715,869

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

I. CORPORATE BACKGROUND

ZTE Corporation (the "Company") was a limited liability company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Company Limited, Hunan Nantian (Group) Company Limited, Jilin Posts and Telecommunications Equipment Company and Hebei Posts and Telecommunications Equipment Company and incorporated through a public offering of shares to the general public. On 6 October 1997, the Company issued ordinary shares to the general public within the network through the Shenzhen Stock Exchange and the shares were listed and traded on the Shenzhen Stock Exchange on 18 November 1997.

The Company and its subsidiaries (collectively the "Group") mainly engaged in production of remote control switch systems, multimedia communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research and manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardware and software, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems, new energy power generation and application systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and monopolized merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and sending labors and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state controlled and monopolized merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialized subcontracting of telecommunications projects.

The controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, a company incorporated in the PRC.

The financial statements were approved by the Board of Directors of the Company by way of resolution on 6 April 2016. In accordance with the Articles of Association of the Company, the financial statements will be tabled at the general meeting for consideration.

The consolidation scope for consolidated financial statement is determined based on the concept of control. For details of changes during the year, please refer to Note VI.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises — Basic Standards" promulgated by the Ministry of Finance and the specific accounting standards, subsequent practice notes, interpretations and other relevant regulations subsequently announced and revised (collectively "ASBEs").

The financial statements are prepared on a going concern basis.

In the preparation of the financial statements, all items are recorded by using historical cost as the basis of measurement except for some financial instruments and investment properties. Impairment provision is made according to relevant regulation if the assets are impaired.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The specific accounting policies and accounting estimation prepared by the Group based on actual production and operation characteristics mainly include provisions for trade receivables and bad debts, inventory pricing, long-term equity investments, revenue recognition, deferred development costs, fixed assets, intangible assets and investment properties.

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2015 and the results of their operations and their cash flows for the year ended 31 December 2015.

2. Financial year

The financial year of the Group is from 1 January to 31 December of each calendar year.

3. Reporting currency

Reporting currency and the currency used in preparing the financial statements were Renminbi. The amounts in the financial statements were denominated in thousands of Renminbi, unless otherwise stated.

The Group's subsidiaries, jointly-controlled entities and associates determine their reporting currency according to the major economic environment in which they operate the business, and translate into Renminbi when preparing the financial statements.

4. Business combination

Business combination represents transaction which combines two or more separate businesses into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

4. Business combination (continued)

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The combining party is the entity that obtains control of the other entities participating in the combination at the combination date, and the other entities participating in the combination are the parties being combined. The combination date is the date on which the combining party effectively obtains control of the parties being combined.

Assets and liabilities obtained by combining party in the business combination involving entities under common control (including goodwill arising from the acquisition of the merged party by the ultimate controller) are recognized on the basis of their carrying amounts at the combination date recorded on the financial statements of the ultimate controlling party. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserves. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained profits.

Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The acquirer is the entity that obtains control of the other entities participating in the combination at the acquisition date, and the other entities participating in the combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognized at their fair values at the acquisition date.

The excess of the sum of the consideration paid (or equities issued) for business combination and equity interests in the acquiree held prior to the date of acquisition over the share of the attributable net identifiable assets of the acquiree, measured at fair value, was recognized as goodwill, which is subsequently measured at cost less cumulative impairment loss. In case the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination (or equity issued) and the equity interests in the acquiree held prior to the date of acquisition is conducted. If the review indicates that the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognized in current profit or loss.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on the concept of control, including the Company and all subsidiaries' financial statements for the year ended 31 December 2015. Subsidiaries are those enterprises or entities which the Company has control over (including enterprises, separable components of investee units and structured entities controlled by the Company).

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All assets, liabilities, equities, income, costs and cash flows arising from intercompany transactions, and dividends are eliminated on consolidation.

The excess of current loss attributable to minority shareholders of a subsidiary over their entitlements to the opening balance of shareholders' equity shall be charged to minority interests.

For subsidiaries obtained through a business combination not involving entities under common control, the operating results and cash flows of the acquirees will be recognized in consolidated financial statements from the date the Group effectively obtains the control until the date that control is terminated. When consolidated financial statement is prepared, the subsidiaries' financial statements will be adjusted based on the fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries obtained through a business combination involving entities under common control, the operating result and cash flow of the party being combined will be recognized in consolidated financial statement from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

In the event of the change in one or more elements of control as a result of changes in relevant facts and conditions, the Group reassesses whether it has control over the investee.

6. Classification of joint venture arrangements and joint operation

Joint venture arrangements are in the form of joint operation or joint venture enterprise. A joint operation is a joint venture arrangement under which the joint venture parties are entitled to assets and undertake liabilities under the arrangement. A joint venture enterprise is a joint venture arrangement under which the joint venture parties are only entitled to the net assets under such arrangement.

The following items should be recognised by a joint venture party in relation to its share of profit in the joint operation: solely held assets, as well as jointly held assets according to its share; solely assumed liabilities, as well as jointly assumed liabilities according to its share; income derived from its entitled share of production of the joint operation; income derived from the sales of production of production of the joint operation according to its share; solely incurred expenses, as well as expenses incurred by the joint operation according to its share.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

7. Cash and cash equivalents

Cash comprises cash on hand and deposits readily available for payments. Cash equivalents represent short-term highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

8. Foreign currency translation

For foreign currency transactions, the Group translates the foreign currency into its functional currency.

Upon initial recognition, foreign currency transactions are translated into the functional currency using the median exchange rate published by the PBOC at the beginning of the month in which transactions occur. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The translation differences arising from the settlement and foreign currency monetary items, except those relating to foreign currency monetary items eligible for the capitalization shall be dealt with according to the principle of capitalization of borrowing costs, are recognized in profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in functional currency. Foreign currency non-monetary items measured at fair value are translated using the spot exchange rate. The differences arising from the above translations are recognized in current profit or loss or other comprehensive income according to the nature of foreign currency non-monetary items.

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained profits, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the periods when transactions occur. Translation differences arising from the aforesaid translation of financial statements denominated in foreign currency shall be recognised as other comprehensive income. When foreign operations are disposed, other comprehensive income relating to the foreign operation is transferred to current profit or loss. Partial disposal shall be recognized on a pro-rata basis.

Cash flows denominated in foreign currencies and foreign subsidiaries' cash flows are translated using the average exchange rate for the period when cash flows occur. The impact on cash by the fluctuation of exchange rates is presented as a separate line item of reconciliation in the cash flow statement.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity. `

Recognition and derecognition of financial instruments

The Group recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

A financial asset (or part of it, or a part of a group of similar financial asset) is derecognized when one of the following criteria is met, that is, when a financial asset is written off from its account and balance sheet:

(1) The right of receiving the cash flow generated from the financial asset has expired;

(2) The right of receiving cash flow generated by the financial assets is transferred, or an obligation of paying the full amount of cash flow received to third parties in a timely manner has been undertaken under "pass-through" agreements, where (a) substantially all risks and rewards of the ownership of such financial assets have been transferred, or (b) control over such financial assets has not been retained even though substantially all risks and rewards of the ownership of such financial assets have been neither transferred nor retained.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognized. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability with any arising differences recognized in profit or loss.

Conventional dealings in financial assets are recognised or derecognised under the trade day accounting method. Conventional dealings refer to the receipt or delivery of financial assets within periods stipulated by the law and according to usual practices. The trade day is the date on which the Group undertakes to buy or sell a financial asset.

Classification and valuation of financial assets

The Group classifies its financial assets into four categories at initial recognition: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and derivatives designated as effective hedging instruments. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial assets, the relevant transaction costs are recognized in their initial recognition amount.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

The subsequent measurement of financial assets is dependent on its classification:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise mainly trading financial assets. Financial assets are classified as trading if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial assets are subsequently measured at fair value, and gain or loss from changes in fair value and derecognition are recognized in current period's profit or loss. Dividends or interest income derived from financial assets at fair value through profit or loss are also recognized in current profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets whose maturity and redemption amount are fixed or ascertained and in respect of which the Group has clear intentions and ability to hold until maturity. Such financial assets are subsequently measured using the effective interest method on the basis of amortised cost. Gains or losses arising from derecognition, impairment or amortization are recognised in the current profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Gains or losses arising from amortization or impairment are recognised in the current profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Discounts or premiums are amortised using the effective interest method and recognised as interest income or expense. Fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are recognized in profit or loss, are recognized as other comprehensive income until the financial assets are derecognized or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognized in profit or loss.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Available-for-sale financial assets (continued)

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

Classification and valuation of financial liabilities

The Group classifies its financial liabilities at initial recognition: financial liabilities at fair value through profit or loss, other financial liabilities and derivatives designated as effective hedging instruments. For financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial liabilities, the relevant transaction costs are recognized in their initial recognition amount.

The subsequent measurement of financial liabilities is dependent on its classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise mainly derivative financial liabilities.

Financial liabilities are classified as derivative if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial liabilities are subsequently measured at fair value, and all realized or unrealised gain or loss are recognized in current period's profit or loss.

Other financial liabilities

Subsequent to initial recognition, these financial assets are carried at amortized cost using the effective interest method.

Set-off of financial instruments

The net amount resulting from the set-off between financial assets and financial liabilities shall be presented in the balance sheet only if all of the following criteria are met: there is a statutory right to set off recognised amounts which is currently enforceable; the plan is settled on a net basis, or the realisation of the financial asset and the settlement of the financial liability take place at the same time.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract under which the guarantor and the creditor agree that the guarantor shall assume the debts or liability in the event of default of the debtor. Financial guarantee contracts are initially recognized as liability at fair value. Financial guarantee contracts not classified as financial liabilities designated at fair value through profit or loss, after initial recognition, are subsequently measured at the higher of: (i) the amount of the best estimates of the expenditure required to settle the present obligations at the balance sheet date; and (ii) the initial amount less accumulated amortization.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations and interest rate swaps to hedging against interest rate risks. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

Any gains or losses arising from the change in fair value on derivatives are taken directly to current profit and loss, except for the effective portion of cash flow hedging recognised as other comprehensive income which is transferred to current profit and loss when profit and loss is affected by hedged items.

Impairment of financial assets

The Group assesses the carrying amount of financial assets at the balance sheet date. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence, which indicates impairment of financial assets, represents events actually occurring after initial recognition of financial assets, having an impact on financial assets' estimated future cash flows, and such impact can be reliably measured. Objective evidences for impairment of financial assets include significant financial difficulties experienced by the issuer or debtor, default of contract terms (such as default or overdue of interest or principal payments) by the debtor, probable closure or other financial restructuring of the debtor and publicly available information indicating estimated future cash flow has decreased and such decrease being measurable.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost

If an impairment loss has been incurred, the financial asset's carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (namely the effective interest rate determined at initial recognition), taking into account the value of relevant collaterals. The reduced amount is charged to profit or loss. Interest income after impairment is recognized by adopting the discount rate used for discounting future cash flow to its present value when determining the impairment loss. Loans and receivables for which there is no realistic expectation for future recovery and all collaterals have been realized or transferred to the Group shall be written off against loans and receivables and the corresponding impairment provision.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment if there is objective evidence of impairment, and recognizes the amount of impairment in profit or loss. For a financial asset that is not individually significant, the Group include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets, for which an impairment loss is individually recognized, are not included in the collective assessment for impairment.

After the Group recognizes impairment loss of financial assets carried at amortized cost, if there is objective evidence that the financial assets' value recovered and the recovery is objectively related to an event occurring after the impairment is recognized, the previously recognized impairment loss shall be reversed and recognized in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when the impairment is reversed.

Available-for-sale financial assets

If there is objective evidence that an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognized directly in other comprehensive income is removed and recognized in profit or loss. The cumulative loss that is removed is the difference between its acquisition cost (net of any principal repayment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

Objective evidence of impairment in equity instruments available-for-sale includes a significant or prolonged decline in their fair value. Whether the decline is "significant" or not shall be determined by reference to the extent to which the fair value is lower the cost. Whether the decline is "prolonged" or not shall be determined by reference to the duration in which the fair value is lower than the cost. Where objective evidence of impairment exists, the accumulated loss of the transfer is represented by the balance of acquisition cost after deduction of the current fair value and impairment loss previously charged to profit and loss. Impairment losses recognized for equity instruments classified as available-for-sale are not reversed through profit or loss. Fair value gains that arise after the impairment are directly recognized in other comprehensive income.

The exercise of judgement is required to determine the meaning of "significant" or "prolonged." The Group makes its judgement based on the duration in which the fair value is lower than the cost and other factors.

If after an impairment loss has been recognized on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognized, the impairment loss is reversed which is recognized in profit or loss.

Assets carried at cost

If financial assets carried at cost are impaired, the impairment loss are recognized in profit or loss and measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

Transfer of financial assets

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognized. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognized.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may either derecognize the financial asset and recognize any associated assets and liabilities if control of the financial asset has not been retained; or recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability if control has been retained.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Transfer of financial assets (continued)

Assets formed by the continuing involvement by way of the provision of financial guarantee in respect of the transferred financial assets shall be recognised as the lower of the book value of the financial asset and the amount of financial guarantee. The amount of financial guarantee means the maximum amount among considerations received to be required for repayment.

10. Accounts Receivable

(1) Individually significant accounts receivable for which separate bad-debt provision is made

The Group conducts impairment tests in respect of its significant account receivables and makes provision for impairment when there is objective evidence of impairment. Objective evidence for impairment includes: (1) significant financial difficulties experienced by the debtor; (2) default on or non-payment of due interest or principal payments; (3) concessions made to the insolvent debtor by creditors owing to economic or legal considerations; (4) probable bankruptcy or other financial reorganisation of the debtor; (5) inability to recover the debt after repayments from the bankruptcy assets or the estate upon the bankruptcy or death of the debtor.

An account receivable is considered individually significant if it amounts to 0.1% or above of the total original value of all accounts receivable.

(2) Accounts receivable for which bad debt provision is made on the basis of credit risk characteristic groups

Individually insignificant accounts, for which there is no objective evidence under individual impairment tests warranting individual provision, are divided into different asset groups based on their credit risk characteristics, and each group is assessed in accordance with different policies to determine their impairment provision. The management divides trade receivables (other than those in respect of which individual asset impairment provision has been made) into the following asset groups as follows on the basis of credit risk rating and historical repayment records:

	Percentage of provision (%)
0–6 months	—
7–12 months	0–15
13–18 months	5–60
19–24 months	15–85
2–3 years	50–100
Over 3 years	100

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, materials for construction-in-progress and product deliveries.

Inventories are initially recorded at costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognized using the weighted moving average method. Materials for construction-in-progress include low-value consumables and packaging materials, which are amortised using the separate amortization method/one-off write-off method.

Inventories are valued using the perpetual inventories system.

Inventories at the end of the year are stated at the lower of cost or net realizable value. Provision for impairment of inventories is made and recognized in profit or loss when the net realizable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, as a result that the net realizable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognized in profit or loss.

Net realizable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts. Provision for impairment of inventories is made on the basis of individual categories.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates.

Long-term equity investments were recorded at initial investment cost on acquisition. For long-term equity investments acquired through the business combination of entities under common control, the initial investment cost shall be the share of carrying value of the owners' equity of the merged party at the date of combination as stated in the consolidated financial statements of the ultimate controlling party. Any difference between the initial investment cost and the carrying value of the consideration for the combination shall be dealt with by adjusting the capital reserve (if the capital reserve is insufficient for setting off the difference, such difference shall be further set off against retained profits). Upon disposal of the investment, other comprehensive income prior to the date of combination shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. For long-term equity investments acquired through the business combination of entities not under common control, the initial investment cost shall be the cost of combination (for business combinations of entities not under common control achieved in stages through multiple transactions, the initial investment cost shall be the sum of the carrying value of the equity investment in the acquired party held at the date of acquisition and new investment cost incurred as at the date of acquisition). The cost of combination shall be the sum of assets contributed by the acquiring party, liabilities incurred or assumed by the acquiring party and the fair value of equity securities issued. Upon disposal of the investment, other comprehensive income recognised under the equity method held prior to the date of acquisition shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. The accumulated fair value change of equity investments held prior to the date of acquisition and included in the other comprehensive income as financial instruments shall be transferred in full to current profit and loss upon the change to cost accounting. The initial investment cost of long-term equity investments other than those acquired through business combination shall be recognized in accordance with the following: for those acquired by way of cash payments, the initial investment cost shall be the consideration actually paid plus expenses, tax amounts and other necessary outgoings directly related to the acquisition of the long-term equity investments. For long-term equity investments acquired by way of the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued. For long-term equity investments acquired by way of the swap of non-monetary assets, the initial investment cost shall be determined in accordance with "ASBE No. 7 — Swap of Non-monetary Assets". For long-term equity investments acquired by way of debt restructuring, the initial investment cost shall be determined in accordance with "ASBE No. 12 — Debt Restructuring".

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

In the financial statements of the Company, the cost method is used for long term equity investments in investees over which the Company exercises control. Control is defined as the power exercisable over the investee, the entitlement to variable return through involvement in the activities of the investee and the ability to influence the amount of return using the power over the investee.

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. When additional investments are made or investments are recouped, the cost of long-term equity investments shall be adjusted. Cash dividend or profit distribution declared by the investee shall be recognised as investment gains for the period.

The equity method is used to account for long-term equity investments when the Group can jointly control or has significant influence over the invested entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. Any excess of the Company's share of the investment's identifiable assets and liabilities over the cost of investment is excluded from the carrying amount of the investment and recognized in profit and loss for the current period, and the cost of long-term equity investment is adjusted accordingly.

Under the equity method, after the long-term equity investments are acquired, investment gains or losses and other comprehensive income are recognized according to the entitled share of net profit or loss and other comprehensive income of the investee and the carrying amount of the long-term equity investment is adjusted accordingly. When recognizing the Group's share of the net profit or loss of the invested entity, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date in accordance with the Group's accounting policy and accounting period to investee's net profits, eliminating pro rata profit or loss from internal transactions with associates and joint ventures attributed to investor (except that loss from inter-group transactions deemed as asset impairment loss shall be fully recognized), provided that invested or sold assets constituting businesses shall be excluded. When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognizing its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than the net-off of net profits or losses, other comprehensive income and profit allocation of the investee), and includes the corresponding adjustment in equity.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

On disposal of the long-term equity investments, the difference between book value and market price is recognized in profit or loss for the current period. For long-term equity investments under equity method, when the use of the equity method is discontinued, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred in full to current profit and loss. If the equity method remains in use, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee and transferred to current profit and loss on a pro-rata basis. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss on a pro-rata basis.

13. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties of the Group included houses and buildings leased to other parties.

Investment properties are initially measured at cost. Subsequent expenses relating to the investment properties are charged to investment property costs if there is a probable inflow of economic benefits relating to the asset and its cost can be reliably measured; otherwise, those expenditure are recognized in profit or loss as incurred.

Investment properties of the Group represented owned properties reclassified to investment properties measured at fair value. The amount of fair value in excess of the book value as at the date of reclassification is included in the capital reserve. After initial recognition, investment properties will be subsequently measured and presented in fair value. The difference between the fair value and the original book value shall be included in current profit and loss. Fair values are assessed and determined by independent valuers based on open market prices of properties of the same or similar nature and other relevant information.

14. Fixed Assets

A fixed asset is recognized when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognized in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of the replaced part is derecognized; otherwise, those expenditures are recognized in profit or loss as incurred.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

14. Fixed Assets (continued)

Fixed assets are initially recognized at cost taking into account the impact of expected future disposal expenditure. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working conditions for its intended use.

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rates are as follows:

	Useful life	Estimated residual value ratio	Annual depreciation rate
Freehold land	Indefinite	—	N/A
Buildings	30–50 years	5%	1.9%–3.17%
Electronic equipment	5–10 years	5%	9.5%–19%
Machinery equipment	5–10 years	5%	9.5%–19%
Motor vehicles	5–10 years	5%	9.5%–19%
Other equipment	5 years	5%	19%

The Group reviews, at least at each year end, useful lives, estimated residual values and depreciation methods of fixed assets and makes adjustments if necessary.

15. Construction in progress

Construction-in-progress is measured at the actual construction expenditures, including borrowing costs subject to capitalisation before they can be put into use and other related fees.

Construction-in-progress is transferred into fixed assets when it is ready for its intended use.

16. Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowings of funds, which include borrowing interest, amortisation of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowings in foreign currencies.

Borrowing costs directly attributable to the acquisition or construction of assets qualified for capitalization, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

16. Borrowing costs (continued)

Capitalization of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

(3) Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Borrowing costs incurred afterwards are recognized in profit or loss.

During capitalization, interest of each accounting period is recognized using the following methods:

(1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings.

(2) Where funds are part of a general pool, the eligible amount is determined by applying a capitalization rate to the expenditure on that asset. The capitalization rate will be the weighted average of the borrowing costs applicable to the general pool.

Except for expected suspension under normal situation of qualifying assets, capitalization should be suspended during periods in which abnormal interruption has lasted for more than three months during the process of acquisition, construction or production. The borrowing cost incurred during interruption should be recognized as expenses and recorded in the income statement until the construction resumes.

17. Intangible assets

Intangible assets are recognised only when it is probable that economic benefits relating to such intangible assets would flow into the Group and that their cost can be reliably measured. Intangible assets are initially measured at cost, provided that intangible assets which are acquired in a business combination not under common control and whose fair value can be reliably measured shall be separately recognized as intangible assets at fair value.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Intangible assets (continued)

Useful life of respective intangible assets is as follows:

	Estimated useful life
Software	2–5 years
Technology know-how	2–10 years
Land use rights	50–70 years
Franchise	3–10 years
Development expenses	3–5 years

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and fixed assets, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be apportioned.

Straight line amortization method is used during the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, useful lives and amortization method for intangible assets with definite lives and makes adjustment when necessary.

The Group classifies the expenses for internal research and development as research costs and development costs. All research costs are charged to the income statement as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits (including demonstration that the product derived from the intangible asset or the intangible asset itself will be marketable or, in the case of internal use, the usefulness of the intangible asset as such), the availability of technical and financial resources to complete the project and procure the use or sale of the intangible asset, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Corresponding projects in the Group are formed when they meet the above condition technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

18. Provisions

Other than contingent consideration and assumed contingent liabilities in a business combination involving parties not under common control, the Group recognizes as provision an obligation that is related to contingent matters when all of the following criteria are fulfilled:

(1) the obligation is a present obligation of the Group;

(2) the obligation would probably result in an outflow of economic resources from the Group;

(3) the obligation could be reliably measured.

Provisions are initially valued according to the best estimate of expenses on fulfilling the current liabilities, in connection with the risk, uncertainty and timing value of the currency. The book value of the provisions would be reassessed on every balance sheet date. The book value will be adjusted to the best estimated value if there is certain evidence that the current book value is not the best estimate.

19. Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares of other equity instruments in consideration for receiving services.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognizing services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each balance sheet date during the pending period based on subsequent information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc. The fair value of equity instruments is determined using the binomial option pricing model. For details see Note XI. Share-based payment.

The cost of equity-settled transactions is recognised, together with a corresponding increase in capital reserve, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

19. Share-based payments (continued)

No expense is recognised for awards that do not ultimately vest due to non-fulfillment of non-market conditions and/or vesting conditions. For the market or non-vesting condition under the share-based payments agreement, it should be treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that other performance condition and/or vesting conditions are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are recognized as if the terms had not been modified. In addition, an expense is recognized for any modification which increases the total fair value of the instrument ranted, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they were a modification of the original award.

20. Revenue

Revenue is recognized when it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognized on the following bases:

Revenue from the sales of goods

Revenue from sales of goods is recognized when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and related costs incurred or to be incurred can be measured reliably. Revenue from sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipt of amounts stipulated in contracts or agreements is recognized on a deferred basis. Those with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Revenue (continued)

Revenue from the rendering of services

On the balance sheet date, when transaction result of the rendering of services could be measured reliably, related revenue from rendering of services is recognized according to the percentage of completion, otherwise revenue is recognized only to the extent of cost incurred and expected to be recoverable. The transaction result of the rendering of services could be measured reliably by meeting the following conditions at the same time: Revenue can be measured reliably, the relevant economic benefits will flow to the Group, the percentage of construction work and relevant cost incurred or to be incurred can be measured reliably. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total revenue for the rendering of services is determined according to amounts stipulated in contracts or agreements received or receivable by workers, unless such amounts are deemed unfair.

Where the sales of goods and rendering of services are included in contracts or agreements between the Group and other enterprises, revenue is separately recognized according to the fair values of various sales items in the contracts, by reference to the aforesaid principles for revenue recognition.

Construction contracts

Construction contract revenue and cost are recognised by percentage of completion at the balance sheet date where the results of the contract could be reliably estimated, otherwise revenue is recognized on the basis of the actual contract cost amount which has been incurred and is expected to be recoverable. The results of the contract can be reliably estimated if it is probable that economic benefits relating to the contract will flow to the Group and the actually incurred contract cost can be clearly distinguished and reliably measured. For contracts with fixed prices, the following conditions should also be met: the total revenue of the contract can be reliably measured, and percentage of completion and outstanding cost for completion can be reliably estimated. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total contract revenue includes initial income stipulated by the contract and income derived from contract modifications, compensation and rewards, and etc.

Rental income

Rental income generated under operating leases is recognized over the respective periods during the lease term using the straight line method. Contingent rental income is charged to current profit and loss when incurred.

Interest income

Interest income is determined by the length of time for which the Group's cash is in use by other parties and the effective interest rate.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. Government grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value.

In accordance with the stipulations of the government instruments, government grants applied towards acquisition or the formation of long-term assets in other manners are asset-related government grants; the instruments unspecifically refer to the exercise of judgement based on the basic conditions for receiving the asset-related grant applied towards or the formation of long-term assets in other manners. All other grants are recognized as income-related government grants.

Government grants, relating to income and applied towards reimbursement of related costs or losses in subsequent periods, are recognized as deferred income and taken to current profit or loss for the period in which the related costs are recognized. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognized in current profit or loss. Where the grant relates to an asset, it is recognized as a deferred income and allocated to the income statement over the expected useful life of the relevant asset by equal annual instalments. Where the grant is measured at nominal value, it is directly recognized in current profit or loss.

22. Income tax

Income taxes include current and deferred tax. Income taxes are recognized in current period's profit or loss as income tax expense or income tax benefit, except for the adjustment made for goodwill in a business combination and income tax from transactions or items that directly related to equity.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them at the amount expected to be paid or recovered according to the relevant taxation regulations.

The Group recognizes deferred tax assets and liabilities based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base on the balance sheet date. Temporary differences also include the differences between the book values and tax bases of items not recognized as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

(1) Where the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

(2) In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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(Prepared in accordance with PRC ASBEs)
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Income tax (continued)

Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

(1) where the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

(2) in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognized to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

As at balance sheet date, deferred tax assets and liabilities are measured in accordance with relevant tax laws at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, and reflects the tax consequences that would follow the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

23. Leases

Other than leases under which substantially all risks and rewards of ownership are transferred, which are classified as finance lease, all leases are classified as operating leases.

As lessee of operating leases

Rental expenses under operating leases are recognized as relevant asset costs or in current profit or loss on the straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Leases (continued)

As lesser of operating leases

Rental income under operating leases are recognized as profit/loss for the current period on a straightline basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

24. Hedge accounting

For the purpose of hedge accounting, hedges of the Group are classified as:

(1) Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment;

(2) Net investment hedging for overseas operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised immediately in profit or loss.

Amounts recognized in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs.

If the hedging instrument expires or is sold, terminated or exercised (with the expiry of rollover of the hedging strategic component or unfulfilled replacement or the termination of processing of the contract), if its designation as a hedge is revoked, or if the hedge no longer fulfills the accounting requirement of a hedge, the amounts previously taken to other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs or is fulfilled in actual terms.

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(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Hedge accounting (continued)

Net investment hedging for overseas operations

Net investment hedging for overseas operations includes currency hedging as a part of net investment and is dealt with in a similar way as cash flow hedging. The portion of gain or loss of hedging instrument designated as effective hedging shall be credited or charged to other comprehensive income, while ineffective hedging shall be dealt with in current profit and loss. Upon disposal of the overseas operations, the accumulated gains or losses previously accounted for in other comprehensive income shall be transferred to current profit and loss.

25. Impairment

The Group assesses impairment of assets other than inventories, investment properties measured at fair value, deferred tax assets and financial assets, using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed at least annually regardless of whether there are indications of impairment. Intangible assets which are not yet ready for use are also tested annually for impairment.

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognized in the current period's profit or loss and provision for impairment is made accordingly.

In connection with impairment tests for goodwill, the carrying value of goodwill arising from business combination is allocated to relevant cash generating units ("CGU") from the date of acquisition on a reasonable basis. If it is difficult to allocate such goodwill to a relevant CGU, it should be allocated to a relevant CGU group. A relevant CGU or CGU group is defined as one which can benefit from the synergies of the business combination and is not larger than the reporting segments determined by the Group.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Impairment (continued)

In connection with impairment tests for CGUs or CGU groups that comprise goodwill, where indications of impairment exists in a CGU or CGU group related to goodwill, impairment tests should be performed first on CGUs or CGU groups that do not comprise goodwill and recognize impairment loss after estimating the recoverable amount. Then impairment tests on CGUs or CGU groups that comprise goodwill should be performed and the carrying value and recoverable amount should be compared. Where the recoverable amount is lower than the carrying value, the impairment loss should first be offset against the carrying value of the goodwill allocated to CGUs or CGU groups and then against assets in the CGUs or CGU groups other than goodwill in proportion to the weighting of these assets.

Previously recognised impairment losses are not reversed in subsequent periods.

26. Employee remuneration

Employee remuneration includes all kinds of rewards or compensation (other than share-based payments) incurred by the Group in exchange for service rendered by employees or in the termination of employment. Employee remuneration includes short-term remuneration, retirement benefits, termination benefits and other long-term employees' benefits. Benefits provided by the Group to the spouses, children and dependents of employees and families of deceased employees are also a part of employee remuneration.

Short-term remuneration

For accounting periods during which services are rendered by employees, short-term remuneration that will incur is recognised as liability and included in current profit and loss or related capital costs.

Retirement benefit (defined deposit scheme)

Employees of the Group participated in pension insurance and unemployment insurance schemes managed by the local government. The contribution costs are charged as asset cost or to current profit or loss when incurred.

Retirement benefit (defined benefit scheme)

The Group operates a defined benefit pension scheme. No funds have been injected into the scheme. The cost of benefits provided under the defined benefit scheme is calculated using the expected benefit accrual unit approach.

Remeasurement arising from defined benefit pension schemes, including actuarial gains or losses, changes in the asset cap effect (deducting amounts included in net interest) and return on scheme assets (deducting amounts included in net interest) are instantly recognized in the balance sheet and charged to shareholders' equity through Other Comprehensive Income for the period during which it is incurred. It will not be reversed to profit and loss in subsequent periods.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. Employee remuneration (continued)

Retirement benefit (defined benefit scheme) (continued)

Previous service costs are recognised as current expenses when: the defined benefit scheme is revised, or relevant restructuring costs or termination benefits are recognized by the Group, whichever earlier.

Net interest is arrived at by multiplying net liabilities or net assets of defined benefits with a discount rate. Changes in net obligations of defined benefits are recognized as operating costs and administration expenses in the income statement. Service costs included current services costs, past service costs and settlement of profit or loss. Net interest included interest income from scheme assets, interest expenses for scheme obligations and interest of the asset cap effect.

Termination benefits

Where termination benefits are provided to employees, liabilities in employee remuneration are recognized and charged to current profit and loss when: the company is not in a position to withdraw termination benefits provided under termination plans or redundancy plans, or costs or expenses relating to the restructuring exercise which involves the payment of termination benefits are recognized, whichever earlier.

Other long-term employees' benefits

Other long-term employees' benefits provided to employees shall be recognised and measured as net liabilities or net assets where provisions regarding post-employment benefits are applicable, provided that changes shall be included in current profit and loss or related capital costs.

27. Fair value measurement

At each balance sheet date, the Group measures the fair value of investment properties, derivative financial instruments and listed equity instrument investments. Fair value means the price receivable from the disposal of an asset or required to be paid for the transfer of a liability in an orderly transaction incurred by market participants on the measurement date. The Group measures assets or liabilities at fair value with the assumption that the orderly transaction of asset disposal or the transfer of liabilities takes place in the major market for the relevant assets or liabilities. Where there is no major market, the Group assumes such transaction takes place in the most favourable market for the relevant assets or liabilities. The major market (or most favourable market) is a trading market which the Group has access to on the measurement date. The Group adopts assumptions used by market participants when they price the asset or liability with the aim of maximizing its economic benefits.

The measurement of non-financial assets measured at fair value should take into account the ability of market participants to utilize the asset in the best way for generating economic benefits, or the ability to dispose of such asset to other market participants who are able to utilize the asset in the best way for generating economic benefits.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. Fair value measurement (continued)

The Group adopts valuation techniques that are appropriate in the current circumstances and supported by sufficient usable data and other information. Observable input will be used first and foremost. Unobservable input will only be used when it is not possible or practicable to obtain observable input.

The fair value hierarchy to which an asset or liability measured or disclosed in the financial statements at fair value will be determined on the basis of the lowest level of input which is significant for the fair value measurement as a whole. Input at the first level represents unadjusted quoted prices in an active market for the acquisition of the same asset or liability on the measurement date. Input at the second level represents directly or indirectly observable assets or liabilities apart from input at the first level. Input at the third level represents unobservable input for the asset or liability.

At each balance sheet date, the Group reassesses assets and liabilities measured at fair value on an ongoing basis recognized in the financial statements to determine whether the level of fair value measurement should be changed.

28. Profit distribution

Cash dividend of the Company is recognized as liability after approval by the general meeting.

29. Significant accounting judgements and estimates

The preparation of financial statements requires judgement and estimation of the management. Such judgement and estimation will affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities as at the balance sheet date. However, the consequence arising from the uncertain nature of such estimation may result in significant adjustment to the book value of the asset or liability affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognized in the financial statements:

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customization within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customization and contractual terms with the customer. As a result, our revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

When a customer arrangement involves multiple deliverables where the deliverables are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

1) whether the delivered item has value to the customer on a stand-alone basis; and

2) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element contract can be treated separately for revenue recognition purposes involves significant estimates and judgement, such as whether the delivered elements have standalone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

At the inception of the arrangement, contract amounts shall be allocated to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence ("VSOE") of selling price, if it exists; otherwise, third-party evidence of selling price should be used. If neither VSOE nor third-party evidence of selling price exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the vendor can determine VSOE or third-party evidence of selling price, the vendor shall not ignore information that is reasonably available without undue cost and effort.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

For instance, the Group sells hardware and post-contract services on a stand-alone basis and therefore we have evidence to establish VSOE for both of sale of goods and post-contract services.

The Group's adoption of appropriate revenue recognition policy for a deliverable involves significant judgement. For instance, the Group has to determine whether post-contract support services is more than incidental to hardware, so as to decide whether the hardware should be accounted for based on multiple-element revenue recognition guidance or general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

For elements related to customised network solutions and certain network build-outs, revenues are recognized under the "ASBE No. 15 Construction Contract", generally using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognized in the period that such losses become known. Generally, the terms of long-term contracts provide for progress billing are based on completion of certain phases of work. Contract revenues recognized, based on costs incurred towards the completion of the project, that are unbilled are accumulated in the contracts in progress account included in amount due from customers for contract works. Billings in excess of revenues recognized to date on long-term contracts are recorded as advance billings in excess of revenues recognized to date on contracts within amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

Where hardware does not require significant customisation, and any software is considered incidental, revenue should be recognized under "ASBE No.14 — Revenue", if it is probable that the economic benefits associated with the transaction will flow to the Group the amount can be measured reliably; the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss and title have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because legal title or the risk of loss on products was not transfer to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when title or the risk of loss passes either on delivery or on receipt of payment from the customer.

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Note III.20 to the consolidated financial statements.

Deferred tax liabilities arising from dividend distribution

The Group is required to recognize deferred tax liabilities for taxable temporary differences relating to investments in certain subsidiaries, unless two conditions are met as follows: the Group is able to control the timing of the reversal of the temporary difference and such temporary difference is not likely to be reversed in the foreseeable future. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of the subsidiary and that the subsidiary will not make any profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred income tax liability.

Derecognition of financial assets

Where the Group has transferred the right to receive cash flow arising from an asset but has not transferred or has retained substantially all risks and rewards associated with such asset, or has not transferred the controlling right in such asset, such asset shall be recognized and accounted for so long as the Group continues to be involved in such asset. If the Group has not transferred or has retained substantially all risks and rewards associated with the asset or transferred the controlling right in the asset, the exercise of significant judgment is often required, and estimations need to be made as to the extent of the Group's continued involvement in the asset.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent financial years, are discussed below.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of fixed assets, construction in progress and intangible assets

The Group assesses at each balance sheet date whether there is an indication that fixed assets, construction in progress and intangible assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. The recoverable amount is measured at the net amount of the fair value of the asset less disposal costs or the present value of the estimated future cash flow of the asset, whichever is higher. This requires an estimate of the expected future cash flows from the asset or the cash-generating unit to which the asset was allocated and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is recognized when the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount. The carrying amount is written down to the recoverable amount and the write-down is charged to current profit or loss, while corresponding provision for asset impairment is also made.

Impairment of financial assets

The Group determines whether financial assets are impaired by estimating the future cash flow from the financial assets. An impairment loss is recognized only if the carrying amount of an asset exceeds the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, taking into account the value of the related collateral. Where the actual future cash flows and less than expected, an impairment loss may arise.

Depreciation and amortization

The Group depreciates items of fixed assets and amortises items of intangible assets on the straight-line basis over their estimated useful lives, and after taking into account their estimated residual value, commencing from the date the items of fixed assets are placed into productive use. The estimated useful lives and dates that the Group places the items of fixed assets into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's fixed assets and intangible assets.

Deferred development costs

In determining the amount of capitalization, the management must make assumptions concerning the expected future cash flow, applicable discount rate and expected beneficial period.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognized for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilize these unused tax losses. Significant judgments are needed from management to estimate the timing and amount of taxable profit in the future, with tax planning strategies, to determine the amount of the deferred tax assets that should be recognized.

Provision for inventory impairment

The impairment of inventory to its net realizable value is based on the marketability and net realizable value of the inventory. The determination of the impairment value requires the acquisition of conclusive evidence by the management, who should also take into account factors such as the purpose of stocking the inventory and the impact of post-balance sheet date events before making judgments and estimates. The difference between the actual outcome and the original estimates shall affect the book value of the inventory and charge or reversal of impairment provision for the period during which the estimates were revised.

Provision for warranty

Provision for warranties is recognised on a best-estimate basis according to the warranty period, supply volume of the product concerned and past data and experience on the performance of warranty services, taking into account risks and uncertainties relating to contingencies and the time value of currency.

Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost. The carrying value of investment property as at 31 December 2015 was RMB2,010,396,000 (31 December 2014: RMB2,004,465,000).

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IV. TAXATION

1. Principal tax items and tax rates

Value-added tax	— Payable on income generated from domestic sales of products and equipment repair services at a tax rate of 17%; Output tax at a tax rate of 6% is payable on sales service income generated from amended or new additional scope of business deducting the current balance of tax credit available for offsetting.
Business tax	— In accordance with relevant PRC tax regulations, business tax was payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which were subject to business tax.
City maintenance and construction tax	— In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Education surcharge	— In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Individual income tax	— In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.
Overseas tax	— Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	— In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income.

2. Tax concession

The Company is subject to an enterprise income tax rate of 15% for the years from 2014 to 2016 as a national-grade hi-tech enterprise incorporated in Shenzhen. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 15% as a national-grade hi-tech enterprise for 2015.

Shenzhen Zhongxing ICT Company Limited is subject to an enterprise income tax rate of 15% for the years from 2013 to 2015 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% for 2015 as a national-grade hi-tech enterprise.

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IV. TAXATION (continued)

2. Tax concession (continued)

Nubia Technology Limited is subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% for 2015 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% for 2015 as a national-grade hi-tech enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

ZTEsoft Technology Company Limited is subject to an enterprise income tax rate of 15% for 2015 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% from 2015–2017 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited has applied for the status of and been confirmed as an enterprise engaged in State-endorsed industries in the current year and is subject to an enterprise income tax rate of 15% for the current year.

ZTEsoft Technology Company Limited is subject to an enterprise income tax rate of 15% for the years from 2013 to 2015 as a national-grade hi-tech enterprise.

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash

	2015	2014
Cash	**18,677**	16,314
Bank Deposit	**26,803,348**	17,381,254
Other cash	**1,202,984**	718,306
	28,025,009	18,115,874

As at 31 December 2015, the Group's time deposit of RMB23,000,000 (31 December 2014: RMB23,000,000) was pledged to secure bank borrowings for a term of 1 year.

Notes to Financial Statements

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

1. Cash (continued)

As at 31 December 2015, the Group's overseas currency deposits amounted to RMB5,888,161,000 (31 December 2014: RMB6,039,157,000). Funds placed overseas and subject to remittance restrictions amounted to RMB83,496,000 (31 December 2014: RMB70,175,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposits varies from 7 days to 3 months. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB205,029,000 (31 December 2014: RMB167,428,000) were not included in cash and cash equivalents.

2. Derivative financial assets

	2015	2014
Net investment hedging instruments for overseas operations	**1,126**	—
Derivative financial assets at fair value through current profit and loss	**8,984**	240,973
	10,110	240,973

For details of net investment hedging instruments for overseas operations, please refer to Note V.56.

Trading in derivative financial assets at fair value through current profit and loss mainly comprised transactions in forward exchange contracts with reputable banks in the PRC and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, they were dealt with at fair value through current profit or loss. For the year, loss arising from fair value changes of non-hedging derivative financial instruments amounting to RMB189,613,000 (2014: gain of RMB17,976,000) was dealt with in current profit or loss.

3. Bills receivable

	2015	2014
Commercial acceptance bills	**2,432,643**	988,599
Bank acceptance bills	**1,030,715**	1,098,172
	3,463,358	2,086,771

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Bills receivable (continued)

Endorsed or discounted bills receivable outstanding on the balance sheet date are analysed as follows:

	2015		2014	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Bank acceptance bills	**385,920**	**106,892**	294,779	44,028

As at 31 December 2015, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2014: Nil).

As at 31 December 2015, no bills were pledged for obtaining short-term borrowing (31 December 2014: Nil).

As at 31 December 2015, there were no outstanding bills receivable endorsed on behalf of third parties (31 December 2014: Nil).

4. Trade receivables

Trade receivables arising from communications systems construction works and the provision of labour services are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables arising in the sales of goods normally ranges from 0 to 90 days, and may be extended to a maximum of 1 year depending on the credit standing of the customer. Trade receivables are interest-free.

Aging analysis of trade receivables was as follows:

	2015	2014
Within 1 year	**23,370,441**	23,604,948
1 to 2 years	**3,653,798**	2,626,579
2 to 3 years	**1,590,969**	1,310,146
Over 3 years	**2,357,659**	1,928,466
	30,972,867	29,470,139
Less: bad debt provision for trade receivables	**5,721,580**	4,317,176
	25,251,287	25,152,963

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Trade receivables (continued)

Please refer to Note V.18 for details of movements in bad debt provision for trade receivables for the year.

	2015				2014			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	422,515	1	422,515	100	509,312	2	509,312	100
For which bad debt provision has been collectively made based on credit risks								
0–6 months	20,234,441	66	–	–	20,307,402	69	–	–
7–12 months	3,136,000	10	419,528	13	3,297,545	11	292,712	9
13–18 months	2,538,547	8	702,912	28	1,712,530	6	425,970	25
19–24 months	1,115,251	4	844,290	76	914,049	3	580,641	64
2–3 years	1,590,969	5	1,397,191	88	1,304,670	4	1,083,910	83
Over 3 years	1,935,144	6	1,935,144	100	1,424,631	5	1,424,631	100
	30,550,352	99	5,299,065	17	28,960,827	98	3,807,864	13
	30,972,867	100	5,721,580		29,470,139	100	4,317,176	

As at 31 December 2015, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	170,711	170,711	100%	Debtor running into serious financial difficulties
Overseas carriers 2	164,226	164,226	100%	Debtor running into serious financial difficulties
Overseas carriers 3	79,493	79,493	100%	Debtor running into serious financial difficulties
Others	8,085	8,085	100%	Debtor running into serious financial difficulties
	422,515	422,515		

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Trade receivables (continued)

As at 31 December 2014, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	173,226	173,226	100%	Debtor running into serious financial difficulties
Overseas carriers 2	162,995	162,995	100%	Debtor running into serious financial difficulties
Overseas carriers 3	77,858	77,858	100%	Debtor running into serious financial difficulties
Others	95,233	95,233	100%	Debtor running into serious financial difficulties
	509,312	509,312		

For 2015, RMB94,991,000 was cancelled and RMB45,650,000 was written back in respect of trade receivables which were individually significant and for which bad-debt provision had been made separately (2014: Nil).

Top 5 accounts of trade receivables as at 31 December 2015 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	**3,680,942**	**11.88%**	**26,463**
Customer 2	**2,337,878**	**7.55%**	**20,878**
Customer 3	**1,259,997**	**4.07%**	**36,080**
Customer 4	**648,087**	**2.09%**	**178,751**
Customer 5	**390,800**	**1.26%**	**26,122**
Total	**8,317,704**	**26.85%**	**288,294**

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Trade receivables (continued)

Top 5 accounts of trade receivables as at 31 December 2014 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	4,429,239	15.03%	18,223
Customer 2	2,102,621	7.13%	77,593
Customer 3	2,039,043	6.92%	30,109
Customer 4	467,227	1.59%	51,973
Customer 5	418,059	1.42%	18,169
Total	9,456,189	32.09%	196,067

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables". For details of the transfer of receivables, please refer to Note VIII.2.

5. Other receivables

Aging analysis of other receivables was as follows:

	2015	2014
Within 1 year	**2,491,262**	1,592,615
1 to 2 years	**215,768**	317,980
2 to 3 years	**149,627**	159,854
Over 3 years	**113,601**	89,228
	2,970,258	2,159,677

Other receivables analysed by nature as follows:

	2015	2014
Staff loans	**426,042**	321,500
Transactions with third parties	**2,293,247**	1,446,721
Others	**250,969**	391,456
	2,970,258	2,159,677

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables (continued)

Top 5 accounts of other receivables as at 31 December 2015 were as follows:

Due from	Closing balance	As a percentage of the total amount of other receivables	Nature
Third-party entity 1	**1,347,326**	**45.36%**	**Transactions with third parties**
Third-party entity 2	**150,000**	**5.05%**	**Others**
Third-party entity 3	**100,000**	**3.37%**	**Transactions with third parties**
Third-party entity 4	**39,900**	**1.34%**	**Transactions with third parties**
Third-party entity 5	**34,179**	**1.15%**	**Transactions with third parties**
Total	**1,671,405**	**56.27%**	

Top 5 accounts of other receivables as at 31 December 2014 were as follows:

Due from	Closing balance	As a percentage of the total amount of other receivables	Nature
Third-party entity 1	696,351	32.24%	Transactions with third parties
Third-party entity 2	200,000	9.26%	Others
Third-party entity 3	177,151	8.20%	Transactions with third parties
Third-party entity 4	32,660	1.51%	Transactions with third parties
Third-party entity 5	18,203	0.84%	Transactions with third parties
Total	1,124,365	52.05%	

The above other receivables from top five accounts represent amounts receivable from third parties of the Group and were aged within 36 months.

6. Prepayments

Aging analysis of prepayments was as follows:

	2015		2014	
	Book balance	**Percentage (%)**	Book balance	Percentage (%)
Within 1 year	**640,113**	**100%**	682,778	100%

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Prepayments (continued)

Top 5 accounts of prepayments as at 31 December 2015 were as follows:

Supplier	**Amount**	**As a percentage of total amounts of prepayments**
Supplier 1	**39,843**	**6.22%**
Supplier 2	**35,290**	**5.51%**
Supplier 3	**28,850**	**4.51%**
Supplier 4	**27,290**	**4.26%**
Supplier 5	**20,029**	**3.13%**
Total	**151,302**	**23.63%**

Top 5 accounts of prepayments as at 31 December 2014 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	39,890	5.84%
Supplier 2	29,807	4.37%
Supplier 3	25,317	3.71%
Supplier 4	20,378	2.98%
Supplier 5	20,028	2.93%
Total	135,420	19.83%

7. Inventories

	2015			2014		
	Book balance	**Provision For impairment**	**Carrying value**	Book balance	Provision For impairment	Carrying value
Raw materials	**4,314,061**	**435,957**	**3,878,104**	3,024,252	423,227	2,601,025
Materials under sub-contract processing	**368,973**	**44,147**	**324,826**	302,833	14,602	288,231
Work-in-progress	**933,198**	**45,678**	**887,520**	1,340,404	71,860	1,268,544
Finished goods	**3,330,365**	**288,754**	**3,041,611**	4,352,821	321,735	4,031,086
Dispatch of goods	**13,265,012**	**1,665,332**	**11,599,680**	12,555,690	1,152,278	11,403,412
	22,211,609	**2,479,868**	**19,731,741**	21,576,000	1,983,702	19,592,298

Please refer to Note V.18 for details of movements in the provision for impairment of inventory during the year.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Amount due from/to customers for contract works

	2015	2014
Amount due from customers for contract works	**13,928,446**	11,033,468
Amount due to customers for contract works	**(4,423,103)**	(3,825,106)
	9,505,343	7,208,362
Contract costs incurred plus recognized profits to date	**60,891,156**	64,203,987
Less: estimated loss	**400,087**	340,199
Progress billings	**50,985,726**	56,655,426
	9,505,343	7,208,362

Where estimated total contract costs exceed estimated total contract revenue, provision for estimated losses on the contract measured at the difference between the amount in excess and recognized losses on the contract should be made and charged to current profit or loss.

9. Available-for-sale financial assets

	2015			2014		
	Book value	**Impairment provision**	**Carrying value**	Book value	Impairment provision	Carrying value
Available-for-sale equity instruments						
At fair value	**1,093,001**	**–**	**1,093,001**	319,470	–	319,470
At cost	**1,288,466**	**–**	**1,288,466**	1,420,194	–	1,420,194
	2,381,467	**–**	**2,381,467**	1,739,664	–	1,739,664

Available-for-sale financial assets at fair value:

	2015 Available-for-sale equity instruments	2014 Available-for-sale equity instruments
Equity instrument cost	**122,296**	147,608
Fair value	**1,093,001**	319,470
Accumulated fair value change included in other comprehensive income	**970,705**	171,862

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Available-for-sale financial assets (continued)

Available-for-sale financial assets at cost:

2015

	Book balance					
	Opening Balance	**Increase during the year**	**Decrease during the year**	**Closing balance**	**Shareholding percentage**	**Cash dividend for the year**
航天科技投資控股有限公司	**201,734**	**—**	**—**	**201,734**	**5%**	**981**
中國教育出版傳媒股份有限公司	**196,000**	**—**	**—**	**196,000**	**0.985%**	**—**
Other	**1,022,460**	**66,136**	**(197,864)**	**890,732**		**20,919**
	1,420,194	**66,136**	**(197,864)**	**1,288,466**		**21,900**

2014

	Book balance					
	Opening Balance	Increase during the year	Decrease during the year	Closing balance	Shareholding percentage	Cash dividend for the year
航天科技投資控股有限公司	201,734	—	—	201,734	5%	10,647
中國教育出版傳媒股份有限公司	—	196,000	—	196,000	0.985%	—
Others	1,064,058	24,139	(65,737)	1,022,460		9,580
	1,265,792	220,139	(65,737)	1,420,194		20,227

10. Long-term receivables

	2015	2014
Installment payments for the provision of system construction projects telecommunication	**443,439**	345,916
Less: Bad debt provision for long-term receivables	**80,608**	79,415
	362,831	266,501

The discount rates adopted for long-term receivables ranged from 6.16% to 17.56%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables". For details of the transfer of long-term receivables, please refer to Note VIII.2.

Please refer to Note V.18 for details of movements in bad debt provision for long-term receivables during the year.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments

		2015	2014
Equity method			
Joint ventures	(1)	**77,341**	67,607
Associates	(2)	**488,362**	393,709
Less: provision for impairment in long-term equity investments		**4,764**	—
		560,939	461,316

2015

(1) Joint ventures

	Balance as at the beginning of the year	Movements during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
Bestel Communications Ltd.	2,255	–	–	–	–	–	–	–	2,255	–
普興移動通訊設備有限公司	50,485	–	–	3,271	–	–	–	–	53,756	–
江蘇中興微通信息科技有限公司	5,236	–	–	(3,444)	–	–	–	–	1,792	–
前海融資租賃股份有限公司	–	60,758	–	(45,743)	–	–	–	–	15,015	–
Pengzhong Xingsheng	9,631	–	–	(5,108)	–	–	–	–	4,523	–
	67,607	60,758	–	(51,024)	–	–	–	–	77,341	–

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments (continued)

2015 (continued)

(2) Associates

		Movements during the year								
	Balance as at the beginning of the year	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
思卓中興（杭州）科技有限公司	20,012	–	–	831	–	–	–	–	20,843	–
上海中興群力信息科技有限公司	22,427	–	–	(4,176)	–	–	–	–	18,251	–
ZTE Energy Co., Ltd	265,706	–	–	88,006	–	–	–	–	353,712	–
ZTE Software Technology (Nanchang) Company Limited	–	–	–	3,722	–	–	–	–	3,722	–
Nanjing Piaoxun Network Technology Company Limited	25	–	–	(1)	–	–	–	–	24	–
上海歡流傳媒有限公司	3,227	–	–	(986)	–	–	–	–	2,241	–
Telecom Innovations	10,234	–	–	–	–	505	–	–	10,739	–
Shenzhen Zhongxing Hetai Hotel Management Company Limited	7,016	–	–	(1,084)	–	–	(853)	–	5,079	–
北京億科三友科技發展有限公司	4,764	–	–	–	–	–	–	(4,764)	–	(4,764)
興天通訊技術有限公司*	17,644	–	(15,937)	(1,707)	–	–	–	–	–	–
南京皓信達訊網絡科技有限公司	3,205	–	–	(94)	–	–	–	–	3,111	–
ZTE 9 (Wuxi) Co., Ltd	1,914	–	–	(1,914)	–	–	–	–	–	–
寧波中興興通供應鏈有限公司	4,097	8,000	–	(345)	–	–	–	–	11,752	–
寧波中興雲祥科技有限公司	15,516	–	–	(15,516)	–	–	–	–	–	–
上海中興思秸通訊有限公司	13,789	–	–	(3,599)	–	–	–	–	10,190	–
江蘇中興華易科技發展有限公司	1,656	–	–	1,264	–	–	–	–	2,920	–
中興耀維科技江蘇有限公司	–	4,600	–	(83)	–	–	–	–	4,517	–
石家莊市善理通益科技有限公司	–	1,500	–	–	–	–	–	–	1,500	–
中興智慧成都有限公司	–	16,000	–	(2,201)	–	–	–	–	13,799	–
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	–	–	–	6,869	–	–	–	–	6,869	–
廈門智慧小區網絡科技有限公司	–	7,000	–	–	–	–	–	–	7,000	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	–	7,354	–	(2,502)	–	–	–	–	4,852	–
	393,709	44,454	(15,937)	66,484	–	505	(853)	(4,764)	483,598	(4,764)

* 興天通訊技術有限公司 is no longer deemed as an associate company as the Group is no longer in a position to exercise significant influence over 興天通訊技術有限公司 after the decrease in the percentage of its shareholdings following additional capital contributions by other investors.

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11. Long-term equity investments (continued)

2014

(1) Joint ventures

	Balance as at the beginning of the year	Movements during the year							Carrying value as at the end of the year	Impairment provision at the end of the year
		Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision		
Bestel Communications Ltd.	2,255	–	–	–	–	–	–	–	2,255	–
普興移動通訊設備有限公司	46,005	–	–	4,480	–	–	–	–	50,485	–
江蘇中興微通信息科技有限公司	9,000	–	–	(3,764)	–	–	–	–	5,236	–
Pengzhong Xingsheng	9,631	–	–	–	–	–	–	–	9,631	–
	66,891	–	–	716	–	–	–	–	67,607	–

(2) Associates

	Balance as at the beginning of the year	Movements during the year							Carrying value as at the end of the year	Impairment provision at the end of the year
		Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision		
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
思卓中興（杭州）科技有限公司	19,501	–	–	511	–	–	–	–	20,012	–
上海中興群力信息科技有限公司	24,851	–	–	(2,424)	–	–	–	–	22,427	–
ZTE Energy Co., Ltd	315,822	–	–	(50,116)	–	–	–	–	265,706	–
ZTE Software Technology (Nanchang) Company Limited	973	–	–	(973)	–	–	–	–	–	–
Nanjing Piaoxun Network Technology Company Limited	62	–	–	(37)	–	–	–	–	25	–
上海歡流傳媒有限公司	3,222	–	–	5	–	–	–	–	3,227	–
Shenzhen Yuanxing Technology Co., Ltd.	2,753	–	(2,753)	–	–	–	–	–	–	–
Telecom Innovations	10,077	–	–	–	157	–	–	–	10,234	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,795	–	–	1,221	–	–	–	–	7,016	–
北京億科三友科技發展有限公司	4,764	–	–	–	–	–	–	–	4,764	–
興天通訊技術有限公司	6,813	–	–	10,831	–	–	–	–	17,644	–
南京皓信達訊網絡科技有限公司	3,702	–	–	(497)	–	–	–	–	3,205	–
ZTE 9 (Wuxi) Co., Ltd	3,134	–	–	(4,654)	–	3,434	–	–	1,914	–
寧波中興興通供應鏈有限公司	4,000	–	–	97	–	–	–	–	4,097	–
寧波中興雲祥科技有限公司	3,200	12,800	–	(484)	–	–	–	–	15,516	–
上海中興思秸通訊有限公司	–	17,304	–	(3,515)	–	–	–	–	13,789	–
江蘇中興華易科技發展有限公司	–	5,380	–	(3,724)	–	–	–	–	1,656	–
	411,146	35,484	(2,753)	(53,759)	157	3,434	–	–	393,709	–

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Investment Properties

Fair value measurement:

2015

	Buildings
Opening balance	**2,004,465**
Fair value change (Note V.44)	**5,931**
Closing balance	**2,010,396**

2014

	Buildings
Opening balance	1,855,246
Acquisition	18,913
Fair value change (Note V.44)	130,306
Closing balance	2,004,465

During the year, the investment properties of the Group leased buildings to Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited, a related party, and other non-related parties by way of operating lease.

As at 31 December 2015, investment properties with a carrying value of RMB1,424,722,000 (31 December 2014: RMB1,420,685,000) had yet to obtain title registration certificates.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed Assets

2015

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	5,690,083	53,996	3,668,001	2,641,521	301,683	222,180	12,577,464
Acquisitions	87,856	–	485,052	549,068	80,820	132,423	1,335,219
Transfer from construction-in-progress	102,963	–	24,799	56,078	7	201	184,048
Disposal or retirement	(16,432)	–	(343,082)	(176,771)	(37,383)	(37,195)	(610,863)
Exchange rate adjustments	47,537	(15,174)	(646)	(23,494)	(995)	(5,347)	1,881
Closing balance	5,912,007	38,822	3,834,124	3,046,402	344,132	312,262	13,487,749
Accumulated depreciation							
Opening balance	906,338	–	2,647,935	1,356,319	170,155	143,579	5,224,326
Provision	217,946	–	475,693	337,007	27,686	31,349	1,089,681
Disposed or retirement	(1,171)	–	(300,457)	(157,941)	(32,854)	(27,133)	(519,556)
Exchange rate adjustments	13,999	–	(3,380)	(22,174)	(993)	(4,513)	(17,061)
Closing balance	1,137,112	–	2,819,791	1,513,211	163,994	143,282	5,777,390
Provision for impairment							
Opening balance	–	–	2,677	2,092	–	77	4,846
Provision	–	–	106	13,141	–	–	13,247
Disposal or retirement	–	–	–	–	–	–	–
Exchange rate adjustments	–	–	–	95	–	(4)	91
Closing balance	–	–	2,783	15,328	–	73	18,184
Net book value							
At the end of the year	4,774,895	38,822	1,011,550	1,517,863	180,138	168,907	7,692,175
At the beginning of the year	4,783,745	53,996	1,017,389	1,283,110	131,528	78,524	7,348,292

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed Assets (continued)

2014

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	5,575,209	60,600	3,624,951	2,374,673	312,797	246,902	12,195,132
Acquisitions	183,082	–	392,959	453,291	21,708	26,082	1,077,122
Transfer from construction-in-progress	–	–	187	5,087	–	175	5,449
Disposal or retirement	(43,747)	–	(335,864)	(172,051)	(30,986)	(42,730)	(625,378)
Exchange rate adjustments	(24,461)	(6,604)	(14,232)	(19,479)	(1,836)	(8,249)	(74,861)
Closing balance	5,690,083	53,996	3,668,001	2,641,521	301,683	222,180	12,577,464
Accumulated depreciation							
Opening balance	756,755	–	2,415,467	1,270,026	165,272	136,078	4,743,598
Provision	179,293	–	513,027	200,180	29,923	32,490	954,913
Disposed or retirement	(10,474)	–	(281,729)	(98,541)	(23,822)	(18,518)	(433,084)
Exchange rate adjustments	(19,236)	–	1,170	(15,346)	(1,218)	(6,471)	(41,101)
Closing balance	906,338	–	2,647,935	1,356,319	170,155	143,579	5,224,326
Provision for impairment							
Opening balance	–	–	–	2,058	–	–	2,058
Provision	–	–	2,677	–	–	83	2,760
Disposal or retirement	–	–	–	–	–	–	–
Exchange rate adjustments	–	–	–	34	–	(6)	28
Closing balance	–	–	2,677	2,092	–	77	4,846
Net book value							
At the end of the year	4,783,745	53,996	1,017,389	1,283,110	131,528	78,524	7,348,292
At the beginning of the year	4,818,454	60,600	1,209,484	1,102,589	147,525	110,824	7,449,476

As at 31 December 2015, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing and Qinhuangdao in China with a net book value of approximately RMB2,511,168,000 (31 December 2014: RMB3,616,184,000).

As at 31 December 2015, there were no retired fixed asset or idle fixed assets pending disposal (31 December 2014: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Construction in progress

Changes in major construction in progress during 2015 as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Transfer to Investment properties during the year	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Staff quarters	1,017,932	6,155	142,799	–	–	148,954	Internal funds	14.63%	In progress
Sanya R&D Base Project	119,100	6,589	24,419	–	–	31,008	Internal funds	26.04%	In progress
Xi'an District 2 Phase 1	99,422	95,360	1,761	77,398	–	19,723	Internal funds	97.69%	In progress
Heyuan R&D training Center Phase I	900,000	35,878	190,033	–	–	225,911	Internal funds	25.10%	In progress
Nanjing project	670,000	12,934	4,185	–	–	17,119	Internal funds	2.56%	In progress
Zhongxing ICT Qinhuangdao Northern Base infrastructure	57,763	5,609	47,360	52,969	–	–	Internal funds	91.7%	Completed
IDC data centre engine room	85,000	25,739	6,713	–	–	32,452	Internal funds	38.18%	In progress
Nanjing Internet of Things office	175,000	15,061	60,962	–	–	76,023	Internal funds	43.44%	In progress
Others		59,538	86,742	53,681	–	92,599	Internal funds		In progress
Total		262,863	564,974	184,048	–	643,789			

Changes in major constructions in progress in 2014 are as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Transfer to investment properties during the year	Closing balance	Source of funds	Construction contribution as a percentage of budget(%)	Work progress
Staff quarters	1,017,932	5,556	599	–	–	6,155	Internal funds	0.60%	In progress
Sanya R&D Base Project	119,100	6,371	218	–	–	6,589	Internal funds	5.53%	In progress
Xi'an District 2 Phase 1	93,104	93,069	2,291	–	–	95,360	Internal funds	102.42%	In progress
Heyuan R&D training Center Phase I	900,000	13,852	22,026	–	–	35,878	Internal funds	3.99%	In progress
Nanjing project	670,000	4,816	8,118	–	–	12,934	Internal funds	1.93%	In progress
Zhongxing ICT Qinhuangdao Northern Base infrastructure	57,763	–	5,609	–	–	5,609	Internal funds	9.71%	In progress
IDC data centre engine room	85,000	–	25,739	–	–	25,739	Internal funds	30.28%	In progress
Nanjing Internet of Things office	175,000	829	14,232	–	–	15,061	Internal funds	8.61%	In progress
Others		52,930	12,057	5,449	–	59,538	Internal funds		In progress
Total		177,423	90,889	5,449	–	262,863			

As at 31 December 2015, there was no capitalized interest in the balance of the construction in progress (31 December 2014: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Intangible assets

2015

	Software	Technology know-how	Land use right	Franchise	Development expenses	Total
Cost						
Opening balance	484,992	8,255	1,230,245	409,022	4,284,516	6,417,030
Acquisition	168,016	3,311	182,310	22,930	–	376,567
In-house R&D	–	–	–	–	1,609,661	1,609,661
Disposal or retirement	(282,298)	(19)	(21,017)	–	–	(303,334)
Closing balance	370,710	11,547	1,391,538	431,952	5,894,177	8,099,924
Accumulated amortization						
Opening balance	301,043	2,869	117,237	340,348	2,379,578	3,141,075
Provision	49,336	3,235	26,484	22,410	880,851	982,316
Disposal or retirement	(253,904)	(16)	(315)	–	–	(254,235)
Closing balance	96,475	6,088	143,406	362,758	3,260,429	3,869,156
Provision for impairment						
Opening balance	–	–	6,322	–	–	6,322
Provision	–	–	–	–	–	–
Disposal or retirement	–	–	–	–	–	–
Closing balance	–	–	6,322	–	–	6,322
Book value						
At the end of the year	274,235	5,459	1,241,810	69,194	2,633,748	4,224,446
At the beginning of the year	183,949	5,386	1,106,686	68,674	1,904,938	3,269,633

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Intangible assets (continued)

2014

	Software	Technology know-how	Land use right	Franchise	Development expenses	Total
Cost						
Opening balance	464,168	6,605	1,188,778	332,583	3,065,081	5,057,215
Acquisition	149,658	1,650	45,558	76,439	–	273,305
In-house R&D	–	–	–	–	1,219,435	1,219,435
Disposal or retirement	(128,834)	–	(4,091)	–	–	(132,925)
Closing balance	484,992	8,255	1,230,245	409,022	4,284,516	6,417,030
Accumulated amortization						
Opening balance	326,556	1,768	94,786	325,947	1,638,785	2,387,842
Provision	70,760	1,101	23,050	14,401	740,793	850,105
Disposal or retirement	(96,273)	–	(599)	–	–	(96,872)
Closing balance	301,043	2,869	117,237	340,348	2,379,578	3,141,075
Provision for impairment						
Opening balance	–	–	6,322	–	–	6,322
Provision	–	–	–	–	–	–
Disposal or retirement	–	–	–	–	–	–
Closing balance	–	–	6,322	–	–	6,322
Book value						
At the end of the year	183,949	5,386	1,106,686	68,674	1,904,938	3,269,633
At the beginning of the year	137,612	4,837	1,087,670	6,636	1,426,296	2,663,051

As at 31 December 2015, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Changsha and Nanjing in the PRC, with a net carrying value of approximately RMB580,043,000 (31 December 2014: RMB565,604,000).

As at 31 December 2015, intangible assets formed through internal research and development accounted for 62% of the book value of intangible assets as at the end of the year (31 December 2014: 58%).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Deferred development costs

2015

		Increase during the year	Decrease during the year		
	Opening balance	Internal development	Intangible assets recognized	Charged to current profit or loss	Closing balance
Handsets	**61,604**	**84,687**	**(71,012)**	**(62,105)**	**13,174**
System Products	**1,516,963**	**901,574**	**(1,538,649)**	**(103,247)**	**776,641**
	1,578,567	**986,261**	**(1,609,661)**	**(165,352)**	**789,815**

2014

		Increase during the year	Decrease during the year		
	Opening balance	Internal development	Intangible assets recognized	Charged to current profit or loss	Closing balance
Handsets	131,176	159,089	(207,319)	(21,342)	61,604
System Products	1,374,676	1,232,741	(1,012,116)	(78,338)	1,516,963
	1,505,852	1,391,830	(1,219,435)	(99,680)	1,578,567

The Group adopts the timing of the product development project listing as the starting point for capitalisation. All research and development projects were under normal implementation according to the research and development milestone schedules.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities, which are not offset:

	2015		2014	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealized profits arising on consolidation	**695,558**	**157,115**	572,329	126,540
Provision for impairment in inventory	**814,535**	**127,086**	831,424	123,081
Foreseeable contract losses	**305,207**	**45,781**	204,058	30,609
Amortization of deferred development costs	**1,124,094**	**168,616**	1,028,752	130,897
Provision for warranties and returned goods	**550,118**	**102,646**	626,318	98,325
Provision for retirement benefits	**144,280**	**21,642**	115,450	17,348
Deductible tax losses	**2,695,890**	**452,643**	1,792,443	423,283
Accruals	**2,455,638**	**379,813**	1,082,895	153,361
Overseas taxes pending deduction	**1,045,427**	**156,814**	999,046	149,857
Share option scheme expenses	**254,675**	**38,202**	207,948	31,192
	10,085,422	**1,650,358**	7,460,663	1,284,493

	2015		2014	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	**1,068,195**	**160,704**	1,062,264	159,340
Revenue from construction contracts	**109,321**	**21,855**	—	—
The fair value change of the available-for-sale financial assets	**438,813**	**86,425**	—	—
	1,616,329	**268,984**	1,062,264	159,340

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Deferred tax assets/liabilities (continued)

The net amount of deferred tax assets and deferred tax liabilities after set-off:

	2015		2014	
	Amount of set-off	**Amount after set-off**	Amount of set-off	Amount after set-off
Deferred tax assets	**216,215**	**1,434,143**	—	1,284,493
Deferred tax liabilities	**216,215**	**52,769**	—	159,340

Deductible temporary differences and deductible tax losses of unrecognized deferred tax assets:

	2015	2014
Deductible tax losses	**3,777,658**	8,344,266

Deductible tax losses of unrecognized deferred tax assets expiring in the following periods:

	2015	2014
2015	**—**	—
2016	**114,250**	1,633,674
2017	**1,551,872**	5,146,909
After 2017	**2,111,536**	1,563,683
	3,777,658	8,344,266

The Group recognises deferred tax assets based on deductible temporary differences. In relation to deferred income tax relating to deductible tax loss and tax allowance, the Group expects to generate sufficient taxable income prior to the expiry of deductible tax loss and tax allowance.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Provision for impairment of assets

2015

	Opening balance	Provision for the Closing year	Decrease during the year: Write-back	Decrease during the year: Write-off	Effect of exchange rate	Closing balance
Bad debt provision	**4,396,591**	**1,820,368**	**(217,922)**	**(162,011)**	**(34,838)**	**5,802,188**
Including: Trade receivables	**4,317,176**	**1,817,869**	**(217,922)**	**(162,011)**	**(33,532)**	**5,721,580**
Long-term receivables	**79,415**	**2,499**	**—**	**—**	**(1,306)**	**80,608**
Provision for impairment of inventories	**1,983,702**	**642,029**	**(75,015)**	**(10,237)**	**(60,611)**	**2,479,868**
Provision for impairment of Fixed assets	**4,846**	**13,247**	**—**	**—**	**91**	**18,184**
Provision for impairment of intangible assets	**6,322**	**—**	**—**	**—**	**—**	**6,322**
Provision for impairment of long-term equity investments	**—**	**4,764**	**—**	**—**	**—**	**4,764**
	6,391,461	**2,480,408**	**(292,937)**	**(172,248)**	**(95,358)**	**8,311,326**

2014

	Opening balance	Provision for the Closing year	Decrease during the year: Write-back	Decrease during the year: Write-off	Effect of exchange rate	Closing balance
Bad debt provision	3,834,169	758,331	(82,809)	(82,325)	(30,775)	4,396,591
Including: Trade receivables	3,751,218	757,480	(82,809)	(82,325)	(26,388)	4,317,176
Long-term receivables	82,951	851	—	—	(4,387)	79,415
Provision for impairment of inventories	1,525,129	672,349	(148,399)	(35,972)	(29,405)	1,983,702
Provision for impairment of Fixed assets	2,058	2,760	—	—	28	4,846
Provision for impairment of intangible assets	6,322	—	—	—	—	6,322
	5,367,678	1,433,440	(231,208)	(118,297)	(60,152)	6,391,461

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Provision for impairment of assets (continued)

The Group determines at the balance sheet date whether there is an indication of impairment in trade receivables. Where there is such indication, the Group will estimate its recoverable amount and conduct impairment tests.

Inventory is measured at the lower of cost and net realizable value. Where the cost is higher than the net realisable value, provision for impairment in inventory is recognized in current profit or loss.

19. Other non-current assets

	2015	2014
Prepayments for project and equipment	**359,587**	223,158
Risk compensation fund	**3,515,601**	3,744,472
Others	**—**	50,000
	3,875,188	4,017,630

20. Short-term loans

		2015		2014		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**2,866,000**	**2,866,000**	4,132,364	4,132,364	
	USD	**465,290**	**3,021,594**	1,016,544	6,303,083	
	EUR	**196,000**	**1,390,444**	—	—	
Bill discounted loans	RMB	**306,410**	**306,410**	544,028	544,028	Note 1
Pledged loans	RMB	**90,819**	**90,819**	—	—	Note 2
	USD	**3,000**	**19,482**	3,000	18,602	Note 2
Guaranteed loans	EUR	**30,000**	**212,823**	—	—	Note 3
			7,907,572		10,998,077	

As at 31 December 2015, the annual interest rate of the above loans ranged from 1.20%-6.69% (31 December 2014: 1.44%–7.20%).

Note 1: Bill discounted loans were loans discounted by bank acceptance bills and commercial acceptance bills. For 2015, discounted bills amounting to RMB200,000,000 (2014:RMB500,000,000) were issued on an intra-Group basis.

Note 2: Pledged loans were loans secured by time deposits with an amount of RMB23,000,000 and commercial acceptance bills with an amount of RMB90,819,000. For 2015, pledge bills amounting to RMB90,819,000 (2014: nil) were issued on an intra-Group basis.

Note 3 :The loan was a short-term loan extended to ZTE COOPERATIEF UA and guaranteed by ZTE.

There were no due and outstanding loans at 31 December 2015 (31 December 2014: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Derivative financial liabilities

	2015	2014
Financial liabilities at fair value through current profit and loss	**16,962**	64,904
Hedging instruments — current portion	**2,878**	5,700
	19,840	70,604

Financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details please refer to Note V.2.

For details of hedging instruments, please refer to Note V.56.

22. Bonds payable

	Nominal value	Date of issue	Term of bond	Issue amount	Interest rate upon issue	Opening balance	Increase during the year	Repayment during the year	Closing balance
Super short-term commercial paper	4,000,000	2015.9.9	270 days	4,000,000	3.40%	—	4,000,000	—	4,000,000

23. Bills payable

	2015	2014
Bank acceptance bills	**3,464,319**	4,774,931
Commercial acceptance bills	**6,420,810**	5,606,757
	9,885,129	10,381,688

As at 31 December 2015, there was no due and outstanding bills payable (31 December 2014: Nil).

24. Trade payables

An aging analysis of the trade payables are as follows:

	2015	2014
0 to 6 months	**22,505,978**	18,794,292
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
	22,932,866	19,244,400

Trade payables are interest-free and repayable normally within 6 months.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24. Trade payables (continued)

As at 31 December 2015, there were no material trade payables aged over 1 year (31 December 2014: Nil).

25. Advances from customers

	2015	2014
Advanced payments for system project work	**2,779,399**	2,596,703
Advanced payments for terminals	**1,256,239**	708,817
	4,035,638	3,305,520

26. Salary and welfare payables

Salaries payable to employees

2015

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Short-term remuneration	**2,756,305**	**16,068,001**	**(15,334,977)**	**3,489,329**
Retirement benefits (Defined deposit scheme)	**46,135**	**1,153,423**	**(1,049,560)**	**149,998**
Termination benefits	**4,507**	**4,699**	**(3,839)**	**5,367**
	2,806,947	**17,226,123**	**(16,388,376)**	**3,644,694**

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	2,408,669	12,860,737	(12,513,101)	2,756,305
Retirement benefits (Defined deposit scheme)	50,223	989,907	(993,995)	46,135
Termination benefits	3,114	4,523	(3,130)	4,507
	2,462,006	13,855,167	(13,510,226)	2,806,947

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables (continued)

Salaries payable to employees (continued)

Short-term remuneration analysed as follows:

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	**1,791,537**	**14,457,749**	**(13,392,683)**	**2,856,603**
Staff welfare	**4,665**	**60,517**	**(62,268)**	**2,914**
Social insurance	**18,131**	**553,184**	**(506,095)**	**65,220**
Including: Medical Insurance	**17,150**	**490,501**	**(449,516)**	**58,135**
Work Injuries Insurance	**408**	**24,497**	**(22,124)**	**2,781**
Maternity Insurance	**573**	**38,186**	**(34,455)**	**4,304**
Housing funds	**34,067**	**386,230**	**(383,234)**	**37,063**
Labour union fund and employee education fund	**907,905**	**610,321**	**(990,697)**	**527,529**
	2,756,305	**16,068,001**	**(15,334,977)**	**3,489,329**

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	1,501,579	11,486,888	(11,196,930)	1,791,537
Staff welfare	5,441	59,177	(59,953)	4,665
Social insurance	18,829	493,086	(493,784)	18,131
Including: Medical Insurance	17,265	446,596	(446,711)	17,150
Work Injuries Insurance	1,453	18,686	(19,731)	408
Maternity Insurance	111	27,804	(27,342)	573
Housing funds	44,472	330,724	(341,129)	34,067
Labour union fund and employee education fund	838,348	490,862	(421,305)	907,905
	2,408,669	12,860,737	(12,513,101)	2,756,305

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables (continued)

Salaries payable to employees (continued)

Defined deposit scheme are analysed as follows:

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension Insurance	**44,963**	**1,086,682**	**(988,836)**	**142,809**
Unemployment Insurance	**1,172**	**66,741**	**(60,724)**	**7,189**
	46,135	**1,153,423**	**(1,049,560)**	**149,998**

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension Insurance	48,995	927,972	(932,004)	44,963
Unemployment Insurance	1,228	61,935	(61,991)	1,172
	50,223	989,907	(993,995)	46,135

Long-term staff remuneration payable

	2015	2014
Net liabilities under defined benefit plan	**144,280**	115,450

The Group operates for all qualifying employees a defined benefit plan that has yet to receive capital injection. Under the plan, an employee is entitled to retirement benefits ranging from 0% to 50% of his/her last salary at the retirement age.

The scheme is subject to interest rate risks and the risk of change in the life expectancy of the pension beneficiaries.

The latest actuarial valuation of assets under the plan and the present value of obligations under defined benefit plans were determined by 韜睿惠悅管理諮詢（深圳）有限公司 using the expected benefit accrual unit approach at 31 December 2015.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables (continued)

Long-term staff remuneration payable (continued)

Major actuarial assumptions applied as at the balance sheet date are as follows:

	2015	2014
Discount rate %	**3.25%**	4.00%
Expected salary increase %	**5.50%**	5.50%

A quantitative sensitivity analysis of significant assumptions applied is set out as follows:

2015

	Increase	**Increase/ (decrease) in Obligations under defined benefit plan**	**Decease**	**Increase/ (decrease) in Obligations under defined benefit plan**
Discount rate	**0.25%**	**(3,989)**	**0.25%**	**4,135**
Expected salary increase	**1.00%**	**18,756**	**1.00%**	**(15,871)**

2014

	Increase	Increase/ (decrease) in Obligations under defined benefit plan	Decease	Increase/ (decrease) in Obligations under defined benefit plan
Discount rate	0.25%	(4,019)	0.25%	4,197
Expected salary increase	1.00%	13,854	1.00%	(12,700)

The above sensitivity analysis is based on inference of the impact of reasonable changes in key assumptions at the balance sheet date on the net amount of defined benefits. Sensitivity analysis is based on the change of the material assumption on the premise that other assumptions remain unchanged. As the changes of the assumptions are often correlated, the sensitivity analysis may not represent the actual changes of the obligations under defined benefit plan.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables (continued)

Long-term staff remuneration payable (continued)

Relevant plans recognised in the income statement are as follows:

	2015	2014
Net interest	**4,538**	4,466
Charged to administrative expenses	**4,538**	4,466

Change in the present value of obligations under defined benefit plan:

	2015	2014
1 January	**115,450**	95,806
Interest expenses	**4,538**	4,466
Pension paid	**(1,774)**	(1,421)
Benefit costs recognized in other comprehensive income	**26,066**	16,599
31 December	**144,280**	115,450

Net liabilities under defined benefit plan

	2015	2014
Opening balance	**115,450**	95,806
Net interest	**4,538**	4,466
Charged to other comprehensive income		
Actual loss	**11,549**	11,555
Experience based adjustments	**14,517**	5,044
Other changes		
Benefit paid	**(1,774)**	(1,421)
Closing balance	**144,280**	115,450

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Tax payable

	2015	2014
Value-added tax	**(3,694,070)**	(4,040,415)
Business tax	**597,003**	565,212
Income tax	**484,627**	489,141
PRC tax	**463,821**	363,422
Overseas tax	**20,806**	125,719
Individual income tax	**127,570**	89,430
City maintenance and construction tax	**43,831**	52,762
Education surcharge	**39,220**	43,069
Other taxes	**71,933**	10,521
	(2,329,886)	(2,790,280)

28. Dividend payable

	2015	2014
Dividend payable to holders of restricted shares	**184**	156
Dividend payable to minority shareholders	**7,234**	7,957
	7,418	8,113

29. Other payables

	2015	2014
Accruals	**1,287,298**	1,123,200
Deferred income from staff housing due in 1 year	**58,305**	66,168
Payables to external parties	**3,519,282**	5,566,174
Deposits	**32,150**	29,972
Factored interests payable	**37,153**	71,233
Others	**1,070,942**	675,223
	6,005,130	7,531,970

30. Provisions

2015

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Outstanding litigation (Note 1)	**160,915**	**120,882**	**(93,960)**	**187,837**
Provision for returned handsets	**266,809**	**193,324**	**(190,764)**	**269,369**
Provision for warranties	**313,667**	**565,539**	**(559,730)**	**319,476**
	741,391	**879,745**	**(844,454)**	**776,682**

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. Provisions (continued)

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Outstanding litigation (Note 1)	110,694	63,442	(13,221)	160,915
Provision for returned handsets	169,315	212,207	(114,713)	266,809
Provision for warranties	321,102	505,868	(513,303)	313,667
	601,111	781,517	(641,237)	741,391

Note 1 Provisions in respect of cases for which the ultimate outcome can be reliably estimated based on the advice from appointed legal counsel and the progress of such cases.

31. Long-term non-current liabilities due within one year

	2015	2014
Long-term loans due within one year	**4,617,604**	43,072
Bonds payable due within one year	**—**	6,131,185
	4,617,604	6,174,257

32. Long-term loans

		2015		2014		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**317,043**	**317,043**	1,740,000	1,740,000	
	USD	**195,000**	**1,266,330**	200,000	1,240,100	
Guaranteed loans	RMB	**60,000**	**60,000**	1,500,000	1,500,000	Note 1
	USD	**503,805**	**3,271,707**	889,539	5,515,587	Note 1
	EUR	**140,000**	**993,174**	—	—	Note 1
Secured loans	RMB	**108,000**	**108,000**	44,000	44,000	Note 2
			6,016,254		10,039,687	

Note 1 The guaranteed loans comprised mainly guaranteed loans provided by the Company for its subsidiaries 深圳市中興新能源汽車服務有限公司、ZTE (H.K.) Limited and ZTE COOPERATIEF UA.

Note 2 The secured loans was pledged by land use rights of 衡陽網信數字城市建設有限公司 with a book value of RMB151,340,000 and land use rights of Nanjing ZTE We Link Technology Company Limited with a book value of RMB24,898,000.

As at 31 December 2015, the annual interest rate for the aforesaid loans was 1.10%-6.90% (31 December 2014: 3.93%-6.55%).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. Other non-current liabilities

	2015	2014
Long-term financial guarantee contract	**3,689**	3,689
Factored interests payable	**213,545**	204,435
Deferred income relating to staff housing	**1,073,596**	1,140,351
Long-term equipment costs payable	**50,181**	—
Non-current portion of hedging instruments	**—**	881
	1,341,011	1,349,356

34. Share capital

2015

		Increase/decrease during the year				
	Opening balance	Issue of new shares	Transfer from reserves	Others	Sub-total	Closing balance
Restricted shares						
Senior management shares	6,771	1,355	1,207	(482)	2,080	8,851
Total number of restricted shares	6,771	1,355	1,207	(482)	2,080	8,851
Unrestricted shares						
RMB Ordinary shares	2,801,185	24,387	560,384	482	585,253	3,386,438
Overseas listed foreign shares	629,585	—	125,917	—	125,917	755,502
Total number of unrestricted shares	3,430,770	24,387	686,301	482	711,170	4,141,940
Total number of shares	3,437,541	25,742	687,508	—	713,250	4,150,791

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Share capital (continued)

2014

	Opening balance	Increase/ decrease during the year Others	Closing balance
Restricted shares			
Senior management shares	**7,226**	**(455)**	**6,771**
Total number of restricted shares	**7,226**	**(455)**	**6,771**
Unrestricted shares			
RMB Ordinary shares	**2,800,730**	**455**	**2,801,185**
Overseas listed foreign shares	**629,585**	**—**	**629,585**
Total number of unrestricted shares	**3,430,315**	**455**	**3,430,770**
Total number of shares	**3,437,541**	**—**	**3,437,541**

35. Capital reserves

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note 1)	**8,443,657**	**2,409,465**	**(687,508)**	**10,165,614**
Share-based payment (Note 2)	**201,097**	**166,829**	**(120,101)**	**247,825**
Capital investment by government	**80,000**	**—**	**—**	**80,000**
	8,724,754	**2,576,294**	**(807,609)**	**10,493,439**

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note 1)	8,442,845	812	—	8,443,657
Share-based payment (Note 2)	22,856	178,241	—	201,097
Capital investment by government	80,000	—	—	80,000
	8,545,701	179,053	—	8,724,754

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Capital reserves (continued)

Note 1 For 2015, the total amount of shareholders' capital credited to share premium was RMB2,409,465,000, while the total amount deducted from share premium for the conversion of capital reserve into share capital was RMB687,508,000.

Note 2 For 2015, total current expenses of equity-settled share-based payments amounted to RMB166,829,000, among which RMB120,101,000 was transferred to share premium under capital reserves as a result of the exercise of share options. Total current expenses of equity-settled share-based payments for 2014 amounted to RMB178,241,000.

36. Other comprehensive income

Accumulated balance of other comprehensive income on the balance sheet attributable to the parent company:

	1 January 2014	Increase/ decrease	31 December 2014	Increase/ decrease	**31 December 2015**
Changes in net liabilities arising from the re-measurement of defined benefit plans	(38,851)	(16,599)	(55,450)	(26,066)	**(81,516)**
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss in subsequent periods	41,260	3,090	44,350	—	**44,350**
Change in fair value of available for-sale financial assets	161,856	(40,800)	121,056	163,724	**284,780**
Effective portion of hedging instruments	(11,072)	3,965	(7,107)	8,499	**1,392**
Differences arising from foreign currency translation	(1,046,665)	(313,228)	(1,359,893)	(366,949)	**(1,726,842)**
Fair value at date of reclassification of owned properties reclassified as investment properties at fair value in excess of book value	792,769	—	792,769	—	**792,769**
	(100,703)	(363,572)	(464,275)	(220,792)	**(685,067)**

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Other comprehensive income (continued)

Other comprehensive income on the income statement incurred during the current period:

2015

	Amount before taxation	Less: amount recognised in other comprehensive income for the previous period and profit and loss for the current period	Less: income tax	attributable to the parent company	attributable to non-controlling interests
Other comprehensive income that cannot be subsequently reclassified to profit or loss					
Changes in net liabilities arising from the remeasurement of defined benefit plans	(26,066)	–	–	(26,066)	–
Other comprehensive income to be subsequently reclassified to profit or loss					
Change in fair value of available-for-sale financial assets	970,705	(171,862)	(86,425)	163,724	548,694
Effective portion of hedging instruments	8,499	–	–	8,499	–
Differences arising from foreign currency translation	(367,195)	–	–	(366,949)	(246)
	585,943	(171,862)	(86,425)	(220,792)	548,448

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Other comprehensive income (continued)

Other comprehensive income on the income statement incurred during the current period: (continued)

2014

	Amount before taxation	Less: amount recognised in other comprehensive income for the previous period and profit and loss for the current period	Less: income tax	attributable to the parent company	attributable to non-controlling interests
Other comprehensive income that cannot be subsequently reclassified to profit or loss					
Changes in net liabilities arising from the remeasurement of defined benefit plans	(16,599)	—	—	(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	3,434	—	—	3,090	344
Other comprehensive income to be subsequently reclassified to profit or loss					
Change in fair value of available-for-sale financial assets	(16,120)	(12,450)	—	(40,800)	12,230
Effective portion of hedging instruments	3,965	—	—	3,965	—
Differences arising from foreign currency translation	(295,834)	—	—	(313,228)	17,394
	(321,154)	(12,450)	—	(363,572)	29,968

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Surplus reserves

2015

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Statutory surplus reserves	**1,769,012**	**253,697**	**—**	**2,022,709**

2014

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	1,613,195	155,817	—	1,769,012

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalized as the Company's share capital.

38. Retained profits

	2015	2014
Retained profits at the beginning of the year	**11,411,542**	9,036,914
Net profit attributable to shareholders of the parent	**3,207,885**	2,633,571
Less: Statutory surplus reserves	**(253,697)**	(155,817)
Distribution to shareholders	**(687,508)**	(103,126)
Retained profits at the end of the year	**13,678,222**	11,411,542

In accordance with the Articles of Association of the Company, 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.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Other equity instruments

(1) General information of Medium Term Notes outstanding as at the end of the period

The Company issued the 2015 Tranche I Medium Term Notes with a total principal amount of RMB6,000 million on 27 January 2015. The notes will remain valid indefinitely until they are redeemed by the issuer (the Company) pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 5th interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and their accruals). The coupon interest rate for the first 5 years for which interest is accruable is 5.81% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 6th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread (the difference between the coupon interest rate and the initial benchmark rate), the initial benchmark rate being the arithmetic average (rounding to the nearest 0.01%) of the yield rates of treasury bonds with a 5-year term in the interbank fixed rate treasury bond yield curve for China bonds announced on www.chinabond.com.cn or other websites approved by CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD. 5 working days prior to the book building date. The coupon rate will thereafter remain unchanged from the 6th to the 10th interest accruing years. Thereafter, the coupon interest rate is reset every 5 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

The Company issued the 2015 Tranche II Medium Term Notes with a total principal amount of RMB1,500 million on 6 February 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and their accruals). The coupon interest rate for the first 3 years for which interest is accruable is 5.69% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Other equity instruments (continued)

(1) General information of Medium Term Notes outstanding as at the end of the period (continued)

The Company issued the 2015 Tranche III Medium Term Notes with a total principal amount of RMB1,500 million on 20 November 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and their accruals). The coupon interest rate for the first 3 years for which interest is accruable is 4.49% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

Unless an event triggering mandatory interest payment has occurred, the issuer may choose prior to each interest payment date to defer the payment of current interests and interests and their accruals deferred in full or in part to the next interest payment date pursuant to this clause. There is no limit to the timing and frequency of payment deferrals. Deferral of any interest payments under this clause shall not be deemed as default. Each deferred interest payment shall accrue interests at the current coupon rate for the period of deferral.

In the event the issuer conducts the following within 12 months prior to the current interest payment date for the Medium Term Note, it should not defer the payment of current interests and all deferred interests and their accruals:

1. Bonus distribution to holders of ordinary shares;
2. Reduction of registered capital.

(2) Change of issued Medium Term Note as at the end of the period

Face value	Issue date	Volume (10,000)	Issue amount	Opening balance	Issued during the year	Issue expenses	Interest charged for the year	Repayment during the year	Closing balance
6,000,000	2015.1.27	6,000	6,000,000	–	6,000,000	(80,000)	332,364	–	6,252,364
1,500,000	2015.2.6	1,500	1,500,000	–	1,500,000	(4,500)	76,698	–	1,572,198
1,500,000	2015.11.20	1,500	1,500,000	–	1,500,000	(10,800)	7,565	–	1,496,765
9,000,000		9,000	9,000,000	–	9,000,000	(95,300)	416,627	–	9,321,327

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Operating revenue and costs

	2015		2014	
	Revenue	**Cost**	Revenue	Cost
Principal business	**97,426,278**	**66,761,465**	81,045,164	55,608,415
Other business	**2,760,111**	**2,338,982**	426,111	151,689
	100,186,389	**69,100,447**	81,471,275	55,760,104

Operating revenue is analysed as follows:

	2015	2014
Telecommunications systems contracts	**65,497,286**	52,993,918
Sales of goods and rendering of services	**34,557,773**	28,366,199
Rental income	**131,330**	111,158
	100,186,389	81,471,275

41. Taxes and surcharges

	2015	2014
Business tax	**710,255**	703,703
City maintenance and construction tax	**284,702**	276,633
Education surcharge	**229,120**	221,401
Others	**79,503**	129,506
	1,303,580	1,331,243

42. Selling and distribution costs

	2015	2014
Wages, welfare and bonuses	**4,313,902**	3,909,585
Consulting and services charges	**1,896,701**	2,103,079
Travelling expenses	**970,545**	790,830
Transportation and fuel charges	**647,215**	563,145
Service fees	**625,775**	570,327
Office expense	**371,308**	424,637
Advertising and promotion expenses	**1,469,907**	980,822
Rental fees	**493,873**	561,718
Communication expenses	**109,494**	104,620
Others	**872,946**	250,402
	11,771,666	10,259,165

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43. Administrative expenses

	2015	2014
Wages, welfare and bonuses	**1,231,423**	819,935
Office expenses	**101,757**	102,580
Amortization and depreciation charges	**293,360**	286,495
Taxes	**166,834**	171,270
Rental fees	**135,608**	143,396
Travelling expenses	**108,837**	85,719
Others	**345,536**	422,050
	2,383,355	2,031,445

44. (Losses)/profits from changes in fair values

	2015	2014
Financial assets/liabilities at fair value through profit or loss	**(189,613)**	17,976
Including: Derivative financial instruments	**(189,613)**	17,976
Investment properties at fair value	**5,931**	130,306
	(183,682)	148,282

45. Investment income

	2015	2014
Investment income/(loss) from long-term equity investment under equity method	**63,278**	(53,043)
Investment income from available-for-sale financial assets during the period of holding	**25,005**	32,176
Investment income arising from the disposal of financial assets at fair value through profit or loss	**299,573**	146,039
Investment income from the disposal of available-for-sale financial assets	**297,974**	13,483
Investment income/(loss) from the disposal of equity interests	**9,789**	(4,181)
	695,619	134,474

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

46. Financial expenses

	2015	2014
Interest expenses	**1,269,080**	1,561,674
Less: Interest income	**527,886**	433,604
Loss on foreign currency exchange	**267,254**	590,085
Cash discounts and interest subsidy	**122,280**	143,730
Bank charges	**300,066**	239,092
	1,430,794	2,100,977

For 2015, interest income from ZTE Group Finance Company Limited ("Finance Company") amounted to RMB222,573,000 (2014: RMB177,290,000).

47. Impairment Losses

	2015	2014
Bad debt provisions	**1,602,446**	675,522
Inventories provisions	**567,014**	523,950
Impairment losses on fixed assets	**13,247**	2,760
Loss from long-term equity investments	**4,764**	—
	2,187,471	1,202,232

48. Non-operating income/Non-operating expenses

Non-operating income

	2015	2014	Amount of extraordinary gain/loss recognised for 2015
Refund of VAT on software products (Note 1)	**2,528,095**	2,481,772	—
Others (Note 2)	**1,914,850**	1,305,871	939,158
	4,442,945	3,787,643	939,158

Note 1 Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by some subsidiaries of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

Note 2 Others include government grant, gains from contract penalties and other gains.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

48. Non-operating income/Non-operating expenses (continued)

Non-operating expenses

	2015	2014	Amount of extraordinary gain/loss recognised for 2015
Compensation	**334,413**	236,953	334,413
Loss arising from the disposal of non-current assets	**28,874**	35,661	28,874
Others	**96,597**	37,135	96,597
	459,884	309,749	459,884

49. Expenses by nature

Supplementary information of the Group's operating costs, selling and distribution costs, research and development expenses and administration expenses by nature were as follows:

	2015	2014
Cost of goods and services	**63,887,788**	50,625,330
Staff remuneration (including share-based payment)	**15,781,014**	12,661,267
Depreciation and amortization	**2,113,769**	1,825,796
Rent	**629,481**	705,114
Others	**13,043,958**	11,241,744
	95,456,010	77,059,251

50. Income tax

	2015	2014
Current income tax	**905,908**	722,512
Deferred income tax	**(342,646)**	87,980
	563,262	810,492

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50. Income tax (continued)

Reconciliation between income tax and total profit was as follows:

	2015	2014
Total profit	**4,303,532**	3,538,222
Tax at statutory tax rate (Note 1)	**1,075,883**	884,556
Effect of different tax rates applicable to certain subsidiaries	**(729,365)**	(260,192)
Adjustment to current tax in previous periods	**88,609**	66,171
Profits and losses attributable to jointly-controlled entities and associates	**(8,683)**	13,164
Income not subject to tax	**(166,509)**	(165,899)
Expenses not deductible for tax	**632,377**	172,618
Utilization of tax losses from previous years	**(522,278)**	(57,029)
Unrecognized tax losses	**193,228**	157,103
Tax charge at the Group's effective rate	**563,262**	810,492

Note 1 The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

51. Earnings per share

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

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the year is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the year; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous years are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current year are assumed to have been converted on the date of issue.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51. Earnings per share (continued)

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

	2015	2014
Earnings		
Net profit attributable to ordinary shareholders of the Company for the year	**3,207,885**	2,633,571
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	**4,127,352**	4,125,049
Diluting effect — weighted average number of ordinary shares		
Stock option	**52,784**	—
Adjusted weighted average number of ordinary shares of the Company	**4,180,136**	4,125,049

Note 1 In March 2015, the Company distributed 2 bonus shares for each 10 shares held as dividend. The number of issued ordinary shares after the distribution was 4,125,049,000 shares. Earnings per share of various reporting periods have been calculated on the basis of the adjusted number of shares.

Commencing on 2 November 2015, scheme participants that had fulfilled the exercise conditions under the share option incentive scheme of the Company were entitled to exercise share options qualified as such during the first exercise period. As at 31 December 2015, 25,742,000new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 2,303,000 after taking into account the duration of time for such shares had been issued and outstanding.

During the reporting period, stock options granted by the Company gave rise to potentially 52,784,000 dilutive ordinary shares.

52. Notes to major items in cash flow statement

	2015	2014
Cash received in connection with other operating activities:		
Interest income	**555,354**	421,190
Cash paid in connection with other operating activities:		
Selling and distribution costs	**5,555,251**	5,994,584
Administrative expenses and research and development costs	**3,377,443**	1,583,202
Cash paid in connection with other financing activities:		
Return of capital contribution	**174,400**	—

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

53. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	2015	2014
Net profit	**3,740,270**	2,727,730
Add: Provision for impairment of assets	**2,187,471**	1,202,232
Depreciation of fixed assets	**1,089,681**	954,913
Amortization of intangible assets and deferred development costs	**982,316**	850,105
Amortization of long-term deferred assets	**41,772**	20,778
Loss on disposal of fixed assets, intangible assets and other long-term assets	**28,874**	35,661
Loss/(gain) from changes in fair value	**183,682**	(148,282)
Financial expenses	**1,760,639**	1,628,717
Investment income	**(695,619)**	(134,474)
(Increase)/decrease in deferred tax assets	**(149,650)**	68,540
Decrease/(increase) in deferred tax liabilities	**(106,571)**	19,440
Increase in inventories	**(706,457)**	(7,681,897)
(Increase)/decrease in operating receivables	**(5,091,693)**	1,078,372
Increase in operating payables	**4,266,529**	2,161,107
Cost of share-based payment	**166,829**	178,241
Increase in cash not immediately available for payments	**(293,408)**	(448,548)
Net cash flow from operating activities	**7,404,665**	2,512,635

(2) Change in cash and cash equivalents:

	2015	2014
Cash		
Including: Cash on hand	**18,677**	16,314
Bank deposit readily available	**26,598,319**	17,213,826
Cash and cash equivalents at end of year	**26,616,996**	17,230,140

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Assets under restrictions on ownership or right of use

	2015	2014	
Cash	**1,225,984**	741,306	Note 1
Bills receivables	**106,892**	44,028	Note 2
Intangible assets	**176,238**	79,963	Note 3
	1,509,114	865,297	

Note 1 As at 31 December 2015, the Group's cash subject to ownership restriction amounted to RMB1,225,984,000 (31 December 2014: RMB741,306,000), including time deposits of RMB23,000,000 (31 December 2014: RMB23,000,000) pledged to secure bank borrowings, acceptance bill deposits of RMB106,088,000 (31 December 2014: RMB63,030,000), letter of credit deposits of RMB125,122,000 (31 December 2014: RMB10,711,000), deposit for guarantee letter of RMB277,610,000 (31 December 2014: RMB99,891,000), dues from the People's Bank of China of RMB538,960,000 (31 December 2014: RMB376,188,000) and risk compensation fund to be released within one year of RMB155,204,000 (31 December 2014: RMB168,486,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 31 December 2015, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB3,670,805,000 (31 December 2014: RMB3,912,958,000). Risk compensation fund to be released within one year amounting to RMB155,204,000 (31 December 2014: RMB168,486,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB3,515,601,000 (31 December 2014: RMB3,744,472,000) was accounted for as other non-current assets.

Note 2 As at 31 December 2015, bank acceptance bills with a carrying value of RMB106,892,000 (31 December 2014: RMB44,028,000) were pledged to secure bank borrowing.

Note 3 As at 31 December 2015, intangible assets with a carrying value of RMB176,238,000 (31 December 2014: RMB79,963,000) were pledged to secure bank borrowings.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

55. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		2015			2014		
		Original currency	**Exchange rate**	**RMB Equivalent**	Original currency	Exchange rate	RMB Equivalent
Cash	USD	**1,398**	**6.4940**	**9,079**	1,433	6.2005	8,885
	SAR	**15**	**1.7317**	**26**	45	1.6526	74
	DZD	**1,898**	**0.0606**	**115**	4,753	0.0709	337
	INR	**409**	**0.0977**	**40**	410	0.0975	40
	THB	**17**	**0.1800**	**3**	361	0.1886	68
	PLN	**3**	**1.6737**	**5**	129	1.7544	226
	KZT	**366**	**0.0191**	**7**	3,663	0.0344	126
	EGP	**30**	**0.8304**	**25**	93	0.8697	81
Bank deposit	USD	**878,218**	**6.4940**	**5,703,148**	579,892	6.2005	3,595,620
	HKD	**73,972**	**0.8378**	**61,974**	109,384	0.7984	87,332
	BRL	**33,494**	**1.6632**	**55,707**	27,724	2.3133	64,134
	PKR	**2,072,097**	**0.0620**	**128,470**	1,551,826	0.0619	96,058
	EGP	**225,249**	**0.8304**	**187,047**	193,939	0.8697	168,669
	IDR	**130,416,000**	**0.0005**	**65,208**	130,878,000	0.0005	65,439
	EUR	**68,789**	**7.0941**	**487,996**	206,682	7.5342	1,557,184
	DZD	**498,795**	**0.0606**	**30,227**	446,417	0.0709	31,651
	MYR	**27,239**	**1.5130**	**41,213**	43,244	1.7726	76,654
	ETB	**278,199**	**0.3082**	**85,741**	168,210	0.3095	52,061
	CAD	**12,268**	**4.7409**	**58,161**	14,887	5.2755	78,536
	GBP	**2,865**	**9.6280**	**27,584**	5,229	9.6475	50,447
	THB	**365,611**	**0.1800**	**65,810**	814,316	0.1886	153,580
	RUB	**2,009,641**	**0.0891**	**179,059**	331,339	0.1105	36,613
	JPY	**1,649,573**	**0.0539**	**88,912**	3,943,141	0.0519	204,649
	VEF	**163,863**	**1.0308**	**168,910**	15,046	0.9842	14,808
	COP	**10,706,190**	**0.0021**	**22,483**	14,365,769	0.0026	37,351
	NPR	**1,498,363**	**0.0611**	**91,550**	2,886,976	0.0615	177,549
	CLP	**1,984,674**	**0.0092**	**18,259**	1,510,980	0.0102	15,412
Other cash	USD	**31,177**	**6.4940**	**202,463**	31,176	6.2005	193,307
Trade receivables	USD	**1,365,266**	**6.4940**	**8,866,037**	1,498,159	6.2005	9,289,335
	EUR	**279,650**	**7.0941**	**1,983,865**	229,447	7.5342	1,728,700
	BRL	**140,923**	**1.6632**	**234,383**	59,670	2.3133	138,035
	THB	**255,622**	**0.1800**	**46,012**	165,933	0.1886	31,295
	INR	**24,482,917**	**0.0977**	**2,391,981**	22,795,426	0.0975	2,222,554

The Group's principal places of business overseas include the United States, Brazil and India. Its operating entities in these countries adopt their respective principal currency for conducting business as their book currencies.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

56. Hedging

	2015		2014	
	Assets	**Liabilities**	Assets	Liabilities
Forward exchange contracts	**1,126**	**—**	—	—
Interest rate swap agreement	**—**	**2,878**	—	6,581
Non-current portion	**—**	**—**	—	881
Current portion	**1,126**	**2,878**	—	5,700

Net investment hedging for overseas operations

The Group entered into multiple forward currency contracts to manage exchange rate risks. Certain of such forward currency contracts were designated for net investment hedging for overseas operations, hence they were measured at fair value and dealt with through other comprehensive income. For the year, the fair value change of currency derivative instruments held for net investment hedging for overseas operations with an amount of RMB4,796,000 (2014: nil) was accounted for in other comprehensive income.

Cash flow hedge

On 19 December 2011 and 22 December 2011, the Group entered into 2 respective interest rate swap agreements to manage risks associated with loan interest rates. Such swap agreements were designated for cash flow hedge, hence they were measured at fair value and dealt with through other comprehensive income.

Periods during which the Group's estimated cash flow under hedge as at 31 December 2015 is expected to occur:

	2015		2014	
	Cash outflows	**Net cash flows**	Cash outflows	Net cash flows
Within 1 year	**(7,936)**	**(7,936)**	(2,282)	(2,282)
1 to 3 years	**—**	**—**	(4,273)	(4,273)

As at 31 December 2015, the estimated effect of the Group's expected cash flow under hedging on profit and loss for the following period is as follows:

	2015	2014
Within 1 year	**(7,936)**	(2,282)
1 to 3 years	**—**	(4,273)

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

56. Hedging (continued)

Cash flow hedge (continued)

The key terms of interest rate swap agreement were under negotiation in order to be consistent with the committed terms. The evaluation results of the estimated future interest for related cash flow hedging payment was highly effective, and the net gain of RMB3,703,000 (2014: RMB3,965,000) was included in other comprehensive income as follows:

VI. CHANGES IN THE SCOPE OF CONSOLIDATION

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, 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 ZTE Communications and Media Company Limited, a tier-one subsidiary of the Company, completed the deregistration with industrial and commercial administration authorities in 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 Telecom Equipment Technology & Service Company Limited, a 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.

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VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of the subsidiaries of the Company are as below:

Type of subsidiary	Place of registration/ principal places of business	Business nature	Registered capital	Shareholding percentage (%)	
				Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB51.08 million	100%	–
ZTE (H.K) Limited	Hong Kong	Information technology	HK995 million	100%	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB20 million	90%	10%
ZTE Kangxun Telecom Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB1,755 million	100%	–
ZTEsoft Technology Company Limited	Nanjing	Manufacturing	RMB300 million	80.1%	–
Nubia Technology Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB118.75 million	60%	–
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Telecommunications services	RMB10 million	90%	–
Xi'an Zhongxing New Software Company Limited	Xi'an	Telecommunications and related equipment manufacturing	RMB600 million	100%	–
ZTE (Hangzhou) Company Limited	Hangzhou	Telecommunications and related equipment manufacturing	RMB100 million	100%	–
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB100 million	90%	–

2. Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding%		Accounting method
				Direct	Indirect	
Joint Ventures						
Bestel Communications Ltd.	Republic of Cyprus	Information technology	EUR446,915	50%	–	Equity method
普興移動通訊設備有限公司	PRC	R&D, production and sales of communications equipment	RMB128,500,000	50%	–	Equity method
江蘇中興微通信息科技有限公司	PRC	R&D, sales and technical services for communications products	RMB25,714,300	50%	–	Equity method
Pengzhong Xingsheng	Uzbekistan	Mobile terminals and smart phones	USD3,160,000	50%	–	Equity method
前海融資租賃股份有限公司	PRC	Finance leasing	RMB200,000,000	30%*	–	Equity method

* In accordance with the Articles of Association, important decisions relating to financial matters and production operations of 前海融資租賃股份有限公司 ("前海融資") must be approved with the consent of both investing parties, hence is under the common control of the Company and the other investing party.

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding% Direct	Percentage of Shareholding% Indirect	Accounting method
Associates						
KAZNURTEL Limited Liability Company	Kazakhstan	Manufacturing of computers and related equipment	USD3,000,000	49%	–	Equity method
北京中鼎盛安科技有限公司	PRC	Computer application services	RMB4,000,000	49%	–	Equity method
思卓中興（杭州）科技有限公司	PRC	Sales and R&D of communications equipment	USD7,000,000	49%	–	Equity method
上海中興群力信息科技有限公司	PRC	Manufacturing of computers and related equipment	RMB5,000,000	40%	–	Equity method
中興能源有限公司	PRC	Energy	RMB1,290,000,000	23.26%	–	Equity method
中興軟件技術（南昌）有限公司	PRC	Computer application services	RMB15,000,000	30%	–	Equity method
南京飄訊網絡科技有限公司	PRC	Computer application services	RMB870,000	20%	–	Equity method
上海歡流傳媒有限公司	PRC	Advertising, Internet, communications and import and export	RMB10,000,000	33%	–	Equity method
Telecom Innovations	Uzbekistan	Sales and production of communications equipment	USD1,653,294	33.91%	–	Equity method
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	PRC	Hotel management service	RMB30,000,000	18%	–	Equity method
北京億科三友科技發展有限公司	PRC	Computer application services	RMB34,221,649	20%	–	Equity method
南京皓信達訊網絡科技有限公司	PRC	Network software development and sales and related technical services	USD2,000,000	25%	–	Equity method
ZTE 9 (Wuxi) Co., Ltd	PRC	Computer application services	RMB10,000,000	30.15%	–	Equity method
寧波中興興通供應鏈有限公司	PRC	End to end supply chain integration services including procurement etc	RMB60,000,000	20%	–	Equity method
寧波中興雲祥科技有限公司	PRC	Software R&D and supply chain management	RMB80,000,000	20%	–	Equity method
上海中興思秸通訊有限公司	PRC	R&D, sales and investments in communications and related equipment	RMB57,680,000	30%	–	Equity method
江蘇中興華易科技發展有限公司	PRC	Computer hardware, electronic equipment and development of network technologies	RMB30,000,000	35%	–	Equity method
中興耀維科技江蘇有限公司	PRC	Energy	RMB20,000,000	23%	–	Equity method
石家莊市善理通益科技有限公司	PRC	R&D and sales of hard/software	RMB5,000,000	30%	–	Equity method
中興智慧成都有限公司	PRC	R&D of smart city application service system; R&D, and manufacturing of communications equipment	RMB40,000,000	40%	–	Equity method
廈門智慧小區網絡科技有限公司	PRC	Engineering and technology research; Internet business	RMB50,000,000	35%	–	Equity method
Shenzhen Weipin Zhiyuan Information Technology Company Limited	PRC	R&D of mobile Internet technologies	RMB12,500,000	48%	–	Equity method
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Zimbabwe	Colour ring and other telecommunications VAS	USD500	49%	–	Equity method

During the year, the Group had no subsidiaries that were subject to significant minority interest, nor key joint ventures and associates which had a significant impact on the Group.

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

The following table sets out the combined financial information of joint ventures and associates which are insignificant to the Group

	2015	2014
Joint ventures		
Aggregate carrying value of investments	**77,341**	67,607
Aggregate amounts of the following attributable to shareholdings:		
Net (loss)/profit	**(5,281)**	716
Other comprehensive income	**—**	—
Total comprehensive income	**(5,281)**	716
Associates		
Aggregate carrying value of investments	**483,598**	393,709
Aggregate amounts of the following attributable to shareholdings:		
Net profit/(loss)	**68,559**	(53,759)
Other comprehensive income	**—**	3,434
Total comprehensive income	**68,559**	(50,325)

As there was no obligation to bear additional losses in respect of 北京中鼎盛安科技有限公司 ("北京中鼎"), ZTE 9 (Wuxi) Co., Ltd ("ZTE 9") and 寧波中興雲祥科技有限公司 ("中興雲祥"), therefore the net losses of 北京中鼎, ZTE 9 and 中興雲祥 were recognised to the extent of the book value of such long-term equity investments and other long-term equity effectively constituting net investments in 北京中鼎, ZTE 9 and 中興雲祥. The recovery of the unrecognised investment loss in Zhongxing Software Technology (Nanchang) Company Limited during the year amounted to RMB3,163,000 (2014: Nil). The Group's unrecognised investment losses recorded during the year and on an accumulated basis amounted to RMB789,000 (2014: RMB 3,163,000) and RMB851,000 (2014: RMB3,225,000), respectively.

For 2015, there were no contingent liabilities associated with the investments in joint ventures and associates (2014: Nil).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

2015

Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available-for-sale financial assets	Derivatives designated as effective hedging instruments	Total
Cash	—	28,025,009	—	—	28,025,009
Derivative financial assets	8,984	—	—	1,126	10,110
Available-for-sale financial assets	—	—	2,381,467	—	2,381,467
Bills receivable	—	3,463,358	—	—	3,463,358
Trade receivables and long-term receivables	—	25,614,118	—	—	25,614,118
Factored trade receivables and factored long-term receivables	—	2,865,596	—	—	2,865,596
Other receivables	—	1,622,932	—	—	1,622,932
Other non-current assets	—	3,515,601	—	—	3,515,601
	8,984	65,106,614	2,381,467	1,126	67,498,191

Financial liabilities

	Financial liabilities at fair value through current profit and loss Trading	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Derivative financial liabilities	16,962	—	2,878	19,840
Bank loans	—	18,541,430	—	18,541,430
Bills payables	—	9,885,129	—	9,885,129
Trade payables	—	22,932,866	—	22,932,866
Bank advances on factored trade receivables and long-term trade receivables	—	2,866,874	—	2,866,874
Other payables (excluding accruals and staff housing fund contributions)	—	4,659,527	—	4,659,527
Bonds payable	—	4,000,000	—	4,000,000
Other non-current liabilities	—	267,415	—	267,415
	16,962	63,153,241	2,878	63,173,081

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

2014

Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available-for-sale financial assets	Total
Cash	—	18,115,874	—	18,115,874
Derivative financial assets	240,973	—	—	240,973
Available-for-sale financial assets	—	—	1,739,664	1,739,664
Bills receivable	—	2,086,771	—	2,086,771
Trade receivables and long-term receivables	—	25,419,464	—	25,419,464
Factored trade receivables and factored long-term receivables	—	4,862,683	—	4,862,683
Other receivables	—	1,463,326	—	1,463,326
Other non-current assets	—	3,794,472	—	3,794,472
	240,973	55,742,590	1,739,664	57,723,227

Financial liabilities

	Financial liabilities at fair value through current profit and loss Trading	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Derivative financial liabilities	64,904	—	5,700	70,604
Bank loans	—	21,080,836	—	21,080,836
Bills payable	—	10,381,688	—	10,381,688
Trade payables	—	19,244,400	—	19,244,400
Bank advances on factored trade receivables and long-term trade receivables	—	4,877,410	—	4,877,410
Other payables (excluding accruals and staff housing fund contributions)	—	6,342,602	—	6,342,602
Bonds payable	—	6,131,185	—	6,131,185
Other non-current liabilities	—	208,124	881	209,005
	64,904	68,266,245	6,581	68,337,730

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety

During the year, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that not substantially all risks and rewards associated with bills receivable with a book amount of RMB106,892,000 (31 December 2014: RMB44,028,000) were transferred upon discounting and hence such amount of bills receivable did not qualify for derecognition of financial assets.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 31 December 2015, trade receivables that have been transferred but not settled by the debtors amounted to RMB1,061,220,000 (31 December 2014: RMB2,915,814,000).

According to some trade receivables factoring agreements, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognized to the extent of trade receivables transferred under continuous involvement. As at 31 December 2015, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB9,585,140,000 (31 December 2014: RMB9,547,043,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortized cost) Trade receivables/long-term receivables	
	2015	2014
Carrying value of assets under continuous involvement	**1,804,376**	1,946,869
Carrying value of liabilities under continuous involvement	**1,805,654**	1,961,596

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets (continued)

Transferred financial assets that are not derecognized in their entirety (continued)

Factored trade receivables that did not qualify for derecognition and factored trade receivables under continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables". As at 31 December 2015, the amount of factored trade receivables was RMB2,865,596,000 (31 December 2014: RMB4,862,683,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables". As at 31 December 2015, the amount of bank advances on factored trade receivables was RMB2,866,874,000 (31 December 2014: RMB4,877,410,000).

Transfer of long-term receivables comprised factored trade receivables recognized under continuous involvement as described below.

In prior year, the Company entered into a telecommunications system project with an African telecommunications operator with a total contract amount of USD1.5 billion. The related accounts receivable is to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. Two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to factored trade receivables agreements. During the financing period, the banks will charge interest at 6-month USD LIBOR+1.5% or LIBOR+1.8% which will be shared by the Company and the telecommunications operator at a predetermined portion. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2015, under the above arrangement, trade receivable due from the customer amounted to RMB6,036,698,000 (31 December 2014: RMB6,559,107,000) among which RMB4,829,358,000 (31 December 2014: RMB5,247,286,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in ASBEs No. 23. An associated liability of RMB1,207,340,000 (31 December 2014: RMB1,311,821,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

In addition, factored finance interest for future periods relating to the derecognition of trade receivables undertaken by the Company as at 31 December 2015 amounted to RMB250,698,000 (31 December 2014: RMB275,668,000), comprising RMB37,153,000 (31 December 2014: RMB71,233,000) due within one year and classified as other payables (see Note V.29) and RMB213,545,000 (31 December 2014: RMB204,435,000) due after one year and classified as other non-current liabilities (see Note V.33).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets (continued)

Transferred financial assets derecognized in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the year. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB385,920,000 (31 December 2014: RMB294,779,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognized at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognized bills receivable and the undiscounted cash flow for the repurchase of such bills equal to the carrying amounts of the bills receivable. The Group is of the view that the fair value of continuous involvement in the derecognized bills receivable is not significant. For the relevant period, the Group recognized discounted interests of RMB5,246,000 (2014: RMB5,693,000) in respect of the derecognized bills receivable as at the date of transfer. No profit or loss relating to continuous involvement was recognized in respect of the current year and the previous year.

3. Risks of financial instruments

The main financial instruments of the Group, except for derivatives, include bank loans, cash, etc. The main purpose of these financial instruments is to finance for the Group's operation. The Group has many other financial assets and liabilities arising directly from operation, such as trade receivables and trade payables and etc.

The Group entered into forward currency contracts and interest rate swap contracts with the aim of managing the foreign exchange risk and interest rate risk in the Group's operation. The major risks which come from the Group's financial instruments are the credit risk, liquidity risk and market risk. The Group's policies for managing each of these risks are summarized as follows.

Credit risk

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group's other financial assets, which comprise cash, available-for-sale financial assets, other receivables and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also subject to credit risks associated with the provision of financial guarantees. For detailed disclosures, please refer to Note XII.2.11.

Although the top five accounts accounted for 26.85% (2014: 32.09%) of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Credit risk (continued)

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. The Group did not hold any collateral or other credit enhancements over the balances of the trade receivables. For further quantitative disclosures on the Group's credit risk arising from trade receivables, other receivables and long-term trade receivables, please refer to Notes V.4, 5 and 10.

The maturity profile of trade receivables, long-term receivables and other receivables not subject to impairment as at 31 December is analyzed as follows:

2015

	Total	Not overdue/ not impaired	Overdue for Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	**25,251,287**	**3,865,482**	**19,085,431**	**2,106,596**	**193,778**	**—**
Long-term receivables	**362,831**	**362,831**	**—**	**—**	**—**	**—**
Other receivables	**1,622,932**	**—**	**1,143,936**	**215,768**	**149,627**	**113,601**

2014

	Total	Not overdue/ not impaired	Overdue for Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	25,152,963	2,533,268	20,778,967	1,619,968	220,760	—
Long-term receivables	266,501	266,501	—	—	—	—
Other receivables	1,463,326	—	896,264	317,980	159,854	89,228

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans, bonds payable and other interest-bearing loans. With the exception of the noncurrent portion of bank loans, all borrowings are repayable within one year.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarized as follows:

2015

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	12,672,102	1,455,727	3,989,492	1,007,435	19,124,756
Derivative financial liabilities	—	19,840	—	—	—	19,840
Bills payable	—	9,885,129	—	—	—	9,885,129
Trade payables	22,932,866	—	—	—	—	22,932,866
Bank advances on factored trade receivables and factored long-term trade receivable	—	1,312,514	511,956	405,538	751,722	2,981,730
Other payables (excluding accruals and staff housing fund contributions)	4,659,527	—	—	—	—	4,659,527
Bonds payable	—	4,102,000	—	—	—	4,102,000
Other non-current liabilities	50,000	—	80,328	69,445	153,616	353,389
	27,642,393	27,991,585	2,048,011	4,464,475	1,912,773	64,059,237

2014

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	11,193,023	6,431,576	1,368,816	3,048,910	22,042,325
Derivative financial liabilities	—	70,604	—	—	—	70,604
Bills payable	—	10,381,688	—	—	—	10,381,688
Trade payables	19,244,400	—	—	—	—	19,244,400
Bank advances on factored trade receivables and factored long-term trade receivable	—	3,254,431	638,663	389,151	735,447	5,017,692
Other payables (excluding accruals and staff hosing fund contributions)	6,342,602	—	—	—	—	6,342,602
Bonds payable	—	6,252,000	—	—	—	6,252,000
Other non-current liabilities	50,000	571	74,223	63,889	189,065	377,748
	25,637,002	31,152,317	7,144,462	1,821,856	3,973,422	69,729,059

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk

Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

As at 31 December 2015, the bank loans of the Group including fixed rate debts and floating debts based on LIBOR. The Group had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 1.25% and 6.69%. In addition, the Group borrowed a USD900 million loan at floating interest rates. The Group intends to enter into interest rate swaps with a nominal principal amount of no more than USD900 million at an appropriate timing as a hedge against the said USD loan, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. As at 31 December 2015, taking into account interest rate swaps for a nominal principal amount of USD100 million (2014: USD100 million) already executed, approximately 36% (2014: 40%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on total profit (through the impact on floating rate loans) and shareholders' equity assuming that other variables remain constant and taking into account the effect of interest rate swaps.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in net profit or loss**	**Increase/ (decrease) in other comprehensive income net of tax**	**Increase/ (decrease) in total shareholders' equity**
2015	**0.25%**	**(25,084)**	**1,058**	**(24,026)**
	(0.25%)	**25,084**	**(1,058)**	**24,026**
2014	0.25%	(26,823)	5,591	(21,232)
	(0.25%)	26,823	(5,591)	21,232

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk

The Group is exposed to trading exchange rate risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's total profit, with all other variables held constant, as at the balance sheet date.

	Increase/ (decrease) in USD exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2015				
Weaker RMB against USD	**3%**	**235,072**	**—**	**235,072**
Stronger RMB against USD	**(3%)**	**(235,072)**	**—**	**(235,072)**
2014				
Weaker RMB against USD	3%	47,139	—	47,139
Stronger RMB against USD	(3%)	(47,139)	—	(47,139)

	Increase/ (decrease) in EUR exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2015				
Weaker RMB against EUR	**5%**	**7,143**	**—**	**7,143**
Stronger RMB against EUR	**(5%)**	**(7,143)**	**—**	**(7,143)**
2014				
Weaker RMB against EUR	5%	156,399	—	156,399
Stronger RMB against EUR	(5%)	(156,399)	—	(156,399)

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

4. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

The Group manages its capital structure and makes adjustments, in the light of changes in economic conditions and in the risk profiles of relevant assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years 2015 and 2014.

The Group manages capital using the financial gearing ratio, which is the ratio of interest-bearing liabilities to the sum of owners' equity and interest-bearing liabilities. The financial gearing ratio of the Group as at the balance sheet dates was as follows:

	2015	2014
Interest-bearing bank borrowings	**18,541,430**	21,080,836
Interest-bearing bonds	**4,000,000**	6,131,185
Bank advances on factored receivables and long-term trade receivables	**2,866,874**	4,877,410
Total interest-bearing liabilities	**25,408,304**	32,089,431
Owners equity	**43,348,605**	26,292,504
Total equity and interest-bearing liabilities	**68,756,909**	58,381,935
Gearing ratio	**37.0%**	55.0%

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IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

2015

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Continuous measurement of fair value				
Derivative financial assets	**—**	**10,110**	**—**	**10,110**
Available-for-sale financial assets				
Investment in equity instruments	**1,093,001**	**—**	**—**	**1,093,001**
Investment properties				
Leased buildings	**—**	**—**	**2,010,396**	**2,010,396**
	1,093,001	**10,110**	**2,010,396**	**3,113,507**
Derivative financial liabilities	**—**	**(19,840)**	**—**	**(19,840)**
	—	**(19,840)**	**—**	**(19,840)**

2014

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Continuous measurement of fair value				
Derivative financial assets	—	240,973	—	240,973
Available-for-sale financial assets				
Investment in equity instruments	319,470	—	—	319,470
Investment properties				
Leased properties	—	—	2,004,465	2,004,465
	319,470	240,973	2,004,465	2,564,908
Derivative financial liabilities	—	(71,485)	—	(71,485)
	—	(71,485)	—	(71,485)

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IX. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value

Fair value of financial assets

The management has conducted evaluations of our cash, bills receivable, trade receivables, bills payable and trade payables. The fair values approximates the book values as the remaining terms are not long.

Fair value of financial assets and financial liabilities refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows.

The fair values of long-term receivables, long/short-term loans, bonds payable are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics, risk profiles and outstanding term. As at 31 December 2015, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity instruments are determined on the basis of market prices.

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal input of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of an interest rate swap and a forward exchange contract is identical with its fair value. As at 31 December 2015, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default. Changes in the credit risk profile of counterparties did not have any material impact on the evaluation of the hedging effectiveness of designated derivative instruments in the hedge and other financial instruments measured at fair value.

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IX. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value (continued)

Fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties at 31 December 2015 was RMB2,010,396,000 (2014: RMB2,004,465,000).

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

2015

	Fair value at year-end	**Valuation techniques**	**Unobservable inputs**	**Range (weighted average)**
Commercial properties	**RMB2,010,396,000**	**Discounted cash flow method**	**Estimated rental value (per sq. m. and per month)**	**RMB45.5–477**
			Rent growth (p.a.)	**1%–5%**
			Long term vacancy rate	**5%**
			Discount rate	**6%–7.3%**

2014

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,004,465,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB24–477
			Rent growth (p.a.)	1%–5%
			Long term vacancy rate	5%
			Discount rate	6%

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IX. DISCLOSURE OF FAIR VALUES (continued)

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorized within Level 3 of the fair value hierarchy:

2015

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Total profit or less for the period		Acquisition	Closing balance	Change in unrealized profit or less for the period of assets held at year-end included in profit and loss
				Included in profit and loss	Included in other comprehensive income			
Investment properties	**2,004,465**	**–**	**–**	**5,931**	**–**	**–**	**2,010,396**	**5,931**

2014

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Total profit or less for the period		Acquisition	Closing balance	Change in unrealized profit or less for the period of assets held at year-end included in profit and loss
				Included in profit and lossl	Included in other comprehensive income			
Investment properties	1,855,246	–	–	130,306	–	18,913	2,004,465	130,306

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to non-financial assets and non-financial assets is analyzed as follows:

	2015 Relating to non-financial assets	2014 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	**5,931**	130,306
Change in unrealized profit or loss for the period of assets held at year-end included in profit and loss	**5,931**	130,306

5. Transfers between levels of fair value measurement

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Place of registration	Nature of business	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Shenzhen, Guangdong	Manufacturing	RMB100 million	30.59%	30.59%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note VI and Note VII.1.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties

	Relationship
深圳市中興新地股份技術有限公司 (formerly known as Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited)	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	Subsidiary of the Company's controlling shareholder
深圳市新宇騰躍電子有限公司	Subsidiary of the Company's controlling shareholder
深圳市中興昆騰有限公司	Subsidiary of the Company's controlling shareholder
中興儀器（深圳）有限公司	Subsidiary of the Company's controlling shareholder
上海中興派能能源科技有限公司	Subsidiary of the Company's controlling shareholder
深圳中興創新材料技術有限公司	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing WXT Equipment Company Limited	Shareholder of the Company's controlling shareholder
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder
北京中興協力科技有限公司 (formerly known as 北京協力超越科技有限公司)	Subsidiary of shareholders of the Company's controlling shareholder
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Company for which a supervisor of the Company's controlling shareholder acted as director
南京中興群力信息科技有限公司	Subsidiary of an associate of the Company
Zhongxing Energy (Shenzhen) Company Limited	Subsidiary of an associate of the Company
Zhongxing Energy (Tianjin) Company Limited	Subsidiary of an associate of the Company
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
中興能源（天津）節能服務有限公司	Subsidiary of an associate of the Company
鄂爾多斯市雲端科技有限公司	Subsidiary of an associate of the Company
善理通益信息科技（深圳）有限公司	Subsidiary of an associate of the Company
Shenzhen Zhongxing Information Company Limited	Company for which a director of the Company concurrently acted as chairman
CASIC Shenzhen (Group) Limited	Company for which a director of the Company acted as director
深圳市航天歐華科技發展有限責任公司	Subsidiary of a company for which a director of the Company acted as director
廣東歐科空調製冷有限公司	Subsidiary of a company for which a director of the Company acted as director
Zhongxing Development Company Limited	Company for which connected natural person of the Company concurrently acted as chairman
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
Zhongxing Energy (Hubei) Company Limited	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
Huatong Technology Company Limited	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
中興軟件技術(瀋陽)有限公司	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
三河中興發展有限公司	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
三河中興物業服務有限公司	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
杭州中興發展有限公司	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
中興綠色農業有限公司	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
重慶中興中投物業服務有限公司	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
深圳市中興長天信息技術有限公司	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
中興農谷湖北有限公司	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
杭州中興中投物業管理有限公司	Subsidiary of a company for which connected natural person of the Company concurrently acted as chairman
深圳中興科揚節能環保股份有限公司	Company for which a connected natural person of the Company acted as director
深圳中興新源環保股份有限公司	Company for which a connected natural person of the Company acted as director
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Company for which a connected natural person of the Company acted as chairman
Shenzhen Gaodonghua Communication Technology Company Limited	Company for which a connected natural person of the Company acted as chairman
深圳中興環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
深圳中興節能環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
Zhengzhou ZTE Communications Technology Company Limited	Company for which a connected natural person of the Company acted as chairman
興天通訊技術有限公司 (formerly known as "興天通訊技術（天津）有限公司")	Company for which a connected natural person of the Company acted as chairman
廈門美亞柏科資訊股份有限公司	Company for which a connected natural person of the Company acted as independent director

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties

(1) The transaction of goods with related parties

Sales of goods to related parties

	2015 Amount	2014 Amount
Shenzhen Zhongxing Information Company Limited	727	6
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	4,894	3,800
深圳市中興新地股份技術有限公司	4,332	2,600
ZTE Software Technology (Nanchang) Company Limited	5,031	1,210
Mobi Antenna Technologies (Shenzhen) Company Limited	566	61
南京中興群力信息科技有限公司	7,379	1,674
普興移動通訊設備有限公司	252,444	530,347
北京中興協力科技有限公司	1	20
深圳市中興昆騰有限公司	91	89
Zhongxing Development Company Limited	72	—
上海歡流傳媒有限公司	13,623	17,037
ZTE Energy Company Limited	5	2
深圳市航太歐華科技發展有限責任公司	588,326	405,397
Telecom Innovations	5,889	19,076
興天通訊技術有限公司	998	1,047
ZTE 9 (Wuxi) Co., Ltd	5	13,145
深圳中興創新材料技術有限公司	200	32
中興軟體技術（瀋陽）有限公司	20	2
江蘇中興微通信息科技有限公司	30	337
上海市和而泰酒店投資管理有限公司	—	18
寧波中興雲祥科技有限公司	—	306
上海中興思秸通訊有限公司	576	741
三河中興發展有限公司	—	5
中興儀器（深圳）有限公司	892	209
深圳市中興長天信息技術有限公司	40	157
深圳中興節能環保股份有限公司	2,792	—
中興智慧成都有限公司	10,044	—
Shenzhen Weipin Zhiyuan Information Technology Company Limited	980	—
INTLIVE TECHNOLOGIES(PRIVATE)LIMITED	770	—
中興農谷湖北有限公司	63	—
深圳市新宇騰躍電子有限公司	7	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	3	—
石家莊市善理通益科技有限公司	7,945	—
善理通益信息科技（深圳）有限公司	2,728	—
	911,473	997,318

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(1) The transaction of goods with related parties (continued)

Purchases of goods and services from related parties

	2015 Amount	2014 Amount
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**265,408**	260,991
深圳市中興新地股份技術有限公司	**232,107**	203,907
深圳市新宇騰躍電子有限公司	**93,058**	75,916
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	**860,335**	782,107
Huatong Technology Company Limited	**37,745**	25,927
ZTE Software Technology (Nanchang) Company Limited	**42,295**	27,938
Shenzhen Zhongxing Information Company Limited	**7,712**	4,273
深圳市航天歐華科技發展有限責任公司	**2,416**	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**25,013**	26,311
南京中興和泰酒店管理有限公司	**3,397**	3,231
上海市和而泰酒店投資管理有限公司	**4,679**	3,872
西安中興和泰酒店管理有限公司	**1,225**	1,089
Zhongxing Energy (Shenzhen) Company Limited	**1,920**	1,865
Zhongxing Energy (Tianjin) Company Limited	**1,085**	4,559
Xi'an Microelectronics Technology Research Institute	**—**	164
南京中興群力信息科技有限公司	**—**	128
普興移動通訊設備有限公司	**2,004**	21,111
ZTE 9 (Wuxi) Co., Ltd	**—**	5,432
上海中興思秸通訊有限公司	**754**	1,969
興天通訊技術有限公司	**130**	12,659
北京中興協力科技有限公司	**2,548**	—
中興儀器（深圳）有限公司	**2,778**	—
深圳中興環保股份有限公司	**29,885**	—
廈門美亞柏科資訊股份有限公司	**1,552**	—
CASIC Shenzhen (Group) Limited	**3,323**	—
上海中興派能能源科技有限公司	**759**	—
	1,622,128	1,463,449

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties

As lessor

	Property leased	2015 Lease income	2014 Lease income
Zhongxing Development Company Limited	Office	**2,146**	2,146
深圳中興科揚節能環保股份有限公司	Office	**319**	315
中興綠色農業有限公司	Office	**90**	273
普興移動通訊設備有限公司	Office	**399**	258
中興儀器（深圳）有限公司	Office	**1,129**	780
深圳中興環保股份有限公司	Office	**448**	—
南京中興群力信息科技有限公司	Office	**560**	452
上海歡流傳媒有限公司	Office	**109**	320
上海中興思秸通訊有限公司	Office	**549**	886
深圳中興環保股份有限公司	Transportation equipment	**60**	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	**15,821**	11,598
南京中興和泰酒店管理有限公司	Property and equipment and facilities	**6,372**	4,954
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	**28,393**	21,915
西安中興和泰酒店管理有限公司	Property and equipment and facilities	**23,091**	17,720
		79,486	61,617

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties (continued)

As lessee

	Property leased	**2015 Lease expense**	2014 Lease expense
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	**8,827**	8,827
Zhongxing Development Company Limited	Office	**45,538**	42,931
Chongqing Zhongxing Development Company Limited	Office	**8,957**	8,031
三河中興發展有限公司	Office	**8,746**	5,078
三河中興物業服務有限公司	Office	**2,450**	1,207
杭州中興發展有限公司	Quarters and plants	**5,850**	—
杭州中興中投物業管理有限公司	Quarters and plants	**1,715**	—
		82,083	66,074

(3) Guarantees for related parties

In 2015 and 2014, no guarantee was provided by/to related parties to/by the Group.

(4) Transfer of equity interests to related parties

In 2015 and 2014, the Group did not transfer any equity interests to related parties.

(5) Transfer of assets to related parties

In 2015 and 2014, the Group did not transfer any assets to related parties.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(6) Other major related transactions

	2015	2014
Remuneration of key management personnel	**57,972**	46,163

Notes:

(i) Commercial transactions with related parties:	Commercial transactions with related parties was conducted by the Group at market price.
(ii) Leasing property from/to related parties:	Office space, equipment and facilities were leased to the aforesaid related parties by the Group during the year and lease income of RMB79,486,000 (2014: RMB61,617,000) was recognized in accordance with relevant lease contracts. Office space was leased to the Group by the aforesaid related parties during the year and lease expenses of RMB82,083,000 (2014: RMB66,074,000) was recognized in accordance with relevant lease contracts
(iii) Other major related transactions:	The total amount of remuneration (in the form of monetary amounts, physical rewards or otherwise) for the key management personnel of the Company incurred the Group for the year was RMB57,972,000 (2014: RMB46,163,000). The corresponding cost for share-based payment was RMB8,666,000 (2014: RMB9,259,000). Certain of the key management personnel referred to above were concurrently entitled to defined benefit plans provided by the Group, which were not included in the remuneration set out above.

6. Commitments with related parties

(1) In September 2015, the Group entered into a purchase agreement for a term of 3 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries for the purchase of raw materials for use in production. For details of purchases conducted during the year, please refer to Note X.5(1). The maximum amounts of total purchases by the Group from the aforesaid related parties for the years 2016–2018 is estimated at RMB800 million, RMB900 million and RMB1,000 million (before VAT), respectively.

(2) In September 2015, the Group entered into a purchase agreement for a term of 3 years with Mobi Antenna Technologies (Shenzhen) Company Limited for the purchase of raw materials for use in production. For details of purchases conducted during the year, please refer to Note X.5(1). The maximum amounts of total purchases by the Group from the aforesaid related parties for the years 2016–2018 is estimated at RMB1,700 million, RMB1,900 million and RMB2,100 million (before VAT), respectively

(3) In April 2015, the Group entered into a purchase agreement for a term of 1 year with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiary for the purchase of hotel services. For details of purchases conducted during the year, please refer to Note X.5(1). The maximum amount of purchase of hotel services by the Group from Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries for 2016 is estimated at RMB45 million.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(4) In December 2014, the Group entered into a software outsourcing service and purchase agreement for a term of 3 years with Huatong Technology Company Limited ("Huatong") for the purchase of software outsourcing services from Huatong. For details of purchases conducted during the year, please refer to Note X.5(1). The maximum amounts of total purchases by the Group from the aforesaid related parties for the years 2016–2017 are estimated at RMB67 million and RMB75 million (before VAT), respectively.

(5) In December 2014, the Group entered into a software outsourcing service and purchase agreement for a term of 3 years with ZTE Software Technology (Nanchang) Company Limited ("ZTE Nanchang") for the purchase of software outsourcing services from ZTE Nanchang. For details of purchases conducted during the year, please refer to Note X.5(1). The maximum amounts of total purchases by the Group from the aforesaid related parties for the years 2016–2017 are estimated at RMB63 million and RMB79 million (before VAT), respectively.

(6) In December 2014, the Group entered into a product and service sales agreement for a term of 3 years with ZTE Software Technology (Nanchang) Company Limited for the sales of products and provision of services to ZTE Nanchang. For details of sales conducted during the year, please refer to Note X.5(1). The maximum amounts of total sales by the Group from the aforesaid related parties for the years 2016–2017 are estimated at RMB30 million and RMB31 million (before VAT), respectively.

(7) In September 2015, the Group entered into a sales agreement for digital communications products and communications products for a term of 3 years with 深圳市航天歐華科技發展有限責任公司 for the sales of product to 深圳市航天歐華科技發展有限責任公司. For details of sales conducted during the year, please refer to Note X.5(1). The maximum amounts of total sales by the Group from the aforesaid related parties for the years 2016–2018 are estimated at RMB1,000 million, RMB1,100 million and RMB1,100 million (before VAT), respectively.

(8) In July 2014, the Group entered into a property lease agreement for a term of 2 years with 深圳中興科揚節能環保股份有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated the rental income for 2016 to be RMB90,000.

(9) In October 2014, the Group entered into a property lease agreement for a term of 2 year with 南京中興群力信息科技有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated the annual rental income for 2016 to be RMB351,000.

(10) In June 2015, the Group entered into a property lease agreement for a term of 2 years with 南京中興群力信息科技有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated the annual rental income for the years 2016–2017 to be RMB158,000 and RMB66,000, respectively.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(11) In March 2015, the Group entered into a property lease agreement for a term of 3 years with 上海中興思秸通訊有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated the rental income for 2016–2018 to be RMB579,000, RMB579,000 and RMB97,000, respectively.

(12) In January 2014, the Group entered into a property lease agreement for a term of 4 years with 普興移動通訊設備有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated the rental income for 2016–2017 to be RMB258,000 and RMB258,000, respectively.

(13) In March 2015, the Group entered into a property lease agreement for a term of 3 years with 普興移動通訊設備有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated the rental income for 2016–2018 to be RMB177,000, RMB177,000 and RMB37,000, respectively.

(14) In October 2015, the Group entered into a property lease agreement for a term of 1 year with 普興移動通訊設備有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated the rental income for 2016 to be RMB38,000.

(15) In June 2014, the Group entered into a property lease agreement for a term of 3 years with 中興儀器（深圳）有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated the rental income for 2016–2017 to be RMB1,129,000 and RMB470,000, respectively.

(16) In July 2015, the Group entered into a property lease agreement for a term of 1 year with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries. The Group estimated the rental income for 2016 to be RMB38,521,000.

(17) In April 2015, the Group entered into a lease agreement for a term of 2 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the rent for 2016–2017 to be RMB8,827,000 and RMB2,618,000, respectively.

(18) In December 2014, the Group entered into a lease agreement for a term of 3 years months with Chongqing Zhongxing Development Company Limited. The Group estimated the annual rent for 2016–2017 to be RMB8,910,000 and RMB8,910,000, respectively.

(19) In April 2015, the Group entered into a lease agreement for a term of 2 years months with Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the annual rent for 2016–2017 to be RMB44,949,000 and RMB13,331,000, respectively.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(20) In September 2015, the Group entered into a lease agreement for a term of 3 years with Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the annual rent for 2016–2018 to be RMB2,083,000, RMB2,083,000 and RMB1,457,000, respectively.

(21) In March 2014, the Group entered into 2 lease agreements each for a term of 3 years with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the annual rent for 2016–2017 to be RMB5,224,000 and RMB891,000, respectively.

(22) In January 2015, the Group entered into a lease agreement for a term of 26 months with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the annual rent for 2016–2017 to be RMB2,915,000 and RMB486,000, respectively.

(23) In December 2015, the Group entered into 2 lease agreements each for a term of 3 years with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the annual rent for 2016–2018 to be RMB609,000, RMB609,000 and RMB587,000, respectively.

(24) In January 2013, the Group entered into a lease agreement for a term of 3 years with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the annual rental for 2016 to be RMB9,000.

(25) In March 2014, the Group entered into 2 lease agreements each for a term of 3 years with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the annual rent for 2016–2017 to be RMB1,439,000 and RMB367,000, respectively.

(26) In January 2015, the Group entered into a lease agreement for a term of 26 months with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the annual rent for 2016–2017 to be RMB875,000 and RMB146,000, respectively.

(27) In December 2015, the Group entered into a lease agreement for a term of 3 years with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the maximum annual rental for the years 2016–2018 to be RMB13,000, RMB13,000 and RMB12,000.

(28) In January 2015, the Group entered into a lease agreement for a term of 1.5 years with 杭州中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the annual rent for 2016 to be RMB2,925,000.

(29) In January 2015, the Group entered into a lease agreement for a term of 1.5 years with 杭州中興中投物業管理有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated the annual rent for 2016 to be RMB858,000.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties

Item	Name of related parties	2015	2014
Bills receivable	深圳市航天歐華科技發展有限責任公司	190,931	95,836
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	639	166
	深圳市中興新地股份技術有限公司	233	514
		191,803	96,516
Trade receivables	普興移動通訊設備有限公司	70,988	418,059
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	786	930
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	171	1,314
	Xi'an Microelectronics Technology Research Institute	9	9
	深圳市中興昆騰有限公司	84	37
	深圳市航天歐華科技發展有限責任公司	107,484	60,097
	上海中興派能能源科技有限公司	—	28
	ZTE 9 (Wuxi) Co., Ltd	231	839
	鄂爾多斯市雲端科技有限公司	1	1
	興天通訊技術有限公司	784	2,928
	江蘇中興微通信息科技有限公司	2	2
	上海歡流傳媒有限公司	2,777	2,970
	寧波中興雲祥科技有限公司	57	86
	上海中興思秸通訊有限公司	—	24
	ZTE Software Technology (Nanchang) Company Limited	3,724	116
	中興儀器（深圳）有限公司	217	132
	Shenzhen Zhongxing Information Company Limited	595	—
	深圳市新宇騰躍電子有限公司	3	—
	南京中興群力信息科技有限公司	499	—
	中興智慧成都有限公司	9,925	—
	ZTE Energy Limited	1	—
	Mobi Antenna Technologies (Shenzhen) Company Limited	103	—
	深圳中興節能環保股份有限公司	456	—
	石家莊市善理通益科技有限公司	2,333	—
		201,230	487,572

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	2015	2014
Prepayments	深圳市中興新地股份技術有限公司	—	445
	重慶中興中投物業服務有限公司	—	100
	ZTE 9 (Wuxi) Co., Ltd	—	2,250
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	242	283
	Zhongxing Development Company Limited	14	14
	上海中興思秸通訊有限公司	88	—
	南京中興群力信息科技有限公司	120	—
	廣東歐科空調製冷有限公司	898	—
		1,362	3,092
Other receivables	南京市中興和泰酒店管理有限公司	2	2
	南京飄訊網絡科技有限公司	—	179
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	—	1,727
	杭州中興發展有限公司	—	304
	江蘇中興微通信息科技有限公司	—	30
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	—	174
	北京億科三友科技發展有限公司	5,840	5,840
	興天通訊技術有限公司	—	5,534
	ZTE 9 (Wuxi) Co., Ltd	2,230	29
	Mobi Antenna Technologies (Shenzhen) Company Limited	—	61
	Shenzhen Zhongxing Information Company Limited	14	38
	北京中興協力科技有限公司	—	123
	Zhongxing Development Company Limited	365	72
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	3	—
	Chongqing Zhongxing Development Company Limited	24	—
	Zhengzhou ZTE Communications Technology Company Limited	3	—
	深圳市中興新地股份技術有限公司	445	—
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	1,850	—
		10,776	14,113
Bills payable	ZTE 9 (Wuxi) Co., Ltd	—	2,166
	Mobi Antenna Technologies (Shenzhen) Company Limited	49	449
	深圳市新宇騰躍電子有限公司	6,533	6,908
	南京中興群力信息科技有限公司	—	150
	深圳市航天歐華科技發展有限責任公司	1,431	—
		8,013	9,673

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	2015	2014
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**61,007**	53,879
	深圳市新宇騰躍電子有限公司	**1,804**	17,251
	Mobi Antenna Technologies (Shenzhen) Company Limited	**58,823**	133,225
	深圳市中興新地股份技術有限公司	**13,476**	778
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	**183**	183
	Shenzhen Zhongxing WXT Equipment Company Limited	**327**	327
	Shenzhen Zhongxing Information Company Limited	**8,731**	5,632
	Shenzhen Gaodonghua Communication Technology Company Limited	**176**	176
	普興移動通訊設備有限公司	**11,973**	20,669
	深圳市航天歐華科技發展有限責任公司	**3,017**	2,795
	中興能源（天津）節能服務有限公司	**2,773**	3,801
	興天通訊技術有限公司	**1,319**	7,894
	上海中興思秸通訊有限公司	**1**	5
	Xi'an Microelectronics Technology Research Institute	**192**	192
	Huatong Technology Company Limited	**445**	—
	北京中興協力科技有限公司	**250**	—
	江蘇中興華易科技發展有限公司	**140**	—
	Zhongxing Software Technology (Nanchang) Company Limited	**190**	—
	深圳中興環保股份有限公司	**4,483**	—
	廈門美亞柏科資訊股份有限公司	**1,816**	—
	Zhongxing Development Company Limited	**691**	—
	航天科工深圳（集團）有限公司	**62**	—
		171,879	246,807

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	2015	2014
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	5,327	5,327
	普興移動通訊設備有限公司	20,757	4
	Xi'an Microelectronics Technology Research Institute	1,628	1,628
	北京中興協力科技有限公司	155	155
	南京中興群力信息科技有限公司	335	7,821
	深圳市航天歐華科技發展有限責任公司	53,290	33,909
	中興軟件技術（瀋陽）有限公司	14	3
	上海歡流傳媒有限公司	1	5,250
	興天通訊技術有限公司	—	1,272
	上海中興思秸通訊有限公司	1	310
	Zhongxing Energy Co., Ltd.	1	1
	深圳市中興昆騰有限公司	—	4
	中興儀器（深圳）有限公司	6	450
	深圳中興創新材料技術有限公司	639	138
	深圳市中興新地股份技術有限公司	—	18
	江蘇中興微通信息科技有限公司	8	—
	南京皓信達訊網絡科技有限公司	8	—
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	1	—
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	25	—
	深圳中興環保股份有限公司	60	—
	善理通益信息科技（深圳）有限公司	1,239	—
		83,495	56,290

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	2015	2014
Other payables	深圳市新宇騰躍電子有限公司	**31**	31
	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Shenzhen Zhongxing Information Company Limited	**48**	48
	Zhongxing Energy (Hubei) Company Limited	**—**	53
	Zhongxing Development Company Limited	**215**	260
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**308**	310
	深圳市中興昆騰有限公司	**—**	51
	江蘇中興微通信息科技有限公司	**—**	3
	興天通訊技術有限公司	**—**	345
	Zhongxing Energy Co., Ltd	**—**	85
	Huatong Technology Company Limited	**308**	227
	上海中興思秸通訊有限公司	**70**	70
	深圳中興新源環保股份有限公司	**4**	4
	寧波中興興通供應鏈有限公司	**8,000**	—
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	**1,407**	—
		10,403	1,499

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivable from related parties were interest-free and unsecured with an usual credit term of 0-90 days, which may be extended to up to 1 year depending on the reputation of the customer.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) Customer deposits

	2015	2014
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**3,396**	19,237
南京中興和泰酒店管理有限公司	**3,818**	3,086
上海市和而泰酒店投資管理有限公司	**8,968**	4,571
西安中興和泰酒店管理有限公司	**6,166**	6,879
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**120**	—
前海融資租賃股份有限公司	**1**	—
	22,469	33,773

(2) Interest expenses

	2015	2014
南京中興和泰酒店管理有限公司	**27**	39
上海市和而泰酒店投資管理有限公司	**95**	120
西安中興和泰酒店管理有限公司	**133**	137
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**128**	75
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**3**	—
前海融資租賃股份有限公司	**1**	—
Zhengzhou ZTE Communications Technology Company Limited	**7**	—
	394	371

(3) Release of loans and advances — release of loans

	2015	2014
前海融資租賃股份有限公司	**100,000**	—
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**3,000**	—
	103,000	—

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties (continued)

(4) Release of loans and advances — discounted bills

	2015	2014
杭州中興發展有限公司	—	429
	—	429

(5) Interest income from loans and bills discounting

	2015	2014
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	3,346	—
杭州中興發展有限公司	11	3
Shenzhen Weipin Zhiyuan Information Technology Company Limited	176	—
前海融資租賃股份有限公司	400	—
北京億科三友科技發展有限公司	—	110
	3,933	113

(6) Interest receivable

	2015	2014
前海融資租賃股份有限公司	138	—
Shenzhen Weipin Zhiyuan Information Technology Company Limited	6	—
	144	—

(7) Interest payable

	2015	2014
南京中興和泰酒店管理有限公司	1	1
上海市和而泰酒店投資管理有限公司	3	4
西安中興和泰酒店管理有限公司	5	5
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	3	5
	12	15

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties (continued)

(8) Income from consultation services

	2015	2014
前海融資租賃股份有限公司	**79**	–
	79	–

(9) Advanced receipts

	2015	2014
前海融資租賃股份有限公司	**917**	–
	917	–

XI. SHARE-BASED PAYMENTS

1. Overview

Equity-settled share-based payments are as follows:

	2015	2014
Accumulated balance of equity-settled share-based payments credited to capital reserves*	**247,825**	201,097
Total costs of equity-settled share-based payments in the year	**166,829**	178,241

* Among which the cost of equity-settled share-based payment amounting to RMB120,101,000 arising from the exercise of share options was transferred to the share premium under capital reserve.

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XI. SHARE-BASED PAYMENTS (continued)

2. Share option incentive scheme

On 22 July 2013, the "ZTE Corporation Share Option Incentive Scheme (Draft)" and its summary was considered and approved at the Sixth Meeting of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Supervisory Committee of the Company. On 20 August 2013, the Company was notified that the opinion of the state-owned shareholders of the Company on the implementation of the Share Option Incentive Scheme had been approved and filed by State-owned Assets Supervision and Administration Commission of the State Council. On 23 August 2013, the Company was notified that the Listed Companies' Regulation Department I of CSRC had confirmed it had no objection to the Company convening a general meeting to consider the share option incentive scheme in accordance with the "Administrative Measures on Share Incentives of Listed Company (Trial)". On 26 August 2013, the resolution on the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" (hereinafter referred to as the "Share Incentive Scheme") and its summary was considered and approved at Eighth Meeting of the Sixth Session of the Board of Directors and the Sixth Meeting of the Sixth Supervisory Committee. The Share Incentive Scheme was considered and approved at Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 of the Company convened on 15 October 2013. On 31 October 2013, relevant resolutions were considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors and the Ninth Meeting of the Sixth Session of the Supervisory Committee of the Company, pursuant to which the date of grant for the Share Option Incentive Scheme of the Company has been set for 31 October 2013 Under the Share Incentive Scheme, 102.989 million share options were granted to 1,528 Participants. Each share option shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the Scheme at the exercise price, subject to the conditions of exercise. The source of shares under the Scheme shall be shares of the Company issued to the Participants by the Company by way of placing. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, principal shareholders holding 5% or more of the company's shares or the actual controller of the Company and their spouse or blood relative.

The share options shall be valid for a period of 5 years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. The share options shall be exercisable separately in the subsequent 3 exercise periods, whose percentages of options exercisable are 30%, 30% and 40% respectively, subject to the Company's performance as the conditions of exercise. The exercise price shall be RMB13.69/share. The share options not exercisable due to failing to fulfill the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

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XI. SHARE-BASED PAYMENTS (continued)

2. Share option incentive scheme (continued)

The performance indicators for the exercise of the share options include:

(1) Rate of Return on Common Stockholders' Equity ("ROE");

(2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

The calculation of the net profit used by the above indicators is based on the net profit before or after extraordinary items whichever is lower. Net assets refer to the net assets attributable to the shareholders of the listed company.

The detailed conditions for the exercise of the share options:

(1) Within the valid period of the Share Incentive Scheme, the net profit attributable to the shareholders of the listed company and the net profit after extraordinary items attributable to the shareholders of the listed company shall not be lower than the average of the three most recent accounting years before the date of grant and shall not be a negative number;

(2) The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	30%	From 1 November 2015 to 31 October 2016	ROE for the year 2014 not less than 6%; growth rate of net profit for the year 2014 not less than 20% compared to 2013
Second exercise period	30%	From 1 November 2016 to 31 October 2017	ROE for the year 2015 not less than 8%; growth rate of net profit for the year 2015 not less than 20% compared to 2014
Third exercise period	40%	From 1 November 2017 to 31 October 2018	ROE for the year 2016 not less than 10%; growth rate of net profit for the year 2016 not less than 44% compared to 2014

The fair value of the share options amounted to RMB524,023,000, among which the share options tariff confirmed by the Company in 2015 amounted to RMB166,829,000.

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XI. SHARE-BASED PAYMENTS (continued)

2. Share option incentive scheme (continued)

(2) The conditions for the exercise of the granted share options: (continued)

Outstanding share options under the scheme are as follows:

	2015		2014	
	Weighted average exercise price* RMB/shares	**Number of share options ('000)**	Weighted average exercise price* RMB/shares	Number of share options ('000)
Opening balance	**13.66**	**102,989**	13.69	102,989
Conversion of capital reserve into share capital	**11.22**	**20,598**	—	—
Lapsed	**11.22**	**(6,974)**	—	—
Exercised during the year	**11.22**	**(25,742)**	—	—
Closing balance	**11.22**	**90,871**	13.66	102,989

The weighted average share price for share options exercised in 2015 as at the date of exercise was RMB11.22. (2014: no exercise of share options).

As at the balance sheet date, the exercise prices for effective exercise periods for outstanding share options are as follows:

2015 Number of share options ('000)	**Exercise price* RMB/shares**	**Effective exercise period**
9,143	**11.22**	1 November 2015 to 31 October 2016
35,026	**11.22**	1 November 2016 to 31 October 2017
46,702	**11.22**	1 November 2017 to 31 October 2018
90,871	**11.22**	

2014 Number of share options ('000)	Exercise price* RMB/shares	Effective exercise period
30,897	13.66	1 November 2015 to 31 October 2016
30,897	13.66	1 November 2016 to 31 October 2017
41,195	13.66	1 November 2017 to 31 October 2018
102,989	13.66	

* The exercise price of the share options is subject to adjustments for share placing, dividend distribution and other similar changes in the share capital of the Company.

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XI. SHARE-BASED PAYMENTS (continued)

2. Share option incentive scheme (continued)

(2) The conditions for the exercise of the granted share options: (continued)

In 2015, the Company issued 25,741,682 ordinary shares as a result of the exercise of 25,741,682 share options. The share capital was enlarged by RMB25,742,000, and the share premium amounted to RMB383,181,000 (before issue expenses). Please refer to Note V.34 and 35.

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		First	Second	Third
Estimated dividend payment (RMB)		0.18	0.18	0.18
Volatility (%)		40.25	39.69	43.18
Risk-free interest rate (%)		3.34	3.40	3.46
Demission rate	Directors & senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	2015	2014
Contracted but not provided of		
Capital commitments	**904,363**	214,356
Investment commitments	**37,465**	8,323
	941,828	222,679

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events

2.1. In August 2006, a customer instituted arbitration against the Company to demand indemnity from the Company in the amount of PKR762,984,000 (approximately RMB47,304,800). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract to demand for damages and payment of outstanding contract amounts. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328,040,000 (approximately RMB20,338,500) is to be paid by the Company. On the balance sheet date, the Company has made provisions for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. Based on the legal opinion furnished by lawyers engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not made any payments of compensation pursuant to the aforesaid judgement.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated. No additional provision in respect of the litigation was made for the year under review.

2.2. In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased, in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Shenzhen Nanshan District People's Court ("Nanshan Court"), pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The Nanshan Court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth filed an appeal against the aforesaid judgement with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth's case with Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth's case with Shenzhen Intermediate Court in May 2014, Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth was not required to pay the penalty payment of RMB12,817,000 to the Company. In response to the aforesaid second trial judgement, the Company had applied to Guangdong Higher Court for retrial. On 21 January 2016, Guangdong Higher Court accepted the application for retrial and decided to proceed with retrial of the case.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.2. (continued)

In October and November 2009, the Company further instituted two lawsuits with Nanshan Court, demanding China Construction Fifth to undertake a penalty payment for work delay in the amount of RMB306,150,000 and the payment of RMB395,370,000, representing the amount of work payments in excess of the total contract amount. Currently, the above cases are under trial suspension.

In July 2009, China Construction Fifth instituted a litigation with the Shenzhen Intermediate People's Court, demanding the Company to make a payment of RMB75,563,000 for raw materials and staff deployment. The Shenzhen Intermediate Court issued its first-trial judgement in November 2012 which ruled contract amounts of approximately RMB14,497,000 together with interest accrued thereon and losses incurred as a result of work delay and suspension amounting to approximately RMB953,000 to be paid by the Company to China Construction Fifth; while RMB20,150,000 withheld by China Construction Fifth together with interest accrued thereon shall be refunded by China Construction Fifth to the Company. Other claims of China Construction Fifth were rejected. China Construction Fifth filed an appeal with Guangdong Higher Court against the said judgement, and Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth should refund to the Company withheld payments in the amount of RMB20,150,000 together with accrued interest. Other claims of China Construction Fifth were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth amounted to RMB2,699,000, of which an amount of RMB654,000 was borne by the Company. In response to the aforesaid second trial judgement, the Company had applied to the Supreme People's Court for retrial, which application was rejected by the Supreme People's Court. Subsequently, the Company filed a protest against such second trial judgement with Guangdong Provincial People's Procuratorate, which admitted the Company's application and referred the case to the Supreme People's Procuratorate for protest. On 24 December 2015, the Supreme People's Procuratorate filed a protest with the Supreme People's Court.

In July 2014, China Construction Fifth instituted a lawsuit with the Nanshan Court, demanding the refund of RMB24,596,000 together with interest of RMB9,118,000 (tentatively accrued to 10 July 2014, although it should be accrued to the date on which the contract work amounts are settled in full), being indemnity claim amounts under a bank performance guarantee letter withheld by the Company. Currently, the above case is under trial suspension.

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

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.3. A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE (USA)") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE (USA) had violated a confidential agreement between UTE and ZTE (USA), for which UTE was seeking compensation of USD20,000,000 in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE (USA), for which UTE was seeking compensation of USD10,000,000 in actual damages and USD20,000,000 in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company and subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. As at the end of the reporting period, the arbitration court had yet to make a final ruling.

The Company, based on the advice from the Group's legal counsel, believes that the ultimate outcome of this claim cannot be reliably estimated.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.4. On 26 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc. (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by ZTE and ZTE USA, a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its initial determination in respect of the case, ruling that one of the patents relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of ITC.

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA have engaged a legal counsel to conduct active defense of the case and will file an appeal based on the verdicts on the three patents involved in the litigation ruled by the court to have been subject to infringement.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.5. On 20 May 2013, ZTE DO BRAZIL LTDA, a wholly-owned subsidiary of the Company ("ZTE Brazil") received another notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interest and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB160 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the primary administrative court under the tax bureau of Sao Paulo State, stating that (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced as a result, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil was notified of the ruling by the primary administrative court under the tax bureau of Sao Paulo State that supported the administrative penalty. On 18 October 2013, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State. The case is awaiting judgement by the secondary administrative court of the tax bureau of Sao Paulo State. As at the balance sheet date of 2013, the Company had made a provision of BRL5.22 million (equivalent to approximately RMB10.33 million) in respect of the said litigation.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim can be reliably estimated. No additional provision in respect of the litigation was made for the year.

2.6. In May 2012, the U.S. Flashpoint Technology Inc. filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing related technologies. Defendants in the case included other companies. In the ITC case, the said company demanded the issue of a limited exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of Delaware, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of Delaware has been suspended. On 1 October 2013, ITC announced the preliminary decision on the case that the Company and ZTE USA did not infringe upon the patent rights as stipulated in Section 337. On 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.7. In July 2012, Technology Properties Limited LLC filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in chips. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA. In addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC announced the preliminary decision on the case that the Company and ZTE USA did not infringe upon the patent rights as stipulated in Section 337. On 19 February 2014, ITC announced the final decision on the case that the Company and ZTE USA did not infringe upon Section 337. The litigation procedure at the Federal District Court of California was resumed in August 2014. There has been no substantial progress in the litigation process.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.8. In November 2012, ZTE Brazil, a wholly-owned subsidiary of the Company, filed an application with Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB52,150,000). On 7 February 2013, Civil Court of Brasilia ruled that given that there was no obvious dispute over obligation between the said Brazilian company and any other company and no sign of bankruptcy, the freeze on the assets was suspended. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB51,932,300) together with accrued interests and an adjustment amount for inflation. Currently, the Brazilian company has yet to file any appeal.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanded compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB138 million). The Company has appointed an external legal counsel to conduct active defense in respect of the said case.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.9 In March 2016, Bureau of Industry and Security of the Department of Commerce of the United States of America ("BIS") has announced the export restriction and related decisions about the Company, more details of which were set out in note XIII to the financial statement. Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the above matter, the Company currently believes that the related investigation results are uncertain. It may lead to the uncertainty of the outflow of future economic benefit, and the financial impact of the related contingent liabilities cannot be reliably estimated.

2.10. As at 31 December 2015, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB7,656,101,000 (31 December 2014: RMB7,458,959,000).

2.11. As at 31 December 2015, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB50,000,000 (31 December 2014: RMB67,390,000).

XIII. EVENTS AFTER THE REPORTING PERIOD

1. 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.

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XIII. EVENTS AFTER THE REPORTING PERIOD (continued)

2. 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 of the Company will be entitled to the dividend, and the total amount of dividend payment will be not more than RMB1,040,000,000.

XIV. OTHER SIGNIFICANT MATTERS

1. Operating Leases

As lessee:

According to the lease contract signed with lessors, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015	2014
Within one year (including first year)	**223,696**	282,519
In the first to second years (including second year)	**74,770**	122,796
In the second to third years (including third year)	**28,552**	76,897
After the third year	**84,454**	36,648
	411,472	518,860

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XIV. OTHER SIGNIFICANT MATTERS (continued)

1. Operating Leases (continued)

As lessor:

The Group entered into operating property leasing contracts with terms ranging from 6 months to 15 years with certain lessees. The leased properties were accounted for as investment properties. Please refer to Note V.12. According to the lease contract signed with the lessees, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015	2014
Within one year (including first year)	**91,882**	56,573
In the first to second years (including second year)	**54,643**	54,338
In the second to third years (including third year)	**41,879**	54,031
After the third year	**403,159**	445,038
	591,563	609,980

2. Segment reporting

Operating segments

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

(1) The carriers' network business 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.

(2) 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.

(3) The government and corporate network 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.

Notes to Financial Statements

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(All amounts in RMB'000 unless otherwise stated)
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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

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

Segment assets exclude derivative financial instruments, deferred tax assets, cash, long-term equity investments, other receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds payables, tax payable, deferred tax liabilities 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.

Notes to Financial Statements

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

2015

	Carriers' Networks	Consumer Business	Government and Corporate Business	Total
Segment revenue				
Revenue from external transactions	57,222,754	32,466,961	10,496,674	100,186,389
Sub-total	57,222,754	32,466,961	10,496,674	100,186,389
Segment results	13,738,093	1,376,493	2,896,110	18,010,696
Unallocated revenue				4,442,945
Unallocated cost				(16,598,911)
Finance costs				(1,430,794)
Gain from changes in fair values				(183,682)
Investment income from associates and joint ventures				63,278
Total profit				4,303,532
Total assets				
Segment assets	40,619,357	17,396,973	7,586,929	65,603,259
Unallocated assets				55,290,638
Sub-total				120,893,897
Total liabilities				
Segment liabilities	7,800,164	2,068,528	1,456,923	11,325,615
Unallocated liabilities				66,219,677
Sub-total				77,545,292
Supplemental information				
Depreciation and amortization expenses	1,207,306	685,000	221,463	2,113,769
Capital expenditure	1,788,954	1,015,015	328,158	3,132,127
Asset impairment losses	1,249,402	708,884	229,185	2,187,471

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

2014

	Carriers' Networks	Consumer Business	Government and Corporate Business	Total
Segment revenue				
Revenue from external transactions	43,943,780	28,643,949	8,883,546	81,471,275
Sub-total	43,943,780	28,643,949	8,883,546	81,471,275
Segment results	10,539,878	1,073,525	2,507,360	14,120,763
Unallocated revenue				3,787,643
Unallocated cost				(12,364,446)
Finance costs				(2,100,977)
Gain from changes in fair values				148,282
Investment losses from associates and joint ventures				(53,043)
Total profit				3,538,222
Total assets				
Segment assets	37,673,373	17,713,864	7,607,447	62,994,684
Unallocated assets				43,219,512
Sub-total				106,214,196
Total liabilities				
Segment liabilities	8,390,249	1,923,530	1,694,257	12,008,036
Unallocated liabilities				67,913,656
Sub-total				79,921,692
Supplemental information				
Depreciation and amortization expenses	984,793	641,920	199,083	1,825,796
Capital expenditure	1,476,055	962,140	298,395	2,736,590
Asset impairment losses	648,457	422,685	131,090	1,202,232

Notes to Financial Statements

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

	2015	2014
The PRC	**53,108,499**	40,583,527
Asia (excluding the PRC)	**14,820,285**	12,131,576
Africa	**6,979,537**	6,174,187
Europe, America and Oceania	**25,278,068**	22,581,985
	100,186,389	81,471,275

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	2015	2014
The PRC	**12,708,691**	11,812,310
Asia (excluding the PRC)	**1,329,223**	1,198,456
Africa	**354,310**	375,623
Europe, America and Oceania	**1,001,187**	1,130,718
	15,393,411	14,517,107

Non-current assets are analysed by geographic locations where the assets (excluding long-term equity investments, financial assets, deferred tax assets and other non-current assets) are located.

Information of major customers

Operating revenue of RMB18,843,207,000 was derived from carriers' network and consumer business revenue from one major customer (2014: RMB17,963,359,000 from one major customer).

3. Comparative data

Certain comparative data have been restated to comply with the presentation requirement for the year.

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

Aging analysis of trade receivables:

	2015	2014
Within 1 year	**26,989,228**	27,795,706
1–2 years	**4,442,095**	5,042,898
2–3 years	**2,518,017**	2,788,914
Over 3 years	**6,198,292**	4,131,488
	40,147,632	39,759,006
Less: bad debt provision for trade receivables	**4,018,645**	3,138,286
	36,128,987	36,620,720

	2015				2014			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
	Amount	**Percentage (%)**	**Amount**	**Percentage (%)**	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	**422,515**	**1**	**422,515**	**100**	458,033	1	458,033	100
For which bad debt provision has been collectively made								
0–6 months	**23,327,507**	**59**	**—**	**—**	23,497,793	59	—	—
7–12 months	**3,633,304**	**9**	**154,226**	**4**	4,297,913	11	160,968	4
13–18 months	**3,178,010**	**8**	**575,048**	**18**	3,631,313	9	311,189	9
19–24 months	**1,264,085**	**3**	**557,141**	**44**	1,411,584	4	430,435	30
2–3 years	**2,518,017**	**6**	**806,122**	**32**	2,786,001	7	834,942	30
Over 3 years	**5,804,194**	**14**	**1,503,593**	**26**	3,676,369	9	942,719	26
	39,725,117	**99**	**3,596,130**	**9**	39,300,973	99	2,680,253	7
	40,147,632	**100**	**4,018,645**		39,759,006	100	3,138,286	

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

1. Trade receivables (continued)

Movements in bad-debt provisions for trade receivables:

	Opening balance	Provision for the year	Write back for the year	Write off/ cancellation for the year	Closing balance
2015	**3,138,286**	**1,072,946**	**(158,612)**	**(33,975)**	**4,018,645**
2014	2,772,332	414,061	—	(48,107)	3,138,286

For 2015, RMB33,975,000 was cancelled and RMB45,650,000 was written back in respect of trade receivables which were individually significant and for which bad-debt provision had been made separately (2014: Nil).

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables".

2. Other receivables

The aging analysis of other receivables:

	2015	2014
Within 1 year	**3,101,265**	379,947
1 to 2 years	**279,447**	2,962,180
2 to 3 years	**2,661,630**	2,068,545
Over 3 years	**2,616,751**	928,261
	8,659,093	6,338,933

Other receivables are classified as follows:

	2015	2014
Staff loans	**215,216**	72,698
Transactions with third parties	**8,443,877**	6,266,235
	8,659,093	6,338,933

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

3. Available-for-sale financial assets

	2015	2014
Available-for-sale equity instruments		
At cost	366,724	373,555

Available-for-sale financial assets at cost:

2015

	Book balance				Shareholding percentage	Cash dividend for the year
	Opening balance	Increase during the year	Decrease during the year	Closing balance	(%)	
航天科技投資控股有限公司	201,734	—	—	201,734	5%	981
Others	171,821	—	(6,831)	164,990		14,000
	373,555	—	(6,831)	366,724		14,981

2014

	Book balance				Shareholding percentage	Cash dividend for the year
	Opening balance	Increase during the year	Decrease during the year	Closing balance	(%)	
航天科技投資控股有限公司	201,734	—	—	201,734	5%	10,647
Others	171,821	—	—	171,821		4,804
	373,555	—	—	373,555		15,451

4. Long-term receivables

	2015	2014
Loans granted to subsidiaries (Note 1)	5,581,046	5,234,574
Installment payments for the provision of telecommunication system construction projects	380,812	296,620
Less: Bad debt provision for long-term receivables	53,361	50,949
	5,908,497	5,480,245

Note 1 Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term receivables (continued)

Movements in bad debt provision for long-term receivables during the year are as follows:

	Opening balance	Provision for the year	Write-back for the year	Write-back for the year	Cancellation for the year	Closing balance
2015	**50,949**	**2,412**	**—**	**—**	**—**	**53,361**
2014	50,098	851	—	—	—	50,949

The discount rates adopted for long-term receivables ranged from 6.16% to 17.56%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables".

5. Long-term equity investments

		2015	2014
Equity method			
Joint ventures	(1)	**55,548**	55,721
Associates	(2)	**431,327**	337,847
Less: Provision for impairment in long-term equity investments		**4,764**	—
		482,111	393,568
Cost method			
Subsidiaries	(3)	**6,947,646**	6,570,188
Less: Provision for impairment in long-term equity investments	(4)	**78,849**	79,345
		6,868,797	6,490,843
		7,350,908	6,884,411

2015

(1) Joint ventures

	Opening balance	Change during the year: Increase	Decrease	Investment gain/loss under equity method	Other comprehensive income	Other changes in equity	Cash dividend declared	Provision for impairment	Closing book value	Provision for impairment at year-end
普興移動通訊設備有限公司	50,485	–	–	3,271	–	–	–	–	53,756	–
江蘇中興微通信息科技有限公司	5,236	–	–	(3,444)	–	–	–	–	1,792	–
	55,721	–	–	(173)	–	–	–	–	55,548	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2015 (continued)

(2) Associates

		Change during the year								
	Opening balance	Increase	Decrease	Investment gain/loss under equity method	Other Comprehensive income	Other changes in equity	Cash dividend declared	Provision for impairment	Closing book value	Provision for impairment at year-end
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
ZTE Software Technology (Nanchang) Company Limited	–	–	–	3,722	–	–	–	–	3,722	–
ZTE Energy Company Limited	265,706	–	–	88,006	–	–	–	–	353,712	–
思卓中興（杭州）科技有限公司	20,012	–	–	831	–	–	–	–	20,843	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	7,016	–	–	(1,084)	–	–	(853)	–	5,079	–
上海中興群力信息科技有限公司	22,427	–	–	(4,176)	–	–	–	–	18,251	–
北京億科三友科技發展有限公司	4,764	–	–	–	–	–	–	(4,764)	–	(4,764)
上海中興思秸通訊有限公司	13,789	–	–	(3,599)	–	–	–	–	10,190	–
中興江蘇耀維科技	–	4,600	–	(83)	–	–	–	–	4,517	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	–	7,354	–	(2,502)	–	–	–	–	4,852	–
江蘇中興華易科技發展有限公司	1,656	–	–	1,264	–	–	–	–	2,920	–
	337,847	11,954	–	82,379	–	–	(853)	(4,764)	426,563	(4,764)

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2015 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholdings	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	1,000,000
ZTEsoft Technology Company Limited	89,921	89,921	–	89,921	80.10%	80.10%	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90%	90%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	–
ZTE Microelectronics Technology Company Limited	91,957	102,174	(10,217)	91,957	68.4%	68.4%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	11,329	168,438	179,767	90%	90%	3,997
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
Nubia Technology Limited	321,407	321,407	–	321,407	60%	60%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100%	100%	71,249
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	–	40,500	83%	83%	–
Guangdong New Pivot Technology & Service Company Limited	13,110	13,110	–	13,110	90%	90%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100%	100%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90%	90%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–
中興國通通訊裝備技術（北京）有限公司	15,200	15,200	–	15,200	76%	76%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100%	100%	–
PT. ZTE Indonesia	15,275	15,275	–	15,275	100%	100%	–
ZTE Wistron Telecom AB (Europe Research Institute)	2,137	2,137	–	2,137	100%	100%	–
ZTE (Malaysia) Corporation SDN. BHD	–	496	(496)	–	100%	100%	–
ZTE Holdings (Thailand) Co., Ltd	10	10	–	10	100%	100%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100%	100%	–
ZTE (USA) Inc.	190,133	190,133	–	190,133	100%	100%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	100%	100%	–
ZTE DoBrasil LTDA	18,573	18,573	–	18,573	100%	100%	–
ZTE Romania S.R.L	827	827	–	827	100%	100%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100%	100%	–
ZTE-Communication Technologies, Ltd.	6,582	6,582	–	6,582	100%	100%	–
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	–	5,279	93%	93%	–
Closed Joint Stock Company TKMobile	16,871	16,871	–	16,871	51%	51%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55%	55%	6,050
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2015 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholdings	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	215,400	257,400	(42,000)	215,400	31%	*	–
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100%	100%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100%	100%	–
Shenzhen Zhongxing Supply Chain Co., Ltd	28,500	28,500	–	28,500	95%	95%	–
北京中興網捷科技有限公司	159,341	159,341	–	159,341	100%	100%	–
安徽中興通訊傳媒有限責任公司	–	300	(300)	–	100%	100%	–
北京中興高達通訊技術有限公司 (formerly known "深圳市中興高達技術有限公司")	45,125	45,125	–	45,125	95%	95%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100%	100%	–
天津中興智聯科技有限公司	29,340	32,600	(3,260)	29,340	100%	100%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100%	100%	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95%	95%	–
中興新能源汽車有限責任公司	42,500	42,500	–	42,500	85%	85%	–
西安中興通訊終端科技有限公司	300,000	300,000	–	300,000	100%	100%	–
中興健康科技有限公司	15,000	15,000	–	15,000	50%	50%	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	–	9,000	(9,000)	–	100%	100%	–
深圳市中興智谷科技有限公司	15,000	15,000	–	15,000	100%	100%	–
嘉興市興和股權投資合夥企業	100,000	100,000	–	100,000	30%	*	–
中興捷維通訊技術有限責任公司	46,530	–	46,530	46,530	90%	90%	–
深圳市興聯達科技有限公司	30,000	–	30,000	30,000	100%	100%	–
西安中興精誠科技有限公司	9,393	–	9,393	9,393	100%	100%	–
Beijing Zhongbao Net Shield Technology Company Limited	20,000	–	20,000	20,000	100%	100%	–
Henan ZTE Photovoltaic Technology Company Limited	3,000	–	3,000	3,000	100%	100%	–
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	–	19,500	19,500	65%	65%	–
Changsha ZTE Smart Technology Company Limited	10,000	–	10,000	10,000	100%	100%	–
深圳市中興視通科技有限公司	35,400	–	35,400	35,400	100%	100%	–
ZTE (Wenzhou) Rail Communications Technology Company Limited	25,500	–	25,500	25,500	51%	51%	–
ZTE (Shenyang) Financial Technology Company Limited	22,000	–	22,000	22,000	100%	100%	–
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	–	50,000	50,000	100%	100%	–
Nanjing ZTE Investment Management Company Limited	950	–	950	950	95%	95%	–
ZTE (Huai'an) Smart Industries Company Limited	1,020	–	1,020	1,020	51%	51%	–
Shenzhen Zhiheng Technology Company Limited	1,000	–	1,000	1,000	100%	100%	–
		6,570,188	377,458	6,947,646			1,081,296

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2015 (continued)

(3) Subsidiaries (continued)

* The subsidiary was a limited partnership in which the Company held less than 50% shareholding, but the general partner which exercised management and control was a company controlled by the Company. Hence the Company was in a position to exercise control over this subsidiary.

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Nubia Technology Limited	17,657	—	17,657
ZTE DoBrasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L	827	—	827
ZTE (Malaysia) Corporation SDN. BHD	496	(496)	—
	79,345	(496)	78,849

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2014

(1) Joint ventures

		Change during the year								
	Opening balance	Increase	Decrease	Investment gain/loss under equity method	Other comprehensive income	Other changes in equity	Cash dividend declared	Provision for impairment	Closing book value	Provision for impairment at year-end
普興移動通訊設備有限公司	46,005	–	–	4,480	–	–	–	–	50,485	–
江蘇中興微通信息科技有限公司	9,000	–	–	(3,764)	–	–	–	–	5,236	–
	55,005	–	–	716	–	–	–	–	55,721	–

(2) Associates

		Change during the year								
	Opening balance	Increase	Decrease	Investment gain/loss under equity method	Other comprehensive income	Other changes in equity	Cash dividend declared	Provision for impairment	Closing book value	Provision for impairment at year-end
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
思卓中興（杭州）科技有限公司	19,501	–	–	511	–	–	–	–	20,012	–
上海中興群力信息科技有限公司	24,851	–	–	(2,424)	–	–	–	–	22,427	–
ZTE Energy Co., Ltd	315,822	–	–	(50,116)	–	–	–	–	265,706	–
ZTE Software Technology (Nanchang) Company Limited	973	–	–	(973)	–	–	–	–	–	–
Shenzhen Zhongxing Hetai Hotel investment Management Company Limited	5,795	–	–	1,221	–	–	–	–	7,016	–
北京億科三友科技發展有限公司	4,764	–	–	–	–	–	–	–	4,764	–
上海中興思秸通訊有限公司	–	17,304	–	(3,515)	–	–	–	–	13,789	–
江蘇中興華易科技發展有限公司	–	5,380	–	(3,724)	–	–	–	–	1,656	–
	374,183	22,684	–	(59,020)	–	–	–	–	337,847	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2014 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholdings	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	2,000,000
ZTEsoft Technology Company Limited	89,921	89,921	–	89,921	80.10%	80.10%	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90%	90%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	–
ZTE Microelectronics Technology Company Limited	102,174	102,174	–	102,174	100%	100%	–
Anhui Wantong Posts and Telecommunication Company Limited	11,329	11,329	–	11,329	51%	51%	3,145
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
Nubia Technology Limited	321,407	321,407	–	321,407	90%	90%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100%	100%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	–	40,500	83%	83%	–
Guangdong New Pivot Technology & Service Company Limited	13,110	13,110	–	13,110	90%	90%	1,800
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100%	100%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90%	90%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–
中興國通通訊裝備技術（北京）有限公司	15,200	15,200	–	15,200	76%	76%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100%	100%	–
PT. ZTE Indonesia	15,275	15,275	–	15,275	100%	100%	–
Telrise (Cayman) Telecom Limited	–	21,165	(21,165)	–	100%	100%	–
ZTE Wistron Telecom AB (Europe Research Institute)	2,137	2,137	–	2,137	100%	100%	–
ZTE (Malaysia) Corporation SDN. BHD	496	496	–	496	100%	100%	–
ZTE Holdings (Thailand) Co., Ltd	10	10	–	10	100%	100%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100%	100%	–
ZTE (USA) Inc.	190,133	190,133	–	190,133	100%	100%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	100%	100%	–
ZTE DoBrasil LTDA	18,573	18,573	–	18,573	100%	100%	–
ZTE Romania S.R.L	827	827	–	827	100%	100%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100%	100%	–
ZTE-Communication Technologies, Ltd.	6,582	6,582	–	6,582	100%	100%	–
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	–	5,279	93%	93%	–

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2014 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholdings	Percentage of voting rights	Cash dividend for the year
Closed Joint Stock Company TKMobile	16,871	16,871	–	16,871	51%	51%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55%	55%	5,500
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	257,400	278,700	(21,300)	257,400	30%	*	–
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100%	100%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100%	100%	–
Shenzhen Zhongxing Supply Chain Co., Ltd	28,500	28,500	–	28,500	95%	95%	–
北京中興網捷科技有限公司	159,341	159,341	–	159,341	100%	100%	–
安徽中興通訊傳媒有限責任公司	300	300	–	300	100%	100%	–
北京中興高達通訊技術有限公司(formerly known "深圳市中興高達技術有限公司")	45,125	45,125	–	45,125	95%	95%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100%	100%	–
天津中興智聯科技有限公司	32,600	32,600	–	32,600	100%	100%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100%	100%	–
福建海絲路科技有限公司	47,500	10,000	37,500	47,500	95%	95%	–
中興新能源汽車有限責任公司	42,500	–	42,500	42,500	85%	85%	–
西安中興通訊終端科技有限公司	300,000	–	300,000	300,000	100%	100%	–
中興健康科技有限公司	15,000	–	15,000	15,000	50%	50%	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited\	9,000	–	9,000	9,000	100%	100%	–
深圳市中興智谷科技有限公司	15,000	–	15,000	15,000	100%	100%	–
嘉興市興和股權投資合夥企業	100,000	–	100,000	100,000	30%	*	–
		6,093,653	476,535	6,570,188			2,010,445

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2014 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Telrise (Cayman) Telecom Limited	12,970	(12,970)	—
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Nubia Technology Limited	17,657	—	17,657
ZTE DoBrasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L	827	—	827
ZTE (Malaysia) Corporation SDN. BHD	496	—	496
	92,315	(12,970)	79,345

6. Operating revenue and costs

	2015		2014	
	Revenue	**Cost**	Revenue	Cost
Revenue	**75,312,227**	**74,905,452**	63,084,800	64,424,944
Other income	**14,453,480**	**982**	13,513,540	1,397
	89,765,707	**74,906,434**	76,598,340	64,426,341

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

7. Investment income

	2015	2014
Investment income/(loss) from long-term equity investment under equity method	**82,206**	(58,304)
Investment income from long-term equity investment under cost method	**1,081,296**	2,010,445
Investment income from available-for-sale financial assets during the period of holding	**14,981**	15,451
Investment income from financial assets at fair value through profit and loss for the period of holding	**77,266**	56,907
Investment income from the disposal of available-for-sale financial assets	**39,177**	—
Investment income/(loss) from the disposal of long-term equity investment	**66,655**	(6,852)
	1,361,581	2,017,647

Supplementary Information to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Amount for 2015
Loss from the disposal of non-current assets	(28,874)
Investment gain from disposal of long-term equity investment	9,789
Profit of changes in fair value arising from trading financial assets and trading financial liabilities except for valid hedge business relevant to normal business of the company, as well as investment gain realised from disposal of trading financial assets and trading financial liabilities	252,617
Gain from change in fair value of investment properties	5,931
Net amount of other non-operating income and expenses	508,148
	747,611
Effect of income tax	(112,142)
Effect of minority interests (after taxation)	(5,509)
	629,960

Note 1 The Group recognizes extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items" (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	Amount for 2015	Reason
Refund of VAT on software products	2,528,095	In line with national policies and received on an ongoing basis
Refund of individual tax	15,166	In line with national policies and received on an ongoing basis
Special assistance fund	391,958	In line with national policies and received on an ongoing basis
Investment income from venture capital company	155,317	Operation of businesses within designated scope

Supplementary Information to Financial Statements

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

2015

	Weighted average return on net assets (%)	Earnings per share	
		Basic	**Diluted**
Net profit attributable to ordinary shareholders of the Company	**12.28%**	**RMB0.78**	**RMB0.77**
Net profit after extraordinary items attributable to ordinary shareholders of the Company	**9.87%**	**RMB0.62**	**RMB0.62**

2014

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	11.10%	RMB0.64	RMB0.64
Net profit after extraordinary items attributable to ordinary shareholders of the Company	8.74%	RMB0.50	RMB0.50

3. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs. Ernst & Young is the auditor for the Group and Company's financial statements prepared under HKFRSs.

Independent Auditors' Report

EY 安永

To the shareholders of ZTE Corporation
(Established in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of ZTE Corporation (the "Company") and its subsidiaries set out on pages 330 to 439, which comprise the consolidated statement of financial position as at 31 December 2015, and 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 then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility For The Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

Independent Auditors' Report (continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Certified Public Accountants
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

6 April 2016

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Notes	2015 RMB'000	2014 RMB'000
REVENUE	5	**100,186,389**	81,471,275
Cost of sales		**(71,093,321)**	(57,759,027)
Gross profit		**29,093,068**	23,712,248
Other income and gains	5	**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	7	**(1,269,080)**	(1,561,674)
Share of profits and losses of:			
Joint ventures		**(5,281)**	716
Associates		**68,559**	(53,759)
PROFIT BEFORE TAX	6	**4,303,532**	3,538,222
Income tax expense	10	**(563,262)**	(810,492)
PROFIT FOR THE YEAR		**3,740,270**	2,727,730
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
		3,740,270	2,727,730
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		**(367,195)**	(295,834)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**353,722**	(320,439)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Share of investee results in other comprehensive income under the equity method which will not be reclassified to profit or loss in subsequent periods		**—**	3,434
Actuarial loss on defined benefit plans	32	**(26,066)**	(16,599)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**(26,066)**	(13,165)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**327,656**	(333,604)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**4,067,926**	2,394,126
Attributable to:			
Ordinary equity holders of the parent		**2,987,093**	2,269,999
Perpetual capital instruments		**416,627**	—
Non-controlling interests		**664,206**	124,127
		4,067,926	2,394,126
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**RMB0.78**	RMB0.64
Diluted		**RMB0.77**	RMB0.64

Consolidated Statement of Financial Position

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

	Notes	**31 December 2015 RMB'000**	31 December 2014 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**8,368,754**	7,664,442
Prepaid land lease payments	15	**1,214,106**	1,082,208
Intangible assets	16	**3,772,451**	3,741,514
Investment properties	14	**2,010,396**	2,004,465
Investments in joint ventures	18	**77,341**	67,607
Investments in associates	19	**483,598**	393,709
Available-for-sale investments	20	**2,381,467**	1,739,664
Long-term trade receivables	23	**362,831**	266,501
Factored long-term trade receivables	24	**1,593,528**	1,701,978
Deferred tax assets	35	**1,434,143**	1,284,493
Pledged deposits	27	**3,515,601**	3,744,472
Long-term prepayments, deposits and other receivables	17	**359,587**	273,158
Total non-current assets		**25,573,803**	23,964,211
CURRENT ASSETS			
Prepaid land lease payments	15	**27,704**	24,478
Inventories	21	**19,731,741**	19,592,298
Amount due from customers for contract works	22	**13,928,446**	11,033,468
Trade and bills receivables	23	**28,714,645**	27,239,734
Factored trade receivables	24	**1,272,068**	3,160,705
Prepayments, deposits and other receivables	25	**7,304,441**	6,882,868
Derivative financial instruments	26	**10,110**	240,973
Pledged deposits	27	**1,202,984**	718,306
Time deposits with original maturity of over three months	27	**205,029**	167,428
Cash and cash equivalents	27	**26,616,996**	17,230,140
Total current assets		**99,014,164**	86,290,398
CURRENT LIABILITIES			
Trade and bills payables	28	**32,817,995**	29,626,088
Amount due to customers for contract works	22	**4,423,103**	3,825,106
Other payables and accruals	29	**15,003,939**	14,856,936
Derivative financial instruments	26	**19,840**	70,604
Interest-bearing bank borrowings	30	**12,525,176**	11,041,149
Bank advances on factored trade receivables	24	**1,273,346**	3,175,432
Tax payable		**484,627**	489,141
Dividends payable		**7,418**	8,113
Bonds payable	31	**4,000,000**	6,131,185
Provision	34	**776,682**	741,391
Total current liabilities		**71,332,126**	69,965,145
NET CURRENT ASSETS		**27,682,038**	16,325,253
TOTAL ASSETS LESS CURRENT LIABILITIES		**53,255,841**	40,289,464

Consolidated Statement of Financial Position (continued)

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

	Notes	**31 December 2015 RMB'000**	31 December 2014 RMB'000
NON-CURRENT LIABILITIES			
Derivative financial instruments	26	**—**	881
Interest-bearing bank borrowings	30	**6,016,254**	10,039,687
Bank advances on factored long-term trade receivables	24	**1,593,528**	1,701,978
Financial guarantee contract	42	**3,689**	3,689
Deferred tax liabilities	35	**52,769**	159,340
Provision for retirement benefits	32	**144,280**	115,450
Other non-current liabilities	33	**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	36	**4,150,791**	3,437,541
Reserves	38	**25,509,303**	21,441,033
		29,660,094	24,878,574
Perpetual capital instruments	39	**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

Consolidated Statement of Changes in Equity

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

		Attributable to ordinary equity holders of the parent									
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2014		3,437,541	9,479,879	(11,072)	22,856	1,613,195	(1,046,665)	9,036,914	22,532,648	1,093,041	23,625,689
Profit for the year		–	–	–	–	–	–	2,633,571	2,633,571	94,159	2,727,730
Other comprehensive income for the year:											
Cash flow hedges, net of tax		–	–	3,965	–	–	–	–	3,965	–	3,965
Actuarial losses on defined benefit plans		–	(16,599)	–	–	–	–	–	(16,599)	–	(16,599)
Changes in fair value of available-for-sale investments, net of tax		–	(40,800)	–	–	–	–	–	(40,800)	12,230	(28,570)
Share of investee results in other comprehensive income under the equity method which will not be reclassified to profit or loss in subsequent periods		–	3,090	–	–	–	–	–	3,090	344	3,434
Exchange differences on translation of foreign operations of foreign operations		–	–	–	–	–	(313,228)	–	(313,228)	17,394	(295,834)
Total comprehensive income/(loss) for the year		–	(54,309)	3,965	–	–	(313,228)	2,633,571	2,269,999	124,127	2,394,126
Disposal of fractional shares		–	812	–	–	–	–	–	812	–	812
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	(7,748)	(7,748)
Capital contributions by non-controlling shareholders		–	–	–	–	–	–	–	–	253,500	253,500
Capital withdrawal by non-controlling shareholders		–	–	–	–	–	–	–	–	(48,990)	(48,990)
Final 2013 dividend declared		–	–	–	–	–	–	(103,126)	(103,126)	–	(103,126)
Share Incentive Scheme:	37										
– Equity-settled share option expense		–	–	–	178,241	–	–	–	178,241	–	178,241
Transfer from retained profits		–	–	–	–	155,817	–	(155,817)	–	–	–
At 31 December 2014		3,437,541	9,426,382	(7,107)	201,097	1,769,012	(1,359,893)	11,411,542*	24,878,574	1,413,930	26,292,504

* Retained profits have been adjusted for the proposed final 2014 dividend in accordance with the current year's presentation, which is described in note 2.4 to the financial statements.

Consolidated Statement of Changes in Equity (continued)

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

		Attributable to ordinary equity holders of the parent										
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2015		3,437,541	9,426,382	(7,107)	201,097	1,769,012	(1,359,893)	11,411,542	24,878,574	–	1,413,930	26,292,504
Profit for the year		–	–	–	–	–	–	3,207,885	3,207,885	416,627	115,758	3,740,270
Other comprehensive income for the year:												
Hedges, net of tax		–	–	8,499	–	–	–	–	8,499	–	–	8,499
Actuarial losses on defined benefit plans		–	(26,066)	–	–	–	–	–	(26,066)	–	–	(26,066)
Changes in fair value of available-for-sale investments, net of tax		–	163,724	–	–	–	–	–	163,724	–	548,694	712,418
Exchange differences on translation of foreign operations		–	–	–	–	–	(366,949)	–	(366,949)	–	(246)	(367,195)
Total comprehensive income/(loss) for the year		–	137,658	8,499	–	–	(366,949)	3,207,885	2,987,093	416,627	664,206	4,067,926
Issue of shares		25,742	383,181	–	(120,101)	–	–	–	288,822	–	–	288,822
Issuance of perpetual capital instruments		–	–	–	–	–	–	–	–	8,904,700	–	8,904,700
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(13,968)	(13,968)
Capital contributions by non-controlling shareholders		–	2,026,284	–	–	–	–	–	2,026,284	–	2,487,591	4,513,875
Acquisition of non-controlling shareholders		–	–	–	–	–	–	–	–	–	(10,175)	(10,175)
Capital withdrawal by non-controlling shareholders		–	–	–	–	–	–	–	–	–	(174,400)	(174,400)
Final 2014 dividend declared		–	–	–	–	–	–	(687,508)	(687,508)	–	–	(687,508)
Share Incentive Scheme:	37											
– Equity-settled share option expense		–	–	–	166,829	–	–	–	166,829	–	–	166,829
Transfer from capital reserve		687,508	(687,508)	–	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	–	253,697	–	(253,697)	–	–	–	–
At 31 December 2015		4,150,791	11,285,997*	1,392*	247,825*	2,022,709*	(1,726,842)*	13,678,222*	29,660,094	9,321,327	4,367,184	43,348,605

* These reserve accounts comprise the consolidated reserves of approximately RMB25,509,303,000 (2014: RMB21,441,033,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

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

	Notes	2015 RMB'000	2014 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**4,303,532**	3,538,222
Adjustments for:			
Finance costs	7	**1,269,080**	1,561,674
Share of profits and losses of joint ventures		**5,281**	(716)
Share of profits and losses of associates		**(68,559)**	53,759
Bank and other interest income	5	**(527,886)**	(433,604)
Dividend income	5	**(25,005)**	(32,176)
Loss on disposal of items of property, plant and equipment	6	**28,874**	35,661
(Gain)/loss on disposal of equity interests	6	**(9,789)**	4,181
Gain on disposal of available-for-sale investments	6	**(297,974)**	(13,483)
Fair value loss/(gain) on derivative instruments	6	**189,614**	(17,976)
Gain on disposal of derivative financial instruments	6	**(299,573)**	(146,039)
Depreciation	13	**1,131,453**	975,691
Recognition of prepaid land lease payments	15	**26,484**	23,050
Amortisation of intangible assets	16	**955,832**	827,055
Write-down of inventories to net realisable value	6	**567,014**	523,950
Impairment of trade receivables	6	**1,602,446**	675,522
Impairment of property, plant and equipment	6	**13,247**	2,760
Impairment of a long-term investment	6	**4,764**	—
Equity-settled share option expense	6	**166,829**	178,241
Changes in fair value of investment properties	6	**(5,931)**	(130,306)
		9,029,733	7,625,466
Increase in inventories		**(706,457)**	(7,681,897)
(Increase)/decrease in the amount due from customers for contract works		**(2,894,978)**	1,103,676
Increase in trade and bills receivables		**(1,337,357)**	(3,021,328)
(Increase)/decrease in long-term trade receivables		**(96,330)**	100,261
Decrease in factored trade receivables		**1,997,087**	787,643
Increase in prepayments, deposits and other receivables		**(988,600)**	(2,344,183)
Increase in trade and bills payables		**3,191,907**	4,636,985
Increase in the amount due to customers for contract works		**597,997**	142,542
(Decrease)/increase in other payables and accruals		**(829,050)**	1,985,077
Increase in other non-current assets		**—**	(7,583)
Increase in provision for retirement benefits		**2,764**	3,045
Cash generated from operations		**7,966,716**	3,329,704
Interest received		**555,354**	421,190
Interest and other finance costs paid		**(1,355,453)**	(1,720,785)
Hong Kong profits tax paid		**(73,812)**	(14,058)
PRC taxes paid		**(487,258)**	(260,896)
Overseas taxes paid		**(262,927)**	(515,569)
Dividends paid		**(687,508)**	(103,126)
Dividends paid to non-controlling shareholders		**(14,663)**	(34,598)
Net cash flows from operating activities		**5,640,449**	1,101,862

Consolidated Statement of Cash Flows (continued)

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

	Notes	**2015 RMB'000**	2014 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to prepaid land lease payments		**(161,608)**	(42,066)
Purchases of items of property, plant and equipment		**(1,603,693)**	(1,007,144)
Purchases of intangible assets		**(703,809)**	(1,018,394)
Proceeds from disposal of items of property, plant and equipment		**23,734**	72,015
Acquisition of joint ventures		**(60,758)**	—
Capital contribution in associates		**(27,163)**	(32,731)
Purchases of available-for-sale investments		**(488,286)**	(220,000)
Addition to other receivables		**129,183**	68,530
Disposal of subsidiaries		**12,227**	289,890
Acquisition of a subsidiary		**—**	71,876
Dividend received from associates		**853**	—
Dividend received from available-for-sale investments		**25,005**	5,593
Proceeds from available-for-sale investments		**650,155**	88,642
Settlement of derivative financial instruments		**578,805**	154,240
Increase in time deposits with original maturity of over three months		**(37,601)**	(91,308)
Increase in pledged bank deposits		**(255,807)**	(357,240)
Decrease/(increase) in other non-current assets		**50,000**	(4,191)
Net cash flows used in investing activities		**(1,868,763)**	(2,022,288)
CASH FLOWS FROM FINANCING ACTIVITIES			
Disposal of fractional shares		**—**	812
Proceeds from exercise of share option		**288,822**	—
Issuance of perpetual capital instruments		**8,904,700**	—
Capital contribution by non-controlling shareholders		**2,719,680**	253,500
Return capital to non-controlling shareholders		**(174,400)**	—
Acquisition of non-controlling interests		**—**	(48,990)
New bank loans		**17,736,335**	39,500,323
Repayment of bank loans		**(21,825,016)**	(40,810,074)
Decrease in bank advances on factored trade receivables		**(2,010,536)**	(811,489)
Net cash flows from/(used in) financing activities		**5,639,585**	(1,915,918)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**9,411,271**	(2,836,344)
Cash and cash equivalents at beginning of year		**17,230,140**	20,118,274
Effect of foreign exchange rate changes, net		**(24,415)**	(51,790)
CASH AND CASH EQUIVALENTS AT END OF YEAR	27	**26,616,996**	17,230,140
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	27	**26,073,938**	13,528,462
Time deposits with original maturity of less than three months	27	**543,058**	3,701,678
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**26,616,996**	17,230,140

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1. CORPORATE AND GROUP INFORMATION

ZTE Corporation (the "Company") is a limited liability company established in the People's Republic of China (the "PRC").

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the design, development, manufacture and sale of telecommunications system equipment and solutions.

In the opinion of the directors, in accordance with Chapter 8 "Qualifications For Listing" of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ZTE Kangxun Telecom Company Limited # (i) (深圳市中興康訊電子有限公司)	The PRC/ Mainland China	RMB1,755,000,000	100	—	Manufacture and sale of electronic components
ZTEsoft Technology Company Limited # (i) (中興軟創科技股份有限公司)	The PRC/ Mainland China	RMB300,000,000	80.1	—	Sale and development of business operation support systems
Zhongxing Software Company Limited ("Zhongxing Software") # (i) (深圳市中興軟件有限責任公司)	The PRC/ Mainland China	RMB51,080,000	100	—	Development of telecommunications software systems and provision of related consultancy services
Xi'an Zhongxing New Software Company Limited ("Xi'an Zhongxing New Software")# (i) (西安中興新軟件有限責任公司)	The PRC/ Mainland China	RMB600,000,000	100	—	Development of telecommunications software systems and provision of related consultancy services
ZTE (Hangzhou) Company Limited # (i) (中興通訊 (杭州)有限責任公司)	The PRC/ Mainland China	RMB100,000,000	100	—	Telecommunications and related equipment manufacturing
Nubia Technology Co., Ltd. (formerly known as "ZTE Mobile Tech Company Limited") # (i) (努比亞技術有限公司)	The PRC/ Mainland China	RMB118,748,300	60	—	Development, manufacture and sale of telecommunications related products
ZTE (H.K.) Limited (中興通訊(香港)有限公司)	Hong Kong	HK$995,000,000	100	—	Marketing and sale of telecommunications system equipment and provision of management services
Shenzhen Zhongxing ICT Company Limited # (i) (深圳中興網信科技有限公司)	The PRC/ Mainland China	RMB100,000,000	90	—	Design and sale of corporate management hardware/ software products
ZTE Technology & Service Company Limited # (i) (深圳市中興通訊技術服務有限責任公司)	The PRC/ Mainland China	RMB200,000,000	90	10	Development, manufacture and sale of telecommunications related products
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited # (i) (上海中興通訊技術有限責任公司)	The PRC/ Mainland China	RMB10,000,000	90	—	Development, manufacture and sale of telecommunications related products

(i) These subsidiaries are registered as limited companies under PRC law.

The English names of these subsidiaries are directly translated from their Chinese names.

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1. CORPORATE AND GROUP INFORMATION (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

There are two limited partnership entities whose general partner is controlled by the Company, so the Company controls the two limited partnership entities even though it holds less than half of the ownership percentage of them.

2.1 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 arranges; 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.

Notes to Financial Statements

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2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

2.2 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.

Notes to Financial Statements

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(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.

Notes to Financial Statements

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2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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.

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

Notes to Financial Statements

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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.

Notes to Financial Statements

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates and joint ventures (continued)

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, investment properties, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	30 to 50 years
Leasehold improvements	Over the shorter of the lease terms and 10 years
Machinery, computers and office equipment	5 to 10 years
Motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction or installation during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technology know-how

Purchased technology know-how is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis over its estimated useful life of not more than 10 years.

Computer software

Purchased computer software is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over its estimated useful life of not more than 5 years.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Operating concession

Operating concession is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis for 3 to 10 years, being the period that the operating concession granted to the Group.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses.

Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or

- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss — is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, bank advances on factored trade receivables, interest-bearing bank borrowings, a financial guarantee contract, bonds cum warrants, bonds payable, other payables and accruals, factoring costs payable and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Fair value hedges

The change in the fair value of a hedging derivative is recognised in profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in profit or loss as other expenses.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour, an appropriate proportion of overheads and/or subcontracting fees. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Construction contracts

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of telecommunications system contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price telecommunications system contracts is recognised using the percentage of completion method when the contract activities have progressed to a stage where an economic benefit can be reasonably foreseen and is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from customers for contract works. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract works.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Provision for warranties granted by the Group on handsets is recognised based on sales volume and past experience of the level of repairs and returns.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or a liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the period that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to other payables or other long-term payable accounts and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the telecommunications system contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" above;

(c) from the rendering of services, when services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) for contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the Group generally evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis and (ii) whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Group. Arrangement consideration shall be allocated at the inception of the arrangement to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence of selling price, if it exists; otherwise, third-party evidence of selling price. If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the Group shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the Group can determine vendor-specific objective evidence or third-party evidence of selling price, the Group shall not ignore information that is reasonably available without undue cost and effort.

Employee benefits

Defined contribution pension schemes

The Company and certain of its subsidiaries established in the PRC have joined a number of defined contribution pension schemes organised by the relevant provincial and municipal social insurance management bodies of the PRC government for those employees who are eligible to participate in the schemes. The Company, these subsidiaries and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the year. The contributions payable are charged as an expense to profit or loss as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit pension scheme

In addition, the Group provides certain employees, who joined the Group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefit pension scheme is actuarially determined and recognised over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees and no contribution has been made to fund future obligations since the commencement of the defined benefit pension scheme. Therefore, there are no assets in respect of this scheme held separately from those of the Group in independently administered funds and no actuarial valuation for the plan assets has been conducted.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to capital reserve through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and

- the date that the Group recognises restructuring-related costs.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements

- net interest expense or income

Share-based payments

The Company operates a share incentive scheme (the "Share Incentive Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate pricing model, further details of which are given in note 37 to the financial statements.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of the outstanding subject shares is reflected as additional share dilution in the computation of earnings per share.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. In prior years, final dividends proposed by the directors were classified as a separate allocation of retained profits within the equity section of the statement of financial position, until they have been approved by the shareholders in a general meeting. Following the implementation of the Hong Kong Companies Ordinance (Cap. 622), proposed final dividends are disclosed in the notes to the financial statements.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into Renminbi at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Renminbi at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Revenue recognition

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, the Group's revenue recognition policies can differ depending on the level of customisation within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customisation and contractual terms with the customer. As a result, the Group's revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

When a customer arrangement involves multiple deliverables which are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

- whether the delivered item has value to the customer on a stand-alone basis;
- whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgements, such as whether delivered elements have stand-alone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

Arrangement consideration shall be allocated at the inception of the arrangement to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence ("VSOE") of selling price, if it exists; otherwise, third-party evidence of selling price. If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the vendor can determine vendor-specific objective evidence or third-party evidence of selling price, the vendor shall not ignore information that is reasonably available without undue cost and effort.

For instance, the Group sells hardware and post-contract support services on a stand-alone basis and therefore it has evidence to establish VSOE for both the sale of goods and post-contract support.

The Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also involves significant judgement. For instance, the determination of whether post-contract support services is more than incidental to hardware can impact on whether the hardware is accounted for based on multiple-element revenue recognition guidance or based on general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

For elements related to customised network solutions and certain network build-outs, revenues are recognised under HKAS 11 *Construction Contracts*, generally using the percentage of completion method. In using the percentage of completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognised in the period that such losses become known. Generally, the terms of long-term contracts that provide for progress billings are based on completion of certain phases of work. Contract revenues recognised, based on costs incurred towards the completion of the project that are unbilled, are accumulated in the contracts in progress account included in the amount due from customers for contract works. Billings in excess of revenues recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised to date on contracts within the amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contracts. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangements to establish these judgements. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognised under HKAS 18 *Revenue*, where revenue is recognised provided that the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss and the title in certain jurisdictions have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because the legal title or risk of loss on products has not been transferred to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when the title or risk of loss passes either on delivery or on receipt of final payment from the customer.

For further information on the Group's revenue recognition policies relating to the Group's material revenue streams, please refer to note 2.4 to the financial statements.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Derecognition of financial assets

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Significant judgement is often required when the Group has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, and estimates the extent of the Group's continuing involvement in the asset.

Recognition of deferred tax liability for withholding taxes

Deferred tax liability should be recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, but significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of these subsidiaries and it is not probable that these subsidiaries will make such profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred tax liability for withholding taxes. More details are set out in note 35.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Depreciation and amortisation

Depreciation and amortisation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment and intangible asset to its residual value over its estimated useful life. The estimated useful lives and dates that the Group places the items of property, plant and equipment into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets.

Impairment of intangible assets and property, plant and equipment

The carrying amount of property, plant and equipment as at 31 December 2015 was approximately RMB8,368,754,000 (2014: RMB7,664,442,000). The carrying amount of intangible assets as at 31 December 2015 was approximately RMB3,772,451,000 (2014: RMB3,741,514,000). More details are set out in notes 13 and 16.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Depreciation and amortisation (continued)

Impairment of intangible assets and property, plant and equipment (continued)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of trade receivables

The carrying amount of trade and bills receivables as at 31 December 2015 was approximately RMB29,077,476,000 (2014: RMB27,506,235,000).

In determining whether there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2015 was RMB452,643,000 (2014: RMB423,283,000). The amount of unrecognised tax losses at 31 December 2015 was RMB3,777,658,000 (2014: RMB8,344,266,000). Further details are contained in note 35 to the financial statements.

Deferred development costs

Deferred development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2015, the best estimate of the carrying amount of capitalised development costs was RMB3,423,563,000 (2014: RMB3,483,505,000).

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Depreciation and amortisation (continued)

Write-down of inventories to net realisable value

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes provision against obsolete and slow-moving items by using the lower of cost and net realisable value rule. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down/write-back of inventories in the period in which the estimate has been changed. At 31 December 2015, the carrying amount of inventories was RMB19,731,741,000 (2014: RMB19,592,298,000).

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 14 to the financial statements. The carrying amount of investment properties at 31 December 2015 was RMB2,010,396,000 (2014: RMB2,004,465,000).

Provision for warranties

Provision for warranties granted by the Group on handsets is recognised based on sales volume and past experience of the level of repairs and returns. The carrying amount of provision for warranties at 31 December 2015 was RMB588,845,000 (2014: RMB580,476,000).

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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 sale 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 the corresponding figures for 2014 have been restated on the same basis.

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2015	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	57,222,754	32,466,961	10,496,674	100,186,389
	57,222,754	32,466,961	10,496,674	100,186,389
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				63,278
Profit before tax				4,303,532
Segment assets	40,619,357	17,396,973	7,586,929	65,603,259
Investments in joint ventures				77,341
Investments in associates				483,598
Corporate and other unallocated assets				58,423,769
Total assets				124,587,967
Segment liabilities	7,800,164	2,068,528	1,456,923	11,325,615
Corporate and other unallocated liabilities				69,913,747
Total liabilities				81,239,362
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*	1,788,954	1,015,015	328,158	3,132,127

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

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4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2014	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	43,943,780	28,643,949	8,883,546	81,471,275
	43,943,780	28,643,949	8,883,546	81,471,275
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				3,538,222
Segment assets	37,673,373	17,713,864	7,607,447	62,994,684
Investments in joint ventures				67,607
Investments in associates				393,709
Corporate and other unallocated assets				46,798,609
Total assets				110,254,609
Segment liabilities	8,390,249	1,923,530	1,694,257	12,008,036
Corporate and other unallocated liabilities				71,954,069
Total liabilities				83,962,105
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*	1,476,055	962,140	298,395	2,736,590

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2015 RMB'000	2014 RMB'000
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
	100,186,389	81,471,275

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

(b) Non-current assets

	2015 RMB'000	2014 RMB'000
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
	15,365,707	14,492,629

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.

Information about major customers

Revenue from Carriers' Networks and Consumer Business from one single customer individually accounted for more than 10% of the Group's consolidated revenues for 2015 in the amount of RMB18,843 million (2014: one single customer individually accounted for more than 10% of the Group's consolidated revenues for 2014 in the amount of RMB17,963 million).

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5. REVENUE, OTHER INCOME AND GAINS

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, other income and gains is as follows:

	2015 RMB'000	2014 RMB'000
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
	100,186,389	81,471,275
Other income		
VAT refunds and other tax subsidies#	**2,543,261**	2,496,847
Dividend income	**25,005**	32,176
Bank and other interest income##	**527,886**	433,604
Others###	**1,899,684**	1,290,797
	4,995,836	4,253,424
Gains		
Gain on disposal of available-for-sale investments	**297,974**	13,483
Gain on disposal of subsidiaries	**9,789**	—
Derivative instruments	**109,959**	164,015
Fair value gains on investment properties	**5,931**	130,306
	423,653	307,804
	5,419,489	4,561,228

Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales of the Group, pursuant to the principles of the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

The bank and other interest income for the year ended 31 December 2015 includes the interest income generated from ZTE Group Finance Company Ltd amounting to RMB222,573,000 (2014: RMB177,290,000).

Others mainly represent gains on government grants, contract penalty income and other miscellaneous income.

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6. PROFIT BEFORE TAX

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

	Notes	2015 RMB'000	2014 RMB'000
Cost of goods and services		**63,887,788**	50,625,330
Depreciation	13	**1,131,453**	975,691
Amortisation of land lease payments	15	**26,484**	23,050
Amortisation of intangible assets other than deferred development costs	16	**74,981**	86,262
Research and development costs:			
Deferred development costs amortised	16	**880,851**	740,793
Current year expenditure		**12,140,600**	9,559,894
Less: Deferred development costs		**(820,909)**	(1,292,150)
		12,200,542	9,008,537
Fair value (gains)/losses, net*:			
Derivative instruments	26	**189,614**	(17,976)
Investment properties	14	**(5,931)**	(130,306)
Impairment of trade receivables*	23	**1,602,446**	675,522
Provision for warranties**	34	**758,863**	718,075
Provision for legal obligation*	34	**120,882**	63,442
Write-down of inventories to net realisable value**		**567,014**	523,950
Impairment of a long-term equity investment*		**4,764**	—
Impairment of items of property, plant and equipment*	13	**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	44(a)	**(47,113)**	(79,403)
Auditors' remuneration		**7,337**	6,674
Staff costs (including directors', chief executives' and supervisors' remuneration in note 8):			
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	32	**4,538**	4,466
Defined contribution pension schemes		**1,086,682**	927,972
		15,781,014	12,661,267
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		**(297,974)**	(13,483)

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6. PROFIT BEFORE TAX (continued)

* The fair value losses, impairment of trade receivables, impairment of a long-term equity investment, impairment of items of property, plant and equipment, provision for legal obligation, 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 **RMB'000**	2014 RMB'000
Interest on bank loans and other loans (including convertible bonds)	**883,609**	1,036,315
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	**385,471**	525,359
	1,269,080	1,561,674

8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2015 **RMB'000**	2014 RMB'000
Fees	**–**	–
Other emoluments of directors, chief executives and supervisors:		
Salaries, bonuses, allowances and welfare	**7,634**	5,224
Performance-related bonuses*	**17,028**	8,142
Equity-settled share option expense	**–**	–
Retirement benefit scheme contributions	**236**	29
	24,898	13,395

* Certain executive directors of the Company are entitled to bonus payments which are determined based on their work performance.

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors

The salaries, bonuses, allowances and welfare paid to independent non-executive directors during the year were as follows:

	2015 **RMB'000**	2014 RMB'000
Qu Xiaohui	**72**	130
Wei Wei	**72**	130
Chen Naiwei	**72**	130
Tan Zhenhui	**130**	130
Zhang Xike	**130**	130
Chen Shaohua	**58**	—
Lü Hongbing	**58**	—
Binsheng Teng	**58**	—
	650	650

There were no other emoluments payable to the independent non-executive directors during the year (2014: Nil).

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2015						
Executive directors:						
Yin Yimin	–	727	400	–	28	1,155
Shi Lirong	–	1,110	4,432	–	28	5,570
He Shiyou	–	802	–	–	40	842
Zhao Xianming	–	848	6,815	–	28	7,691
	–	3,487	11,647	–	124	15,258
Non-executive directors:						
Hou Weigui	–	681	2,253	–	–	2,934
Xie Weiliang	–	92	–	–	–	92
Zhang Junchao	–	92	–	–	–	92
Wang Zhanchen	–	92	–	–	–	92
Dong Lianbo	–	92	–	–	–	92
Zhang Jianheng	–	100	–	–	–	100
Luan Jubao	–	8	–	–	–	8
Wang Yawen	–	8	–	–	–	8
Tian Dongfang	–	8	–	–	–	8
Zhan Yichao	–	8	–	–	–	8
	–	1,181	2,253	–	–	3,434
	–	4,668	13,900	–	124	18,692
Supervisors:						
Xie Daxiong	–	789	2,253	–	28	3,070
He Xuemei	–	503	280	–	28	811
Zhou Huidong	–	447	265	–	28	740
Xu Weiyan	–	577	330	–	28	935
	–	2,316	3,128	–	112	5,556

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors (continued)

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance-related bonuses RMB'000	Equity-settled share option expense RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2014						
Executive directors:						
Yin Yimin	—	457	450	—	9	916
Shi Lirong	—	730	3,091	—	7	3,828
He Shiyou	—	630	—	—	5	635
	—	1,817	3,541	—	21	5,379
Non-executive directors:						
Hou Weigui	—	383	2,018	—	—	2,401
Xie Weiliang	—	100	—	—	—	100
Zhang Junchao	—	100	—	—	—	100
Wang Zhanchen	—	100	—	—	—	100
Dong Lianbo	—	100	—	—	—	100
Zhang Jianheng	—	100	—	—	—	100
	—	883	2,018	—	—	2,901
	—	2,700	5,559	—	21	8,280
Supervisors:						
Xie Daxiong	—	605	2,018	—	2	2,625
He Xuemei	—	368	150	—	2	520
Zhou Huidong	—	409	215	—	2	626
Xu Weiyan	—	492	200	—	2	694
	—	1,874	2,583	—	8	4,465

There was no arrangement under which the directors, chief executives or supervisors waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2014: Nil) directors, chief executives or supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2014: five) highest paid employees who are neither a director nor chief executive or a supervisor of the Company are as follows:

	2015 RMB'000	2014 RMB'000
Salaries, bonuses, allowances and welfare	6,605	5,141
Performance-related bonuses	24,072	20,670
Retirement benefit scheme contributions	—	—
	30,677	25,811

The number of non-director, non-supervisor, non-chief executive and highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2015	2014
RMB2,000,001 to RMB3,000,000	—	—
RMB3,000,001 to RMB4,000,000	1	—
RMB4,000,001 to RMB5,000,000	1	4
RMB5,000,001 to RMB6,000,000	1	—
RMB6,000,001 to RMB7,000,000	1	—
RMB7,000,001 to RMB8,000,000	—	1
RMB8,000,001 to RMB9,000,000	—	—
RMB9,000,001 to RMB10,000,000	1	—
	5	5

During the year, no director, chief executive or supervisor waived or agreed to waive any emolument, and no emoluments were paid by the Group to the directors, chief executives, supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

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10. INCOME TAX

	2015 RMB'000	2014 RMB'000
Current — Hong Kong	**8,300**	12,332
Current — Mainland China	**547,478**	461,709
Current — Overseas	**350,130**	248,471
Deferred (note 35)	**(342,646)**	87,980
Total tax charge for the year	**563,262**	810,492

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.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Xi'an Zhongxing New Software Company Limited was subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise.

Shenzhen Zhongxing ICT Company Limited was subject to an enterprise income tax rate of 15% from 2013 to 2015 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise.

Nubia Technology Company Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

ZTE Microelectronics Technology Company Limited was subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise.

Shanghai Zhongxing Telecom Equipment Technologies Company Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

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10. INCOME TAX (continued)

Shanghai Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise.

Nanjing Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

ZTEsoft Technology Company Limited was subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise.

Xi'an Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2015 to 2017 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited was subject to an enterprise income tax rate of 15% in 2015 as a national-encouraged industry enterprise.

Nanjing ZTEsoft Software Technology Company Limited was subject to an enterprise income tax rate of 15% from 2013 to 2015 as a national-grade hi-tech enterprise.

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2015		2014	
	RMB'000	**%**	RMB'000	%
Profit before tax	**4,303,532**		3,538,222	
Tax at the statutory tax rate	**1,075,883**	**25.0**	884,556	25.0
Lower tax rate for specific provinces or enacted by local authority	**(729,365)**	**(16.9)**	(260,192)	(7.4)
Adjustments in respect of current tax of previous periods	**88,609**	**2.1**	66,171	1.9
Profits and losses attributable to associates and joint ventures	**(8,683)**	**(0.2)**	13,164	0.4
Income not subject to tax	**(166,509)**	**(3.9)**	(165,899)	(4.7)
Expenses not deductible for tax	**632,377**	**14.6**	172,618	4.9
Tax losses utilised from previous years	**(522,278)**	**(12.1)**	(57,029)	(1.6)
Tax losses of subsidiaries not recognised	**193,228**	**4.5**	157,103	4.4
Tax charge at the Group's effective rate	**563,262**	**13.1**	810,492	22.9

The share of tax attributable to associates amounting to RMB789,000 (2014: RMB408,000) is included in "Share of profits and losses of associates" on the face of the consolidated statement of profit or loss and other comprehensive income.

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11. DIVIDEND

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

Details of proposed final dividend for the year are set out in Note 51, the profit distribution proposal is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

12. 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 RMB'000	2014 RMB'000
Earnings		
Profit for the year attributable to ordinary equity holders of the parent	**3,207,885**	2,633,571

	Number of shares	
	2015 '000	2014 '000
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	**52,784**	—
Adjusted weighted average number of ordinary shares in issue	**4,180,136**	4,125,049

* In March 2015, the Company distributed 2 bonus shares for each 10 shares held as dividend. The number of issued ordinary shares after the distribution was 4,125,049,000 shares. Earnings per share of various reporting periods have been calculated on the basis of the adjusted number of shares.

Commencing on 2 November 2015, scheme participants that had fulfilled the exercise conditions under the share option incentive scheme of the Company were entitled to exercise share options qualified as such during the first exercise period. As at 31 December 2015, 25,742,000 new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 2,303,000 after taking into account the duration of time for such shares had been issued and outstanding.

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13. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2015						
At 31 December 2014 and at 1 January 2015:						
Cost	5,714,487	29,592	6,720,548	301,683	262,863	13,029,173
Accumulated depreciation and impairment	(901,405)	(4,933)	(4,288,238)	(170,155)	—	(5,364,731)
Net carrying amount	4,813,082	24,659	2,432,310	131,528	262,863	7,664,442
At 1 January 2015, net of accumulated depreciation and impairment	4,813,082	24,659	2,432,310	131,528	262,863	7,664,442
Additions	20,379	67,477	1,201,001	80,820	588,257	1,957,934
Disposals	(2,127)	(13,134)	(84,699)	(4,529)	(23,931)	(128,420)
Depreciation provided during the year	(181,338)	(36,608)	(885,821)	(27,686)	—	(1,131,453)
Transfers	102,963	—	81,078	7	(184,048)	—
Exchange realignments	18,273	91	488	(2)	648	19,498
Impairment	—	—	(13,247)	—	—	(13,247)
At 31 December 2015, net of accumulated depreciation and impairment	4,771,232	42,485	2,731,110	180,138	643,789	8,368,754
At 31 December 2015:						
Cost	5,869,227	81,602	7,296,630	344,132	643,789	14,235,380
Accumulated depreciation and impairment	(1,097,995)	(39,117)	(4,565,520)	(163,994)	—	(5,866,626)
Net carrying amount	4,771,232	42,485	2,731,110	180,138	643,789	8,368,754

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2014						
At 31 December 2013 and at 1 January 2014:						
Cost	5,597,110	38,699	6,432,249	312,797	177,423	12,558,278
Accumulated depreciation and impairment	(739,006)	(17,749)	(3,938,410)	(165,272)	—	(4,860,437)
Net carrying amount	4,858,104	20,950	2,493,839	147,525	177,423	7,697,841
At 1 January 2014, net of accumulated depreciation and impairment	4,858,104	20,950	2,493,839	147,525	177,423	7,697,841
Additions	148,717	34,365	875,457	21,708	284,966	1,365,213
Disposals	(15,056)	(18,217)	(151,859)	(7,164)	(194,462)	(386,758)
Depreciation provided during the year	(167,286)	(12,007)	(766,475)	(29,923)	—	(975,691)
Transfers	—	—	5,449	—	(5,449)	—
Exchange realignments	(11,397)	(432)	(21,341)	(618)	385	(33,403)
Impairment	—	—	(2,760)	—	—	(2,760)
At 31 December 2014, net of accumulated depreciation and impairment	4,813,082	24,659	2,432,310	131,528	262,863	7,664,442
At 31 December 2014:						
Cost	5,714,487	29,592	6,720,548	301,683	262,863	13,029,173
Accumulated depreciation and impairment	(901,405)	(4,933)	(4,288,238)	(170,155)	—	(5,364,731)
Net carrying amount	4,813,082	24,659	2,432,310	131,528	262,863	7,664,442

As at 31 December 2015, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen, Shanghai, Xi'an, Hengyang and Qinhuangdao, the PRC, with net carrying values of approximately RMB622,442,000 (2014: RMB658,489,000), RMB1,603,896,000 (2014: RMB1,841,137,000), RMB231,861,000 (2014: RMB199,201,000), Nil (2014: RMB861,494,000), Nil (2014: RMB55,863,000) and RMB52,969,000 (2014: Nil) respectively.

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14. INVESTMENT PROPERTIES

	2015 RMB'000	2014 RMB'000
Fair value		
Carrying amount at 1 January	**2,004,465**	1,855,246
Addition	**—**	18,913
Net gain from a fair value adjustment (note 6)	**5,931**	130,306
Carrying amount at 31 December	**2,010,396**	2,004,465

The Group's investment properties consist of five commercial properties in Mainland China. The Group's investment properties were revalued on 31 December 2015 based on valuations performed by 國眾聯資產評估土地房地產估價有限公司, an independent professionally qualified valuer, at RMB2,010,396,000. Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to a related party, Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and third parties under operating leases, further summary details of which are included in note 46 to the financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2015 using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Recurring fair value measurement for:				
Commercial properties	**—**	**—**	**2,010,396**	**2,010,396**

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14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

	Fair value measurement as at 31 December 2014 using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Recurring fair value measurement for:				
Commercial properties	—	—	2,004,465	2,004,465

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties
	RMB'000
Carrying amount at 1 January 2014	1,855,246
Additions	18,913
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	130,306
Carrying amount at 31 December 2014	2,004,465
Carrying amount at 1 January 2015	2,004,465
Additions	—
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	5,931
Carrying amount at 31 December 2015	2,010,396

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	**Significant unobservable inputs**	**Range or weighted average**	
			2015	2014
Commercial properties	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	**RMB45.5 to RMB477**	RMB24 to RMB477
		Rent growth (p.a.)	**1% to 5%**	1% to 5%
		Long-term vacancy rate	**5%**	5%
		Discount rate	**6% to 7.3%**	6%

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14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Valuations were based on the capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The resultant figures are adjusted back to present values to reflect the existing state of the properties at the end of the reporting period.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flow in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flow is estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase/(decrease) in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase/(decrease) in the fair value of the investment properties. A significant increase/(decrease) in the long-term vacancy rate and the discount rate in isolation would result in a significant decrease/(increase) in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long-term vacancy rate.

15. PREPAID LAND LEASE PAYMENTS

	2015 **RMB'000**	2014 RMB'000
Carrying amount at 1 January	**1,106,686**	1,087,670
Additions during the year	**182,310**	45,558
Disposals	**(20,702)**	(3,492)
Recognised during the year	**(26,484)**	(23,050)
Carrying amount at 31 December	**1,241,810**	1,106,686
Current portion	**(27,704)**	(24,478)
Non-current portion	**1,214,106**	1,082,208

As at 31 December 2015, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Changsha, Nanjing and Xi'an in the PRC, with a net carrying value of approximately RMB580,043,000 (2014: RMB565,604,000).

As at 31 December 2015, a subsidiary of the Group pledged its land use right with a net carrying value of RMB176,238,000 (2014: RMB79,963,000) as security for a bank loan (note 30).

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16. INTANGIBLE ASSETS

	Technology know-how RMB'000	Computer software RMB'000	Franchise RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2015					
Cost at 1 January 2015, net of accumulated amortisation and impairment	**5,386**	**183,949**	**68,674**	**3,483,505**	**3,741,514**
Additions	**3,311**	**168,016**	**22,930**	**986,261**	**1,180,518**
Retirements and disposals	**(3)**	**(28,394)**	**—**	**(165,352)**	**(193,749)**
Amortisation provided during the year	**(3,235)**	**(49,336)**	**(22,410)**	**(880,851)**	**(955,832)**
At 31 December 2015	**5,459**	**274,235**	**69,194**	**3,423,563**	**3,772,451**
At 31 December 2015:					
Cost	**11,547**	**370,710**	**431,952**	**6,683,992**	**7,498,201**
Accumulated amortisation and impairment	**(6,088)**	**(96,475)**	**(362,758)**	**(3,260,429)**	**(3,725,750)**
Net carrying amount	**5,459**	**274,235**	**69,194**	**3,423,563**	**3,772,451**
31 December 2014					
Cost at 1 January 2014, net of accumulated amortisation and impairment	4,837	137,612	6,636	2,932,148	3,081,233
Additions	1,650	149,658	76,439	1,391,830	1,619,577
Retirements and disposals	—	(32,561)	—	(99,680)	(132,241)
Amortisation provided during the year	(1,101)	(70,760)	(14,401)	(740,793)	(827,055)
At 31 December 2014	5,386	183,949	68,674	3,483,505	3,741,514
At 31 December 2014:					
Cost	8,255	484,992	409,022	5,863,083	6,765,352
Accumulated amortisation and impairment	(2,869)	(301,043)	(340,348)	(2,379,578)	(3,023,838)
Net carrying amount	5,386	183,949	68,674	3,483,505	3,741,514

17. LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 RMB'000	2014 RMB'000
Deposits for purchase of property, plant and equipment	**359,587**	223,158
Other long-term receivable	**—**	50,000
	359,587	273,158

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18. INVESTMENTS IN JOINT VENTURES

	2015 RMB'000	2014 RMB'000
	50,749	44,202
Share of net assets	**26,592**	23,405
Goodwill on acquisition	**77,341**	67,607

The Group's balances of trade receivables with joint ventures are disclosed in note 23 to the financial statements. The amounts due from joint ventures are unsecured and interest-free.

There is no individually material joint venture of the Group.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2015 RMB'000	2014 RMB'000
Share of the joint ventures' (loss)/profit for the year	**(5,281)**	716
Share of the joint ventures' total comprehensive (loss)/income	**(5,281)**	716
Aggregate carrying amount of the Group's investments in the joint ventures	**77,341**	67,607

19. INVESTMENTS IN ASSOCIATES

	2015 RMB'000	2014 RMB'000
Share of net assets	**488,362**	393,709
Provision for impairment	**(4,764)**	—
	483,598	393,709

The Group's balances of trade receivables and trade payables with associates are disclosed in notes 23 and 28 to the financial statements, respectively.

There is no individually material associate of the Group.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2015 RMB'000	2014 RMB'000
Share of the associates' profit/(loss) for the year	**68,559**	(53,759)
Share of the associates' total comprehensive income/(loss)	**68,559**	(50,325)
Aggregate carrying amount of the Group's investments in the associates	**483,598**	393,709

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20. AVAILABLE-FOR-SALE INVESTMENTS

	2015 RMB'000	2014 RMB'000
Listed equity investment, at market value	**1,093,001**	319,470
Unlisted equity investments, at cost	**1,288,466**	1,420,194
	2,381,467	1,739,664

The above investments consist of investments in equity securities which have been designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

As at 31 December 2015, the above listed equity investment with a carrying amount of RMB1,093,001,000 (2014: RMB319,470,000) was stated at market value. During the year, the gross gain in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB712,418,000 (2014: loss of RMB28,570,000). Certain unlisted equity investments with a carrying amount of RMB1,288,466,000 (2014: RMB1,420,194,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

21. INVENTORIES

	2015 RMB'000	2014 RMB'000
Raw materials	**4,202,930**	2,889,256
Work in progress	**887,520**	1,268,544
Finished goods	**3,041,611**	4,031,086
Contract works in progress	**11,599,680**	11,403,412
	19,731,741	19,592,298

22. TELECOMMUNICATIONS SYSTEM CONTRACTS

	2015 RMB'000	2014 RMB'000
Amount due from customers for contract works	**13,928,446**	11,033,468
Amount due to customers for contract works	**(4,423,103)**	(3,825,106)
	9,505,343	7,208,362
Contract costs incurred plus recognised profits	**60,891,156**	64,203,987
Less: Recognised losses to date	**400,087**	340,199
Less: Progress billings	**50,985,726**	56,655,426
	9,505,343	7,208,362

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

	2015 RMB'000	2014 RMB'000
Trade and bills receivables	**34,879,664**	31,902,826
Impairment	**(5,802,188)**	(4,396,591)
	29,077,476	27,506,235
Current portion	**(28,714,645)**	(27,239,734)
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 minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk.

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

	2015 RMB'000	2014 RMB'000
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	**—**	—
	29,077,476	27,506,235
Current portion of trade and bills receivables	**(28,714,645)**	(27,239,734)
Long-term portion	**362,831**	266,501

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

	2015 RMB'000	2014 RMB'000
At 1 January	**4,396,591**	3,834,169
Impairment losses recognised (note 6)	**1,820,368**	758,331
Amount written off as uncollectible	**(196,849)**	(113,100)
Impairment losses reversed (note 6)	**(217,922)**	(82,809)
At 31 December	**5,802,188**	4,396,591

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23. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

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
	RMB'000	RMB'000
Neither past due nor impaired	**4,228,313**	2,799,769
Less than one year past due	**22,009,510**	22,720,064
	26,237,823	25,519,833

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
	RMB'000	RMB'000
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
	393,034	584,088

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 (note 30).

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24. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES

As part of its normal business, the Group enters into some trade receivables factoring arrangements (the "Arrangements") and transferred certain trade receivables to banks. Some of the trade receivables are not derecognised in their entirety and some of them are derecognised in their entirety but for which the Group retains continuing involvement. More details are set in note 40.

In 2008, the Company entered into a contract of a telecommunications system project (the "Project") with an African telecommunications operator with a total contract amount of USD1,500,000,000. The related accounts receivable are to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. In 2009, two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to the receivable purchase agreements (the "Agreements"), which stipulate the factoring conditions based on the future performance of the African telecommunications operator. During the financing period, the banks will charge interest to the Company and the telecommunications operator. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2015, under the above arrangements, accounts receivable due from the customer amounted to RMB6,036,698,000 (2014: RMB6,559,107,000) among which RMB4,829,358,000 (2014: RMB5,247,286,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in HKAS 39. An associated liability of RMB1,207,340,000 (2014: RMB1,311,821,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 **RMB'000**	2014 RMB'000
Prepayments	**640,113**	682,778
Deposits and other receivables	**6,563,361**	6,008,637
Interest receivable	**600**	28,068
Advances and loans	**100,367**	2,913
Others*	**—**	160,472
	7,304,441	6,882,868

* On 15 January 2013, ZTE (HK) Limited ("ZTE HK"), a wholly-owned subsidiary of ZTE subscribed a convertible bond of HK$201,500,000, which is matured on 15, January 2015. The others represent amortised cost of the convertible bond.

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25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The balances due from associates and other related companies included in the above are as follows:

	2015	2014
	RMB'000	RMB'000
Associates	**10,013**	13,832
Other related companies	**102,263**	3,373
	112,276	17,205

The amounts due from associates and other related companies are unsecured, non-interest-bearing and are repayable on demand.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	2015		2014	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	**10,110**	**(16,962)**	186,858	(64,904)
Conversion right on convertible notes	**—**	**—**	54,115	—
Interest rate swaps	**—**	**(2,878)**	—	(6,581)
	10,110	**(19,840)**	240,973	(71,485)
Portion classified as non-current:				
Interest rate swaps	**—**	**—**	—	(881)
Current portion	**10,110**	**(19,840)**	240,973	(70,604)

Forward currency contracts

The carrying amounts of forward currency contracts were the same as their fair values. The above transactions involving derivative financial instruments were with various well-known banks in Mainland China and Hong Kong with A- or above credit ratings.

The Group has entered into these contracts to manage its exchange rate exposure. The forward currency contracts designated for hedge purposes amounted to RMB1,126,000 (2014: Nil) and a net gain of RMB4,796,000 (2014: Nil) was included in the hedging reserve. The forward currency contracts which are not designated for hedge purposes amounting to RMB7,978,000 of net liability (2014: RMB121,954,000 of net asset) and are measured at fair value through profit or loss. Losses on the fair value amounted to RMB189,614,000 (2014: Gains of RMB17,976,000) were recognised in profit or loss during the year.

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26. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

Interest rate swaps — cash flow hedges

Interest rate swaps are designated as hedging instruments in respect of expected interest payments for floating rate debts incurred by the Group.

The terms of the interest rate swaps have been negotiated to match the terms of the debts. The cash flow hedges relating to expected interest payments were assessed to be highly effective and a net gain of RMB3,703,000 (2014: Gain of RMB3,965,000) was included in the hedging reserve as follows:

	2015 **RMB'000**	2014 RMB'000
Total fair value gain	**3,703**	3,965
Net gain on cash flow hedges	**3,703**	3,965

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2015 **RMB'000**	2014 RMB'000
Cash and bank balances	**31,540,610**	21,860,346
Less:		
Pledged deposits — non-current	**(3,515,601)**	(3,744,472)
Pledged deposits — current	**(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
Time deposits with original maturity of less than three months	**(543,058)**	(3,701,678)
Unrestricted bank balances and cash	**26,073,938**	13,528,462

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB18,643,990,000 (2014: RMB9,915,647,000). The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Pledged deposits included the deposits as at 31 December 2015 of RMB540,948,000 (2014: RMB377,959,000) with the People's Bank of China, at a statutory reserve rate of 15% (2014: 15%) for RMB on customer deposits held by ZTE Group Finance Company Limited.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and over three months depending on the immediate cash requirements of the Group, and earn interest at the respective short-term time deposit rates. Time deposit with original maturity of over three months is not included in cash and cash equivalents. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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28. 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 RMB'000	2014 RMB'000
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
	32,817,995	29,626,088

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

	2015 RMB'000	2014 RMB'000
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
	179,892	256,480

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.

29. OTHER PAYABLES AND ACCRUALS

	2015 RMB'000	2014 RMB'000
Receipts in advance	**4,035,638**	3,305,520
Other payables	**6,719,729**	7,885,871
Factoring costs payable	**37,153**	71,233
Advance receipts for staff housing scheme	**58,305**	66,168
Accruals	**4,143,902**	3,526,650
Due to the controlling shareholder	**308**	888
Due to other related companies	**8,904**	606
	15,003,939	14,856,936

The other payables are non-interest-bearing and have an average term of three months. The balances due to the controlling shareholder and other related companies are unsecured, non-interest-bearing and are repayable on demand.

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30. INTEREST-BEARING BANK BORROWINGS

	2015			2014		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**1.25-6.42**	**2016**	**4,760,388**	1.4436-7.2000	2015	4,007,770
Bank loans — unsecured	**3MLibor+1.7**	**2016**	**876,690**	3MLibor+2.90	2015	930,075
Bank loans — unsecured	**6MLibor+0.6-2.6**	**2016**	**1,948,200**	6MLibor+1.80-3.45	2015	3,664,496
Bank loans — unsecured	**COF+1.3**	**2016**	**16,235**	COF+2.1	2015	155,012
Bank loans — unsecured	**3MEuribor+1.2-1.3**	**2016**	**1,135,056**	—	—	—
Bank loans — unsecured	**Libor+2**	**2016**	**180,469**	Libor+1.5-1.8	2015	1,219,166
Bank loans — unsecured	**LPR+1.2000-1.3340**	**2016**	**61,000**	LPR+5	2015	500,000
Bank loans — unsecured	**—**	**—**	**—**	—	2015	2,000
Bank loans — guaranteed	**3MEuribor+1.25**	**2016**	**212,823**	—	—	—
Bank loans — guaranteed*	**Libor+1.95**	**2016**	**2,917,604**	—	—	—
Bank loans — secured	**2.25-4.60**	**2016**	**306,410**	3	2015	544,028
Bank loans — secured	**Libor+3.0000-3.0028**	**2016**	**19,482**	Libor+4	2015	18,602
Bank loans — secured	**2.5159-2.5708**	**2016**	**90,819**	—	—	—
			12,525,176			11,041,149
Non-current						
Bank loans — secured	**4.9000–5.1450**	**2021**	**38,000**	6.77	2021	44,000
Bank loans — secured	**4.6–6.9**	**2017**	**70,000**	—	—	—
Bank loans — guaranteed*	**—**	**—**	**—**	Libor+1.95	2016	2,779,037
Bank loans — guaranteed*	**Libor+2.25**	**2018**	**2,882,067**	Libor+2.25	2018	2,736,550
Bank loans — guaranteed	**—**	**—**	**—**	5	2016	1,500,000
Bank loans — guaranteed	**Euribor+1.9**	**2018**	**283,764**	—	—	—
Bank loans — guaranteed	**3MLibor+2.2**	**2019**	**389,640**	—	—	—
Bank loans — unsecured	**6MLibor +3.6**	**2017**	**1,266,330**	6MLibor+3.6	2017	1,240,100
Bank loans — unsecured	**—**	**—**	**—**	5.5350–6.1500	2016	1,740,000
Bank loans — guaranteed	**3MEuribor+1.1**	**2020**	**212,823**	—	—	—
Bank loans — guaranteed	**3MEuribor+1.3**	**2018**	**496,587**	—	—	—
Bank loans — unsecured	**5.75**	**2017**	**26,000**	—	—	—
Bank loans — unsecured	**4.75**	**2018**	**82,000**	—	—	—
Bank loans — unsecured	**4.75–5.50**	**2019**	**209,043**	—	—	—
Bank loans — guaranteed	**1.20**	**2027**	**60,000**	—	—	—
			6,016,254			10,039,687
			18,541,430			21,080,836

* Excludes the effects of related interest rate swaps as further detailed in note 26 to the financial statements.

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30. INTEREST-BEARING BANK BORROWINGS (continued)

	2015 RMB'000	2014 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**12,525,176**	11,041,149
In the second year	**1,362,330**	6,019,037
In the third to fifth years, inclusive	**4,555,924**	3,976,650
Over five years	**98,000**	44,000
	18,541,430	21,080,836

Notes: Except for bank loans of approximately RMB5,448,272,000 (2014: RMB7,962,393,000) which are denominated in Renminbi, all the Group's and the Company's borrowings are in United States dollars and other foreign currencies.

Except for bank loans with a carrying amount of RMB5,642,659,000 (2014: RMB7,837,798,000), all borrowings of the Group bear interest at floating interest rates.

The Group's secured bank loans and banking facilities are secured by:

	2015 RMB'000	2014 RMB'000
Land use rights	**176,238**	79,963
Pledged bank deposits	**4,718,584**	4,462,778
Bills receivable*	**397,711**	544,028
	5,292,533	5,086,769

* Bills receivables of RMB290,819,000 were issued by the Company.

Certain of the Group's bank loans are guaranteed by:

	2015 RMB'000	2014 RMB'000
Entities within the Group	**7,455,308**	7,015,587

The carrying amounts of the Group's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at the prevailing interest rates.

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30. INTEREST-BEARING BANK BORROWINGS (continued)

ZTE (H.K.) Limited ("ZTE HK"), a subsidiary of the Company, entered into a syndicated loan agreement ("Loan Agreement") with an aggregate amount of USD900 million with 10 international banks, including Bank of China (Hong Kong) Limited, in 2011. The loans were guaranteed by the Company. Balances and outstanding terms of the loans as at the end of the current year are set out as follows:

	Drawdown date	Due date	Currency	Interest rate	31 December 2015		31 December 2014	
				(%)	Foreign currency	RMB equivalent	Foreign currency	RMB equivalent
Bank of China	2011.8.15	2016.7.8	USD	Libor+1.95	**449,277**	**2,917,604**	448,196	2,779,037
Bank of China	2014.8.13	2018.7.18	USD	Libor+2.25	**443,805**	**2,882,067**	441,343	2,736,550

31. BONDS PAYABLE

	Opening balance	Increase during the year	Decrease during the year	Closing balance
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2015	**6,131,185**	**4,000,000**	**(6,131,185)**	**4,000,000**
31 December 2014	6,119,590	263,595	(252,000)	6,131,185

On 9 September 2015, the Company issued unsecured super short-term bonds with a nominal value of RMB4,000,000,000. The bonds carry interest at a rate of 3.4% and will mature on 5 June 2016.

32. PROVISION FOR RETIREMENT BENEFITS

The Group provide certain of the eligible staff with post-retirement benefits pursuant to a retirement benefit plan. The plan is funded solely by the Group on an actual payment basis.

The latest actuarial valuation of the plan was conducted as at 31 December 2015 in accordance with HKAS 19 *Employee Benefits*. The present values of defined benefit obligations and current service costs are determined actuarially based on the projected unit credit method.

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2015	2014
Discount rate (%)	**3.25%**	4.00%
Expected rate of salary increases (%)	**5.50%**	5.50%

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32. PROVISION FOR RETIREMENT BENEFITS (continued)

The quantitative sensitivity analysis for significant assumptions as at 31 December 2015 is shown below:

	Increase in rate (%)	Increase/ (decrease) in net defined benefit obligation	Decrease in rate (%)	Increase/ (decrease) in net defined benefit obligation
Discount rate	0.25%	(3,989)	0.25%	4,135
Future salary increase	1.00%	18,756	1.00%	(15,871)

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The total expenses recognised in profit or loss in respect of the plan are follows:

	2015 RMB'000	2014 RMB'000
Interest cost	**4,538**	4,466
Net benefit expenses	**4,538**	4,466
Recognised in administrative expenses	**4,538**	4,466

The movements in the present value of the defined benefit obligations are as follows:

	2015 RMB'000	2014 RMB'000
At 1 January	**115,450**	95,806
Interest cost	**4,538**	4,466
Pension payments made	**(1,774)**	(1,421)
Benefit expenses recognised in other comprehensive income	**26,066**	16,599
At 31 December	**144,280**	115,450

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2015	1 January 2015 RMB'000	Net interest RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	31 December 2015 RMB'000
Defined benefit obligations	115,450	4,538	4,538	(1,774)	11,549	14,517	26,066	144,280
Benefit liability	115,450	4,538	4,538	(1,774)	11,549	14,517	26,066	144,280

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32. PROVISION FOR RETIREMENT BENEFITS (continued)

2014	1 January 2014 RMB'000	Net interest RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	31 December 2014 RMB'000
Defined benefit obligations	95,806	4,466	4,466	(1,421)	11,555	5,044	16,599	115,450
Benefit liability	95,806	4,466	4,466	(1,421)	11,555	5,044	16,599	115,450

33. OTHER NON-CURRENT LIABILITIES

	2015 RMB'000	2014 RMB'000
Factoring costs payable	213,545	204,435
Deferred income for staff housing scheme	1,073,596	1,140,351
Government grant	759,394	631,149
Long-term payable	50,181	—
	2,096,716	1,975,935

34. PROVISION

	2015 RMB'000	2014 RMB'000
At 1 January	741,391	601,111
Additional provision	879,745	781,517
Amounts utilised during the year	(844,454)	(641,237)
At 31 December	776,682	741,391

In respect of handsets, the Group generally provide a one-year warranty to their customers under which faulty products will be repaired or replaced. The amount of provision for warranties is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Based on the legal opinion furnished by the legal counsel and the progress of the case, the Group make provisions for cases that can be reliably estimated.

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35. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	2015 RMB'000	2014 RMB'000
Deferred tax assets and liabilities:		
At 1 January	**1,125,153**	1,213,133
Deferred tax credited/(charged) to profit or loss during the year (note 10)	**342,646**	(87,980)
Deferred tax charged to other comprehensive income	**(86,425)**	—
At 31 December	**1,381,374**	1,125,153

	2015 RMB'000	2014 RMB'000
Deferred tax assets:		
Unrealised profits arising on consolidation	**157,115**	126,540
Provision against inventories	**127,086**	123,081
Foreseeable contract losses	**45,781**	30,609
Amortisation of intangible assets	**168,616**	130,897
Provision for warranties	**102,646**	98,325
Provision for retirement benefits	**21,642**	17,348
Undeducted payables	**379,813**	153,361
Equity-settled share options	**38,202**	31,192
Tax losses	**452,643**	423,283
Overseas tax	**156,814**	149,857
	1,650,358	1,284,493
Deferred tax liabilities:		
Revaluation gain on investment properties	**(160,704)**	(159,340)
Revenue of construction contract	**(21,855)**	—
The fair value change of available-for-sale financial assets	**(86,425)**	—
	(268,984)	(159,340)
	1,381,374	1,125,153

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2015 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**1,434,143**
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(52,769)**
	1,381,374

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35. DEFERRED TAX (continued)

Deferred tax assets have not been recognised in respect of the following item:

	2015 RMB'000	2014 RMB'000
Tax losses	**3,777,658**	8,344,266

The tax losses that have not been recognised as deferred tax assets will expire as follows:

	2015 RMB'000	2014 RMB'000
2015	**—**	—
2016	**114,250**	1,633,674
2017	**1,551,872**	5,146,909
After 2017	**2,111,536**	1,563,683
	3,777,658	8,344,266

Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

36. ISSUED CAPITAL

	2015 RMB'000	2014 RMB'000
Restricted shares		
Senior management shares	**8,851**	6,771
	8,851	6,771
Unrestricted shares		
RMB ordinary shares	**3,386,438**	2,801,185
Overseas listed foreign shares	**755,502**	629,585
	4,141,940	3,430,770
	4,150,791	3,437,541

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37. SHARE OPTION INCENTIVE SCHEME

On 22 July 2013, the "ZTE Corporation Share Option Incentive Scheme (Draft)" and its summary was considered and approved at the Sixth Meeting of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Supervisory Committee of the Company. On 20 August 2013, the Company was notified that the opinion of the state-owned shareholders of the Company on the implementation of the Share Option Incentive Scheme had been approved and filed by the State-owned Assets Supervision and Administration Commission of the State Council. On 23 August 2013, the Company was notified that the resolution of the Share Option Incentive Scheme at the General Meeting convened in accordance with the "Administrative Measures on Share Incentives of Listed Company (Trial)" had been recognised with no objection by the China Securities Regulatory Commission. On 26 August 2013, the resolution on the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" (hereinafter referred to as the "Share Incentive Scheme") and its summary was considered and approved at the Eighth Meeting of the Sixth Session of the Board of Directors and the Sixth Meeting of the Sixth Supervisory Committee. The Share Incentive Scheme was considered and approved at the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 of the Company convened on 15 October 2013. On 31 October 2013, relevant resolutions were considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors and the Ninth Meeting of the Sixth Session of the Supervisory Committee of the Company, pursuant to which the date of grant for the Share Option Incentive Scheme of the Company has been set for 31 October 2013. Under the Share Incentive Scheme, 102.989 million share options were granted to 1,528 participants. Each share option shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the scheme at the exercise price, subject to the conditions of exercise. The source of two shares under the scheme shall be shares of the Company issued to the participants by the Company by way of placing. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, principal shareholders holding 5% or more of the Company's shares or the actual controller of the Company and their spouses or blood relatives.

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. The share options shall be exercisable separately in the subsequent three exercise periods, whose percentages of options exercisable are 30%, 30% and 40% respectively, subject to the Company's performance as the conditions of exercise. The exercise price shall be RMB13.69 per share. The share options not exercisable due to failure to fulfil the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

(1) Rate of Return on Common Stockholders' Equity (ROE);

(2) The growth rate of net profit attributable the shareholders of the listed company (The growth rate of net profit).

The calculation of the net profit used by the above indicators is based on the net profit before or after extraordinary items whichever is lower. Net assets refer to the net assets attributable to the shareholders of the listed company.

Notes to Financial Statements

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37. SHARE OPTION INCENTIVE SCHEME (continued)

The detailed conditions for the exercise of the share options:

(1) Within the valid period of the Share Incentive Scheme, the net profit attributable to the shareholders of the listed company and the net profit after extraordinary items attributable to the shareholders of the listed company shall not be lower than the average of the three most recent accounting years before the date of grant and shall not be a negative number;

(2) The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	30%	From 1 November 2015 to 31 October 2016	ROE for the year 2014 not less than 6%; growth rate of net profit for the year 2014 not less than 20% compared to 2013
Second exercise period	30%	From 1 November 2016 to 31 October 2017	ROE for the year 2015 not less than 8%; growth rate of net profit for the year 2015 not less than 20% compared to 2014
Third exercise period	40%	From 1 November 2017 to 31 October 2018	ROE for the year 2016 not less than 10%; growth rate of net profit for the year 2016 not less than 44% compared to 2014

The fair value of the share options granted amounted to RMB524,023,000, among which the share option expenses recognised by the Company in 2015 amounted to RMB166,829,000.

The following share options were outstanding under the Scheme during the year:

	2015		2014	
	Weighted average exercise price RMB per share	**Number of options '000**	Weighted average exercise price RMB per share	Number of options '000
At 1 January	**13.66**	**102,989**	13.69	102,989
Capitalisation from capital reserve	**11.22**	**20,598**	—	—
Forfeited during the year	**11.22**	**(6,974)**	—	—
Exercised during the year	**11.22**	**(25,742)**	—	—
At 31 December	**11.22**	**90,871**	13.66	102,989

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37. SHARE OPTION INCENTIVE SCHEME (continued)

The weighted average share price at the date of exercise for share options exercised during 2015 was RMB11.22 per share (2014: No share options were exercised).

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2015

Number of options '000	**Exercise price* RMB per share**	**Exercise period**
9,143	**11.22**	From 1 November 2015 to 31 October 2016
35,026	**11.22**	From 1 November 2016 to 31 October 2017
46,702	**11.22**	From 1 November 2017 to 31 October 2018
90,871	**11.22**	

2014

Number of options '000	Exercise price* RMB per share	Exercise period
30,897	13.66	From 1 November 2015 to 31 October 2016
30,897	13.66	From 1 November 2016 to 31 October 2017
41,195	13.66	From 1 November 2017 to 31 October 2018
102,989	13.66	

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

In 2015, the company issued 25,741,000 ordinary shares as a result of the exercise of 25,741,000 share options. The share capital was enlarged by RMB25,742,000, and the share premium amounted to RMB382,181,000 (before issue expenses).

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		**First**	**Second**	**Third**
Proposed dividend (RMB)		0.18	0.18	0.18
Volatility (%)		40.25	39.69	43.18
Risk-free interest rate (%)		3.34	3.40	3.46
Demission rate	Directors and senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

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37. SHARE OPTION INCENTIVE SCHEME (continued)

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

38. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 333 and 334 of the financial statements.

The capital reserve of the Group includes the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations in the PRC.

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate a certain percentage of the statutory profit after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the subsidiaries' articles of association, the statutory reserve fund may be used either to offset losses, or for capitalisation issue by way of paid-up capital. The fund cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The Share Incentive Scheme reserve was created for the Share Incentive Scheme launched by the Company that provides incentives and rewards to certain employees of the Company and its subsidiaries.

39. PERPETUAL CAPITAL INSTRUMENTS

(a) Medium Term Notes outstanding as at the end of the period

The Company issued the 2015 Tranche I Medium Term Notes with a total principal amount of RMB6,000,000,000 on 27 January 2015. The notes will remain valid indefinitely until they are redeemed by the issuer (the Company) pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 5th interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests). The coupon interest rate for the first 5 years for which interest is accruable is 5.81% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 6th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread (the difference between the coupon interest rate and the initial benchmark rate), the initial benchmark rate being the arithmetic average (rounding to the nearest 0.01%) of the yield rates of treasury bonds with a 5-year term in the interbank fixed rate treasury bond yield curve for China bonds announced on www.chinabond.com.cn or other websites approved by CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD. 5 working days prior to setting up the account book. The coupon rate will thereafter remain unchanged from the 6th to the 10th interest accruing years. Thereafter, the coupon interest rate is reset every 5 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

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39. PERPETUAL CAPITAL INSTRUMENTS (continued)

(a) Medium Term Notes outstanding as at the end of the period (continued)

The Company issued the 2015 Tranche II Medium Term Notes with a total principal amount of RMB1,500,000,000 on 6 February 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests). The coupon interest rate for the first 3 years for which interest is accruable is 5.69% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

The Company issued the 2015 Tranche III Medium Term Notes with a total principal amount of RMB1,500,000,000 on 20 November 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests). The coupon interest rate for the first 3 years for which interest is accruable is 4.49% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

Unless an event triggering mandatory interest payment has occurred, the issuer may choose prior to each interest payment date to defer the payment of current interests and deferred interests and the compound interest in full or in part to the next interest payment date pursuant to this clause. There is no limit to the timing and frequency of payment deferrals. Deferral of any interest payments under this clause shall not be deemed as default. Each deferred interest payment shall accrue interests at the current coupon rate for the period of deferral.

In the event the issuer conducts the following within 12 months prior to the current interest payment date for the Medium Term Note, it should not defer the payment of current interests and all deferred interests and compound interest:

1. Dividend distribution to holders of ordinary shares;

2. Reduction of registered capital.

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39. PERPETUAL CAPITAL INSTRUMENTS (continued)

(b) Movement of issued Medium Term Note as at the end of the period

Face value	Issue date	Volume	Issue amount	Opening balance	Issued during the year	Issue expenses	Interest charged for the year	Repayment during the year	Closing balance
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
6,000,000	2015.1.27	60,000,000	6,000,000	—	6,000,000	(80,000)	332,364	—	6,252,364
1,500,000	2015.2.6	15,000,000	1,500,000	—	1,500,000	(4,500)	76,698	—	1,572,198
1,500,000	2015.11.20	15,000,000	1,500,000	—	1,500,000	(10,800)	7,565	—	1,496,765
9,000,000		90,000,000	9,000,000	—	9,000,000	(95,300)	416,627	—	9,321,327

40. TRANSFERS OF FINANCIAL ASSETS

Bills receivable

Financial assets that are derecognised in their entirety but for which the Company retains continuing involvement

Bills discount

At 31 December 2015, certain bills receivable were discounted by banks in the PRC (the "Discounted Bills") with a carrying amount of RMB385,920,000 (2014: RMB294,779,000). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Discounted Bills. The maximum exposure to loss from the Group's continuing involvement in the Discounted Bills and the undiscounted cash flows to repurchase these Discounted Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the Discounted Bills are not significant.

During the year ended 31 December 2015, the Group has recognised loss of RMB5,245,996 on the date of transfer of the Discounted Bills (2014: Loss of RMB5,693,434). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

Trade receivables factoring

As part of its normal business, the Group enters into some trade receivables factoring arrangements (the "Arrangements") and transferred certain trade receivables to banks. Some of the trade receivables are not derecognised in their entirety and some of them are derecognised in their entirety but for which the Group retains continuing involvement.

Transferred trade receivables that are not derecognised in their entirety

According to some factoring arrangements, the Group is exposed to default risks of the trade debtors after the transfer and accordingly, it continues to recognise the full carrying amounts of the trade receivables. The original carrying value of trade receivables transferred under the Arrangements that have not been settled as at 31 December 2015 amounted to RMB1,061,220,000 (2014: RMB2,915,814,000).

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40. TRANSFERS OF FINANCIAL ASSETS (continued)

Trade receivables factoring (continued)

Transferred financial assets that are not derecognised in their entirety but for which the Company retains continuing involvement

According to some factoring arrangements, the Group may be required to reimburse the banks for loss of a certain proportion of the principal ranging from 0% to 100% if any trade debtors default and to reimburse interest if any trade debtors have late payment up to 180 days. The Group is not exposed to significant default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group does not retain any rights on the use of the trade receivables, including sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of trade receivables transferred under the Arrangements that have not been settled as at 31 December 2015 amounted to RMB9,585,140,000 (2014: RMB9,547,043,000). The continuing involvement and associated liabilities are summarised as follows:

	RMB'000
Carrying amount of assets that continue to be recognised	1,804,376
Carrying amount of liabilities that continue to be recognised	1,805,654

41. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2015 **RMB'000**	2014 RMB'000
Guarantees given to banks in connection with borrowings to customers	**50,000**	67,390
Guarantees given to banks in respect of performance bonds	**7,656,101**	7,458,959
	7,706,101	7,526,349

(b) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB47,305,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB20,339,000) be paid by the Company. As at the end of the reporting period, the Company had made provision for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not paid any compensation in connection with this arbitration case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

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41. CONTINGENT LIABILITIES (continued)

(c) Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court of Shenzhen (the "Nanshan Court"), pleading for the revocation of the contract and court order of the evacuation of the work sites by China Construction Fifth Division, as well as a penalty payment for work delay in the amount of RMB24.912 million and damages of RMB11.319 million payable to the Company. The Nanshan Court handed down the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth Division be revoked and a penalty payment in the amount of RMB12.817 million be payable by China Construction Fifth Division. China Construction Fifth Division filed an appeal against the aforesaid judgement with the Shenzhen Intermediate People's Court (the "Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, the Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth Division's case with the Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court (the "Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth Division's case with the Shenzhen Intermediate Court in May 2014, the Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth Division was not required to pay the penalty payment of RMB12.817 million to the Company. In response to the aforesaid second trial judgement, the Company had applied to the Guangdong Higher Court for retrial. On 21 January 2016, the Guangdong Higher Court accepted the application for retrial and decided to proceed with retrial of the case.

In October and November 2009, the Company further instituted two lawsuits with the Nanshan Court, demanding China Construction Fifth Division to undertake a penalty payment for work delay in the amount of RMB30.615 million and the payment of RMB39.537 million, representing the amount of work payments in excess of the total contract amount. Currently, the above cases are under trial suspension.

In July 2009, China Construction Fifth Division instituted a lawsuit with the Shenzhen Intermediate Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75.563 million for raw materials and staff deployment. The Shenzhen Intermediate Court handed down a first trial judgement in November 2012, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest, damages for work suspension of approximately RMB953,000 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division has filed an appeal with the Guangdong Higher Court against the said judgement, and the Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth Division amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company.

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41. CONTINGENT LIABILITIES (continued)

(c) (continued)

In response to the aforesaid second trial judgement, the Company had applied to the Supreme People's Court for retrial, which application was rejected by the Supreme People's Court. Subsequently, the Company filed a protest against such second trial judgement with Guangdong Provincial People's Procuratorate, which admitted the Company's application and referred the case to the Supreme People's Procuratorate for protest. On 24 December 2015, the Supreme People's Procuratorate filed a protest with the Supreme People's Court.

In July 2014, China Construction Fifth Division instituted a lawsuit with the Nanshan Court, demanding the refund of RMB24.596 million together with interest of RMB9.118 million (tentatively accrued to 10 July 2014, although it should be accrued to the date on which the contract work amounts are settled in full), being indemnity claim amounts under a bank performance guarantee letter withheld by the Company. Currently, the above case is under trial suspension.

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

(d) A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. As at the end of the reporting period, the arbitration court had yet to make a final ruling.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

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41. CONTINGENT LIABILITIES (continued)

(e) On 26 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with the United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by the Company and ZTE USA, Inc ("ZTE USA"), a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, the ITC issued its initial determination in respect of the case, ruling that one of the patents relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of the ITC.

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with the ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, the ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA have engaged a legal counsel to conduct active defence of the case and will file an appeal based on the verdicts on the three patents involved in the litigation ruled by the court to have been subject to infringement.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

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41. CONTINGENT LIABILITIES (continued)

(f) On 20 May 2013, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB160 million). On 19 June 2013, ZTE Brazil submitted an administrative defence to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that: (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil received the judgement of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. The case is currently pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State. As at the 2013 balance sheet date, the Company had made provisions amounting to BRL5,220,000 (equivalent to approximately RMB10,330,000) in respect of this litigation.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation can be reliably estimated. Accordingly, no additional provision in respect of the litigation was made for the year.

(g) In May 2012, Flashpoint Technology, Inc., a U.S. company, filed a claim with the ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in image processing technologies. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a limited exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of Delaware, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of Delaware has been suspended. On 1 October 2013, the ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

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41. CONTINGENT LIABILITIES (continued)

(h) In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. There has been no substantial progress in the litigation process.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

(i) In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB52,147,500). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB51,930,000) together with accrued interests and an adjustment amount for inflation. As of now, the Brazilian company has not filed any appeal.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB138 million). The Company has appointed a legal counsel to conduct active defence in respect of the said case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

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41. CONTINGENT LIABILITIES (continued)

(j) In March 2016, Bureau of Industry and Security of the Department of Commerce of the United States of America ("BIS") has announced the export restriction and related decisions about the Company, more details were set out in note 51 to the financial statement. Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the above matter, the Company currently believes that the related investigation results are uncertain. It may lead to the uncertainty of the outflow of future economic benefit, and the financial impact of the related contingent liabilities cannot be reliably estimated.

42. FINANCIAL GUARANTEE CONTRACT

The Group has recognised a financial guarantee contract of RMB3,689,000 for an independent customer with a maximum amount of RMB50,000,000 including the corresponding interest.

In accordance with HKAS 39, this financial guarantee contract is accounted for as a financial liability and subsequently measured at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

43. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 30 to the financial statements.

44. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group is entitled to share a portion of the profit generated from the telecommunications network up to year 2015. During the year, approximately operating lease rental income of RMB47,113,000 (2014: RMB79,403,000) has been recognised under this arrangement.

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangement, with leases negotiated for terms ranging from six months to fifteen years. The terms of the leases generally require the tenants to pay security deposits and periodic rent according to the lease contracts.

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44. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

At 31 December 2015, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	91,882	56,573
In the second to fifth years, inclusive	178,482	190,329
After five years	321,199	363,078
	591,563	609,980

(b) As lessee

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years.

At 31 December 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2015 RMB'000	2014 RMB'000
Within one year	223,696	282,519
In the second to fifth years, inclusive	125,624	234,178
After five years	62,152	2,163
	411,472	518,860

45. COMMITMENTS

	2015 RMB'000	2014 RMB'000
Contracted, but not provided for:		
Land and buildings	904,363	214,356
Investments in associates	28,590	5,223
	932,953	219,579

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46. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the year:

	Notes	**2015 RMB'000**	2014 RMB'000
The controlling shareholder:			
Purchases of raw materials	(a)	**265,408**	260,991
Sales of finished goods	(b)	**4,894**	3,800
Rental expense	(c)	**8,827**	8,827
Associates:			
Purchases of raw materials and other service	(a)	**68,192**	74,309
Sales of finished goods	(b)	**45,099**	52,564
Rental income	(e)	**16,479**	12,804
Interest expense	(f)	**131**	75
Interest income	(f)	**176**	110
Joint ventures:			
Purchases of raw materials	(a)	**2,004**	21,111
Sales of finished goods	(b)	**252,474**	530,684
Rental income	(e)	**399**	258
Interest expense	(f)	**1**	—
Interest income	(f)	**400**	—
Consulting service income	(g)	**79**	—
Entities significantly influenced by key management personnel of the Group:			
Purchases of raw materials	(a)	**868,047**	782,107
Sales of finished goods	(b)	**1,365**	61
Rental expense	(d)	**45,538**	42,931
Rental income	(e)	**2,146**	2,146
Interest income	(f)	**3,346**	—
Entities controlled by the controlling shareholder:			
Purchases of raw materials	(a)	**328,702**	279,823
Sales of finished goods	(b)	**5,522**	2,930
Rental income	(e)	**1,129**	780
The substantial shareholder of the controlling shareholder:			
Purchases of raw materials	(a)	**—**	164

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

Notes to Financial Statements

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46. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

Notes:

(a) The purchases of raw materials and other service were made with reference to published prices and conditions similar to those offered by the suppliers to their major customers.

(b) The sales of finished goods were made with reference to published prices and conditions offered to major customers of the Group.

(c) The rental expense was charged at rates of RMB40 per square metre and RMB200 per car parking space.

(d) The rental expense was charged at rates ranging from RMB130 to RMB600 per square metre.

(e) The rental income was earned from RMB12.74 to RMB150 per square metre.

(f) The interest rates for deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

(g) The consulting services were made with reference to published prices and conditions offered to major customers of the Group.

(II) Commitments with related parties

(i) The Group leases certain of its office premises from related parties under non-cancellable operating lease arrangements. The Group expected the lease payments to related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	**In the second year** RMB'000	**In the third year** RMB'000
The controlling shareholder	8,827	2,618	—
Entities significantly influenced by key management personnel of the Group	47,032	15,414	1,457

(ii) A subsidiary of the Group entered into a series of agreements with related parties to purchase raw materials for the Group's future production. The maximum amounts of total purchases from related parties in the following year were expected as follows:

	Within one year RMB'000	**In the second year** RMB'000	**In the third year** RMB'000
The controlling shareholder	800,000	900,000	1,000,000
An entity significantly influenced by key management personnel of the Group	1,700,000	1,900,000	2,100,000
Associates	108,000	79,000	—

Notes to Financial Statements

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46. RELATED PARTY TRANSACTIONS (continued)

(II) Commitments with related parties (continued)

(iii) The Group leases certain of its office premises to related parties under non-cancellable operating lease arrangements. The Group expected the lease receivables from related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	In the second year RMB'000	In the third year RMB'000
Associates	39,100	579	97
Joint ventures	473	435	37
The substantial shareholder of the controlling shareholder	1,129	470	—

(iv) A subsidiary of the Group entered into a series of agreements with related parties to sell products and services. The maximum amount of total sales to related parties in the following year was expected as follows:

	Within one year RMB'000	In the second year RMB'000	In the third year RMB'000
Associates	30,000	31,000	—

(III) Outstanding balances with related parties

(i) Details of the Group's trade balances with the controlling shareholder, joint ventures, associates and other related parties as at the end of the reporting period are disclosed in notes 23 and 28 to the financial statements.

(ii) Details of the Group's balances of receivables and payables which are not trade in nature with the controlling shareholder, associates and other related parties as at the end of the reporting period are disclosed in notes 25 and 29 to the financial statements.

(IV) Compensation of key management personnel of the Group

	2015 RMB'000	2014 RMB'000
Short-term employee benefits	**57,471**	46,157
Post-employment benefits	**501**	6
Equity-settled share option expense	**—**	—
Total compensation paid to key management personnel	**57,972**	46,163

Certain key management personnel mentioned above were simultaneously entitled to defined benefit plans provided by the Group, the amounts of which are not included in the aforesaid remuneration.

The related party transactions in respect of purchases of raw materials amounting to approximately RMB594 million (2014: RMB541 million) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. For details, please refer to the section of the Annual Report headed "Material Matters (XVI) Significant Connected Transactions of the Group (2) Continuing Connected Transactions under the Hong Kong Listing Rules" of the Annual Report.

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47. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2015

Financial assets	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Derivatives designated as hedging instruments in effective hedges RMB'000	Total RMB'000
Available-for-sale investments	—	—	2,381,467	—	2,381,467
Trade and bills receivables/long-term trade receivables	—	29,077,476	—	—	29,077,476
Factored trade receivables/factored long-term trade receivables	—	2,865,596	—	—	2,865,596
Financial assets included in prepayments, deposits and other receivables	—	1,622,932	—	—	1,622,932
Pledged deposits	—	4,718,585	—	—	4,718,585
Time deposits with original maturity of over three months	—	205,029	—	—	205,029
Cash and cash equivalents	—	26,616,996	—	—	26,616,996
Derivative financial instruments	8,984	—	—	1,126	10,110
	8,984	65,106,614	2,381,467	1,126	67,498,191

2015

Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Derivatives designated as hedging instruments in effective hedges RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	—	32,817,995	—	—	32,817,995
Bank advances on factored trade receivables/ bank advances on factored long-term trade receivables	—	2,866,874	—	—	2,866,874
Financial liabilities included in other payables and accruals	—	4,659,527	—	—	4,659,527
Interest-bearing bank borrowings	—	18,541,430	—	—	18,541,430
Financial guarantee contract	—	—	—	3,689	3,689
Bonds payable	—	4,000,000	—	—	4,000,000
Factoring costs payable	—	213,545	—	—	213,545
Long-term payable	—	50,181	—	—	50,181
Derivative financial instruments	16,962	—	2,878	—	19,840
	16,962	63,149,552	2,878	3,689	63,173,081

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47. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2014 Financial assets	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Available-for-sale investments	—	—	1,739,664	1,739,664
Trade and bills receivables/long-term trade receivables	—	27,506,235	—	27,506,235
Factored trade receivables/factored long-term trade receivables	—	4,862,683	—	4,862,683
Financial assets included in prepayments, deposits and other receivables	—	1,513,326	—	1,513,326
Pledged deposits	—	4,462,778	—	4,462,778
Time deposits with original maturity of over three months	—	167,428	—	167,428
Cash and cash equivalents	—	17,230,140	—	17,230,140
Derivative financial instruments	240,973	—	—	240,973
	240,973	55,742,590	1,739,664	57,723,227

2014 Financial liabilities	Financial liabilities at fair value through profit or loss	Financial liabilities at amortised cost	Derivatives designated as hedging instruments in effective hedges	Other financial liabilities	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables	—	29,626,088	—	—	29,626,088
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	4,877,410	—	—	4,877,410
Financial liabilities included in other payables and accruals	—	6,342,602	—	—	6,342,602
Interest-bearing bank borrowings	—	21,080,836	—	—	21,080,836
Financial guarantee contract	—	—	—	3,689	3,689
Bonds payable	—	6,131,185	—	—	6,131,185
Factoring costs payable	—	204,435	—	—	204,435
Derivative financial instruments	64,904	—	6,581	—	71,485
	64,904	68,262,556	6,581	3,689	68,337,730

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, an amount due to the ultimate holding company and loans from associates approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, trade receivables, deposits and other receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2015 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair value of a listed equity investment is based on quoted market prices.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A- or above credit ratings. Derivative financial instruments, including forward currency contracts and interest rate swaps are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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48. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2015	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments	**1,093,001**	**—**	**—**	**1,093,001**
Derivative financial instruments	**—**	**10,110**	**—**	**10,110**
	1,093,001	**10,110**	**—**	**1,103,111**

As at 31 December 2014	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	319,470	—	—	319,470
Derivative financial instruments	—	240,973	—	240,973
	319,470	240,973	—	560,443

Liabilities measured at fair value:

As at 31 December 2015	**Fair value measurement using**			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**(19,840)**	**—**	**(19,840)**

As at 31 December 2014	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(71,485)	—	(71,485)

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49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. The Group also enters into derivative transactions to manage the interest rate and currency risks arising from the Group's operations and its sources of finance, but is forbidden to engage in speculative activities for profit-making. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

Interest rate risk

At 31 December 2015, the bank loans of the Group and the Company included fixed and variable rate debts.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As the Group borrowed a USD900 million floating interest rate loan, the Group has entered into and will enter into interest rate swaps with a nominal principal amount of not more than USD900 million at an appropriate timing, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. These swaps are designated to hedge underlying debt obligations. At 31 December 2015, after taking into account the effect of the interest rate swaps, approximately 36% (2014: 40%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit before tax RMB'000	Increase/ (decrease) in equity * RMB'000
2015	**0.25%**	**(29,510)**	**1,058**
	(0.25%)	**29,510**	**(1,058)**
2014	0.25%	(31,557)	5,591
	(0.25%)	31,557	(5,591)

* Excluding retained profits

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue is predominately in USD, EUR and a certain portion of the bank loans is denominated in USD. The Group entered into forward currency contracts and tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts to minimise its transactional currency exposures. The Group takes a rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and EUR exchange rate, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities). There would be no change in other components of equity.

	Increase/ (decrease) in exchange rate %	**Increase/ (decrease) in profit before tax RMB'000**
2015		
If RMB weakens against USD	**3%**	**276,555**
If RMB strengthens against USD	**(3%)**	**(276,555)**
If RMB weakens against EUR	**5%**	**8,404**
If RMB strengthens against EUR	**(5%)**	**(8,404)**

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2014		
If RMB weakens against USD	3%	55,458
If RMB strengthens against USD	(3%)	(55,458)
If RMB weakens against EUR	5%	183,999
If RMB strengthens against EUR	(5%)	(183,999)

Notes to Financial Statements

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49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also exposed to credit risk through the granting of financial guarantees, further details of which are disclosed in 41(a) to the financial statements.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis, by counterparty, by geographical region and by industry sector. Although the top five customers accounted for 26.85% (2014: 32.09%) of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 23 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purposes. Except for the non-current portion of interest-bearing bank borrowings, all borrowings of the Group mature in less than one year.

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49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2015	**On demand RMB'000**	**Within 1 year RMB'000**	**1 to 2 years RMB'000**	**2 to 3 years RMB'000**	**Over 3 years RMB'000**	**Total RMB'000**
Interest-bearing bank borrowings	**—**	**12,672,102**	**1,455,727**	**3,989,492**	**1,007,435**	**19,124,756**
Trade and bills payables	**22,932,866**	**9,885,129**	**—**	**—**	**—**	**32,817,995**
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	**—**	**1,312,514**	**511,956**	**405,538**	**751,722**	**2,981,730**
Other payables	**4,659,527**	**—**	**—**	**—**	**—**	**4,659,527**
Bonds payable	**—**	**4,102,000**	**—**	**—**	**—**	**4,102,000**
Factoring costs payable	**—**	**—**	**67,007**	**56,124**	**126,974**	**250,105**
Derivative financial instruments	**—**	**19,840**	**—**	**—**	**—**	**19,840**
Long-term payable	**—**	**—**	**13,321**	**13,321**	**26,642**	**53,284**
Financial guarantee contract	**50,000**	**—**	**—**	**—**	**—**	**50,000**
	27,642,393	**27,991,585**	**2,048,011**	**4,464,475**	**1,912,773**	**64,059,237**

2014	On demand RMB'000	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	11,193,023	6,431,576	1,368,816	3,048,910	22,042,325
Trade and bills payables	19,244,400	10,381,688	—	—	—	29,626,088
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	3,254,431	638,663	389,151	735,447	5,017,692
Other payables	6,342,602	—	—	—	—	6,342,602
Bonds payable	—	6,252,000	—	—	—	6,252,000
Factoring costs payable	—	—	73,327	63,889	189,065	326,281
Derivative financial instruments	—	71,175	896	—	—	72,071
Financial guarantee contract	50,000	—	—	—	—	50,000
	25,637,002	31,152,317	7,144,462	1,821,856	3,973,422	69,729,059

Notes to Financial Statements

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49. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2015 and 31 December 2014.

The Group monitors capital using a gearing ratio, which are interest-bearing liabilities divided by the sum of total equity and interest-bearing liabilities. The gearing ratios as at the end of the reporting periods were as follows:

	2015 **RMB'000**	2014 RMB'000
Interest-bearing borrowings	**18,541,430**	21,080,836
Bonds payable	**4,000,000**	6,131,185
Bank advances on factored trade receivables and long-term trade receivables	**2,866,874**	4,877,410
Total interest-bearing liabilities	**25,408,304**	32,089,431
Total equity	**43,348,605**	26,292,504
Total equity and interest-bearing liabilities	**68,756,909**	58,381,935
Gearing ratio	**37.0%**	55.0%

50. MAJOR NON-CASH TRANSACTIONS

During the year, the acquisition of property, plant and equipment of RMB354,241,000 (2014: RMB358,069,000) is by assuming directly related liabilities.

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51. 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 of the Company will be entitled to the dividend, and the total amount of dividend payment will be not more than RMB1,040,000,000.

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52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31 December 2015 RMB'000	31 December 2014 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**4,642,698**	4,515,175
Prepaid land lease payments	**357,143**	366,182
Intangible assets	**976,636**	986,515
Investment properties	**1,603,107**	1,597,919
Investments in subsidiaries	**12,449,842**	11,725,417
Investments in joint ventures	**55,548**	55,721
Investments in associates	**293,709**	287,200
Available-for-sale investments	**366,724**	373,555
Long-term trade receivables	**327,451**	245,671
Factored long-term trade receivables	**1,282,435**	1,287,954
Deferred tax assets	**671,519**	674,629
Pledged deposits	**3,515,601**	3,744,472
Long-term prepayments, deposits and other receivables	**229,607**	135,203
Total non-current assets	**26,772,020**	25,995,613
CURRENT ASSETS		
Prepaid land lease payments	**9,038**	9,038
Inventories	**13,315,871**	12,353,923
Amount due from customers for contract works	**9,580,171**	7,799,190
Trade and bills receivables	**37,590,241**	38,494,719
Factored trade receivables	**445,819**	1,259,713
Prepayments, deposits and other receivables	**15,035,784**	12,004,220
Derivative financial instruments	**3,234**	53,390
Pledged deposits	**382,469**	310,122
Cash and cash equivalents	**17,325,750**	9,715,869
Total current assets	**93,688,377**	82,000,184
CURRENT LIABILITIES		
Trade and bills payables	**48,641,152**	43,604,493
Amount due to customers for contract works	**3,016,655**	2,654,158
Other payables and accruals	**25,435,757**	24,013,774
Provision	**448,459**	388,995
Interest-bearing bank borrowings	**7,410,313**	8,418,581
Bank advances on factored trade receivables	**446,283**	1,274,440
Bonds payable	**4,000,000**	6,131,185
Derivative financial instruments	**6,421**	17,587
Tax payable	**167,227**	111,846
Dividends payable	**184**	156
Total current liabilities	**89,572,451**	86,615,215
NET CURRENT ASSETS/(LIABILITIES)	**4,115,926**	(4,615,031)
TOTAL ASSETS LESS CURRENT LIABILITIES	**30,887,946**	21,380,582

Notes to Financial Statements

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52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2015 RMB'000	31 December 2014 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	**30,887,946**	21,380,582
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**1,469,570**	2,980,100
Bank advances on factored long-term trade receivables	**1,282,435**	1,287,954
Financial guarantee contract	**3,689**	3,689
Deferred tax liabilities	**—**	158,350
Provision for retirement benefits	**144,280**	115,450
Other long-term payables	**1,396,166**	1,344,787
Total non-current liabilities	**4,296,140**	5,890,330
Net assets	**26,591,806**	15,490,252
EQUITY		
Issued capital	**4,150,791**	3,437,541
Reserves (note)	**13,119,688**	12,052,711
Perpetual capital instruments	**9,321,327**	—
Total equity	**26,591,806**	15,490,252

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52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of Company's reserves is as follows:

	Issued capital	Capital reserve	Share incentive scheme reserve	Statutory reserves	Exchange fluctuation reserve	Retained profits	Perpetual capital instruments	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 31 December 2013 and 1 January 2014	3,437,541	9,284,042	22,856	951,439	(18,081)	136,056	—	13,813,853
Final 2013 dividend declared	—	—	—	—	—	(103,126)	—	(103,126)
Total comprehensive income for the year	—	(16,599)	—	—	595	1,616,476	—	1,600,472
Share Incentive Scheme:								
— Equity-settled share option expense	—	—	178,241	—	—	—	—	178,241
Disposal of fractional share	—	812	—	—	—	—	—	812
Transfer from retained profits	—	—	—	155,817	—	(155,817)	—	—
At 31 December 2014 and 1 January 2015	3,437,541	9,268,255	201,097	1,107,256	(17,486)	1,493,589	—	15,490,252
Final 2014 dividend declared	**—**	**—**	**—**	**—**	**—**	**(687,508)**	**—**	**(687,508)**
Total comprehensive income for the year	**—**	**(26,066)**	**—**	**—**	**17**	**2,038,133**	**416,627**	**2,428,711**
Issuance of perpetual capital instruments	**—**	**—**	**—**	**—**	**—**	**—**	**8,904,700**	**8,904,700**
Share Incentive Scheme:								
— Equity-settled share option expense	**—**	**—**	**166,829**	**—**	**—**	**—**	**—**	**166,829**
Disposal of fractional share	**25,742**	**263,080**	**—**	**—**	**—**	**—**	**—**	**288,822**
Transfer from capital reserve	**687,508**	**(687,508)**	**—**	**—**	**—**	**—**	**—**	**—**
Transfer from retained profits	**—**	**—**	**—**	**253,697**	**—**	**(253,697)**	**—**	**—**
At 31 December 2015	**4,150,791**	**8,817,761**	**367,926**	**1,360,953**	**(17,469)**	**2,590,517**	**9,321,327**	**26,591,806**

53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 6 April 2016.

Documents Available for Inspection

(I) Text of the 2015 annual report signed by the Chairman of the Board of Directors;

(II) Original copies of the Group's audited financial reports and consolidated financial statements for the year ended 31 December 2015 prepared in accordance with the PRC ASBEs and HKFRSs duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

(III) Original copy of the auditors' report affixed with seal of the accountants' firm and duly signed under the hand and seal of the certified public accountants;

(IV) Original copies of all of the Company's documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News and posted on http://www.cninfo.com.cn during the year; and

(V) Articles of Association.

By order of the Board

Zhao Xianming
Chairman

7 April 2016

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