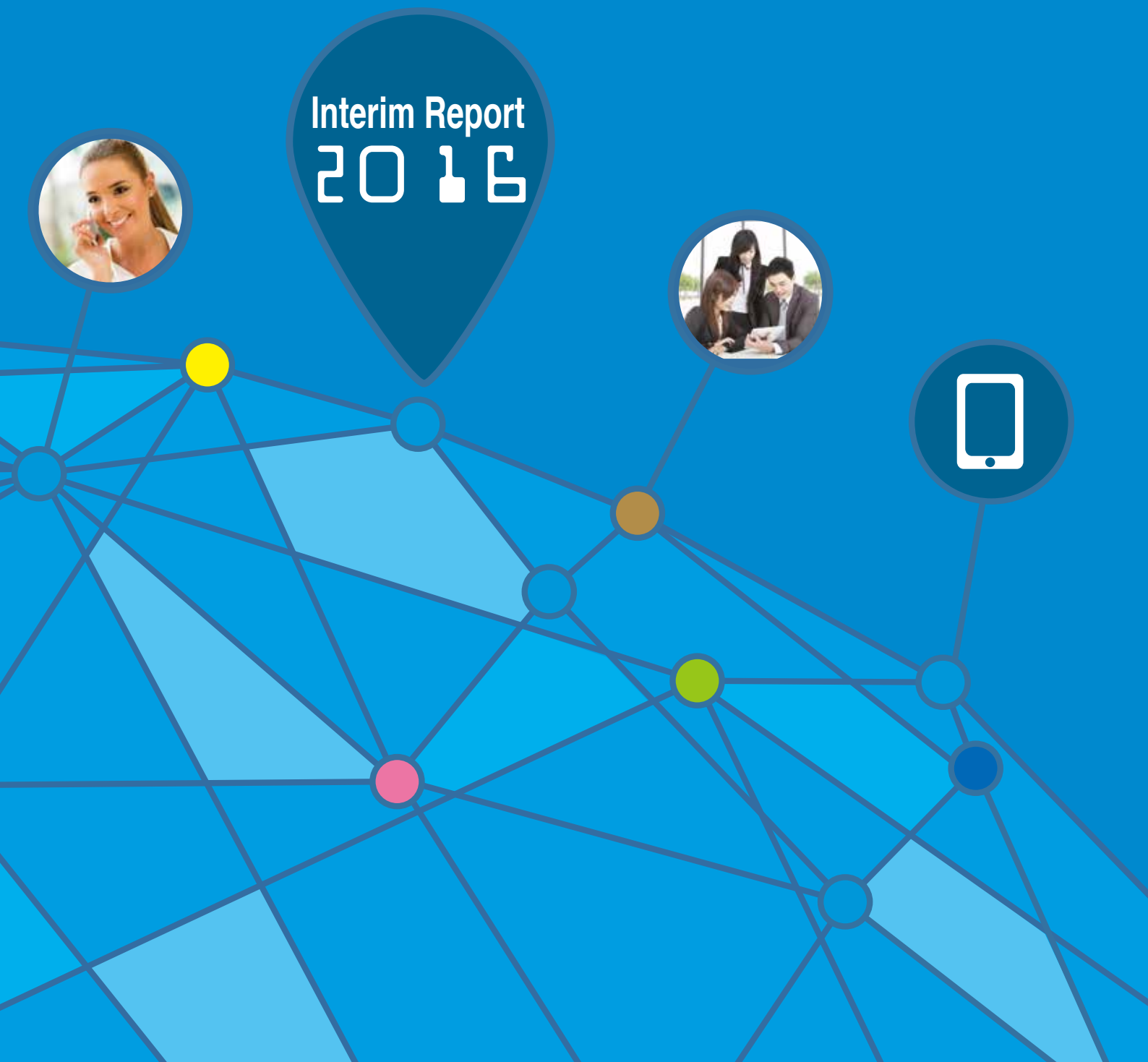


ZTE 中兴通讯股份有限公司

ZTE CORPORATION

stock code : 000063.SZ 763.HK

Interim Report
2016



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 Eighth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Luan Jubao, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Zhan Yichao, Director, to vote on his behalf. Mr. Tian Dongfang, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Wang Yawen, Director, to vote on his behalf. Mr. Yin Yimin, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Shi Lirong, Director, to vote on his behalf. Mr. Lü Hongbing, Independent Non-executive Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Chen Shaohua, Independent Non-executive Director, to vote on his behalf.

The interim financial reports of the Group for the six months ended 30 June 2016 were unaudited.

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.

No profit distribution or conversion of capital reserves will be implemented in respect of the interim period of 2016.

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 in potential risks inherent in the operations of the Company which are described in the section headed “Report of the Board of Directors (VI) Business outlook for the second half of 2016 and risk exposures” in this report.

This report has been prepared in Chinese and English respectively. In case of discrepancy in the interpretation of this report, the Chinese version shall prevail, except for the financial statements prepared in accordance with Hong Kong Finance 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 should 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 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 and 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 Enterprise (Generally accepted accounting principles in China)
HKFRSs	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards (“HKASs”) and Interpretations)
ZTE HK	ZTE (H.K.) Limited
Gongjin Electronics	Shenzhen Gongjin Electronics Co., Ltd.
Great Power	Guangzhou Great Power Energy & Technology Co., Ltd.

Eoptolink	Eoptolink Technology Inc., Ltd.
Lianchuang Electronic	Lianchuang Electronic Technology Co., Ltd.
Enablence Technologies	Enablence Technologies Inc.
Giga Device	Giga Device Semiconductor (Beijing) 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
Medium Term Note(s) or perpetual capital instruments	Perpetual Medium Term Note(s)
SDR	Special drawing right
Xinghe Capital	Jiaxing Xinghe Capital Management Company Limited
NEEQ	The National Equities Exchange and Quotations
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.
ZTE Microelectronics	ZTE Microelectronics Technology Company Limited

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.

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	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, it 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).
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 into an integrated communications network and accumulates assets relating to users' information, thereby adding value to dataflow on the mobile internet.
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 level and the data level.
IOT	Internet Of Things, also known as the sensor network, 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.
Mobile internet	Internet access service facilitated through mobile terminals such as smart phones/handheld digital assistants, notebooks and Pad, etc. Enriched by the popularisation 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-organisation. It is essentially the application of the internet of things and service networks 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.
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.
Big video	Ultra-high-definition videos such as 4K/8K/VR/AR, as opposed to standard-definition and high-definition videos, which feature richer contents and more exacting requirements for channels, signifying the big video era for the video business.

Glossary

Big bandwidth	Higher bandwidth requirements for networks to facilitate big video, such as 50M bandwidth required by standard 4K, such that carriers are required to provide greater bandwidth to video users as compared to traditional video services.
NFV	Network Function Virtualisation, a solution for the construction of telecommunication network units using common servers and storage and network equipment promoted by NFV ISG, a group set up by the European Telecommunications Standards Institute (ETSI) in November 2012. NFV is generally perceived as consisting of three stages: first, implementation of network units through virtualisation technologies; second, deployment on cloud to realise centralisation and cloud-based operation; third, the breakdown of NFV network units into components by function, so that flexible network unit functions are facilitated through different configuration of components.
VR	Virtual Reality, a virtual 3D environment created with the aid of the computer system and sensor technologies, providing the visual experience of a highly simulated reality and immersive human-machine interaction.
AR	Augmented Reality, a technology that superimposes virtual objects not existing in reality onto the real world through 3D registration and “aug-mediation”, facilitating a natural interaction between virtual objects and the reality to create faked reality with real-time images, which are further projected to other media via monitoring devices.
AI	Artificial Intelligence, the use of machine to aid or replace human in doing certain tasks by simulating the sight, hearing, senses and thinking of human.
Intelligent manufacturing	Intelligent manufacturing, an integrated intelligent system comprising intelligent machines and human experts which is capable of intelligent activities such as analysing, inferring, making judgments, postulating and making decisions in the manufacturing process, such that manufacturing automation can reach a higher level in terms of flexibility, intelligence and intensification.
4K	A video service having a resolution of 3840*2160, which is 4 times the resolution of a 2K video.
HDR	High-Dynamic Range, the quality of being capable of providing a greater dynamic range and imaging details as compared to ordinary imaging.
Data centre	An Internet-based infrastructure centre that operates and maintains equipment for centralised collection, storage, processing and dispatch of data, and provides related services.
Distributed database	A logically coherent database formed by the interconnection of multiple data storage units located in different physical locations using a high-speed computer network, so as to enable larger storage capacity and higher volume of simultaneous visits.
Core network	Mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility.
Smart pipe	Relative to the “dummy pipe,” the smart pipe facilitates optimisation of internet traffic flow through technologies such as flow sensor, classification and control, etc. to enhance users’ experience and deliver added value.
Quantum communication	A mode of communication under which information is transmitted through the quantum entanglement effect. The key technologies involved include quantum encryption, quantum teleportation and remote quantum communication.

Corporate Information

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|----|--|--|
| 1. | Legal name (in Chinese)
Chinese abbreviation
Legal name (in English)
English abbreviation | 中興通訊股份有限公司
中興通訊
ZTE Corporation
ZTE |
| 2. | Legal representative | Zhao Xianming |
| 3. | Secretary to the Board of Directors/
Company Secretary
Securities affairs representative
Correspondence address

Telephone
Facsimile
E-mail | Cao Wei

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Hong Kong |
| 5. | Authorized representatives | Zhao Xianming
Cao Wei |
| 6. | Media designated for information
disclosure by the Company
Authorised websites on which
this report is made available
Place where this report is available
for inspection | China Securities Journal, Securities Times,
Shanghai Securities News
http://www.cninfo.com.cn
http://www.hkexnews.hk
No. 55, Keji Road South, Shenzhen, Guangdong Province
The People's Republic of China |
| 7. | Listing information | A shares
Shenzhen Stock Exchange
Abbreviated name of stock: 中興通訊
Stock code: 000063

H shares
Hong Kong Stock Exchange
Abbreviated name of stock: ZTE
Stock code: 763 |

Corporate Information

8. Changes in registration details
- | | |
|--|--|
| Registration information as at the beginning of the reporting period | |
| 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 |
| Registration number of corporate business licence | 440301103852869 |
| Tax registration number | 44030127939873X |
| Organisation code | 27939873-X |
| As at the end of the reporting period | |
| Date of registration | 21 April 2016 |
| Registered address | ZTE Plaza, Keji Road South, Hi-Tech Industrial Park
Nanshan District, Shenzhen, Guangdong Province,
The People's Republic of China |
| Standardised social credit code | 9144030027939873X7 |
9. Change in other relevant information ☐ Applicable ☒ N/A

Highlights of Accounting Data and Financial Indicators

(I) WHETHER THE COMPANY HAS MADE RETROSPECTIVE ADJUSTMENTS TO OR RESTATEMENT OF ACCOUNTING DATA OF THE PREVIOUS YEAR AS A RESULT OF CHANGES IN ACCOUNTING POLICIES OR FOR THE RECTIFICATION OF ACCOUNTING ERRORS

☐ Yes ☒ No

(II) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP PREPARED IN ACCORDANCE WITH PRC ASBES

Unit: RMB in thousands

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

Unit: RMB in thousands

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

Highlights of Accounting Data and Financial Indicators

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

Extraordinary gains or losses items and amounts deducted are set out as follows:

Unit: RMB in thousands

Extraordinary item	Amount
Non-operating income	298,968
Gains/(Losses) from fair value change	(36,350)
Investment income	(97,657)
Less: Losses/(Gains) on disposal of non-current assets	4,659
Less: Other non-operating expenses	46,706
Less: Effect of income tax	17,039
Less: Effect of non-controlling interests (after tax)	3,402
Total	93,155

(III) MAJOR FINANCIAL INDICATORS OF THE GROUP PREPARED IN ACCORDANCE WITH HKFRSs

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

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

(IV) THE AMOUNT OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE GROUP FOR THE SIX MONTHS ENDED AND AS AT 30 JUNE 2016 CALCULATED IN ACCORDANCE WITH PRC ASBES ARE FULLY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.

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 reporting period.

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

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

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

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.

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

III. MAJOR ASSETS

There was no significant change in the major assets of the Group during the reporting period. 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 — 9. 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 first half of 2016, the Group continued to substantiate its “M-ICT” initiative on the back of the M-ICT strategy announced in 2014. Through smart application, connection and coordinated operation of “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.

The Group places a strong emphasis on R&D and currently 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 30 June 2016, the Group held patent assets of over 68,000 items, including granted patents of over 25,000 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 34,000 research papers in aggregate to international standardisation organisations and editorships and authorships for more than 280 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.

The “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 and 3 united innovation centres at tertiary institution have been established. In the second half of 2016, the Group will continue to drive the establishment of united innovation centres and united laboratories in association with tertiary institutions for the joint undertaking of key national projects and industrialization projects of the National Development and Reform Commission.

During the first half of 2016, the Group undertook leading roles in the R&D and industrialisation for a specific national key R&D programme of the Ministry of Science and Technology, a smart manufacturing project of the Ministry of Industry and Information Technology and a specific project for the development of innovative production capacity in Shenzhen.

Report of the Board of Directors

The Board of Directors of the Company is pleased to present this interim report together with the unaudited financial statements of the Group for the six months ended 30 June 2016.

FINANCIAL RESULTS

Please refer to page 79 and page 208 of this report for the results of the Group for the six months ended 30 June 2016 prepared in accordance with PRC ASBES and HKFRSs.

(I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2016

1. Overview of the domestic telecommunications industry for the first half of 2016

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

2. Overview of the global telecommunications industry for the first half of 2016

Traditional telecommunication businesses were exposed to increasing pressure in operations during the first half of 2016, as the transformation and upgrade of the industry gained pace. Elsewhere, the advances and application of Pre-5G technologies, expansion of “internet+” in traditional industries, development of integrated new businesses, preliminary application of SDN/NFV technologies, balance of security and privacy, development of AR/VR technologies represented some of the latest trends in the industry. Meanwhile, the telecommunications sector welcomed opportunities for innovation afforded by the development of industry 4.0, artificial intelligence, smart city, intelligent manufacturing, internet of things and internet of energy.

3. Operating results of the Group for the first half of 2016

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

(1) By market

The domestic market

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

Report of the Board of Directors

The international market

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

(2) By business segment

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

Carriers' network

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

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

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

Government and corporate business

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

Consumer business

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

(II) MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH PRC ASBES

The financial data below are extracted from the Group's unaudited financial statements prepared in accordance with PRC ASBES. The following discussion and analysis should be read in conjunction with the Group's financial statements and the accompanying notes thereto.

1. Overall operating results of the Group during the reporting period

Unit: RMB in thousands

Item	Six months ended 30 June 2016	Six months ended 30 June 2015	Percentage of increase/ decrease
Operating revenue	47,757,302	45,898,788	4.05%
Operating profit	495,416	76,343	548.93% ^{Note}
Net profit attributable to holders of ordinary shares of the listed company	1,766,397	1,615,585	9.33%

Note: Mainly attributable to growth in operating revenue, exchange gains on translation for the period versus exchange losses on translation for the same period last year due to exchange rate volatility and the reduction in impairment losses owing to changes in the mix of trade receivables requiring new charge for bad debt provisions.

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

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

Revenue mix	Operating revenue (RMB in thousands)	Operating costs (RMB in thousands)	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
I. By industry						
Manufacturing of communication equipment	47,757,302	31,824,387	33.36%	4.05%	4.59%	(0.35)
Total	47,757,302	31,824,387	33.36%	4.05%	4.59%	(0.35)
II. By business						
Carriers' networks	28,734,974	16,843,932	41.38%	5.05%	5.07%	(0.01)
Government and corporate business	4,607,271	2,743,928	40.44%	2.46%	(6.09%)	5.42
Consumer business	14,415,057	12,236,527	15.11%	2.62%	6.65%	(3.22)
Total	47,757,302	31,824,387	33.36%	4.05%	4.59%	(0.35)
III. By region						
The PRC	27,803,026	17,631,590	36.58%	14.13%	16.69%	(1.39)
Asia (excluding the PRC)	7,234,938	5,460,657	24.52%	0.52%	4.97%	(3.20)
Africa	3,100,051	1,652,466	46.70%	(3.35%)	12.40%	(7.46)
Europe, Americas and Oceania	9,619,287	7,079,674	26.40%	(13.60%)	(18.10%)	4.04
Total	47,757,302	31,824,387	33.36%	4.05%	4.59%	(0.35)

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

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

(1) Analysis of change in revenue

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

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

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

Unit: RMB in thousands

Six months ended 30 June 2016			Six months ended 30 June 2015 ^{Note}			Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin			
47,757,302	31,824,387	33.36%	45,833,915	30,373,453	33.73%	4.20%	4.78%	(0.37)

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

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

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

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3. Indicators for major business accounting for over 10% of the Group's operating revenue for the reporting period

Unit: RMB in thousands

By business segment	Operating revenue	Operating costs	Gross profit margin
Carriers' networks	28,734,974	16,843,932	41.38%
Government and corporate business	4,607,271	2,743,928	40.44%
Consumer business	14,415,057	12,236,527	15.11%

4. Breakdown of the Group's costs by principal items

Unit: RMB in thousands

Industry	Item	Six months ended 30 June 2016		Six months ended 30 June 2015		Year-on-year increase/decrease
		Amount	As a percentage of operating costs	Amount	As a percentage of operating costs	
Manufacturing of communication equipment	Raw materials	25,730,966	80.85%	23,990,315	78.85%	7.26%
	Engineering costs	5,120,607	16.09%	5,578,664	18.33%	(8.21%)
	Total	30,851,573	96.94%	29,568,979	97.18%	4.34%

5. Breakdown of the Group's expenses by principal items

Unit: RMB in thousands

Item	Six months ended 30 June 2016	Six months ended 30 June 2015	Year-on-year increase/decrease
Selling and distribution expenses	5,978,607	5,333,174	12.10%
General and administrative expenses	1,393,985	1,207,807	15.41%
Finance expenses	(95,058)	1,007,102	(109.44%) ^{Note1}
Income tax	519,427	310,202	67.45% ^{Note2}

Note 1: Mainly attributable to exchange gains on translation for the period versus exchange losses on translation for the same period last year due to exchange rate volatility.

Note 2: Mainly attributable to the increase in profit for the period and the application of profit for the same period last year to make up losses of previous years.

6. Research and development expense of the Group

Unit: RMB in thousands

Item	Six months ended 30 June 2016	Six months ended 30 June 2015	Year-on-year increase/decrease
Amount of R&D expense	7,059,164	5,491,912	28.54%
R&D expense as a percentage of operating revenue	14.78%	11.97%	Increased by 2.81 percentage points
Amount of capitalised R&D expense	502,775	809,311	(37.88%) ^{Note}
Capitalised R&D expense as a percentage of R&D expense	7.12%	14.74%	Decreased by 7.62 percentage points

Note: Mainly attributable to increased investment in the R&D of 5G and chipsets during the period, which was still in the stage of research.

7. Breakdown of the Group's cash flow

Unit: RMB in thousands

Item	Six months ended 30 June 2016	Six months ended 30 June 2015	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	67,234,449	55,598,529	20.93%
Sub-total of cash outflows from operating activities	64,879,518	54,090,643	19.95%
Net cash flows from operating activities	2,354,931	1,507,886	56.17% ^{Note 1}
Sub-total of cash inflows from investing activities	1,063,494	1,250,812	(14.98%)
Sub-total of cash outflows from investing activities	1,969,376	2,206,962	(10.77%)
Net cash flows from investing activities	(905,882)	(956,150)	5.26%
Sub-total of cash inflows from financing activities	15,177,227	14,441,247	5.10%
Sub-total of cash outflows from financing activities	14,976,719	14,724,398	1.71%
Net cash flows from financing activities	200,508	(283,151)	170.81% ^{Note 2}
Net increase in cash and cash equivalents	1,314,377	87,402	1,403.83% ^{Note 3}

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

Note 2: Mainly attributable to the increase in cash received from investment;

Note 3: Mainly attributable to the increase in cash received for the sales of goods and rendering labour services and the increase in cash received from investment.

For an explanation of reasons for the difference between net cash flows from operating activities and net profit of the Group for the reporting period, please refer to "Note V 52. Supplemental Information for the Cash Flow Statement" to the financial report prepared under PRC ASBEs.

8. Reasons for substantial changes in the Group's principal business and its structure, profit mix and profitability during the reporting period

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

For the first half of 2016, the Group reported operating profit of RMB495,416,000, an increase by 548.93% compared to the same period last year, which was mainly attributable to growth in operating revenue, exchange gains on translation for the period versus exchange losses on translation for the same period last year due to exchange rate volatility, as well as the reduction in impairment losses owing to changes in the mix of trade receivables requiring new charge for bad debt provisions. Expenses for the period amounted to RMB14,336,698,000, which was 9.94% higher as compared to the same period last year, reflecting mainly increased investment in research and development for the period. Investment income amounted to RMB357,965,000, a slight decrease by 1.19% as compared to the same period last year. Net non-operating income and expenses amounted to RMB2,212,365,000, a year-on-year increase of 7.08%, reflecting increase in income from financial subsidies for the period.

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

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

9. Analysis of the Group's assets and liabilities

(1) Change in assets

Unit: RMB in thousands

Item	As at 30 June 2016		As at 31 December 2015		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	129,916,283	100%	120,893,897	100%	—
Cash	30,373,185	23.38%	28,025,009	23.18%	0.20
Trade receivables	29,311,949	22.56%	25,251,287	20.89%	1.67
Inventories	25,767,664	19.83%	19,731,741	16.32%	3.51
Investment properties	2,012,612	1.55%	2,010,396	1.66%	(0.11)
Long-term equity investments	546,851	0.42%	560,939	0.46%	(0.04)
Fixed assets	7,458,776	5.74%	7,692,175	6.36%	(0.62)
Construction in progress	1,133,257	0.87%	643,789	0.53%	0.34

(2) Change in liabilities

Unit: RMB in thousands

Item	As at 30 June 2016		As at 31 December 2015		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	11,381,462	8.76%	7,907,572	6.54%	2.22
Long-term loans due within one year	3,015,051	2.32%	4,617,604	3.82%	(1.50)
Long-term loans	6,676,374	5.14%	6,016,254	4.98%	0.16

(3) *Assets and liabilities measured 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	10,110	(5,715)	6,892	—	—	—	30,426
3. Available-for-sale financial assets	1,093,001	—	745,749	—	21,902	468,035	851,818
Sub-total of financial assets	1,103,111	(5,715)	752,641	—	21,902	468,035	882,244
Investment properties	2,010,396	2,216	—	—	—	—	2,012,612
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	3,113,507	(3,499)	752,641	—	21,902	468,035	2,894,856
Financial liabilities ^{Note}	19,840	(32,851)	(66,399)	—	—	—	102,784

Note: Financial liabilities included derivative financial liabilities.

There was no significant change to the measurement attributes of the principal assets of the Company during the reporting period.

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 and 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 forward exchange rates between RMB and foreign currencies such as JPY and EUR.

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	10,110	(5,715)	6,892	—	30,426
Including: Derivative financial assets	10,110	(5,715)	6,892	—	30,426
2. Loans and receivables	38,473,229	—	—	377,873	41,374,300
3. Available-for-sale financial assets	131,928	—	(4,098)	—	179,613
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	38,615,267	(5,715)	2,794	377,873	41,584,339
Financial liabilities	10,205,951	(32,851)	(66,399)	—	14,519,283

10. Analysis of investments

(1) Overview

The Group's third-party investments during the reporting period amounted to approximately RMB546,851,000, representing an increase of 12.33% compared to RMB486,830,000 for the same period last year.

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

(3) Investment in financial assets

① Investment in securities

A. Investment in securities as at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gains/loss arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed during the period	Gain/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	603118	Gongjin Electronics ^{Note 1}	4,274.93	Fair-value measurement	48,798.08	—	7,319.26	—	29,528.01	26,078.07	8,144.25	Available-for-sale financial assets	Issue proceeds
Stock	300438	Great Power ^{Note 1}	3,095.24	Fair-value measurement	37,350.00	—	17,122.88	—	17,275.51	15,727.89	18,670.50	Available-for-sale financial assets	Issue proceeds
Stock	300502	Eoptolink ^{Note 1}	1,385.12	Fair-value measurement	1,385.12	—	37,684.80	—	—	—	39,069.92	Available-for-sale financial assets	Issue proceeds
Stock	002036	Lianchuang Electronic ^{Note 2}	3,266.00	Fair-value measurement	22,170.63	—	12,857.77	—	—	—	16,123.77	Available-for-sale financial assets	Issue proceeds
Stock	ENA:TSV	Enablance Technologies ^{Note 3}	3,583.26	Fair-value measurement	981.36	—	(409.85)	2,190.16	—	—	3,173.41	Available-for-sale financial assets	Internal funds
Other securities investments held at the end of the period			—	—	—	—	—	—	—	—	—	—	—
Total			15,604.55	—	110,685.19	—	74,574.86	2,190.16	46,803.52	41,805.96	85,181.85	—	—

- Note 1: Figures corresponding to Gongjin Electronics, Great Power and Eoptolink are provided with Zhonghe Chunsheng Fund as the accounting subject.
- Note 2: Figures corresponding to Lianchuang Electronic (formerly named “China-Hemp Industrial Investment Co., Ltd.”) are provided with Jiaying Fund as the accounting subject.
- Note 3: The initial investment for the acquisition of Enablence Technologies shares by ZTE HK, a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company's foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD37,079,000, equivalent to approximately RMB31,734,100 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.85585) on 30 June 2016.

B. Details in investment in securities during the reporting period

a. Shareholdings in Gongjin Electronics

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund, a partnership reported in the consolidated financial statements of the Company. Zhonghe Chunsheng Fund disposed of 5.37 million and 3 million shares in Gongjin Electronics (a company listed on the Shanghai Stock Exchange) on 20 May and 8 June 2016, respectively. As at the end of the reporting period, Zhonghe Chunsheng Fund held 2,001,500 shares in Gongjin Electronics, accounting for 0.56% of the total share capital of Gongjin Electronics.

b. Shareholdings in Great Power

Zhonghe Chunsheng Fund transferred its 1.50 million shares in Great Power (a company listed on the GEM Board of the Shenzhen Stock Exchange) on 16 May 2016. As at the end of the reporting period, Zhonghe Chunsheng Fund held 4.50 million shares in Great Power (following the implementation of the 2015 equity distribution plan), accounting for 1.79% of the total share capital of Great Power.

c. Shareholdings in Eoptolink

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

d. Shareholdings in Lianchuang Electronic

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaying Fund, which was a partnership reported in the consolidated financial statements of the Company. Lianchuang Electronic, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, was required to repurchase shares held by its shareholders for cancellation as compensation following its failure to meet the net profit undertaking for 2015. As a result, Lianchuang Electronic repurchased 310,700 shares held by Jiaying Fund. As at the end of the reporting period, Jiaying Fund held 6,887,600 shares in Lianchuang Electronic, accounting for 1.18% of the total share capital of Lianchuang Electronic.

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e. Shareholdings in Enablence Technologies

ZTE HK, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies on 4 December 2014. ZTE HK subscribed for 18 million shares issued by Enablence Technologies on 6 January 2015 for a total cash consideration of CAD2.70 million. ZTE HK entered into a Subscription Agreement with Enablence Technologies on 27 January 2016. On 2 February 2016, ZTE HK subscribed for 77 million shares issued by Enablence Technologies for a total cash consideration of CAD4.62 million. As at the end of the reporting period, ZTE HK held 95 million shares in Enablence Technologies, accounting for 18.66% of its total share capital.

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

C. Details in investment in securities after the end of the reporting period

Giga Device, a company in which Zhonghe Chunsheng Fund has invested in, was listed on the Shanghai Stock Exchange on 18 August 2016 with the issue capital of 25 million shares at an issue price of RMB23.26 per share. Zhonghe Chunsheng Fund holds 3,175,400 shares in Giga Device, accounting for 3.18% of the total share capital of Giga Device after the issue.

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	Amount purchased during the period	Amount disposed during the period	Impairment provision amount (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets ^{Note 2}	Actual profit or loss for the reporting period
Financial institutions	N/A	No	Interest rate swap ^{Note 3}	—	2011/12/19	2016/7/8	32,470.00	—	—	—	33,225.00	1.07%	—
Financial institutions	N/A	No	Interest rate swap ^{Note 3}	—	2011/12/22	2016/7/8	32,470.00	—	—	—	33,225.00	1.07%	—
Financial institutions	N/A	No	Foreign exchange forwards	—	2015/8/24	2016/12/30	45,366.43	105,186.36	96,165.46	—	54,387.33	1.76%	(2,933.93)
Financial institutions	N/A	No	Foreign exchange forwards	—	2016/1/13	2017/1/5	23,484.25	103,032.72	53,455.20	—	73,061.77	2.36%	(3,941.33)
Financial institutions	N/A	No	Foreign exchange forwards	—	2015/12/14	2016/12/29	22,481.58	106,015.66	59,780.63	—	68,716.61	2.22%	(3,706.93)
Other financial institutions	N/A	No	Foreign exchange forwards	—	2015/8/24	2016/12/29	105,220.98	275,848.00	245,694.29	—	135,374.69	4.37%	(7,302.81)
Total				—	—	—	261,493.24	590,082.74	453,585.58 ^{Note 4}	—	397,990.40	12.85%	(17,885.00)

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 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, and “Announcement Resolutions of the Second Meeting of the Seventh Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2016,” both dated 6 April 2016.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	“Announcement on Resolutions of the 2014 Annual General Meeting” dated 28 May 2015 and “Announcement on Resolutions of the 2015 Annual General Meeting” dated 2 June 2016.
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 the first half of 2016. 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;

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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/losses from investments in derivatives for the reporting period. Total loss recognised for the reporting period amounted to RMB178.85 million, comprising losses from fair-value change of RMB38.56 million and investment loss of RMB140.29 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.

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.

(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 Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	200 ^{Note 1}	2015-07-23	2016-01-20	Settlement upon maturity on an as-incurred basis	200	—	—	4.66	4.66
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	900 ^{Note 1}	2016-01-04	2016-03-07	Settlement upon maturity on an as-incurred basis	900	—	—	6.21	6.21
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000 ^{Note 1}	2016-01-04	2016-04-12	Settlement upon maturity on an as-incurred basis	1,000	—	—	11.01	11.01
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000 ^{Note 1}	2016-01-04	2016-07-07	Settlement upon maturity on an as-incurred basis	—	—	21.44	—	—
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	650 ^{Note 1}	2016-03-22	2016-06-23	Settlement upon maturity on an as-incurred basis	650	—	—	6.32	6.32
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000 ^{Note 1}	2016-04-27	2016-07-13	Settlement upon maturity on an as-incurred basis	—	—	6.90	—	—
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	860 ^{Note 1}	2016-01-04	T+1 redemption	Investment income for the previous month settled on the dividend record date of each month	680	—	3.92	3.42	3.42
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	150 ^{Note 2}	2015-12-16	2016-01-20	Settlement upon maturity on an as-incurred basis	150	—	—	0.35	0.35
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	350 ^{Note 2}	2015-12-16	2016-03-16	Settlement upon maturity on an as-incurred basis	350	—	—	2.36	2.36
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	2,000 ^{Note 2}	2015-10-09	2016-01-11	Settlement upon maturity on an as-incurred basis	2,000	—	—	13.91	13.91
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	1,950 ^{Note 2}	2016-01-12	2016-04-12	Settlement upon maturity on an as-incurred basis	1,950	—	—	12.15	12.15
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	40 ^{Note 2}	2016-01-02	2016-04-26 (drawn on demand)	Investment income for the previous month settled on the dividend record date of each month	40	—	—	0.49	0.49
Total			10,100	—	—	—	7,920	—	32.26	60.88	60.88

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) N/A

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

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Note 1: Seven bank investment products listed above were purchased by 中興健康科技有限公司 (“ZTE Health”), which was held as to 49.999998% by the Company and 50.000002% by 上海和寧投資管理有限公司.

Note 2: Five bank investment products listed above were purchased by Xinjiang ZTE Silk Road Network Technology Company Limited (“ZTE Silk Road”), which was held as to 65% by the Company and 35% by 伊犁合新盛通市政工程有限責任公司.

② During the reporting period, the Company did not enter into any entrusted loans.

(5) 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 reporting period. For details of assets and equity interests transactions disclosed by the Group, please refer to the section headed “Material Matters (VI). Asset Transactions” in this report.

12. Analysis of principal subsidiaries and investee companies

Unit: RMB in thousands

Name of company	Corporate type	Principal business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
ZTE Kangxun	Subsidiary	Manufacturing and sales of electronic components and circuit boards	RMB1,755 million	18,664,951	3,004,521	28,148,856	539,554	408,989
ZTE Microelectronics	Subsidiary	Design, manufacturing and sales of integrated circuit	RMB131,578,947	5,395,947	3,759,495	2,857,446	138,644	169,721
Nubia Technology Limited	Subsidiary	Manufacturing and sales of communications products	RMB118,748,300	4,972,575	3,175,763	1,791,325	(366,478)	(295,399)
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	Subsidiary	Communications engineering and technical services	RMB200 million	7,069,631	1,059,816	2,753,546	141,416	112,937
ZTE Capital	Subsidiary	Trust management of venture funds	RMB30 million	1,717,753	1,562,694	—	455,612	455,612
ZTE Group Finance	Subsidiary	Financing	RMB1,000 million	20,748,503	1,417,323	211,415	136,465	104,599
西安中興通訊終端科技有限公司	Subsidiary	Manufacturing and sales of mobile terminals	RMB300 million	2,702,494	487,414	6,323,766	82,757	109,138
PT. ZTE Indonesia	Subsidiary	Sales of communications products and engineering installation	USD2.20 million	2,402,039	(70,730)	987,405	(222,462)	(219,388)
ZTE (USA), Inc.	Subsidiary	Sales of terminals and system equipment	USD30 million	2,256,578	132,649	2,840,105	(144,281)	(166,598)
ZTE DO BRAZIL LTDA	Subsidiary	Manufacturing and sales of communications products	BRL6.50 million	550,184	(1,880,549)	158,386	435,058	432,898
中興通訊(俄羅斯)有限公司	Subsidiary	Sales of communications products and engineering services	RUB23.18 million	740,171	53,282	572,157	171,978	134,902
Zhongxing Software	Subsidiary	Software development	RMB51.08 million	19,383,245	6,531,143	10,522,339	(343,689)	879,678
ZTE HK	Subsidiary	General	HKD995 million	26,544,825	1,445,312	6,660,426	375,234	331,088

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 reporting period, the following 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. ZTE Kangxun, Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited, 西安中興通訊終端科技有限公司 and 中興通訊(俄羅斯)有限公司 reported year-on-year net profit growth of 1,012.26%, 80.41%, 310.99%, and 240.77%, respectively, reflecting mainly improvements in gross margin; ZTE Microelectronics reported year-on-year decline of 37.90% in net

profit mainly as a result of increased investment in research and development; Nubia Technology Limited and PT. ZTE Indonesia reported year-on-year decline in net profit of 275.03% and 338.99%, respectively, reflecting mainly lower gross margin; ZTE Capital reported year-on-year net profit growth of 1,882.39% which was mainly attributable to the increase in gains from share trading; ZTE Group Finance reported year-on-year net profit growth of 48.99%, reflecting mainly the increase in gains from the deposit business in line with the increase in deposits received; ZTE (USA), Inc. reported year-on-year decline in net profit of 108.70%, attributable mainly to increased investment in markets; net profit of ZTE DO BRAZIL LTDA increased by 266.18%, year-on-year, reflecting mainly the impact of exchange rate volatility.

For details of subsidiaries acquired or disposed of during the reporting period and their impact, please refer to Note VI to the financial statements prepared under 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.”

(III) MANAGEMENT DISCUSSION AND ANALYSIS PREPARED IN ACCORDANCE WITH HKFRSs

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

Revenue

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

Unit: RMB in millions

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

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

Unit: RMB in millions

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

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

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

Cost of Sales and Gross Profit

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

Other Income and Gains

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

Research and Development Costs

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

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Selling and Distribution Expenses

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

Administrative Expenses

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

Other Expenses

Other expenses comprise mainly asset impairment losses, exchange losses and non-operating expenses. Other expenses of the Group for the first six months of 2016 decreased by 44.2% to RMB912.3 million, as compared to RMB1,635.6 million for the first six months of 2015. Provision for bad debts of trade receivables decreased by RMB456.3 million as compared to the same period last year, reflecting mainly the change in the mix of the Group's trade receivables requiring new charge for bad debt provisions for the period. Exchange losses for the same period last year amounted to RMB428.3 million, while net gains arising from exchange rate volatility for the period were accounted for as other income and gains.

Profit from Operating Activities

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

Finance Costs

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

Income Tax Expense

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

Profit Attributable to Non-Controlling Interests

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

Other Comprehensive Income

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

Debt-Equity Ratio and the Basis of Calculation

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

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

Cash Flow Data

Unit: RMB in millions

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

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

Operating Activities

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

Investing Activities

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

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Financing Activities

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

Indebtedness

Unit: RMB in millions

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

Unit: RMB in millions

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

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. Of the Group's short-term and long-term bank loans, RMB loans with amounts of RMB5,964.1 million and RMB526.5 million were subject to fixed interest rates, while USD loans and EUR loans were subject to floating interest rates. The Group's bank loans were mainly denominated in USD and EUR, apart from RMB loans.

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

The balance of the Group's bank loans as at 30 June 2016 increased by RMB2,531.4 million versus 31 December 2015. The new loans were mainly applied as additional working capital.

Contractual obligations

Unit: RMB in millions

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

Capital Commitments

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

Unit: RMB in millions

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

Material acquisitions and disposals related to subsidiaries and associates

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

Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40 (2) of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2015 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

(IV) WARNINGS OF AND REASONS FOR ANY PROJECTED ACCUMULATED NET LOSS FROM THE BEGINNING OF THE YEAR TO THE END OF THE NEXT REPORTING PERIOD OR SUBSTANTIAL CHANGE IN ACCUMULATED NET PROFIT FROM THE BEGINNING OF THE YEAR TO THE END OF THE NEXT REPORTING PERIOD AS COMPARED TO THE SAME PERIOD LAST YEAR

☐ Applicable ☒ N/A

Report of the Board of Directors

(V) RECORDS OF RECEPTION OF INVESTORS, COMMUNICATIONS AND PRESS INTERVIEWS DURING THE REPORTING PERIOD

During the reporting period, the Company hosted 12 receptions of investors for research purposes, receiving 35 institutional investors but no individual investor or other researchers. For details, please refer to the following table. The Company did not disclose, reveal or divulge unpublished material information to such investors.

Nature	Time	Location	Mode	Audience received	Key contents discussed	Index of research
External meetings	January 2016	Shanghai	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	January 2016	Hong Kong	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	January 2016	Hong Kong	Citibank investors' meeting	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	April 2016	Chongqing	Guotai Jun'an investors' meeting	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	April 2016	Hangzhou	Haitong Securities investors' meeting	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2016	Xiamen	Shenwan Hongyuan investors' meeting	Customers of Shenwan Hongyuan	Day-to-day operations of the Company	Published announcements and regular reports
	May 2016	Hangzhou	CITIC Securities investors' meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2016	Hong Kong	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2016	Hong Kong	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	May 2016	Beijing	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	June 2016	Hong Kong	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	June 2016	Shanghai	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	June 2016	Shenzhen	BOCI investors' meeting	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
	June 2016	Chengdu	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
Company visits by investors				Overseas investors		
	January to June 2016	Company	Verbal	Turiya Advisors, BNP Paribas Inv Partners, Tybourne Capital Mgmt (HK) Ltd, Generali Invs Asia Ltd, Goldman Sachs Inv Partners, INVESCO Asia Ltd, Karst Peak Capital Ltd, Telligent Capital Mgmt Ltd, Deutsche Bank, Tokai Tokyo Securities Asia, SinoPac Securities, Macquarie Capital Securities Limited, Resona Bank, 3D Investment Partners, Proa Partners Pte. Ltd, China Merchants Securities (HK), South China Growth Fund, Nikko Asset Management, Value Partners	Day-to-day operations of the Company	Published announcements and regular reports
				Domestic investors		
	January to June 2016	Company	Verbal	Huatai United, Shenzhen Baiyi Capital Management Co., Ltd., Neo Capital, Sealand Securities, Soochow Securities, China Securities, Changjiang Securities, Guosen Securities, Dongxing Securities, Qianhai Ruiyuan Capital Management, Industrial Securities, Shenzhen Sanmu Investment Limited, Shenzhen Elitimes Fund, Shenzhen Qianhai Xingxin Fuying Asset Management Limited, Shenzhen Gaoxie Hi-tech Industrialization Promotion Center, Jilin Province Jimei Investment Limited	Day-to-day operations of the Company	Published announcements and regular reports

(VI) BUSINESS OUTLOOK FOR THE SECOND HALF OF 2016 AND RISK EXPOSURES

1. Business outlook for the second half of 2016

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

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

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

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

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

2. Risk exposures

(1) Country risk

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

Report of the Board of Directors

(2) Risk associated with intellectual property rights

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

(3) Exchange risks

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

(4) Interest rate risk

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

(5) Credit risk

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

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(I) CORPORATE GOVERNANCE

1. The Company's corporate governance is in compliance with relevant requirements of the CSRC

The Company has been improving its corporate governance regimes and structures, regulating corporate operations and optimising internal control structures on an ongoing basis in accordance with the requirements of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of the CSRC. During the reporting period, the general meeting, Board of Directors and Supervisory Committee of the Company were operated in compliance with the law, and the corporate governance of the Company was in compliance with provisions set out in the regulatory documents on corporate governance of listed companies issued by the CSRC.

In accordance with requirements of the “Notice on the Publication of the Corporate Internal Control Supplementary Guide” (《關於印發企業內部控制配套指引通知》) issued by five ministries and commissions including the Ministry of Finance of the PRC and the CSRC, the “Notice on Procuring Work relating to Trial Internal Control Rules for Shenzhen Listed Companies” (《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 “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 Shenzhen CSRC, the Company focused its efforts on the following internal control work in the first half of 2016 to ensure the consistent implementation of internal control regulation and the publication of the internal control assessment report and the internal control audit report in accordance with the “Basic Rules for Corporate Internal Control” (《企業內部控制基本規範》) and “Corporate Internal Control Supplementary Guide” (《企業內部控制配套指引》) and to enhance the Company's internal control standards:

During the first quarter of 2016, the Company was mainly engaged in the review and assessment of internal control operations conducted in 2015. The internal control assessment report for 2015 was produced and the compliance check for investments in derivatives and securities in 2015 was completed. Internal control work plans and plans for the self-assessment of internal control for 2016 were formulated. For details, please refer to the section headed “3. Material Matters — 3.7 Development and implementation of internal control in the first quarter of 2016” in the 2016 first quarterly report of the Company.

Details of the development and implementation of internal control in the second quarter of 2016 are as follows:

- (1) The Company continued to promote knowledge in risk management and internal control and draw conclusions from practices in ongoing enhancement of its expertise in risk management and internal control;
- (2) Risk exposures of the Company's operations were being analysed and identified and ongoing risk control measures, including key measures in respect of exchange rate volatility in emerging markets and political risks in certain Latin American countries, were carried out;
- (3) The Company started the processing of optimising internal control over contract management, contract work outsourcing management, partner management and duty rotation for sensitive positions, while further strengthening control over legal compliance of its operations;
- (4) The Company commenced self-assessment of internal control in business segments such as government and corporate business, terminals and contract work outsourcing, with a view to enhancing its internal control standards and ability to implement.

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

Code Provision A.2.1

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

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

3. **Securities transactions by Directors and Supervisors**

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

4. **The Audit Committee**

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

(II) PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE

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 shall 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; where 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.

Pursuant to the "Proposal for Profit Distribution of the Company for 2015" considered and approved at the Second Meeting of the Seventh Session of the Board of Directors of the Company held on 6 April 2016, a cash dividend of RMB2.5 (before tax) for every 10 shares held will be paid 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 the purpose of dividend payments. The proposal was considered and approved at the 2015 Annual General Meeting of the Company held on 2 June 2016 and was completed on 15 July

2016. A cash dividend of RMB2.5 (before tax) for every 10 shares held was paid on the basis of the total share capital of the Company of 4,154,262,354 shares (comprising 3,398,759,820 A shares and 755,502,534 H shares) as at the record dates. The record date for A shares is 14 July 2016 and the ex-dividend date for A shares is 15 July 2016. The record date for H shares is 13 June 2016 and the dividend payment date for H shares is 15 July 2016. For details, please refer to the “Information on Payment of Final Dividends” published by the Company on 8 July 2016.

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, which was 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 conduct any adjustments or changes to its profit distribution policy during the reporting period.

The Company does not propose any profit distribution or conversion of capital reserve for the six months ended 30 June 2016.

(III) MATERIAL LITIGATION, ARBITRATION AND GENERAL MEDIA QUERIES

1. Material litigation and arbitration

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

- (1) Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. (“China Construction Fifth Division”), 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 China Construction Fifth Division, 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 Division be revoked and a penalty payment for work delay in the amount of RMB12,817,000 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 (“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 the Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People’s Court (“Guangdong Higher Court”) had 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 RMB12,817,000 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.

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 RMB30,615,000 and the payment of RMB39,537,000, representing the amount of work payments in excess of the total contract amount. Currently, the above cases are under trial suspension.

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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 RMB75,563,000 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 RMB14,497,000 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 RMB20,150,000 together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division filed an appeal with the 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 RMB14,497,000 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 RMB20,150,000 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 RMB2,699,000, 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 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. On 17 June 2016, the Company received through the Guangdong Higher Court the ruling of the Supreme People's Court, which ordered the Guangdong Higher Court to conduct a retrial in respect of the aforesaid second trial judgement.

In July 2014, China Construction Fifth Division 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 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.

- (2) In November 2012, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, 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 RMB64,240,600). 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 July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB63,975,500), together with accruable interests and legal costs. 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 RMB63,975,500) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. The Company has appointed a legal counsel to conduct active defense in respect of the said case.

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 RMB170 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.

Note: The exchange rates are based on the book exchange rates of the Company as at 30 June 2016 where BRL amounts are translated at the exchange rate of BRL1: RMB2.0489.

2. GENERAL MEDIA QUERIES

☐ Applicable ☒ N/A

(IV) THERE WAS NO APPROPRIATION AND REPAYMENT OF NON-OPERATING FUNDS OF THE COMPANY BY THE CONTROLLING SHAREHOLDER AND OTHER CONNECTED PARTIES DURING THE REPORTING PERIOD

(V) THE COMPANY WAS NOT SUBJECT TO BANKRUPTCY, REORGANISATION OR RELATED ACTIONS DURING THE REPORTING PERIOD

(VI) ASSET TRANSACTIONS

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

1. Updates on asset disposal disclosed in previous periods

(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"). As considered and approved at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors and the Thirty-sixth Meeting of the Sixth Session of the Board of Directors, Newinfo proposed to dispose of its 51% equity interests in LiveCom to Jufei (Hong Kong) Development Limited* (聚飛(香港)發展有限公司) for a consideration of RMB90 million. The closing of the aforesaid transfer of equity interests was completed in January 2016.

(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") and the "Profit Forecast Compensation Agreement between Fujian Start Group Co., Ltd. and 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 "Profit Forecast Compensation 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 ("Xingfei") to Fujian Start Group Co., Ltd. ("Start Group") for a consideration of RMB10 million in cash plus 9,482,218 consideration shares to be issued

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by Fujian Start Group Co., Ltd. to the Company. Pursuant to the Profit Forecast Compensation Agreement, the Company has given an undertaking for compensation in respect of the future (namely, the year during which the material asset reorganisation of Start Group is completed and all subsequent accounting years thereafter up to 31 December 2018) business results of Xingfei, under which the number of the aforesaid consideration shares might be adjusted. The aforesaid matter was considered and approved at the Twenty-ninth Meeting of the Sixth Session of the Board of Directors of the Company. 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. As at the end of the reporting period, the Company and Fujian Start Group Co., Ltd. had completed the closing of the equity transaction and the payment by shares and cash.

2. Asset disposals disclosed in the reporting period

Counterparty	Equity interests disposed of	Date of execution of agreement	Transaction price (in RMB100 million)	Net profit contributions of such equity interests from the beginning of the period to the date of execution of agreement (in RMB100 million)	Impact of the disposal on the Company	Net profit contributions of such equity interest disposal as a percentage of total net profit ^{Note 1}	Pricing principle for the equity disposal	Whether a connected transaction ^{Note 2}	Connected relationship with the counterparty	Whether equity interests involved have been transferred in full ^{Note 3}	Whether implemented as planned, reasons for not being implemented as planned and measures adopted by the Company	Date of domestic announcement	Index of domestic announcement
上海沃芮歐信息科技有限公司	90% equity interests of 深圳市訊聯智付網絡有限公司	16 June 2016	3.825	(0.08)	Increase of the Company's investment income on the consolidated statement by approximately RMB300 million to RMB380 million	N/A ^{Note 4}	Determined through negotiations with reference to asset valuation report	No	N/A	No	Yes	2016-6-17	Announcement No. 201648 “Announcement on Strategic Cooperation with E-Capital Transfer Co., Ltd. and Disposal of Equity Interests in Subsidiary”
高新興科技集團股份有限公司	84.86% equity interests of 天津中興智聯科技有限公司	24 June 2016	1.484	(0.16)	Increase of the Company's investment income on the consolidated statement by approximately RMB120 million to 160 million	N/A ^{Note 4}	Determined through negotiations with reference to asset valuation report	No	N/A	Yes	Yes	2016-06-25	Announcement No. 201650 Announcement Resolutions of the Sixth Meeting of the Seventh Session of the Board of Directors

Note 1: Net profit represents net profit attributable to the holders of ordinary shares of the listed company;

Note 2: Connected transactions as defined under the Shenzhen Listing Rules and other domestic securities regulatory provisions;

Note 3: Information on whether the equity interests involved have been transferred in full represents information as at 26 August 2016;

Note 4: As at the end of the reporting period, the closing of the aforesaid equity transaction had yet to be completed, hence investment income from the disposal of equity had not been accounted for.

(1) Disposal of equity interests in 深圳市訊聯智付網絡有限公司

On 16 June 2016, the Company, E-Capital Transfer Co., Ltd. (“E-Capital”), Zhongxing Software (a wholly-owned subsidiary of the Company) and 上海沃芮歐信息科技有限公司 (“Shanghai Wo Rui Ou”, a wholly-owned subsidiary of E-Capital), entered into a strategic cooperation agreement providing for extensive cooperation between the Company and E-Capital in areas such as payment services and internet finance with a view to achieving complementary effects and mutual benefits, following friendly consultation between the Company and E-Capital for the purpose of comprehensive strategic cooperation in major business areas.

On 16 June 2016, Zhongxing Software and Shanghai Wo Rui Ou entered into the “Equity Transfer Agreement for the Transfer of 90% Equity Interests in 深圳市訊聯智付網絡有限公司”, pursuant to which Zhongxing Software agreed to dispose of 90% equity interests in 深圳市訊聯智付網絡有限公司 (“Xunlian Zhifu”), a wholly-owned subsidiary of Zhongxing Software, to Shanghai Wo Rui Ou for a consideration of RMB382.5 million (the “Transaction”). Upon the completion of the Transaction, Zhongxing Software will hold 10% equity interests in Xunlian Zhifu. As a result of

the transfer, the Company's investment income on the consolidated statement is expected to increase by approximately RMB300 million to RMB380 million, subject to the audited financial statements of the Company.

The aforesaid matter was considered and approved at the Fifth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Fifth Meeting of the Seventh Session of the Board of Directors" and "Announcement on Strategic Cooperation with E-Capital Transfer Co., Ltd. And Disposal of Equity Interests in Subsidiary" published by the Company on 16 June 2016.

Xunlian Zhifu has received a "Reply of Approval for the Change in the Shareholding Structure of 深圳市訊聯智付網絡有限公司" (《關於深圳市訊聯智付網絡有限公司變更股權結構的批覆》) from the Shenzhen City Centre Sub-Branch of the People's Bank of China. For details, please refer to the "Announcement The People's Bank of China's Approval of the Disposal by a Wholly-owned Subsidiary of 90% Equity Interests in Xunlian Zhifu" published by the Company on 10 August 2016.

(2) *Disposal of equity interests in 天津中興智聯科技有限公司*

The Company holds 90% equity interests in 天津中興智聯科技有限公司 ("Tianjin Zhilian"), its subsidiary. In order to pursue development in a more focused manner so as to enhance the competitiveness of its principal business, the Company entered into the "Equity Transfer Agreement for the Transfer of 84.86% equity interests in 天津中興智聯科技有限公司" with 高新興科技集團股份有限公司 ("Gaoxinxing") on 24 June 2016, pursuant to which the Company proposed to dispose of the 84.86% equity interests in Tianjin Zhilian to Gaoxinxing for RMB148,406,897 (the "Transfer"). Following the completion of the Transfer, the Company will hold 5.14% equity interests in Tianjin Zhilian. As a result of the transfer, the Company's investment income on the consolidated statement is expected to increase by approximately RMB120 million to RMB160 million, subject to the audited financial statements of the Company.

The aforesaid matter was considered and approved at the Sixth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Sixth Meeting of the Seventh Session of the Board of Directors" published by the Company on 24 June 2016.

(VII) INFORMATION ON THE SHARE OPTION INCENTIVE SCHEME OF THE COMPANY

1. Approval procedures performed and grant of options

The share option incentive scheme implemented by the Company is aimed at further improving the corporate governance structure of the Company, bolstering its incentive mechanism, strengthening the loyalty and sense of responsibility on the part of the management team and key employees of the Company, retaining talents to facilitate the sustainable development of the Company and ensure the achievement of the Company's development objectives. The share option incentive scheme implemented by the Company has been approved by regulatory authorities including SASAC, CSRC and Hong Kong Stock Exchange and the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. The source of shares under the share option incentive scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. Pursuant to the "Resolution on Matters pertaining to the Grant of Share Options under the Share Option Incentive Scheme of the Company" considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013, the date of grant has been set for 31 October 2013 (Thursday), on which 102.989 million share options were granted to 1,528 participants. The exercise price for the share options granted was RMB13.69 per A share.

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2. Scheme participants, number of share options and adjustments to the exercise price

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

Pursuant to the “Resolution on the Adjustment of Participants and Number of Share Options for the First Exercise Period of the Share Option Incentive Scheme” considered and approved at the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, the adjustment of the number of participants under the share option incentive scheme 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 was approved.

Pursuant to the “Resolution on the Adjustment of the Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules” considered and passed at the Seventh Meeting of the Seventh Session of the Board of Directors of the Company held on 15 July 2016, it was approved that after the implementation of the 2015 profit distribution plan, the exercise price was adjusted to RMB10.97.

3. Date of grant, validity period, vesting period, exercise period and percentage for exercise

The share option incentive scheme of the Company 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 can be exercised according to 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 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.

4. Share options held and exercised by scheme participants during the reporting period

Share options under the share option incentive scheme of the Company were exercised on a voluntary basis. During the reporting period, a total of 3,450,879 options were exercised at an exercise price of RMB11.22. The closing price of the A shares as at the end of the reporting period was RMB14.34, and the number of A shares of the Company has increased by 3,450,879 shares as a result of the exercise. Proceeds received from the exercise of share options have been placed in a designated account of the Company. Details of share options held by participants and the exercise of such options during the reporting period are set out in the following table:

Name of participant	Position of participant	Number of unexercised options at the beginning of the reporting period	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
Zhao Xianming	Chairman, Executive Director and President	500,000	0	80,000	80,000	420,000	0	0	18.63
Zhang Jianheng	Non-executive Director	36,000	0	10,800	0	36,000	0	0	—
Fan Qingfeng	Executive Vice President	420,000	0	0	0	420,000	0	0	—
Zeng Xuezhong	Executive Vice President	378,000	0	0	0	378,000	0	0	—
Xu Huijun	Executive Vice President	294,000	0	0	0	294,000	0	0	—
Pang Shengqing	Executive Vice President	378,000	0	0	0	378,000	0	0	—
Zhang Zhenhui	Executive Vice President	163,800	0	0	0	163,800	0	0	—
Chen Jianzhou	Executive Vice President	460,000	0	82,000	82,000	378,000	0	0	15.46
Tian Wenguo	Former Executive Vice President	168,000	0	0	0	168,000	0	0	—
Qiu Weizhao	Former Executive Vice President	420,000	0	0	0	420,000	0	0	—
Ye Weimin	Former Senior Vice President	336,000	0	0	0	336,000	0	0	—
Zhu Jinyun	Former Senior Vice President	378,000	0	0	0	378,000	0	0	—
Zhang Renjun	Former Senior Vice President	420,000	0	126,000	0	420,000	0	0	—
Cheng Lixin	Former Senior Vice President	168,000	0	0	0	168,000	0	0	—
Xiong Hui	Former Senior Vice President	428,300	0	92,300	92,300	336,000	0	0	15.51
Huang Dabin	Former Senior Vice President	210,000	0	0	0	210,000	0	0	—
Cao Wei	Secretary to the Board	58,800	0	0	0	58,800	0	0	—
Feng Jianxiong	Former Secretary to the Board	336,000	0	0	0	336,000	0	0	—
Other participants	—	85,318,418	0	8,751,578	3,196,579	82,121,839	0	0	15.90
Total	—	90,871,318	0	9,142,678	3,450,879	87,420,439	0	0	15.94

Note: 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 share option incentive scheme in respect of the share options set out in the table above, please refer to the above.

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5. Accounting policies and impact on the financial conditions and operating results of the Company

Specific accounting treatments of share options and the impact on the Company's financial conditions and operating results for the reporting period and future periods are set out in Note XI to the financial statements prepared under PRC ASBEs.

For further details of the share option incentive scheme implemented by the Company, please refer to the section headed "Material Matters — (VI) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME" in the 2015 Annual Report of the Company.

(VIII) EXTERNAL 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 total investment of the project is estimated at RMB4 billion. The aforesaid matter has been considered and approved at the Thirty-seventh Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2016 of the Company. For details, please refer to the "Announcement Resolutions of the Thirty-seventh Meeting of the Sixth Session of the Board of Directors" and the "Announcement of External Investments" published on 28 December 2015 and the "Announcement on Resolutions of the First Extraordinary General Meeting of 2016" published on 3 March 2016 by the Company.

2. Guangzhou Research Institute Project

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

3. External investment and connected transaction

Xinghe Capital, a wholly-owned subsidiary of ZTE Capital, which is in turn a subsidiary of the Company, established Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership) ("Suzhou Partnership") by way of promotion as the general partner. Suzhou Partnership is focused on the equity investment of unlisted companies within the TMT (technology, media and telecommunication) industry. Suzhou Partnership has raised a total of RMB1,200 million, comprising capital contribution in cash of RMB10 million by Xinghe Capital as general partner, capital contribution in cash of RMB300 million and RMB15 million by the Company and Mr. Yin Yimin, respectively, as limited partners and capital contribution in cash of RMB875 million in aggregate by other limited partners in accordance with the partnership agreement signed by them. Mr. Yin Yimin, Director of the Company and chairman of Zhongxingxin, the controller shareholder of the Company, is a connected party of the Company under Shenzhen Listing Rules and Hong Kong Listing Rules. The capital contributions by Xinghe Capital, the Company and Mr. Yin Yimin, to subscribe for Suzhou Partnership constitute a connected transaction.

The aforesaid matter was considered and approved at the Fourth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Announcement Resolutions of the Fourth Meeting of the Seventh Session of the Board of Directors” and “Overseas Regulatory Announcement” published by the Company on 31 May 2016. The partnership agreement of Suzhou Partnership was executed on 30 June 2016. For details, please refer to the announcement entitled “Connected Transaction — Establishment of Partnership” published by the Company on 30 June 2016. Suzhou Partnership has been approved by the Suzhou Bureau for the Administration of Industry and Commerce and completed registration as a partnership. For details, please refer to the “Announcement Progress of External Investments” published by the Company on 25 July 2016.

(IX) QUOTATION OF SUBSIDIARIES OF THE COMPANY ON NEEQ

1. Application by Shanghai Zhongxing for quotation on NEEQ

The Company has proposed the conversion of Shanghai Zhongxing Telecom Equipment Technologies Company Limited (“Shanghai Zhongxing”), a subsidiary of the Company, into a joint stock company and, following the completion of such conversion, and the application by Shanghai Zhongxing for quotation on NEEQ subject to compliance with relevant national laws, regulations and policies. The aforesaid matter has been considered and approved at the Thirty-third Meeting of the Sixth Session of the Board of Directors of the Company. 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 Shanghai Zhongxing Telecom Equipment Technologies Corporation. On 29 March 2016, Shanghai Zhongxing Telecom Equipment Technologies Corporation 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 NEEQ

The Company has proposed to convert Shenzhen ZTE We Link Technology Company Limited (“ZTE We Link”), a subsidiary of Nubia Technology Limited, which is in turn a subsidiary of the Company, into a joint stock company and, upon the completion of such conversion, the application by ZTE We Link for quotation on NEEQ 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 of the Company. 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. ZTE We Link has completed its conversion to a joint stock company and been renamed Shenzhen ZTE We Link Technology Corporation. On 31 May 2016, Shenzhen ZTE We Link Technology Corporation filed an application for quotation on NEEQ. For details, please refer to the “Application for Quotation of ZTE We Link on the National Equities Exchange and Quotations” and “Overseas Regulatory Announcement” published by the Company on 31 May 2016.

3. Application by ZTEsoft for quotation on NEEQ

ZTEsoft Technology Company Limited (“ZTEsoft”), a subsidiary of the Company, has proposed to apply for quotation on NEEQ subject to compliance with relevant national laws, regulations and policies. The aforesaid matter has been considered and approved at the Second Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Voluntary Announcement — Potential Quotation of ZTEsoft on the National Equities Exchange and Quotations” and “Overseas Regulatory Announcement” published by the Company on 6 April 2016. On 28 April 2016, ZTEsoft filed an application for quotation on NEEQ. For details, please refer to the “Application for Quotation of ZTEsoft on the National Equities Exchange and Quotations” and “Overseas Regulatory Announcement”

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published by the Company on 29 April 2016. In connection with the proposed quotation of ZTEsoft, the Company submitted an application for spin-off to the Hong Kong Stock Exchange pursuant to Practice Note 15 of the Hong Kong Listing Rules on 6 April 2016. On 18 May 2016, the Company received a notice from the Hong Kong Stock Exchange confirming that, pursuant to Practice Note 15 of the Hong Kong Listing Rules, the Company may proceed to seek the quotation of ZTEsoft on NEEQ. For details, please refer to the “Update on Potential Quotation of ZTEsoft on the National Equities Exchange and Quotations” and “Overseas Regulatory Announcement” published by the Company on 19 May 2016. On 27 July 2016, ZTEsoft received the “Letter regarding Approval of the Quotation of ZTEsoft Technology Co., Ltd on the National Equities Exchange and Quotations” (《關於同意中興軟創科技股份有限公司股票在全國中小企業股份轉讓系統掛牌的函》) issued by the NEEQ Co. Ltd, granting approval for the quotation of ZTEsoft shares on NEEQ. For details, please refer to the “Announcement Approval of the Quotation of ZTEsoft, a subsidiary, on the National Equities Exchange and Quotations” published by the Company on 29 July 2016. The shares of ZTEsoft was listed on the NEEQ on 19 August 2016. For details, please refer to the “Announcement Quotation of ZTEsoft, a subsidiary, on the National Equities Exchange and Quotations” published by the Company on 18 August 2016.

(X) 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 “Resolution on the Proposed Registration and Issue of Super and Short-term Commercial Paper” was considered and passed at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company and the 2014 Annual General Meeting, giving approval to the Company’s application 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 billion. 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 billion SCP of the Company.

On 9 September 2015, the Company completed the issue of 2015 Tranche I SCP for an issue amount of RMB4 billion. On 6 June 2016, the Company completed the payment of the principal and interests of the 2015 Tranche I SCP in the total amount of RMB4,100,327,868.85. For details, please refer to the “Announcement Completion of Payment in respect of the 2015 Tranche I Super and Short-term Commercial Paper” published by the Company on 6 June 2016.

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

The Bureau of Industry and Security of the Department of Commerce (“BIS”) of the United States of America (“U.S.”) has added the Company, ZTE Kangxun, ZTE Parsian and Beijing 8-Star International Co. to the Entity List on 7 March 2016 (the “Decision”). Pursuant to the Decision, with effect from 8 March 2016, suppliers of items subject to the Export Administration Regulations shall be required to apply for a license for the supplies of such items to the Company and the other three companies, and a license review policy of presumption of denial shall apply. On 24 March 2016, BIS amended the aforesaid Decision by creating a temporary general license with the effect that the export restrictions on the Company and ZTE Kangxun under the Decision would not apply until 30 June 2016. On 28 June 2016, BIS extended the temporary general license to 30 August 2016 (U.S. time). On 19 August 2016, BIS further extended the temporary general license to 28 November 2016 (U.S. time). The Company will continue to maintain cooperation with relevant U.S. government authorities and actively liaise with them to reach a final solution, and will strictly comply with U.S. laws and regulations relating to export restrictions.

For details of the aforesaid matter, please refer to the relevant announcements published on 9 March 2016, 23 March 2016, 28 March 2016, 6 April 2106, 28 June 2016 and 19 August 2016.

(XII) 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 connected transactions 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	As a	Whether	Settlement	Market price	Domestic announcement date	Domestic announcement index
						in ten thousands)	percentage of transactions in the same classification (%)	approved cap has been exceeded		for similar transactions available (RMB)		
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-RMB300,000 per unit depending on level of sophistication; Cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	22,009.40	0.83%	No	Commercial acceptance bill	N/A	2015-9-23	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna	A company at which a natural person related to the Company 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.		49,873.59	1.88%	No	Commercial acceptance bill	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
Huatong	Subsidiary of a company for which a natural person related to the Company acted as director	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.		2,152.13	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"
Nanchang Software	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company acted as director	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party	Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.		1,969.81	0.07%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of a company for which a natural person related to the Company acted as director	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.	1,663.32	0.06%	No	Tele-transfer	N/A	2015-4-24	Announcement No. 201515 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Development	A company for which a natural person related to the Company acted as director	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m.; Lease of parking spaces: 25 ground level parking spaces and 127 underground parking spaces by the Company from the connected party		Monthly rent of RMB145/sq.m.; monthly rent of ground level parking spaces of RMB350 each; monthly rent of underground parking spaces of RMB600 each. (Property management undertaken by ZTE and no management fees were payable.)	2,247.44	5.73%	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"

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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
Chongqing Zhongxing Development	Subsidiary of a company for which a natural person related to the Company acted as director	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. and 97 parking spaces by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, from the connected party		Monthly rent of RMB50/sq.m. for the office (for a maximum leased area of 18,532.08 sq.m.) and RMB45/sq.m. for the cafeteria (for a maximum leased area of 1,467.92 sq.m.) respectively; monthly management fee of RMB3/sq.m. based on actual area leased; monthly rent of parking space: RMB150 each.	445.52	1.14%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of a company for which a natural person related to the Company acted as director	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		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.	3,852.10	21.74%	No	Tele-transfer	N/A	2015-4-24	Announcement No. 201515 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	Subsidiary of a company for which a natural person related to the Company acted as director	Financial services	The provision of deposit services by ZTE Group Finance to the connected party		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; where the interest rate announced by PBOC was not applicable, ZTE Group Finance would pay interest to the connected party at a rate not higher than the interest rate level adopted by similar businesses carried out by other independent financial institutions.	2,838.99 ^{Note 1}	0.29%	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 natural person related to the Company 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.	— ^{Note 2}	0.00%	No	Tele-transfer	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
航天睿华	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.	29,447.16	0.62%	No	Tele-transfer or bank acceptance bill	N/A	2015-9-23	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company acted as director	Sales of products and rendering of services	The provision by the Company to the connected party of software and hardware equipment and engineering services required for smart campus and campus IT development, and integrated solutions for smart traffic, city emergency command system and government/corporate IT systems		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	—	0.00%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				—	—	116,499.46	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 on a regular basis and provide quality products and 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-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries by the Company in 2016 be capped at RMB800 million (before VAT);

At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the cap of estimated purchases of raw materials from Mobi Antenna, a connected party, by the Company in 2016 be RMB1,700 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 of software outsourcing services from Huatong and Nanchang Software, both connected parties, by the Company in 2016 be capped at RMB67 million and RMB63 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 2016 be capped at RMB30 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, 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 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 2016 shall be capped at RMB85 million;

At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the estimated daily balance of outstanding discounted bills (principal cum interest) of the bill discounting service provided by ZTE Group Finance to Mobi Antenna in 2016 shall be capped at RMB400 million;

At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated sales of digital communications products and communications products to 航天歐華 by the Company in 2016 be capped at RMB1,000 million (before VAT); and

Please refer to the above table for details of the actual performance of the aforesaid continuing connected transactions.

Reason for substantial differences 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 6 months ended 30 June 2016.
- Note 2: The amount represented the estimated maximum daily balance of outstanding discounted bills (principal cum interest) for the 6 months ended 30 June 2016.
- Note 3: ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2016, and the funds utilised for settlement were limited to the cash deposits placed with ZTE Group Finance by Zhongxing Hetai and its subsidiaries. No handling fees were charged for such settlement service.
- Note 4: For details of "Approved Cap", please refer to the section headed "Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)".

Material Matters

2. The Company did not conduct any connected transactions arising from acquisitions or disposals of assets during the reporting period
3. For connected transactions of the Company involving joint investment in third parties during the reporting period, please refer to the section headed “Material Matters (VIII) External investments — 3. External investment and connected transaction” in this report.
4. Creditors and debtors with connected parties

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

5. Other connected transactions

At the Third Meeting of the Seventh Session of the Board of Directors of the Company held on 28 April 2016, 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 each of the period commencing on 1 July 2016 and ending on 30 June 2017 and the period commencing on 1 July 2017 and ending on 30 June 2018; 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 each of the period commencing on 1 July 2016 and ending on 30 June 2017 and the period commencing on 1 July 2017 and ending on 30 June 2018.

(XIII) 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 reporting period.
2. Third-party guarantees of the Group

(1) Third-party guarantees entered into during the reporting period

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 CONTRACT” (“UM Wireless Capacity Expansion Contract”) by ZTE (Malaysia) Corporation SDN BHD (“ZTE Malaysia”) by USD40 million (namely, the increase of the total amount of guarantee to not more than USD60 million) for a term commencing on the date on which the UM Wireless Capacity Expansion Contract came into effect upon execution and ending on the date on which the performance of obligations under the UM Wireless Capacity Expansion Contract by ZTE Malaysia is completed.

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

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 and the 2015 Annual General Meeting of the Company. For details, please refer to the “Announcement Resolutions of the Second Meeting of the Seventh Session of the Board of Directors” and the “Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary” published on 6 April 2016 and the “Announcement on Resolutions of the 2015 Annual General Meeting” published on 2 June 2016 by the Company.

(2) 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
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)				Total amount of third-party guarantee actually incurred as at the end of the reporting period (A4)			RMB50 million	
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
ZTE (H.K.) Limited ^{Note 1}	9 April 2011 201112 9 July 2011 201130	USD900 million	8 July 2011	USD450 million ^{Note 1}	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 2}	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 3}	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 3}	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 4}	27 March 2014 201413	Not more than USD600 million or RMB4,000 million	18 July 2014 12 January 2015	USD450 million EUR40 million	Joint liability assurance Joint liability assurance	Not more than 5 years (from the date on which the debt financing agreement comes into effect) 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	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 5}	23 August 2014 201435	RMB2,000 million	—	—	Joint liability assurance	Not more than 3 years (from the date on which the resolution of the general meeting takes effect)	N/A	No
ZTE (Malaysia) Corporation SDN BHD ^{Note 6}	24 September 2014 201440 8 January 2016 201605	USD60 million	27 November 2014	USD33,096,800	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 6}	24 September 2014 201440 8 January 2016 201605	USD2 million	4 January 2015	USD2 million	Joint liability	Not more than 6 years from the date on which the bank letter of guarantee comes into effect upon issuance.	No	No
ZTE (H.K.) Limited or ZTE COOPERATIEF UA ^{Note 7}	26 March 2015 201511	EUR200 million	24 June 2015	EUR70 million EUR30 million	Joint liability assurance Joint liability assurance	From 24 June 2015 to 22 December 2018 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	No No
PT. ZTE Indonesia ^{Note 8}	7 April 2016 201628	USD50 million	N/A	—	Joint liability assurance	Within 5 years from the date on which the bank letter of guarantee entered into between the Company and BOC comes into effect	N/A	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)				Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)			RMB87,028,000	
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)				Total amount of guarantee on behalf of subsidiaries actually incurred as at the end of the reporting period (B4)			RMB8,011,247,000	

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Guarantees provided by subsidiaries on behalf of other 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
Shenzhen Zhongxing ICT Company Limited Note 9	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 10	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 11	N/A	RMB60 million	29 December 2015	RMB60 million	Joint liability assurance	12 years (from the effective date of loan agreement)	No	No
Total amount of guarantee for subsidiary approved during the reporting period (C1)		—		Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)			—	
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)		RMB598,050,000		Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)			RMB67,028,000	
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)		RMB14,970,251,000		Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)			RMB8,341,252,000	
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company							26.93%	
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)							RMB8,011,247,000	
Amount of total guarantee exceeding 50% of net assets (F)							0	
Aggregate amount of the three guarantee amounts stated above (D+E+F)							RMB8,011,247,000	
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	

Note 1: 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. Following the repayment of USD450 million in loans to the lending banks in July 2014 and repayment of the remaining USD450 million to the lending banks by ZTE HK in July 2016, the guarantee agreement was terminated in July 2016.

Note 2: 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 SASU ("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 PATES Contract was competed and 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 3: 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 4: 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 5: 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 in December 2015 and the guarantee agreement between the Company and BOC London was terminated in December 2015.
- Note 6: 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. At the Thirty-ninth Meeting of the Sixth Session of the Board of Directors, it was considered and approved that the Company would increase the USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, by USD40 million (namely, a total of not more than USD60 million) and to extend the valid period of the USD2 million bank letter of guarantee to 6 years after the date of issuance. The aforesaid guarantee was considered and approved at the First Extraordinary General Meeting of 2016 of the Company. As at the end of the reporting period, USD33,096,800 of the USD60 million performance guarantee provided by the Company for ZTE Malaysia and the USD2 million bank letter of guarantee issued by relevant banks and applied for by the Company on behalf of ZTE Malaysia had come into effect.
- Note 7: 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 COOPERATIEF UA ("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 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 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. 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 8: It was considered and approved at the Second Meeting of the Seventh Session of the Board of Directors and the 2015 Annual General Meeting that an application be made by the Company to BOC on behalf of ZTE Indonesia for credit facilities in connection with the issuance of bank letters of guarantee and guarantee be provided by way of joint liability assurance for a total amount of not more than USD50 million for ZTE Indonesia for a term of 5 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. As at the end of the reporting period, the relevant guarantee agreement had yet to be signed.
- Note 9: 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 Shenzhen Zhongxing ICT Company Limited ("ZTE ICT"), a controlling 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 10: 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.

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- Note 11: 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 effective date of loan agreement). As at the end of the reporting period, the aforesaid guarantee documents had come into effect.
- Note 12: The guaranteed amounts are translated at the book exchange rates of the Company as at 30 June 2016: USD1: RMB6.6450, EUR1: RMB7.3811.
- Note 13: 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.

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 30 June 2016, 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 30 June 2016, the balance of guarantees provided by the Company actually incurred was approximately RMB8,341,252,000, accounting for approximately 26.93% of the owner's equity attributable to holders of ordinary shares of the parent company as at 30 June 2016. 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 2016 Interim 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 the Regulation of 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 Corporation 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 fund and entrusted loans

For details of entrusted fund and entrusted loans during the reporting period of the Company, 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 reporting period

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

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

(XIV) UNDERTAKING

1. Undertakings by the Company, its shareholders, de facto controller, acquirer, Directors, Supervisors, senior management or other connected parties fulfilled or outstanding 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) Other undertaking given to minority shareholders of the Company

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

Material Matters

2. 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

(XV) EXPLANATORY STATEMENT FROM THE BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE OF THE COMPANY RELATING TO THE ACCOUNTANT'S "QUALIFIED OPINION" FOR THE REPORTING PERIOD

☐ Applicable ☒ N/A

(XVI) EXPLANATORY STATEMENT FROM THE BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE OF THE COMPANY ON CHANGES AND TREATMENT OF MATTERS RELATING TO THE ACCOUNTANT'S "QUALIFIED OPINION" FOR THE PREVIOUS YEAR

☐ Applicable ☒ N/A

(XVII) EXPLANATORY STATEMENT ON CHANGES IN THE ACCOUNTING POLICIES, ACCOUNTING ESTIMATES, AND AUDITING METHODS FOR THE REPORTING PERIOD IN COMPARISON WITH THE LAST ANNUAL FINANCIAL REPORT

☐ Applicable ☒ N/A

(XVIII) EXPLANATORY STATEMENT ON RECTIFICATION OF SIGNIFICANT ACCOUNTING ERRORS FOR THE REPORTING PERIOD REQUIRING RETROSPECTIVE RESTATEMENT

☐ Applicable ☒ N/A

(XIX) EXPLANATION OF CHANGES TO THE SCOPE OF CONSOLIDATED FINANCIAL STATEMENT IN COMPARISON WITH THE LAST ANNUAL FINANCIAL REPORT

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

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

(XX) THERE WAS NO REPLACEMENT OR DISMISSAL OF ACCOUNTANT FIRMS BY THE COMPANY DURING THE REPORTING PERIOD.

(XXI) DURING THE REPORTING PERIOD, 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, SECURITY SUPERVISION, TAXATION OR OTHER ADMINISTRATIVE AUTHORITIES OR PUBLIC CENSURE BY THE STOCK EXCHANGE.

(XXII) 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 REPORTING PERIOD

(XXIII) THE COMPANY WAS NOT SUBJECT TO ANY RISK OF DELISTING AS A RESULT OF VIOLATIONS OF LAWS AND REGULATIONS DURING THE REPORTING PERIOD

(XXIV) DURING THE REPORTING PERIOD, THE COMPANY HAD NO CORPORATE BONDS WHICH WERE PUBLICLY ISSUED AND LISTED ON A STOCK EXCHANGE.

(XXV) OTHER MATERIAL MATTERS

Save as aforesaid, no other material matters 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 matters that were material in the judgment of the Board of Directors of the Company occurred to the Company during the reporting period.

(XXVI) THERE WERE NO OTHER DISCLOSEABLE MATERIAL MATTERS OCCURRING TO THE SUBSIDIARIES OF THE COMPANY DURING THE REPORTING PERIOD THAT REMAINED UNDISCLOSED

(XXVII) INDEX OF DOMESTIC INFORMATION DISCLOSURE OF THE COMPANY DURING THE REPORTING PERIOD

Date of domestic disclosure	Announcement
8 January 2016	Announcement Resolutions of the Thirty-nine Meeting of the Sixth Session of the Board of Directors Announcement Resolutions of the Twenty-eighth Meeting of the Sixth Session of the Supervisory Committee Statement of Nominator of Independent Non-executive Directors Statements of Candidates for Independent Non-executive Directors Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary Announcement on External Investments Notice of the First Extraordinary General Meeting of 2016

Material Matters

Date of domestic disclosure	Announcement
20 January 2016	Preliminary Results Announcement For the Year Ended 31 December 2015 Rectification Announcement on the Corresponding Price Code for the Online Voting of the First Extraordinary General Meeting of 2016
3 February 2016	Announcement Resolutions of the Fortieth Meeting of the Sixth Session of the Board of Directors Supplementary Notice of the First Extraordinary General Meeting of 2016 in relation to the addition of an ex tempore motion Notice of the First Extraordinary General Meeting of 2016 (Full Version) and Indicative Announcement
15 February 2016	Indicative Announcement on the Convening of the First Extraordinary General Meeting of 2016
4 March 2016	Announcement on Resolutions of the First Extraordinary General Meeting of 2016
7 March 2016	Announcement of Suspension of Trading relating to a Significant Event
9 March 2016	Announcement — Updates on Significant Event
17 March 2016	Announcement on Delay in Publication of the 2015 Annual Report and Continued Suspension of Trading
23 March 2016	Announcement — Updates on Significant Event
25 March 2016	Announcement of Revised Date for the Publication of the 2015 Annual Report
29 March 2016	Announcement — Updates on Significant Event
30 March 2016	Announcement — Updates on the Application by Shanghai Zhongxing, a subsidiary, for quotation on National Equities Exchange and Quotations
6 April 2016	Announcement Resolutions of the First Meeting of the Seventh Session of the Board of Directors Announcement of the Seventh Session of the Board of Directors
7 April 2016	Announcement Resolutions of the Second Meeting of the Seventh Session of the Board of Directors Announcement Resolutions of the First Meeting of the Seventh Session of the Supervisory Committee 2015 Annual Report Summary Announcement on the Application for Derivative Investment Limits for 2016 Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary Announcement on the Application by ZTEsoft Technology Company Limited, a subsidiary, for quotation on National Equities Exchange and Quotations Notice of the 2015 Annual General Meeting Announcement — Reminder of Significant Event and Resumption of Trading
29 April 2016	Announcement Resolutions of the Third Meeting of the Seventh Session of the Board of Directors Announcement Resolutions of the Second Meeting of the Seventh Session of the Supervisory Committee Text of 2016 First Quarterly Report Full Text of 2016 First Quarterly Report Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange Announcement on the Replacement of Business Licence

Date of domestic disclosure	Announcement
30 April 2016	Announcement — Updates on the Application by ZTEsoft, a subsidiary, for quotation on National Equities Exchange and Quotations Indicative Announcement on the Convening of the 2015 Annual General Meeting
13 May 2016	Indicative Announcement on the Convening of the 2015 Annual General Meeting
20 May 2016	Announcement — Updates on the Application by ZTEsoft, a subsidiary, for quotation on National Equities Exchange and Quotations
1 June 2016	Announcement Resolutions of the Fourth Meeting of the Seventh Session of the Board of Directors Announcement Resolutions of the Third Meeting of the Seventh Session of the Supervisory Committee Announcement of External Investments and Connected Transactions Announcement — Updates on the Application by ZTE We Link, a subsidiary, for quotation on National Equities Exchange and Quotations
3 June 2016	Announcement on Resolutions of the 2015 Annual General Meeting
7 June 2016	Announcement — Completion of Payment in respect of the 2015 Tranche I Super and Short-term Commercial Paper
17 June 2016	Announcement Resolutions of the Fifth Meeting of the Seventh Session of the Board of Directors Announcement Resolutions of the Fourth Meeting of the Seventh Session of the Supervisory Committee Announcement on Strategic Cooperation with E-Capital Transfer Co., Ltd. And Disposal of Equity Interests in Subsidiary
25 June 2016	Announcement Resolutions of the Sixth Meeting of the Seventh Session of the Board of Directors
28 June 2016	Announcement of Updated Information in relation to Material Matters

Note: The announcements listed in the table above represent announcements published in China Securities Journal, Shanghai Securities News, Securities Times and <http://www.cninfo.com.cn>

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE REPORTING PERIOD

Unit: share

	At the beginning of the reporting period		Increase/decrease as a result of the change during the reporting period (+, -)					At the end of the reporting period	
	Number of shares	Percentage	New issue Note 1	Bonus issue	Transfer from capital reserve	Others Note 2	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	8,851,236	0.20%	190,725	—	—	188,763	379,488	9,230,724	0.22%
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	8,851,236	0.20%	190,725	—	—	188,763	379,488	9,230,724	0.22%
II. Shares not subject to lockup	4,141,939,979	99.80%	3,260,154	—	—	—188,763	3,071,391	4,145,011,370	99.78%
1. RMB ordinary shares	3,386,437,445	81.59%	3,260,154	—	—	—188,763	3,071,391	3,389,508,836	81.59%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	755,502,534	18.21%	—	—	—	—	—	755,502,534	18.19%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	4,150,791,215	100.00%	3,450,879	—	—	—	3,450,879	4,154,242,094	100.00%

Note 1: During the reporting period, a total of 3,450,879 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 3,450,879 shares correspondingly;

Note 2: 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.

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

Unit: share

No.	Name of shareholders subject to lock-up	Number of A shares subject to lock-up as at 31 December 2015	Number of shares released from lock-up during the reporting period Note 1	Increase in the number of shares subject to lock-up during the reporting period Note 2	Number of shares subject to lock-up at the end of the reporting period	Reason for lock-up	Date of unlocking
1	Hou Weigui	1,167,724	—	389,243	1,556,967	Restricted senior management shares	—
2	Chen Jie	622,199	63,000	186,400	745,599	Restricted senior management shares	—
3	Zhu Jinyun	447,160	—	149,053	596,213	Restricted senior management shares	—
4	Yin Yimin	569,549	—	—	569,549	Restricted senior management shares	—
5	Shi Lirong	495,458	—	—	495,458	Restricted senior management shares	—
6	Ye Weimin	438,523	82,631	118,631	474,523	Restricted senior management shares	—
7	Xu Huijun	473,138	—	—	473,138	Restricted senior management shares	—
8	Qiu Weizhao	395,472	65,070	110,135	440,537	Restricted senior management shares	—
9	Pang Shengqing	500,761	72,000	—	428,761	Restricted senior management shares	—
10	Zeng Xuezhong	414,630	—	—	414,630	Restricted senior management shares	—
11	Others	3,326,622	780,216	488,943	3,035,349	Restricted senior management shares	—
Total		8,851,236	1,062,917	1,442,405	9,230,724	—	—

Note 1: The decrease in the number of shares subject to lock-up is attributable to (1) permission for the Directors, Supervisors and senior management of the Company to dispose of up to 25% of the shares held through the stock exchange each year pursuant to relevant domestic regulations; (2) release of lock-up of shareholdings of departed Directors, Supervisors and senior management 6 months after their departure in accordance with relevant domestic regulations.

Note 2: The increase in the number of shares subject to lock-up is attributable to (1) 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 reporting period of acquisition; (2) a lock-up applying to shareholdings of departed Directors, Supervisors and senior management in accordance with relevant domestic regulations; and (3) a lock-up applying to shareholdings of newly appointed Directors, Supervisors and senior management in accordance with relevant domestic regulations.

(III) ISSUE AND LISTING OF SECURITIES DURING THE REPORTING PERIOD

- 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 reporting period, a total of 3,450,879 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 3,450,879 shares correspondingly. The matters had no material impact on the structure of assets and liabilities of the Company.
- The Company had no employees' shares.

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

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

Total number of shareholders						
As at 30 June 2016		There were 214,068 shareholders (comprising 213,702 holders of A shares and 366 holders of H shares)				
Shareholdings of top 10 shareholders or shareholders holding 5% or above of the shares						
Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1. Zhongxingxin	State-owned corporation	30.57%	1,269,830,333	—	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.15%	753,997,716	–84,034	—	Unknown
3. China Securities Finance Corporation Limited	General domestic corporation	3.19%	132,638,000	+25,493,628	—	Unknown
4. Central Huijin Asset Management Ltd.	State-owned corporation	1.26%	52,519,600	—	—	Unknown
5. NSSF Portfolio #103	Others	1.08%	45,008,014	+5,008,559	—	Unknown
6. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.03%	42,840,008	—	—	Unknown
7. New China Life Insurance Company Ltd. — Dividend — Individual Dividend — 018L-FH002 Shen	Others	0.61%	25,170,442	—	—	Unknown
8. Bank of China Limited — China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	Others	0.53%	21,965,903	—	—	Unknown
9. Tibet Ziguang Chunhua Investment Limited	General domestic corporation	0.53%	21,866,154	+21,866,154	—	Unknown
10. Seventh Research Institute of China Mobile	State-owned corporation	0.46%	19,073,940	—	—	Unknown

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	753,997,716	H share
3. China Securities Finance Corporation Limited	132,638,000	A share
4. Central Huijin Asset Management Ltd.	52,519,600	A share
5. NSSF Portfolio #103	45,008,014	A share
6. Hunan Nantian (Group) Co., Ltd.	42,840,008	A share
7. New China Life Insurance Company Ltd. — Dividend — Individual Dividend — 018L — FH002 Shen	25,170,442	A share
8. Bank of China Limited — China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	21,965,903	A share
9. Tibet Ziguang Chunhua Investment Limited	21,866,154	A share
10. Seventh Research Institute of China Mobile	19,073,940	A share
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	1. Zhongxingxin was neither a connected party nor a concerted party of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.	
Description of involvement in financing and securities lending businesses of top 10 shareholders (if any)	N/A	

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

Note 2: Shareholders holding 5% or above of the Company's shares — Changes in the shareholding of Zhongxingxin, controlling shareholder of the Company interested in 30.57% of the Company's shares as at the end of the reporting period, during the reporting period are as follows.

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

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

☐ Yes ☒ No

The Company had no preferential shares.

2. Controlling shareholders of the Company

During the reporting period, 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
Standardised Social Credit Code:	91440300192224518G
Registered capital:	RMB100 million
Scope of business:	Production of SPC switch cabinets, telephones and related 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.

3. The shareholders (or de facto controllers) of the controlling shareholders of the Company

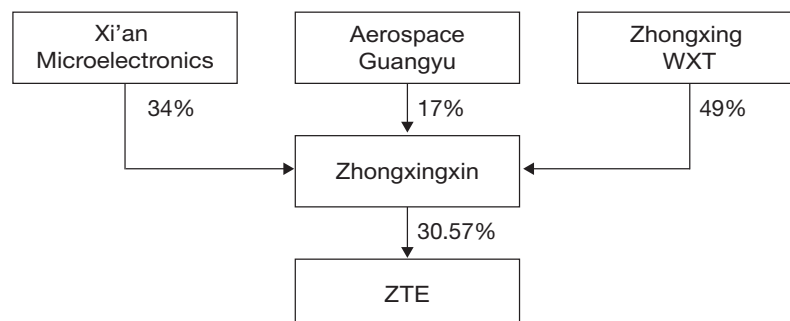
Zhongxingxin, the controlling shareholder of the Company, was jointly formed by Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics,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

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

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a wholly state-owned enterprise established on 17 August 1989. The legal representative is Cui Yuping and the registered capital amounts to RMB17,950,000. Its standardised social credit code is 91440300192175031U. 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; wholesale of aquatic products; wholesale of prepackaged food; wholesale of agricultural foodstuff.

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 said corporate shareholders and the Company as at 30 June 2016



4. The Company had no other corporate shareholder who was interested in more than 10% of its Shares
5. So far as is known to the Company, no controlling shareholders of the Company and their concerted parties proposed or implemented plans to increase shareholdings during the reporting period.

Changes in Shareholdings and Information of Shareholders

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

As at 30 June 2016, 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	Approximate shareholding as a percentage (%) of ^{Note}	
			Total share capital	Relevant class of shares
Zhongxingxin	Beneficial owner	1,269,830,333 A shares (L)	30.57 (L)	37.36 (L)
Zhongxing WXT	Interest of controlled corporation	1,269,830,333 A shares (L)	30.57 (L)	37.36 (L)
Xi'an Microelectronics	Interest of controlled corporation	1,269,830,333 A shares (L)	30.57 (L)	37.36 (L)
China Aerospace Electronics Technology Research Institute	Interest of controlled corporation	1,269,830,333 A shares (L)	30.57 (L)	37.36 (L)
China Aerospace Science and Technology Corporation	Interest of controlled corporation	1,269,830,333 A shares (L)	30.57 (L)	37.36 (L)
BlackRock, Inc.	Interest of controlled corporation	62,138,876 H shares (L)	1.50 (L)	8.22 (L)
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.92 (L)	5.08 (L)
JPMorgan Chase & Co.	Beneficial owner, investment manager, custodian — corporation/approved lending agent	44,844,861 H shares (L)	1.08 (L)	5.94 (L)
	Beneficial owner	2,290,200 H shares (S)	0.06 (S)	0.30 (S)
	Custodian — corporation/approved lending agent	25,028,959 H shares (P)	0.60 (P)	3.31 (P)
The Bank of New York Mellon Corporation	Interest of controlled corporation	38,475,116 H shares (L)	0.93 (L)	5.09 (L)
	N/A	37,258,976 H shares (P)	0.90 (P)	4.93 (P)
Baillie Gifford & Co	Interest of controlled corporation	38,164,720 H shares (L)	0.92 (L)	5.05 (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 of 4,154,242,094 shares, comprising 3,398,739,560 A shares and 755,502,534 H shares, as at 30 June 2016.

Save as disclosed above, as at 30 June 2016, so far as the Directors, Supervisors and senior management of the Company are aware, other than the Directors, Supervisors and chief executive of the Company, 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 reporting period, the Company and its subsidiaries did not purchase, sell or redeem any listed securities of the Company.

Directors, Supervisors and Senior Management

(I) CHANGES IN THE HOLDINGS OF SHARES AND SHARE OPTIONS IN THE COMPANY BY THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

Directors, Supervisors and Senior Management

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

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

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

(II) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY 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 Yiming	Zhongxingxin	Chairman	August 2015	August 2018	No
Chang Qing ^{Note 1}	Zhongxingxin	Assistant to general manager	April 2008	February 2016	Yes
Wei Zaisheng	Zhongxingxin	Director	August 2015	August 2018	No
Xu Weiyan ^{Note 2}	Zhongxingxin	Supervisor	June 2016	August 2018	No
Wang Junfeng	CASIC Shenzhen (Group) Company Limited	Deputy chief accountant	June 2015	Incumbent	Yes

Note 1: Mr. Chang Qing has ceased to be assistant to general manager of Zhongxingxin as from February 2016.

Note 2: Ms. Xu Weiyan was appointed supervisor of Zhongxingxin in June 2016.

(III) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY 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}	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 13 subsidiaries including Zhongxing Software	Chairman	No
Zhang Jianheng ^{Note 3}	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
	China Aerospace International Holding Limited	Non-executive director and chairman of board of directors	No
	China Aerospace Investment Holdings Limited	chairman	No
Luan Jubao	Aerospace Guangyu	director/General manager	No
Shi Lirong ^{Note 4}	ZTE HK	director	No
	Zhongxing WXT	director	No
Wang Yawen ^{Note 5}	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
Tian Dongfang	China Aerospace Electronics Technology Research Institute	Chief economist	No
	Xi'an Microelectronics	Head	Yes
	西安西岳電子技術有限公司	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

Directors, Supervisors and Senior Management

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Yin Yimin ^{Note 6}	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
	Zhongxing WXT	Vice chairman	No
	Shenzhen Hekang Investment Management Company Limited	Executive director	No
	ZTE Capital	chairman/General manager	No
	Shenzhen Zhonghe Chunsheng Fund	Executive manager	No
Wei Zaisheng ^{Note 7}	Jiaxing Xinghe Capital Management Company Limited	Executive director	No
		General manager	Yes
	Held positions in 18 subsidiaries including ZTE Group Finance	chairman/director	No
	Zhongxing WXT	Director	No
Tan Zhenhui	Shenzhen Capital Group Co., Ltd.	Supervisor	No
	Beijing Jiaotong University	Director of University Academic Committee/professor	Yes
Richard Xike Zhang	Apax Partners	Equity Partner and Head of Greater China	Yes
Chen Shaohua ^{Note 8}	Xiamen University	Professor	Yes
Lü Hongbing ^{Note 9}	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
	Grandall Law Firm	Principal executive partner	Yes
	Shimao Property Holdings Limited	Independent non-executive director	Yes
	Shanghai Shentong Metro Co., Ltd.	Independent non-executive director	Yes
	Shandong Airlines Corporation	Independent non-executive director	Yes
	Tebon Fund Management Co.,Ltd	Independent non-executive director	Yes
	Shanghai Pharmaceuticals (Group) Company Limited	director	Yes
	Bailian Group Company Limited	director	Yes
Bingsheng Teng	Shanghai Electric (Group) CORP.	director	Yes
	Cheung Kong Group School of Business	Associate professor/head/associate dean	Yes
Zhu Wuxiang ^{Note 10}	Shandong Gold Mining Co., Ltd.	Independent non-executive director	Yes
	Tsinghua University	Professor	Yes
	Beijing Properties (Holdings) Ltd.	Independent non-executive director	Yes
	China Fortune Land Development Co., Ltd.	Independent non-executive director	Yes
	Dongxing Securities Co., Ltd.	Independent non-executive director	Yes
	Unisplendour Corporation Limited	Supervisor	Yes
	Everbright Securities Company	Supervisor	Yes
Xie Daxiong ^{Note 11}	Held positions in 3 subsidiaries including Zhongxing Software	Chairman/director	No
Zhou Huidong ^{Note 12}	Held positions in 29 subsidiaries including ZTE Group Finance	Chairman of supervisory committee/supervisor/director	No
Xu Weiyan	Zhongxing Hetai	Supervisor	No
	Shanghai ZTE Straw Communication Limited (上海中興思秸通訊有限公司)	Supervisor	No
	中興耀維科技江蘇有限公司	Chairman of supervisory committee	No
	Held positions in 3 subsidiaries including ZTE Kangxun	Chairman of supervisory committee/supervisor	No
Wang Junfeng	Puxing Mobile Tech Company Limited (普興移動通訊設備有限公司)	Chairman of supervisory committee	No
	Nanjing Aerospace Yinshan Electric Co., Ltd.	Director	No
	航天歐華	Director	No
	廣東歐科空調製冷有限公司	Director	No
	深圳航天地產發展有限公司	Director	No
	Xi'an Liangli Instrument and Meter Co., Ltd.	Chairman	No
Fan Qingfeng	昆明航天科工投資發展有限公司	Supervisor	No
Zeng Xuezhong	深圳智衡技術有限公司	Chairman	No
	Held positions in 5 subsidiaries including Nubia Technology Limited	Chairman	No
	ZTE 9 (Wuxi) Co., Ltd. (中興九城網絡科技無錫有限公司)	Chairman	No

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Xu Huijun	Held positions in 4 subsidiaries including Zhongxing Microelectronics	Chairman/director/chairman of supervisory committee	No
	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No
Pang Shengqing	Held positions in 14 subsidiaries including Shanghai Zhongxing Software Company Limited	Chairman/director	No
	KAZNURTEL Limited Liability Company	Director	No
Zhang Zhenhui	Held positions in 4 subsidiaries including Xi'an Zhongxing Jing Cheng Communication Company Limited	Chairman/director	No
Tian Wenguo	Held positions in 23 subsidiaries including Zhongxing New Energy Vehicle Co., Ltd.	Chairman/director	No
Chen Jie	Held positions in 17 subsidiaries including ZTE soft Technology Company Limited	Chairman/General manager	No
Ye Weimin	Held positions in 3 subsidiaries including ZTE Kangxun	Chairman	No
Zhu Jinyun	Held positions in 16 subsidiaries including ZTE (Shenyang) Financial Technology Company Limited	Chairman	No
	Held positions in 3 companies including Zhongxing Energy Company Limited	Chairman/director	No
Zhang Renjun	ZTE SINGAPORE PTE. LTD.	Chairman	No
Cheng Lixin	Held positions in 3 subsidiaries including ZTE (USA), Inc	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 has ceased to be chairman of 12 subsidiaries including Zhongxing Software as from April 2016.

Note 2: Mr. Zhao Xianming was appointed chairman of 11 subsidiaries including Zhongxing Software in April 2016. He has ceased to be chairman of ZTE Trunking Technology Corporation, Nanjing ZTE Jiqun Software Company Limited, ZTE Guotong Special Equipment and Technology (Beijing) Company Limited as from April 2016, and chairman of ZTE (Shenyang) Financial Technology Company Limited, 天津中興軟件智聯科技有限公司, Tianjin Zhongxing Software Company Limited and Wuxi Zhongxing Huitong Technology Company Limited as from June 2016.

Note 3: Mr. Zhang Jianheng has ceased to be chairman of China Lucky Group Corporation as from June 2016.

Note 4: Mr. Shi Lirong has ceased to be director of ZTE Kangxun as from June 2016.

Note 5: Mr. Wang Yawen has ceased to be chairman of 北京時代民芯科技有限公司 as from June 2016.

Note 6: Mr. Yin Yimin has ceased to be director of ZTE Kangxun as from June 2016.

Note 7: Mr. Wei Zaisheng was appointed chairman of Shenzhen ZTE Jingyun Technology Company Limited in April 2016; he has ceased to be director of ZTE Kangxun as from June 2016.

Note 8: Mr. Chen Shaohua has ceased to be independent non-executive director of Tianma Microelectronics Co., Ltd as from June 2016.

Note 9: Mr. Lü Hongbing was appointed independent non-executive director of Shandong Airlines Corporation in March 2016.

Note 10: Mr. Zhu Wuxiang has ceased to be independent non-executive director of Offshore Oil Engineering Co., Ltd as from May 2016.

Note 11: Mr. Xie Daxiong was appointed chairman of Guangzhou Huijian Testing Technology Company Limited in April 2016.

Note 12: Mr. Zhou Huidong was appointed supervisor of Shenzhen ZTE We Link Technology Corporation in January 2016, chairman of supervisory committee of 中興飛流信息科技有限公司 in February 2016 and supervisor of Shenzhen ZTE Jingyun Technology Company Limited in April 2016; he has ceased to be chairman of supervisory committee of Beijing Zhongxing Wangjie Technology Company Limited as from April 2016.

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

Directors, Supervisors and Senior Management

(IV) 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 Directors 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 Directors.

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

(V) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE REPORTING PERIOD

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

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

At the First Meeting of the Seventh Session of the Board of Directors of the Company held on 5 April 2016, Mr. Zhao Xianming was elected Chairman of the Company, Mr. Zhang Jianheng and Mr. Luan Jubao were each elected Vice Chairman of the Company; Mr. Zhu Wuxiang, Mr. Luan Jubao, Mr. Shi Lirong, Mr. Wang Yawen, Mr. Richard Xike Zhang, Mr. Lü Hongbing and Mr. Bingsheng Teng were elected members of the Nomination Committee of the Seventh Session of the Board of Directors of the Company; Mr. Chen Shaohua, Mr. Luan Jubao, Mr. Tian Dongfang, Mr. Zhan Yichao, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang were elected members of the Audit Committee of the Seventh Session of the Board of Directors of the Company; Mr. Bingsheng Teng, Mr. Zhang Jianheng, Mr. Shi Lirong, Mr. Richard Xike Zhang, Mr. Chen Shaohua and Mr. Zhu Wuxiang were elected members of the Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors of the Company.

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

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

Please refer to sections (II) and (III) in this chapter for details of positions at corporate shareholders and major positions at other entities held by Directors, Supervisors and senior management of the Company.

(VI) INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OFFICER OF THE COMPANY IN SHARES OR DEBENTURES

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

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

Save as disclosed above, as at 30 June 2016, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

Consolidated Balance Sheet

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

Assets	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Current assets			
Cash	1	30,373,185	28,025,009
Derivative financial assets	2	30,426	10,110
Bills receivable	3	4,617,975	3,463,358
Trade receivables	4	29,311,949	25,251,287
Factored trade receivables	4	2,134,371	1,272,068
Other receivables	5	2,663,755	2,970,258
Prepayments	6	1,180,619	640,113
Inventories	7	25,767,664	19,731,741
Amount due from customers for contract works	8	7,996,830	13,928,446
Total current assets		104,076,774	95,292,390
Non-current assets			
Available-for-sale financial assets	9	2,194,383	2,381,467
Long-term trade receivables	10	1,175,847	362,831
Factored long-term trade receivables	10	1,450,559	1,593,528
Long-term equity investments	11	546,851	560,939
Investment properties	12	2,012,612	2,010,396
Fixed assets	13	7,458,776	7,692,175
Construction in progress	14	1,133,257	643,789
Intangible assets	15	4,018,793	4,224,446
Deferred development costs	16	926,542	789,815
Deferred tax assets	17	1,439,153	1,434,143
Long-term deferred assets		38,185	32,790
Other non-current assets	19	3,444,551	3,875,188
Total non-current assets		25,839,509	25,601,507
Total assets		129,916,283	120,893,897

Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

Liabilities	Note	30 June 2016 (unaudited)	31 December 2015 (audited)
Current liabilities			
Short-term loans	20	11,381,462	7,907,572
Bank advances on factored trade receivables	4	2,135,235	1,273,346
Derivative financial liabilities	21	102,784	19,840
Bonds payable		—	4,000,000
Bills payable	22	10,182,851	9,885,129
Trade payables	23	25,238,981	22,932,866
Amount due to customers for contract works	8	8,412,857	4,423,103
Advances from customers	24	7,120,020	4,035,638
Salary and welfare payables	25	4,913,017	3,644,694
Taxes payable	26	(5,322,485)	(2,329,886)
Dividends payable	27	1,630	7,418
Other payables	28	7,514,604	6,005,130
Deferred income		396,872	438,920
Provisions	29	708,224	776,682
Non-current liabilities due within one year	30	3,015,051	4,617,604
Total current liabilities		75,801,103	67,638,056
Non-current liabilities			
Long-term loans	31	6,676,374	6,016,254
Bank advances on factored long-term trade receivables	10	1,450,559	1,593,528
Provision for retirement benefits		143,286	144,280
Deferred tax liabilities	17	76,697	52,769
Deferred income		722,805	759,394
Other non-current liabilities	32	1,112,561	1,341,011
Total non-current liabilities		10,182,282	9,907,236
Total liabilities		85,983,385	77,545,292

Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

		30 June 2016 (unaudited)	31 December 2015 (audited)
Shareholders' equity	Note V		
Shareholders' equity			
Share capital	33	4,154,242	4,150,791
Capital reserves	35	10,563,309	10,493,439
Other comprehensive income	36	(1,213,420)	(685,067)
Surplus reserve	37	2,022,709	2,022,709
Retained profits	38	15,444,619	13,678,222
Total equity attributable to holders of ordinary shares of the parent		30,971,459	29,660,094
Other equity instruments			
Including: perpetual capital instruments	34	9,137,341	9,321,327
Non-controlling interests		3,824,098	4,367,184
Total shareholders' equity		43,932,898	43,348,605
Total liabilities and shareholders' equity		129,916,283	120,893,897

The financial statements set out on pages 76 to 207 have been signed by:

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

Consolidated Income Statement

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Note V	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
Operating revenue	39	47,757,302	45,898,788
Less: Operating costs	39	31,824,387	30,426,748
Taxes and surcharges	40	371,198	845,820
Selling and distribution costs	41	5,978,607	5,333,174
Administrative expenses	42	1,393,985	1,207,807
Research and development costs		7,059,164	5,491,912
Finance expenses	45	(95,058)	1,007,102
Impairment losses	46	1,051,218	1,882,106
Add: (Losses)/gains from changes in fair values	43	(36,350)	9,956
Investment income	44	357,965	362,268
Including: Share of losses of associates and joint ventures		(19,517)	(38,111)
Operating profit		495,416	76,343
Add: Non-operating income	47	2,263,730	2,131,212
Less: Non-operating expenses	47	51,365	65,167
Including: losses on disposal of non-current assets		4,659	16,044
Total profit		2,707,781	2,142,388
Less: Income tax	49	519,427	310,202
Net profit		2,188,354	1,832,186
Attributable to:			
Holders of ordinary shares of the parent		1,766,397	1,615,585
Holders of perpetual capital instruments		249,963	180,753
Non-controlling interests		171,994	35,848
Other comprehensive income, net of tax		(673,746)	559,573
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	36	(528,353)	147,588
Other comprehensive income that will be reclassified to profit or loss in subsequent accounting periods			
Changes in the fair value of available-for-sale financial assets		(55,474)	126,144
Effective portion of hedging instruments		(59,507)	917
Exchange differences on translation of foreign operations		(413,372)	20,527
		(528,353)	147,588
Other comprehensive income attributable to non-controlling interests, net of tax		(145,393)	411,985
Total comprehensive income		1,514,608	2,391,759
Attributable to:			
Holders of ordinary shares of the parent		1,238,044	1,763,173
Holders of perpetual capital instruments		249,963	180,753
Non-controlling interests		26,601	447,833
Earnings per share (RMB/share)			
Basic	50	RMB0.43	RMB0.39
Diluted	50	RMB0.42	RMB0.39

Consolidated Statement of Changes in Equity

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

Six months ended 30 June 2016 (unaudited)									
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total	including: Perpetual capital instruments		
I. Current period's opening balance	4,150,791	10,493,439	(685,067)	2,022,709	13,678,222	29,660,094	9,321,327	4,367,184	43,348,605
II. Changes during the period									
(I) Total comprehensive income	—	—	(528,353)	—	1,766,397	1,238,044	249,963	26,601	1,514,608
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	3,451	35,269	—	—	—	38,720	—	—	38,720
2. Equity settled share expenses charged to equity	—	54,884	—	—	—	54,884	—	—	54,884
3. Capital reduction by shareholders	—	—	—	—	—	—	—	(402,859)	(402,859)
4. Acquisition of non-controlling interest	—	(20,283)	—	—	—	(20,283)	—	(140,238)	(160,521)
(III) Profit appropriation									
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(26,590)	(460,539)
III. Current period's closing balance	4,154,242	10,563,309	(1,213,420)	2,022,709	15,444,619	30,971,459	9,137,341	3,824,098	43,932,898

Six months ended 30 June 2015 (unaudited)									
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total	including: Perpetual capital instruments		
I. Current period's opening balance	3,437,541	8,724,754	(464,275)	1,769,012	11,411,542	24,878,574	—	1,413,930	26,292,504
II. Changes during the period									
(I) Total comprehensive income	—	—	147,588	—	1,615,585	1,763,173	180,753	447,833	2,391,759
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	—	—	—	—	—	—	—	5,000	5,000
2. Capital injection from other equity instruments holders	—	—	—	—	—	—	7,415,500	—	7,415,500
3. Equity settled share expenses charged to equity	—	89,121	—	—	—	89,121	—	—	89,121
4. Acquisition of non-controlling interest	—	(1,648)	—	—	—	(1,648)	—	(22,594)	(24,242)
(III) Profit appropriation									
1. Distribution to shareholders	—	—	—	—	—	—	—	(13,969)	(13,969)
III. Current period's closing balance	3,437,541	8,812,227	(316,687)	1,769,012	13,027,127	26,729,220	7,596,253	1,830,200	36,155,673

Consolidated Cash Flow Statement

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Note V	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		61,319,410	51,026,906
Refunds of taxes		4,590,398	3,526,114
Cash received relating to other operating activities	51	1,324,641	1,045,509
Sub-total of cash inflows		67,234,449	55,598,529
Cash paid for goods and services		46,951,860	38,482,957
Cash paid to and on behalf of employees		9,176,859	7,456,185
Cash paid for various types of taxes		4,282,243	4,311,365
Cash paid relating to other operating activities	51	4,468,556	3,840,136
Sub-total of cash outflows		64,879,518	54,090,643
Net cash flows from operating activities	52	2,354,931	1,507,886
II. Cash flows from investing activities			
Cash received from sale of investments		947,529	800,001
Cash received from return on investment		46,777	441,778
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		14,646	9,033
Net cash received from the disposal of subsidiaries and other operating units		54,542	—
Sub-total of cash inflows		1,063,494	1,250,812
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		1,596,103	1,352,721
Cash paid for acquisition of investments		373,273	854,241
Sub-total of cash outflows		1,969,376	2,206,962
Net cash flows from investing activities		(905,882)	(956,150)
III. Cash flows from financing activities			
Cash received from capital injection		1,789,105	5,000
Including: Capital injection into subsidiaries by minority shareholders		1,750,386	5,000
Issue of perpetual capital instruments		—	7,415,500
Cash received from borrowings		13,388,122	7,020,747
Sub-total of cash inflows		15,177,227	14,441,247
Cash repayment of borrowings		13,438,324	13,913,549
Cash payments for distribution of dividends and profits or for interest expenses		691,826	810,849
Including: Distribution of dividends and profits by subsidiaries to minority shareholders		25,613	13,969
Cash paid for the repayment of interests of perpetual capital instruments		433,949	—
Other cash paid relating to financing activities		412,620	—
Sub-total of cash outflows		14,976,719	14,724,398
Net cash flows from financing activities		200,508	(283,151)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		(335,180)	(181,183)
V. Net increase in cash and cash equivalents		1,314,377	87,402
Add: cash and cash equivalents at the beginning of period		26,616,996	17,230,140
VI. Net balance of cash and cash equivalents at the end of period	52	27,931,373	17,317,542

Balance Sheet

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

Assets	Note XV	30 June 2016 (unaudited)	31 December 2015 (audited)
Current assets			
Cash		14,344,543	17,708,219
Derivative financial assets		1,521	3,234
Bills receivable		4,027,748	1,461,254
Trade receivables	1	35,847,268	36,128,987
Factored trade receivables		455,477	445,819
Prepayments		25,172	28,871
Dividend receivable		3,634,273	3,473,753
Other receivables	2	7,318,286	8,659,093
Inventories		16,613,491	13,315,871
Amount due from customers for contract works		5,365,909	9,580,171
Total current assets		87,633,688	90,805,272
Non-current assets			
Available-for-sale financial assets	3	368,148	366,724
Long-term trade receivables	4	5,986,190	5,908,497
Factored long-term trade receivables		1,204,745	1,282,435
Long-term equity investments	5	8,080,649	7,350,908
Investment properties		1,610,296	1,603,107
Fixed assets		4,337,989	4,340,067
Construction in progress		490,086	270,243
Intangible assets		1,019,125	1,176,400
Deferred development costs		213,839	166,417
Deferred tax assets		531,111	671,519
Long-term deferred assets		36,131	32,388
Other non-current assets		3,314,571	3,745,208
Total non-current assets		27,192,880	26,913,913
Total assets		114,826,568	117,719,185

Balance Sheet (continued)

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

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

Income Statement

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Note XV	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
Operating revenue	6	45,604,317	44,533,087
Less: Operating costs	6	37,836,620	37,506,417
Taxes and surcharges		41,006	501,735
Selling and distribution costs		3,666,151	3,468,013
Administrative expenses		891,345	799,335
Research and development costs		2,232,591	1,456,751
Finance expenses		(84,734)	752,215
Impairment losses		868,139	1,436,623
Add: (Losses)/gains from changes in fair values		(5,014)	11,659
Investment income	7	157,053	1,171,274
Including: Share of losses of associates and joint ventures		(21,203)	(35,426)
Operating profit		305,238	(205,069)
Add: Non-operating income		435,655	624,991
Less: Non-operating expenses		4,899	70,646
Including: losses on disposal of non-current assets		2,013	5,259
Total profit		735,994	349,276
Less: Income tax		134,240	(36,145)
Net profit		601,754	385,421
Holders of ordinary shares		351,791	204,668
Holders of perpetual capital instruments		249,963	180,753
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods			
Exchange differences on translation of foreign operations		(606)	(112)
Other comprehensive income attributable to non-controlling interests, net of tax		(606)	(112)
Total comprehensive income		601,148	385,309
Holders of ordinary shares		351,185	204,556
Holders of perpetual capital instruments		249,963	180,753

Statement of Changes in Equity

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

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

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

Cash Flow Statement

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

	Six months ended 30 June 2016 (unaudited)	Six months ended 30 June 2015 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	53,714,208	49,590,344
Refunds of taxes	3,021,064	1,996,750
Cash received relating to other operating activities	768,904	686,153
Sub-total of cash inflows	57,504,176	52,273,247
Cash paid for goods and services	49,610,554	45,376,455
Cash paid to and on behalf of employees	3,118,996	2,671,191
Cash paid for various types of taxes	582,903	702,106
Cash paid relating to other operating activities	3,319,720	2,832,110
Sub-total of cash outflows	56,632,173	51,581,862
Net cash flows from operating activities	872,003	691,385
II. Cash flows from investing activities		
Cash received from sale of investments	266,934	45,474
Cash received from return on investment	39,049	96,781
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	5,190	8,165
Net cash received from the disposal of subsidiaries	850	126
Sub-total of cash inflows	312,023	150,546
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	703,848	355,356
Cash paid for acquisition of investments	1,032,645	72,288
Sub-total of cash outflows	1,736,493	427,644
Net cash flows from investing activities	(1,424,470)	(277,098)
III. Cash flows from financing activities		
Cash received from capital injection	38,719	—
Cash received from the issuance of perpetual capital instruments	—	7,415,500
Cash received from borrowings	8,645,637	5,140,138
Sub-total of cash inflows	8,684,356	12,555,638
Cash repayment of borrowings	10,839,961	12,607,186
Cash payments for distribution of dividends, profits and for interest expenses	548,669	619,638
Cash repayment of interests of perpetual capital instruments	433,949	—
Sub-total of cash outflows	11,822,579	13,226,824
Net cash flows from financing activities	(3,138,223)	(671,186)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	125,190	(116,941)
V. Net decrease in cash and cash equivalents	(3,565,500)	(373,840)
Add: cash and cash equivalents at the beginning of period	17,325,750	9,715,869
VI. Net balance of cash and cash equivalents at the end of period	13,760,250	9,342,029

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (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 monopolised 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 monopolised 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); specialised 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 25 August 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 period, please refer to Note VI.

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 as 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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2016 and the results of their operations and their cash flows for the six months ended 30 June 2016.

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 thousand of Renminbi, unless otherwise stated.

The Group's subsidiaries, joint ventures 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.

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 recognised 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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combination (continued)

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 recognised 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 recognised 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 recognised in current profit or loss.

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 six months ended 30 June 2016. 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 recognised 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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Consolidated financial statements (continued)

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 recognised 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.

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 capitalisation shall be dealt with according to the principle of capitalisation of borrowing costs, are recognised 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 nonmonetary items measured at fair value are translated using the spot exchange rate. The differences arising from the above translations are recognised in current profit or loss or other comprehensive income according to the nature of foreign currency non-monetary items.

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign currency translation (continued)

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 recognised 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.

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 recognises 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 derecognised 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 derecognised. 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 recognised 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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

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 recognised in profit or loss; for other financial assets, the relevant transaction costs are recognised in their initial recognition amount.

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 recognised in current period's profit or loss. Dividends or interest income derived from financial assets at fair value through profit or loss are also recognised 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 amortisation 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 amortised cost using the effective interest method less any allowance for impairment. Gains or losses arising from amortisation or impairment are recognised in the current profit or loss.

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (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

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 recognised in profit or loss, are recognised as other comprehensive income until the financial assets are derecognised 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 recognised in profit or loss.

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 recognised in profit or loss; for other financial liabilities, the relevant transaction costs are recognised 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 realised or unrealised gain or loss are recognised in current period's profit or loss.

Other financial liabilities

Subsequent to initial recognition, these financial assets are carried at amortised cost using the effective interest method.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

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.

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 recognised as liability at fair value. Financial guarantee contracts not classified as financial liabilities designated at fair value through profit or loss are, after initial recognition, 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 amortisation determined in accordance with the income recognition principle.

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 recognised 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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(Prepared under PRC ASBEs)
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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 recognised 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 realised 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 recognises 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 there is no impairment in an individually assessed financial asset, whether individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and assessed for impairment again collectively. Financial assets, for which an impairment loss is individually recognised, are not included in the collective assessment for impairment.

After the Group recognises impairment loss of financial assets carried at amortised 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 recognised, the previously recognised impairment loss shall be reversed and recognised in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date when the impairment is reversed.

Available-for-sale financial assets

If there is objective evidence indicating impairment of an available-for-sale financial asset, the cumulative loss arising from decline in fair value that had been recognised in other comprehensive income is removed therefrom and recognised in profit or loss. The cumulative loss that is removed represents the acquisition cost net of any principal repayment and amortization, the current fair value and any impairment loss previously recognised in profit or loss.

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 recognised 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 recognised in other comprehensive income.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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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)

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 recognised 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 recognised, the impairment loss is reversed which is recognised in profit or loss.

Assets carried at cost

If there is objective evidence that financial assets carried at cost are impaired, the impairment loss are recognised 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.

Derecognition 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 derecognised. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognised.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may either derecognise the financial asset and recognise any associated assets and liabilities if control of the financial asset has not been retained; or recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability if control has been retained.

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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Accounts Receivable (continued)

- (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 with respective percentages of provision 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

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 recognised using the weighted moving average method. Materials for construction-in-progress include low-value consumables and packaging materials, which are amortised using the separate amortisation 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 realisable value. Provision for impairment of inventories is made and recognised in profit or loss when the net realisable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, and as a result the net realisable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognised in profit or loss.

Net realisable values represent estimated selling prices in ordinary transactions 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.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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 (English translation for reference only)

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 recognised 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."

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
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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 recognised 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 recognised 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 recognising 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 recognised), 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 recognising 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 recognised 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 recognised 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 recognised 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 recognised in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of the replaced part is derecognised; otherwise, those expenditures are recognised in profit or loss as incurred.

Fixed assets are initially recognised 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Fixed Assets (continued)

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 requisite construction expenditures incurred during the construction period, 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, construction or production of assets qualified for capitalisation, 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 capitalised as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

Capitalisation 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.

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16. Borrowing costs (continued)

The capitalisation of such borrowing costs ceases when the assets qualified for capitalisation so acquired, constructed or produced are substantially ready for their intended use or sale. Borrowing costs incurred afterwards are recognised in profit or loss.

During capitalisation, capitalised interest of each accounting period is recognised using the following methods:

- (1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any temporary deposit interest income or investment gains of such borrowings.
- (2) Where funds are part of a general pool, the eligible amount is determined by applying the weighted average interest rate applicable to the general pool to the weighted average amount of accumulated expenditure on that asset in excess of the specific loan.

Capitalisation of borrowing costs should be suspended during periods in which abnormal interruption, other than procedures required for getting the assets ready for their intended use or sale, has lasted consecutively for more than three months during the process of acquisition, construction or production of assets qualified for capitalisation. The borrowing cost incurred during interruption should be recognised as expenses and recognised in profit and loss until the acquisition, construction or production 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 and whose fair value can be reliably measured shall be separately recognised 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.

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
R&D costs	3–5 years

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Intangible assets (continued)

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 amortisation 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 amortisation 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 current profit and 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 the asset for use or sale, 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, financial and other 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 and charged to current profit and loss when incurred.

Corresponding projects in the Group are listed when they meet the above conditions and are proven by technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

18. Provisions

Other than contingent consideration and assumed contingent liabilities in a business combination involving parties not under common control, the Group recognises 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.

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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 recognising 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 Black-Scholes 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.

No expense is recognised for awards that do not ultimately vest due to non-fulfillment of non-market conditions and/or conditions relating to the duration of service. For the market or non-vesting conditions 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 conditions relating to the duration of service are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the instrument granted, 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. 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.

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20. Other equity instruments — perpetual capital instruments

Perpetual capital instruments and other financial instruments issued by the Group shall be dealt with as equity instruments if they meet the following conditions:

- (1) Such financial instruments do not include a contractual obligation to deliver cash or other financial assets to other parties, or to swap financial assets or financial liabilities with other parties under potentially unfavourable conditions;
- (2) If such financial instruments must or may be settled by the issuer's own equity instruments in future, it does not include a contractual obligation to settle with the delivery of a variable quantity of equity instruments in case the financial instrument is a non-derivative instrument; or the Group can only settle such financial instruments by exchanging a fixed quantity of its equity instruments for a fixed amount of cash or other financial assets if such financial instrument is a derivative instrument.

Other than other financial instruments that qualify to be classified as equity instruments in accordance with the aforesaid conditions, other financial instruments issued by the Group shall be classified as financial liabilities.

In relation to perpetual capital instruments classified as equity instruments, interest expense or dividend distribution shall be accounted for as profit distribution of the Group, their repurchase and cancellation shall be dealt with as changes in equity, and related transaction costs shall be charged to equity.

21. Revenue

Revenue is recognised 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 recognised on the following bases:

Revenue from the sales of goods

Revenue from sales of goods is recognised 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 recognised 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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21. 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 recognised according to the percentage of completion, otherwise revenue is recognised 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 recognised 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 recognised 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 recognised 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)

22. Government grants

Government grants are recognised 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 recognised as income-related government grants.

Government grants, relating to income and applied towards reimbursement of related costs or losses in subsequent periods, are recognised as deferred income and taken to current profit or loss for the period in which the related costs are recognised. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognised in current profit or loss. Where the grant relates to an asset, it is recognised 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 recognised in current profit or loss.

23. Income tax

Income taxes include current and deferred tax. Income taxes are recognised 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 recognises 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 recognised as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

Deferred tax liabilities are recognised 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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23. Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carry-forward 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 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.

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 realised 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.

24. 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 recognised 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.

As lesser of operating leases

Rental income under operating leases are recognised as profit/loss for the current period on a straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

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25. Hedge accounting

For the purpose of hedge accounting, hedges are classified as:

- (1) Cash flow hedges are hedges against exposures to the variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or a highly probable anticipated transaction, or an exchange rate 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 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.

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.

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 or 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 or loss.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. 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 recognised 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.

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 recognise 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. 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 recognised 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.

Previous service costs are recognised as current expenses when: the defined benefit scheme is revised, or relevant restructuring costs or termination benefits are recognised 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 recognised 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 recognised 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 recognised, whichever earlier.

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27. Employee remuneration (continued)

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.

28. 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 maximising its economic benefits.

The measurement of non-financial assets measured at fair value should take into account the ability of market participants to utilise 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 utilise the asset in the best way for generating economic benefits.

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 recognised in the financial statements to determine whether the level of fair value measurement should be changed.

29. Profit distribution

Cash dividend of the Company is recognised as liability after approval by the general meeting.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. 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 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, our 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, 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

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.

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 recognised 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 recognised 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 recognised, 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 recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

Where hardware does not require significant customisation, and any software is considered incidental, revenue should be recognised 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.

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.21 to the consolidated financial statements.

Deferred tax liabilities arising from dividend distribution

The Group is required to recognise 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 recognised 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

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.

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 recognised 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 recognised 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 are less than expected, an impairment loss may arise.

Depreciation and amortisation

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 capitalisation, 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)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilise 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 recognised.

Provision for inventory impairment

The impairment of inventory to its net realisable value is based on the marketability and net realisable 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 30 June 2016 was RMB2,012,612,000 (31 December 2015: RMB2,010,396,000).

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IV. TAXATION

1. Principal tax items and tax rates

- | | |
|--|--|
| Value-added tax
("VAT") | — Output tax payable on income generated from domestic sales of products and equipment repair services at a tax rate 17% (being the tax rate for general taxpayers); regarding service income for which the charge of business tax has been changed to the charge of VAT, output tax is calculated at tax rates of 5%, 6% and 11%, and VAT is payable on the difference after deduction of tax credit available for offsetting for the current period. |
| 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 as at 30 April 2016. Such income has been subject to VAT with effect from 1 May 2016 in accordance with relevant regulations on the change of business tax to VAT. |
| 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 was subject to an enterprise income tax rate of 15% for the periods 2014 to 2016 as a national-grade hi-tech enterprise incorporated in Shenzhen. Major subsidiaries operating in China and entitled to concessionary tax rates are as follows:

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 15% in 2016 as a national-grade hi-tech enterprise.

ZTE ICT Company Limited was subject to an enterprise income tax rate of 15% from 2013–2015 as a national-grade hi-tech enterprise. Application for the status of national-grade hi-tech enterprise from 2016 to 2018 is currently in process.

Notes to Financial Statements

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IV. TAXATION (CONTINUED)

2. Tax concession (continued)

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% in 2016 as a national-grade hi-tech enterprise.

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% in 2016 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% in 2016 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% in 2016 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 to 2017 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% in 2016 after being confirmed as an enterprise engaged in State-endorsed industries.

Nanjing ZTEsoft Software Technology Company Limited is subject to an enterprise income tax rate of 15% from 2013–2015 as a national-grade hi-tech enterprise. Application for the status of national-grade hi-tech enterprise from 2016 to 2018 is currently in process.

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash

	30 June 2016	31 December 2015
Cash	35,236	18,677
Bank deposit	28,878,193	26,803,348
Other cash	1,459,756	1,202,984
	30,373,185	28,025,009

As at 30 June 2016, the Group's time deposit of RMB23,000,000 (31 December 2015: RMB23,000,000) was pledged to secure bank borrowings for a term of 1 year.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

1. Cash (continued)

As at 30 June 2016, the Group's overseas currency deposits amounted to RMB9,940,994,000 (31 December 2015: RMB5,888,161,000). Funds placed overseas and subject to remittance restrictions amounted to RMB23,396,000 (31 December 2015: RMB83,496,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for time deposits varies from 7 days to over 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 RMB982,056,000 (31 December 2015: RMB205,029,000) were not included in cash and cash equivalents.

2. Derivative financial assets

	30 June 2016	31 December 2015
Net investment hedging instruments for overseas operations	5,844	1,126
Derivative financial assets at fair value through current profit or loss	24,582	8,984
	30,426	10,110

For details of net investment hedging instruments for overseas operations, please refer to Note V.55.

Trading in derivative financial assets at fair value through current profit or 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 period, loss arising from fair value changes of non-hedging derivative financial instruments amounting to RMB38,566,000 (Six months ended 30 June 2015: loss of RMB54,725,000) was dealt with in current profit or loss.

3. Bills receivable

	30 June 2016	31 December 2015
Commercial acceptance bills	3,147,063	2,432,643
Bank acceptance bills	1,470,912	1,030,715
	4,617,975	3,463,358

Endorsed or discounted bills receivable outstanding on the balance sheet date are analysed as follows:

	30 June 2016		31 December 2015	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Bank acceptance bills	—	184,183	385,920	106,892

As at 30 June 2016, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2015: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

3. Bills receivable (continued)

As at 30 June 2016, no bills were pledged for obtaining short-term borrowing (31 December 2015: Nil).

As at 30 June 2016, there were no outstanding bills receivable endorsed on behalf of third parties (31 December 2015: 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:

	30 June 2016	31 December 2015
Within 1 year	26,384,007	23,370,441
1 to 2 years	4,564,004	3,653,798
2 to 3 years	1,907,832	1,590,969
Over 3 years	2,673,861	2,357,659
	35,529,704	30,972,867
Less: bad debt provision for trade receivables	6,217,755	5,721,580
	29,311,949	25,251,287

Please refer to Note V. 18 for details of movements in bad debt provision for trade receivables for the year.

	30 June 2016				31 December 2015			
	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	263,287	1	263,287	100	422,515	1	422,515	100
For which bad debt provision has been collectively made based on credit risks								
0-6 months	21,854,192	62	—	—	20,234,441	66	—	—
7-12 months	4,529,815	12	399,058	9	3,136,000	10	419,528	13
13-18 months	2,513,676	7	586,571	23	2,538,547	8	702,912	28
19-24 months	2,050,328	6	991,192	48	1,115,251	4	844,290	76
2-3 years	1,907,832	5	1,567,073	82	1,590,969	5	1,397,191	88
Over 3 years	2,410,574	7	2,410,574	100	1,935,144	6	1,935,144	100
	35,266,417	99	5,954,468	17	30,550,352	99	5,299,065	17
	35,529,704	100	6,217,755		30,972,867	100	5,721,580	

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4. Trade receivables (continued)

As at 30 June 2016, 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	174,680	174,680	100%	Debtor running into serious financial difficulties
Overseas carriers 2	80,333	80,333	100%	Debtor running into serious financial difficulties
Overseas carriers 3	7,648	7,648	100%	Debtor running into serious financial difficulties
Others	626	626	100%	Debtor running into serious financial difficulties
	263,287	263,287		

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		

As at 30 June 2016, trade receivables which were individually significant and for which bad-debt provision had been made separately amounting to RMB163,467,000 had been written off (31 December 2015: RMB94,991,000), while settlement amounts of RMB0 had been recovered (31 December 2015: RMB45,650,000).

Top 5 accounts of trade receivables as at 30 June 2016 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	3,884,021	10.93%	72,765
Customer 2	3,341,031	9.40%	68,873
Customer 3	2,223,303	6.26%	68,097
Customer 4	627,888	1.77%	162,846
Customer 5	338,735	0.95%	27,094
Total	10,414,978	29.31%	399,675

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.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Other receivables

Aging analysis of other receivables was as follows:

	30 June 2016	31 December 2015
Within 1 year	2,034,143	2,491,262
1 to 2 years	324,380	215,768
2 to 3 years	204,670	149,627
Over 3 years	100,562	113,601
	2,663,755	2,970,258

Other receivables analysed by nature was as follows:

	30 June 2016	31 December 2015
Staff loans	371,245	426,042
Transactions with third parties	1,816,028	2,293,247
Others	476,482	250,969
	2,663,755	2,970,258

Top 5 accounts of other receivables as at 30 June 2016 were as follows:

Due from	Closing balance	As a percentage of total amounts of other receivables	Nature
Third-party entity 1	603,383	22.65%	Transactions with third parties
Third-party entity 2	373,400	14.02%	Transactions with third parties
Third-party entity 3	141,644	5.32%	Transactions with third parties
Third-party entity 4	105,000	3.94%	Transactions with third parties
Third-party entity 5	100,000	3.75%	Transactions with third parties
Total	1,323,427	49.68%	

The above other receivables from top five accounts represent amounts receivable from third parties of the Group and were aged within 36 months.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Prepayments

Aging analysis of prepayments was as follows:

	30 June 2016		31 December 2015	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	1,180,619	100	640,113	100

Top 5 accounts of prepayments as at 30 June 2016 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	66,268	5.61%
Supplier 2	62,113	5.26%
Supplier 3	61,879	5.24%
Supplier 4	44,776	3.79%
Supplier 5	29,761	2.52%
Total	264,797	22.42%

7. Inventories

	30 June 2016			31 December 2015		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	6,187,804	490,151	5,697,653	4,314,061	435,957	3,878,104
Materials under subcontract processing	564,408	34,514	529,894	368,973	44,147	324,826
Work-in-progress	1,457,117	51,514	1,405,603	933,198	45,678	887,520
Finished goods	3,114,456	286,332	2,828,124	3,330,365	288,754	3,041,611
Dispatch of goods	17,303,928	1,997,538	15,306,390	13,265,012	1,665,332	11,599,680
	28,627,713	2,860,049	25,767,664	22,211,609	2,479,868	19,731,741

Please refer to Note V.18 for details of movements in the provision for impairment of inventory during the period.

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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

	30 June 2016	31 December 2015
Amount due from customers for contract works	7,996,830	13,928,446
Amount due to customers for contract works	(8,412,857)	(4,423,103)
	(416,027)	9,505,343
Contract costs incurred plus recognized profits (losses) to date	85,465,794	60,891,156
Less: Estimated loss	767,568	400,087
Progress billings	85,114,253	50,985,726
	(416,027)	9,505,343

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

	30 June 2016			31 December 2015		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Available-for-sale equity instruments						
At fair value	851,818	—	851,818	1,093,001	—	1,093,001
At cost	1,342,565	—	1,342,565	1,288,466	—	1,288,466
	2,194,383	—	2,194,383	2,381,467	—	2,381,467

Available-for-sale financial assets at fair value:

	30 June 2016 Available-for-sale equity instruments	31 December 2015 Available-for-sale equity instruments
Equity instrument cost	106,069	122,296
Fair value	851,818	1,093,001
Accumulated fair value change included in other comprehensive income	745,749	970,705

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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:

30 June 2016

	Book balance			Shareholding percentage (%)	Cash dividend for the period
	Opening balance	Increase during the period	Decrease during the period		
航天科技投資控股有限公司	201,734	—	—	2.69	15,000
中國教育出版傳媒股份有限公司	196,000	—	—	0.985	—
Others	890,732	97,600	(43,501)	—	—
	1,288,466	97,600	(43,501)	1,342,565	15,000

31 December 2015

	Book balance			Shareholding percentage (%)	Cash dividend for the period
	Opening balance	Increase during the period	Decrease during the period		
航天科技投資控股有限公司	201,734	—	—	5	981
中國教育出版傳媒股份有限公司	196,000	—	—	0.985	—
Others	1,022,460	66,136	(197,864)	—	20,919
	1,420,194	66,136	(197,864)	1,288,466	21,900

10. Long-term receivables

	30 June 2016	31 December 2015
Installment payments for the provision of system construction projects telecommunication	1,257,561	443,439
Less: Bad debt provision for long-term receivables	81,714	80,608
	1,175,847	362,831

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 period.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Long-term equity investments

		30 June 2016	31 December 2015
Equity method			
Joint ventures	(1)	102,514	77,341
Associates	(2)	449,101	488,362
Less: Provision for impairment in long-term equity Investments		4,764	4,764
		546,851	560,939

30 June 2016

(1) Joint ventures

	Balance as at the beginning of the period	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 period	Impairment provision at the end of the period
Bestel Communications Ltd.	2,255	—	—	—	—	—	—	—	2,255	—
Puxing Mobile Tech Company Limited	53,756	—	—	449	—	—	—	—	54,205	—
江蘇中興微通信息科技有限公司	1,792	—	—	(1,690)	—	—	—	—	102	—
前海融達租賃股份有限公司	15,015	—	—	3,002	—	—	—	—	18,017	—
Pengzhong Xingsheng	4,523	—	—	—	—	—	—	—	4,523	—
重慶前濱城市大數據管理有限公司	—	25,500	—	(2,088)	—	—	—	—	23,412	—
	77,341	25,500	—	(327)	—	—	—	—	102,514	—

(2) Associates

	Balance as at the beginning of the period	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 period	Impairment provision at the end of the period
KAZNURTEL Limited Liability Company	2,477	—	—	—	—	—	—	—	2,477	—
思卓中興（杭州）科技有限公司	20,843	—	—	—	—	—	—	—	20,843	—
上海中興群力信息科技有限公司	18,251	—	(18,251)	—	—	—	—	—	—	—
ZTE Energy Company Limited	353,712	—	—	(11,982)	—	—	—	—	341,730	—
ZTE Software Technology (Nanchang) Company Limited	3,722	—	—	(1,283)	—	—	—	—	2,439	—
Nanjing PiaoXun Network Technology Company Limited	24	—	—	—	—	—	—	—	24	—
上海歡流傳媒有限公司	2,241	—	(2,241)	—	—	—	—	—	—	—
Telecom Innovations	10,739	—	—	—	—	231	—	—	10,970	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	5,079	—	—	(815)	—	—	—	—	4,264	—
北京億科三友科技發展有限公司	—	—	—	—	—	—	—	—	—	(4,764)
南京皓信達網絡科技有限公司	3,111	—	(3,111)	—	—	—	—	—	—	—
寧波中興興通供應有限公司	11,752	—	—	(498)	—	—	—	—	11,254	—
Shanghai ZTE Straw Communication Limited	10,190	—	—	(1,467)	—	—	—	—	8,723	—
江蘇中興華易科技發展有限公司	2,920	—	—	(941)	—	—	—	—	1,979	—
中興智慧成都有限公司	13,799	—	—	(401)	—	—	—	—	13,398	—
中興羅維科技江蘇有限公司	4,517	—	—	(179)	—	—	—	—	4,338	—
Shenzhen Weipin Zhiyuan Information Technology Company Limited	4,852	—	—	(3,295)	—	—	—	—	1,557	—
廈門智慧小區網絡科技有限公司	7,000	—	—	—	—	—	—	—	7,000	—
石家莊市善理通益科技有限公司	1,500	—	—	(267)	—	—	—	—	1,233	—
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	6,869	—	—	—	—	161	—	—	7,030	—
中山億順置業有限公司	—	2,000	—	—	—	—	—	—	2,000	—
鐵建聯合（北京）科技有限公司	—	3,000	—	78	—	—	—	—	3,078	—
	483,598	5,000	(23,603)	(21,050)	—	392	—	—	444,337	(4,764)

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

12. Investment Properties

Fair value measurement

30 June 2016

	Buildings RMB'000
Opening balance	2,010,396
Acquisition	—
Fair value change (Note V.43)	2,216
Closing balance	2,012,612

31 December 2015

	Buildings RMB'000
Opening balance	2,004,465
Acquisition	—
Fair value change	5,931
Closing balance	2,010,396

During the year, buildings among the investment properties of the Group were leased 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 30 June 2016, investment properties with a carrying value of RMB1,452,882,000 (31 December 2015: RMB1,424,722,000) 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

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	5,912,007	38,822	3,834,124	3,046,402	344,132	312,262	13,487,749
Acquisitions	60,423	—	386,719	128,532	20,156	34,515	630,345
Transfer of construction in progress	58,746	—	2,113	—	—	186	61,045
Disposal or retirement	(148,874)	—	(179,467)	(78,924)	(44,263)	(14,610)	(466,138)
Exchange rate adjustments	(67,189)	9,003	7,657	4,978	(2,111)	4,472	(43,190)
Closing balance	5,815,113	47,825	4,051,146	3,100,988	317,914	336,825	13,669,811
Accumulated depreciation							
Opening balance	1,137,112	—	2,819,791	1,513,211	163,994	143,282	5,777,390
Provision	147,708	—	330,508	132,639	14,404	40,051	665,310
Disposed or retirement	(23,576)	—	(160,460)	(64,903)	(10,916)	(6,846)	(266,701)
Exchange rate adjustments	19,981	—	9,598	1,397	(1,512)	478	29,942
Closing balance	1,281,225	—	2,999,437	1,582,344	165,970	176,965	6,205,941
Provision for impairment							
Opening balance	—	—	2,783	15,328	—	73	18,184
Provision	—	—	—	—	—	—	—
Disposal or retirement	—	—	—	(13,142)	—	—	(13,142)
Exchange rate adjustments	—	—	—	49	—	3	52
Closing balance	—	—	2,783	2,235	—	76	5,094
Net book value							
At the end of the period	4,533,888	47,825	1,048,926	1,516,409	151,944	159,784	7,458,776
At the beginning of the period	4,774,895	38,822	1,011,550	1,517,863	180,138	168,907	7,692,175

As at 30 June 2016, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Qinhuaudu in China with a net book value of approximately RMB2,468,509,000 (31 December 2015: RMB2,511,168,000).

14. Construction in progress

	Budget	Opening balance	Increase during the year	Transfer to fixed assets during the year	Transfer to investment properties during the year	Closing balance	Source of funds	Project investments as a percentage of the budget (%)	Progress
Staff quarters	1,316,080	165,293	138,709	—	—	304,002	Internal funds	23	Under construction
Sanya R&D Base Project	137,390	31,008	24,151	—	—	55,159	Internal funds	40	Under construction
Xi'an District 2 Phase 1	99,422	19,723	257	2,194	—	17,786	Internal funds	18	Under construction
Heyuan R&D Training Center Phase I	995,951	225,911	205,188	—	—	431,099	Internal funds	43	Under construction
Nanjing Project	673,140	780	16,015	—	—	16,795	Internal funds	2	Under construction
IDC data centre engine room	85,000	32,452	25,543	57,995	—	—	Internal funds	100	Completed
Nanjing Internet of Things office	175,000	76,023	31,348	—	—	107,371	Internal funds	61	Under construction
Changsha R&D Centre	230,018	4,456	19,839	—	—	24,295	Internal funds	11	Under construction
Others	Nil	88,143	89,463	856	—	176,750	Internal funds	—	Under construction
Total		643,789	550,513	61,045	—	1,133,257			

As at 30 June 2016, there was no capitalized interest in the balance of the construction in progress (31 December 2015: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Intangible assets

	Software	Technology know-how	Land use right	Franchise	R&D costs	Total
Cost						
Opening balance	370,710	11,547	1,391,538	431,952	5,894,177	8,099,924
Acquisition	63,455	1,638	—	2	—	65,095
In-house R&D	—	—	—	—	366,048	366,048
Disposal or retirement	(2,407)	—	(53,293)	(1)	—	(55,701)
Closing balance	431,758	13,185	1,338,245	431,953	6,260,225	8,475,366
Accumulated amortization						
Opening balance	96,475	6,088	143,406	362,758	3,260,429	3,869,156
Provision	52,664	984	13,013	5,182	513,894	585,737
Disposal or retirement	(1,968)	—	(2,673)	(1)	—	(4,642)
Closing balance	147,171	7,072	153,746	367,939	3,774,323	4,450,251
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 period	284,587	6,113	1,178,177	64,014	2,485,902	4,018,793
At the beginning of the period	274,235	5,459	1,241,810	69,194	2,633,748	4,224,446

As at 30 June 2016, intangible assets with a book value of RMB96,824,000 (31 December 2015: RMB176,238,000) were subject to ownership restriction as they had been pledged as security for borrowings.

As at 30 June 2016, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen and Nanjing in the PRC, with a net carrying value of approximately RMB344,410,000 (31 December 2015: RMB580,043,000).

No land use rights were transferred to investment properties for 2016 (2015: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Deferred development costs

	Opening balance	Increase during the period	Decrease during the period		Closing balance
		Internal R&D	Recognition of intangible assets	Charged to current profit or loss	
Handsets	13,174	40,912	(31,461)	(89)	22,536
System products	776,641	485,714	(334,587)	(23,762)	904,006
	789,815	526,626	(366,048)	(23,851)	926,542

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.

17. Deferred tax assets/liabilities

	30 June 2016		31 December 2015	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealized profits arising on consolidation	1,180,726	261,855	695,558	157,115
Provision for impairment in inventory	862,511	139,291	814,535	127,086
Foreseeable contract losses	680,387	102,058	305,207	45,781
Amortization of deferred development costs	1,219,564	182,934	1,124,094	168,616
Provision for warranties and returned goods	563,675	96,791	550,118	102,646
Provision for retirement benefits	143,286	21,493	144,280	21,642
Deductible tax losses	1,363,055	262,557	2,695,890	452,643
Accruals	2,192,251	342,698	2,455,638	379,813
Overseas taxes pending deduction	1,070,639	160,596	1,045,427	156,814
Share option scheme expenses	293,459	44,169	254,675	38,202
	9,569,553	1,614,442	10,085,422	1,650,358

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Deferred tax assets/liabilities (continued)

	30 June 2016		31 December 2015	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	1,070,410	161,284	1,068,195	160,704
Revenue from construction contracts	146,964	24,399	109,321	21,855
Changes in fair value of available-for-sale financial assets	336,744	66,303	438,813	86,425
	1,554,118	251,986	1,616,329	268,984

The net amount of deferred tax assets and deferred tax liabilities after set-off:

	30 June 2016		31 December 2015	
	Amount of set-off	Amount after set-off	Amount of set-off	Amount after set-off
Deferred tax assets	175,289	1,439,153	216,215	1,434,143
Deferred tax liabilities	175,289	76,697	216,215	52,769

Deferred income tax assets that were not recognised are as follows:

	30 June 2016	31 December 2015
Deductible losses	3,546,844	3,777,658

Deductible tax losses of unrecognized deferred tax assets expiring in the following years:

	30 June 2016	31 December 2015
2016	109,482	114,250
2017	845,269	1,551,872
2018	378,916	414,131
After 2018	2,213,177	1,697,405
	3,546,844	3,777,658

The Group recognises deferred income tax assets based on deductible temporary differences. In relation to deferred income tax relating to deductible loss and tax allowance, the Group expects to generate sufficient taxable income prior to the expiry of deductible 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

	Opening balance	Provision for the period	Decrease during the period		Effect of exchange rates	Closing balance
			Write-back	Write-off		
Bad debt provision	5,802,188	745,038	(62,926)	(236,722)	51,891	6,299,469
Including: Trade receivables	5,721,580	743,797	(62,926)	(236,722)	52,026	6,217,755
Long-term receivables	80,608	1,241	—	—	(135)	81,714
Provision for impairment of inventories	2,479,868	428,328	(59,222)	(12,390)	23,465	2,860,049
Provision for impairment of fixed assets	18,184	—	—	(13,142)	52	5,094
Provision for impairment of intangible assets	6,322	—	—	—	—	6,322
Provision for impairment of long-term equity investment	4,764	—	—	—	—	4,764
	8,311,326	1,173,366	(122,148)	(262,254)	75,408	9,175,698

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

	30 June 2016	31 December 2015
Prepayments for project and equipment	360,312	359,587
Risk compensation fund	3,084,239	3,515,601
	3,444,551	3,875,188

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Short-term loans

		30 June 2016		31 December 2015		
		Original	RMB equivalent	Original	RMB equivalent	
Credit loans	RMB	5,643,000	5,643,000	2,866,000	2,866,000	
	USD	597,674	3,971,542	465,290	3,021,594	
	EUR	158,000	1,166,214	196,000	1,390,444	
Bill discounted loans	RMB	147,364	147,364	306,410	306,410	Note 1
Pledged loans	RMB	173,699	173,699	90,819	90,819	Note 2
	USD	8,760	58,210	3,000	19,482	Note 2
Guarantee loans	EUR	30,000	221,433	30,000	212,823	Note 3
			11,381,462		7,907,572	

As at 30 June 2016, the annual interest rate of the above loans ranged from 1.06%–5.75% (31 December 2015: 1.20%–6.69%).

Note 1: Bill discounted loans were loans discounted by commercial acceptance bills and bank acceptance bills. For the period, no discounted bills (31 December 2015: RMB200,000,000) 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 RMB173,699,000. For the period pledge bills amounting to RMB101,267,000 (31 December 2015: RMB90,819,000) were issued on an intra-Group basis.

Note 3: The guarantee loans comprised mainly a short-term loan extended to ZTE COOPERATIEF UA and guaranteed by ZTE.

As at 30 June 2016, there were no overdue loans (31 December 2015: Nil).

21. Derivative financial liabilities

	30 June 2016	31 December 2015
Financial liabilities at fair value through current profit and loss	68,001	16,962
Hedging instruments — current portion	34,783	2,878
	102,784	19,840

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.55.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

22. Bills payable

	30 June 2016	31 December 2015
Bank acceptance bills	5,238,748	3,464,319
Commercial acceptance bills	4,944,103	6,420,810
	10,182,851	9,885,129

As at 30 June 2016, there was no due and outstanding bills payable (31 December 2015: Nil).

23. Trade payables

An aging analysis of the trade payables are as follows:

	30 June 2016	31 December 2015
0 to 6 months	24,262,509	22,505,978
7 to 12 months	625,584	264,027
1 to 2 years	250,736	123,011
2 to 3 years	83,976	10,327
Over 3 years	16,176	29,523
	25,238,981	22,932,866

Trade payables are interest-free and repayable normally within 6 months.

As at 30 June 2016, there were no material trade payables aged over 1 year (31 December 2015: Nil).

24. Advances from customers

	30 June 2016	31 December 2015
Advanced payments for system project work	5,794,276	2,779,399
Advanced payments for terminals	1,325,744	1,256,239
	7,120,020	4,035,638

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

25. Salary and welfare payables

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	3,489,329	10,623,983	(9,415,380)	4,697,932
Post-employment benefits (defined deposit plan)	149,998	611,258	(550,111)	211,145
Termination benefits	5,367	2,072	(3,499)	3,940
	3,644,694	11,237,313	(9,968,990)	4,913,017

Short-term remuneration is analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus and allowance	2,856,603	9,587,735	(8,829,256)	3,615,082
Staff welfare	2,914	25,370	(23,678)	4,606
Social insurance	65,220	299,387	(272,285)	92,322
Including: Medical Insurance	58,135	274,049	(249,700)	82,484
Work Injuries Insurance	2,781	8,763	(7,818)	3,726
Maternity Insurance	4,304	16,575	(14,767)	6,112
Housing funds	37,063	173,745	(195,665)	15,143
Labour union fund and employee education fund	527,529	537,746	(94,496)	970,779
	3,489,329	10,623,983	(9,415,380)	4,697,932

The defined deposit plan was as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic pension insurance	142,809	582,408	(524,066)	201,151
Unemployment insurance	7,189	28,850	(26,045)	9,994
	149,998	611,258	(550,111)	211,145

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Tax payable

	30 June 2016	31 December 2015
Value-added tax	(6,021,170)	(3,694,070)
Business tax	6,624	597,003
Income tax	542,914	484,627
PRC tax	599,821	463,821
Overseas tax	(56,907)	20,806
Individual income tax	178,725	127,570
City maintenance and construction tax	2,068	43,831
Education surcharge	10,595	39,220
Other taxes	(42,241)	71,933
	(5,322,485)	(2,329,886)

27. Dividend payable

	30 June 2016	31 December 2015
Dividend payable to holders of restricted shares	184	184
Dividend payable to minority shareholders	1,446	7,234
	1,630	7,418

28. Other payables

	30 June 2016	31 December 2015
Accruals	1,359,964	1,287,298
Contributions to staff housing	58,305	58,305
Payables to external parties	4,917,754	3,519,282
Deposits	35,702	32,150
Factored interests payable	1,888	37,153
Others	1,140,991	1,070,942
	7,514,604	6,005,130

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Provisions

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Outstanding litigation	187,837	24,235	(47,261)	164,811
Provision for returned handsets	269,369	169,138	(220,555)	217,952
Provision for warranties	319,476	454,403	(448,418)	325,461
	776,682	647,776	(716,234)	708,224

30. Non-current liabilities due within one year

	30 June 2016	31 December 2015
Non-current liabilities due within one year	3,015,051	4,617,604

31. Long-term loans

		30 June 2016		31 December 2015		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	453,782	453,782	317,043	317,043	
	USD	280,000	1,860,600	195,000	1,266,330	
Guaranteed loans	RMB	60,000	60,000	60,000	60,000	Note 1
	USD	505,052	3,356,071	503,805	3,271,707	Note 1
	EUR	110,000	811,921	140,000	993,174	Note 1
Secured loans	RMB	134,000	134,000	108,000	108,000	Note 2
			6,676,374		6,016,254	

Note 1 The guaranteed loans comprised mainly guaranteed loans provided by the Company for its subsidiary ZTE (H.K.) Limited, 深圳市中興新能源汽車服務有限公司 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 RMB72,192,000 and land use rights of Nanjing ZTE We Link Technology Company Limited with a book value of RMB24,632,000.

As at 30 June 2016, the annual interest rate for the aforesaid loans was 1.20%–6.90% (31 December 2015: 1.10%–6.90%).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. Other non-current liabilities

	30 June 2016	31 December 2015
Long-term financial guarantee contract	3,689	3,689
Factored interests payable	185,352	213,545
Deferred income relating to staff housing	878,594	1,073,596
Long-term payable for equipment	44,926	50,181
	1,112,561	1,341,011

33. Share capital

	Opening balance	Increase/decrease during the period			Closing balance
		Issue of new shares	Others	Sub-total	
Restricted shares					
Senior management shares	8,851	191	189	380	9,231
Total number of restricted shares	8,851	191	189	380	9,231
Unrestricted shares					
RMB Ordinary shares	3,386,438	3,260	(189)	3,071	3,389,509
Overseas listed foreign shares	755,502	—	—	—	755,502
Total number of unrestricted shares	4,141,940	3,260	(189)	3,071	4,145,011
Total number of shares	4,150,791	3,451	—	3,451	4,154,242

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Other Equity Instruments

(1) General information of Medium Term Notes outstanding as at the end of the period

On 27 January 2015, the Company completed the issue of 2015 Tranche I Medium Term Notes with a principal amount of RMB6,000 million. The notes shall remain in effect indefinitely until redemption by the issuer (the "Company") in accordance with the terms of issue, and shall be due upon redemption by the issuer in accordance with the terms of issue. The issuer is entitled to redeem the Medium Term Notes at nominal value plus interest payable (including all deferred interests and accrued interests thereof) on the 5th interest payment date and each interest payment date thereafter. The coupon interest rate for the first 5 years is 5.81% per annum. If the issuer does not exercise its redemption rights, starting from the 6th year, the coupon interest rate is adjusted to benchmark interest then prevailing plus the initial interest rate spread (being the difference between the coupon interest rate and the initial benchmark rate) and a further 300 basis points, where the initial benchmark rate is the arithmetic average yield rate (rounded to the nearest 0.01%) of treasury bonds with a repayment period of 5 years in the inter-bank treasury bond fixed rate yield curve announced by China Central Depository & Clearing Co., Ltd. ("CCDC") on www.chinabond.com.cn (or other websites approved by CCDC) for the 5 business days prior to the book date, and shall remain unchanged from the 6th to the 10th years for which interest is accruable. Thereafter, the coupon interest rate is reset every 5 years to the benchmark interest rate then prevailing plus the initial interest rate spread and a further 300 basis points.

On 6 February 2015, the Company completed the issue of 2015 Tranche II Medium Term Notes with a principal amount of RMB1,500 million. The notes shall remain in effect indefinitely until redemption by the issuer in accordance with the terms of issue, and shall be due upon redemption by the issuer in accordance with the terms of issue. The issuer is entitled to redeem the Medium Term Notes at nominal value plus interest payable (including all deferred interests and accrued interests thereof) on the 3rd interest payment date and each interest payment date thereafter. The coupon interest rate for the first 3 years is 5.69% per annum. If the issuer does not exercise its redemption rights, starting from the 4th year, the coupon interest rate is adjusted to the benchmark interest rate then prevailing plus the initial interest rate spread and a further 300 basis points, and shall remain unchanged from the 4th to the 6th years for which interest is accruable. Thereafter, the coupon interest rate is reset every 3 years to the benchmark interest rate then prevailing plus the initial interest rate spread and a further 300 basis points.

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 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.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Other Equity Instruments (continued)

(1) General information of Medium Term Notes outstanding as at the end of the period (continued)

Unless an event of mandatory interest payment has occurred, the issuer may at its discretion choose, prior to each interest payment date, to defer the payment of interest for the current period and interest deferred in accordance with these terms together with interests accrued thereon, in full or in part, to the next interest payment date. Deferred payments are not subject to any limitations in the timing and frequency of deferment. Any deferment of interest payment as agreed under the terms shall not be deemed as default. Interests shall be accrued on each deferred interest payment at the coupon interest rate then prevailing for the period of deferment.

Interest for the current period and all deferred interests and interests accrued thereon shall not be deferred in the event of one of the following on the part of the issuer during the 12 months preceding the interest payment date of the medium term notes for that period:

1. Bonus distribution to holders of ordinary shares;
2. Reduction in registered capital.

(2) Change of issued Medium Term Notes as at the end of the period

Book value	Issue date	Volume (10,000)	Amount of issue	Opening balance	Interest charge for the period	Interest payment for the period	Closing balance
6,000,000	2015.1.27	6,000	6,000,000	6,252,364	173,822	(348,600)	6,077,586
1,500,000	2015.2.6	1,500	1,500,000	1,572,198	42,558	(85,349)	1,529,407
1,500,000	2015.11.20	1,500	1,500,000	1,496,765	33,583	—	1,530,348
9,000,000		9,000	9,000,000	9,321,327	249,963	(433,949)	9,137,341

35. Capital reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	10,165,614	31,087	—	10,196,701
Share-based payment	247,825	54,884	(16,101)	286,608
Capital investment by government	80,000	—	—	80,000
	10,493,439	85,971	(16,101)	10,563,309

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. Other comprehensive income

Accumulated balance of other comprehensive income on the balance sheet attributable to holders of ordinary shares of the parent company:

	1 January 2015	Increase/ decrease	31 December 2015	Increase/ decrease	30 June 2016
Changes in net liabilities arising from the re-measurement of defined benefit plans	(55,450)	(26,066)	(81,516)	—	(81,516)
Share of investee results in other comprehensive income under equity method that cannot be reclassified to profit and loss in subsequent periods upon fulfillment of certain conditions	44,350	—	44,350	—	44,350
Change in fair value of available-for-sale financial assets	121,056	163,724	284,780	(55,474)	229,306
Effective portion of cash flow hedging instruments	(7,107)	8,499	1,392	(59,507)	(58,115)
Differences arising from foreign currency translation	(1,359,893)	(366,949)	(1,726,842)	(413,372)	(2,140,214)
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
	(464,275)	(220,792)	(685,067)	(528,353)	(1,213,420)

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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 attributable to holders of ordinary shares of the parent company incurred during the current period:

Six months ended 30 June 2016

	Amount before taxation	Less: amount included in other comprehensive income for the previous period and profit or loss for the current period	Less: income tax	Attributable to the parent	Attributable to non- controlling interests
Other comprehensive income to be subsequently reclassified to profit or loss					
Changes in fair value of available-for-sale financial assets	311,762	(530,583)	20,122	(55,474)	(143,225)
Effective portion of cash flow hedging instruments	(59,507)	—	—	(59,507)	—
Differences arising from foreign currency translation	(415,540)	—	—	(413,372)	(2,168)
	(163,285)	(530,583)	20,122	(528,353)	(145,393)

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. Other comprehensive income (continued)

Six months ended 30 June 2015

	Amount before taxation	Less: amount included in other comprehensive income for the previous period and profit or loss for the current period	Less: income tax	Attributable to the parent	Attributable to non- controlling interests
Other comprehensive income to be subsequently reclassified to profit or loss					
Changes in fair value of available-for-sale financial assets	640,063	(97,877)	—	126,144	416,042
Effective portion of cash flow hedging instruments	917	—	—	917	—
Differences arising from foreign currency translation	16,470	—	—	20,527	(4,057)
	657,450	(97,877)	—	147,588	411,985

37. Surplus reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	2,022,709	—	—	2,022,709

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Retained profits

	30 June 2016
Retained profits at the beginning of the period	13,678,222
Net profit attributable to holders of ordinary shares of the parent	1,766,397
Less: Statutory surplus reserves	—
Proposed final dividend	—
Retained profits at the end of the period	15,444,619

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.

39. Operating revenue and costs

	Six months ended 30 June 2016		Six months ended 30 June 2015	
	Revenue	Cost	Revenue	Cost
Revenue	45,803,457	30,230,644	44,970,155	29,661,973
Other income	1,953,845	1,593,743	928,633	764,775
	47,757,302	31,824,387	45,898,788	30,426,748

Operating revenue is analysed as follows:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Telecommunications systems contracts	31,675,335	31,116,034
Sales of goods and services	16,014,399	14,720,523
Rental income	67,568	62,231
	47,757,302	45,898,788

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Taxes and surcharges

	Six months ended 30 June 2016	Six months ended 30 June 2015
Business tax	67,854	478,504
City maintenance and construction tax	145,220	178,193
Education surcharge	118,817	149,773
Others	39,307	39,350
	371,198	845,820

41. Selling and distribution costs

	Six months ended 30 June 2016	Six months ended 30 June 2015
Wages, welfare and bonuses	2,609,153	2,339,734
Consulting and services charges	616,938	510,574
Travelling expenses	590,312	381,449
Transportation and fuel charges	266,753	375,165
Business expenses	317,793	323,303
Office expenses	167,635	169,988
Advertising and promotion expenses	808,401	534,883
Rental fees	264,837	234,626
Communication expenses	63,152	51,937
Others	273,633	411,515
	5,978,607	5,333,174

42. Administrative expenses

	Six months ended 30 June 2016	Six months ended 30 June 2015
Wages, welfare and bonuses	785,702	621,495
Office expenses	65,400	55,676
Amortisation and depreciation charges	136,288	135,309
Taxes	82,221	87,931
Rental fees	77,103	80,044
Travelling expenses	42,936	43,208
Others	204,335	184,144
	1,393,985	1,207,807

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. (Loss)/Gains from changes in fair values

	Six months ended 30 June 2016	Six months ended 30 June 2015
Financial assets/liabilities at fair value through profit or loss	(38,566)	(54,725)
Including: Derivative financial instruments	(38,566)	(54,725)
Investment properties at fair value	2,216	64,681
	(36,350)	9,956

44. Investment income

	Six months ended 30 June 2016	Six months ended 30 June 2015
Investment loss from long-term equity investment under equity method	(19,517)	(38,111)
Investment gain earned during the period of holding available-for-sale financial assets	25,773	24,024
Investment (loss)/gain arising from the disposal of financial assets at fair value through profit or loss	(140,289)	275,256
Investment gain from the disposal of available-for-sale financial assets	455,200	101,099
Investment gain from the disposal of long-term equity investment	36,798	—
	357,965	362,268

45. Financial expenses

	Six months ended 30 June 2016	Six months ended 30 June 2015
Interest expenses	603,232	692,097
Less: Interest income	442,372	298,730
(Gain)/loss on foreign currency exchange	(455,359)	428,340
Cash discounts and interest subsidy	65,212	75,788
Bank charges	134,229	109,607
	(95,058)	1,007,102

For the first half of 2016, interest income from ZTE Group Finance Company Limited ("Finance Company") amounted to RMB144,906,000 (2015: RMB128,414,000).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

46. Impairment losses

	Six months ended 30 June 2016	Six months ended 30 June 2015
Bad debt provisions	682,112	1,137,297
Inventories provisions	369,106	740,045
Provisions for long-term equity investment	—	4,764
	1,051,218	1,882,106

47. Non-operating income/Non-operating expenses

Non-operating income

	Six months ended 30 June 2016	Six months ended 30 June 2015	Amount of extraordinary gain/loss recognized for the period
Refund of VAT on software products (Note 1)	1,362,573	1,454,782	—
Others (Note 2)	901,157	676,430	298,968
	2,263,730	2,131,212	298,968

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.

Non-operating expenses

	Six months ended 30 June 2016	Six months ended 30 June 2015	Amount of extraordinary gain/loss recognized for the period
Compensation	43,690	13,216	43,690
Loss arising from the disposal of non-current assets	4,659	16,044	4,659
Others	3,016	35,907	3,016
	51,365	65,167	51,365

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Costs and expenses analysed by nature

Supplementary information of the Group's operating costs, selling and distribution costs, research and development expenses and administrative expenses by nature was set out as follows:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Cost of goods and services	27,345,822	26,361,388
Staff remuneration (including share-based payment)	11,237,313	9,083,592
Depreciation and amortisation	1,274,212	972,944
Rent	341,940	314,670
Others	6,056,856	5,727,047
	46,256,143	42,459,641

49. Income tax

	Six months ended 30 June 2016	Six months ended 30 June 2015
Current income tax	480,387	441,755
Deferred income tax	39,040	(131,553)
	519,427	310,202

Reconciliation between income tax and total profit was as follows:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Total profit	2,707,781	2,142,388
Tax at statutory tax rate (Note 1)	676,945	535,597
Effect of different tax rates applicable to certain subsidiaries	(206,080)	(320,147)
Adjustment to current tax in previous period	(50,998)	(67,043)
Profits and losses attributable to joint ventures and associates	2,927	5,711
Income not subject to tax	(208,401)	(225,440)
Expenses not deductible for tax	161,699	280,921
Utilization of tax losses from previous years	(38,365)	(181,531)
Unrecognized tax losses	181,700	282,134
Tax charge at the Group's effective rate	519,427	310,202

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC. 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.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

50. 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 holders of ordinary shares 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.

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

	Six months ended 30 June 2016	Six months ended 30 June 2015
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	1,766,397	1,615,585
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	4,153,594	4,125,049
Diluting effect — weighted average number of ordinary shares Stock option	13,420	44,768
Adjusted weighted average number of ordinary shares of the company	4,167,014	4,169,817

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

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

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51. Notes to major items in cash flow statement

	Six months ended 30 June 2016	Six months ended 30 June 2015
Cash received in connection with other operating activities:		
Interest income	442,372	298,730
Cash paid in connection with other operating activities:		
Selling and distribution costs	3,325,659	2,861,549
Administrative expenses and research and development costs	1,038,709	542,360

52. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Net profit	2,188,354	1,832,186
Add: Provision for impairment of assets	1,051,218	1,882,106
Depreciation of fixed assets	665,310	468,554
Amortization of intangible assets and deferred development costs	585,737	488,675
Amortization of long-term deferred assets	23,165	15,715
Loss on disposal of fixed assets, intangible assets and other long-term assets	4,659	16,044
Loss/(Gain) from changes in fair value	36,350	(9,956)
Financial expenses	1,171,410	1,930,343
Investment income	(357,965)	(362,268)
Increase in deferred tax assets	(5,010)	(145,389)
Increase in deferred tax liabilities	23,928	13,836
Increase in inventories	(6,405,029)	(2,741,954)
Increase in operating receivables	(3,644,732)	(5,119,107)
Increase in operating payables	7,565,089	3,326,540
Cost of share-based payment	54,884	89,121
Increase in cash not immediately available for payments	(602,437)	(176,560)
Net cash flow from operating activities	2,354,931	1,507,886

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

52. Supplemental information on cash flow statement (continued)

(2) Change in cash and cash equivalents:

	Six months ended 30 June 2016	Six months ended 30 June 2015
Cash		
Including: Cash on hand	35,236	14,456
Bank deposit readily available	27,896,137	17,303,086
Cash and cash equivalents at end of period	27,931,373	17,317,542

53. Assets under restrictions on ownership or right of use

	30 June 2016	31 December 2015
Cash	1,482,756	1,225,984 Note 1
Bills receivables	184,183	106,892 Note 2
Intangible assets	96,824	176,238 Note 3
	1,763,763	1,509,114

Note 1: As at 30 June 2016, the Group's cash subject to ownership restriction amounted to RMB1,482,756,000 (31 December 2015: RMB1,225,984,000), including time deposits of RMB23,000,000 (31 December 2015: RMB23,000,000) pledged to secure bank borrowings, acceptance bill deposits of RMB105,177,000 (31 December 2015: RMB106,088,000), letter of credit deposits of RMB37,770,000 (31 December 2015: RMB125,122,000), deposit for guarantee letter of RMB318,531,000 (31 December 2015: RMB277,610,000), dues from the People's Bank of China of RMB674,516,000 (31 December 2015: RMB538,960,000) and risk compensation fund to be released within one year of RMB323,762,000 (31 December 2015: RMB155,204,000).

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 30 June 2016, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB3,408,001,000 (31 December 2015: RMB3,670,805,000). Risk compensation fund to be released within one year amounting to RMB323,762,000 (31 December 2015: RMB155,204,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB3,084,239,000 (31 December 2015: RMB3,515,601,000) was accounted for as other non-current assets.

Note 2: As at 30 June 2016, bank acceptance bills with a carrying value of RMB184,183,000 (31 December 2015: RMB106,892,000) were pledged to secure bank borrowing.

Note 3: As at 30 June 2016, intangible assets with a carrying value of RMB96,824,000 (31 December 2015: RMB176,238,000) were pledged to secure bank borrowings.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

54. Monetary items in foreign currencies

		30 June 2016			31 December 2015		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash	USD	2,456	6.6450	16,320	1,398	6.4940	9,079
	SAR	109	1.7720	193	15	1.7317	26
	DZD	516	0.0601	31	1,898	0.0606	115
	INR	406	0.0985	40	409	0.0977	40
	THB	5	0.1885	1	17	0.1800	3
	PLN	3	1.6652	5	3	1.6737	5
	KZT	—	0.0196	—	366	0.0191	7
	EGP	300	0.7493	225	30	0.8304	25
Bank deposit	USD	975,174	6.6450	6,480,031	878,218	6.4940	5,703,148
	HKD	34,358	0.8559	29,407	73,972	0.8378	61,974
	BRL	48,914	2.0489	100,220	33,494	1.6632	55,707
	PKR	1,462,877	0.0636	93,039	2,072,097	0.0620	128,470
	EGP	323,240	0.7493	242,204	225,249	0.8304	187,047
	IDR	123,170,000	0.0005	61,585	130,416,000	0.0005	65,208
	EUR	71,490	7.3811	527,675	68,789	7.0941	487,996
	DZD	522,479	0.0601	31,401	498,795	0.0606	30,227
	MYR	85,988	1.6520	142,052	27,239	1.5130	41,213
	ETB	201,358	0.3049	61,394	278,199	0.3082	85,741
	CAD	8,499	5.1551	43,813	12,268	4.7409	58,161
	GBP	2,747	8.8940	24,432	2,865	9.6280	27,584
	THB	843,788	0.1885	159,054	365,611	0.1800	65,810
	RUB	2,162,292	0.1034	223,581	2,009,641	0.0891	179,059
	JPY	7,653,694	0.0647	495,194	1,649,573	0.0539	88,912
	VEF	1,485,094	0.0106	15,742	163,863	1.0308	168,910
	COP	10,581,304	0.0023	24,337	10,706,190	0.0021	22,483
	NPR	272,557	0.0614	16,735	1,498,363	0.0611	91,550
	CLP	991,717	0.0099	9,818	1,984,674	0.0092	18,259
Other cash	USD	59,437	6.6450	394,959	31,177	6.4940	202,463
Trade receivables	USD	1,675,188	6.6450	11,131,624	1,365,266	6.4940	8,866,037
	EUR	272,107	7.3811	2,008,449	279,650	7.0941	1,983,865
	BRL	141,104	2.0489	289,108	140,923	1.6632	234,383
	THB	271,131	0.1885	51,108	255,622	0.1800	46,012
	INR	26,420,905	0.0985	2,602,459	24,482,917	0.0977	2,391,981

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)

55. Hedging

	30 June 2016		31 December 2015	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forward	5,844	34,147	1,126	—
Interest rate swap agreement	—	636	—	2,878
Non-current portion	—	—	—	—
Current portion	5,844	34,783	1,126	2,878

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 period, net loss arising from the fair value change of currency derivative instruments held for net investment hedging for overseas operations with an amount of RMB61,750,000 (Six months ended 30 June 2015: 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 30 June 2016 is expected to occur:

	30 June 2016		31 December 2015	
	Cash outflows	Net cash flows	Cash outflows	Net cash flows
Within 1 year	(1,861)	(1,861)	(7,936)	(7,936)

As at 30 June 2016, the estimated effect of the Group's expected cash flow under hedging on profit and loss for the following period is as follows:

	30 June 2016	31 December 2015
Within 1 year	(1,861)	(7,936)

The key terms of interest rate swap agreement were under negotiation in order to be consistent with the committed terms. There were no ineffective cash flow hedging. The evaluation results of the estimated future interest for related cash flow hedging payment was highly effective, and net gain of RMB2,243,000 (6 months ended 30 June 2015: RMB917,000) was included in other comprehensive income.

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VI. CHANGES IN THE SCOPE OF CONSOLIDATION

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

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

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of the subsidiaries of the Company are as below:

				Percentage of shareholding	
	Place of registration/ principal place of business	Business nature	Registered capital	Direct	Indirect
Type of subsidiary					
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	HKD995 million	100%	—
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB200 million	90%	10%
ZTE Kangxun Telecom Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB1,755 million	100%	—
ZTEsoft Technology Company Limited	Nanjing	Software and information technology services	RMB540 million	89%	—
Nubia Technology Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB118.7483 million	60%	—
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Telecommunications services	RMB236.69 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%	—

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates

				Percentage of shareholding		
	Place of registration/ principal place of business	Nature of business	Registered capital	Direct	Indirect	Accounting method
Joint Ventures						
Bestel Communications Ltd.	Republic of Cyprus	Information technology	EUR446,915	50%	—	Equity method
Puxing Mobile Tech Company Limited	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	RMB18,000,000	35%	—	Equity method
Pengzhong Xingsheng	Uzbekistan	Mobile terminals and smart phones etc.	USD3,160,000	50%	—	Equity method
前海融資租賃股份有限公司	PRC	Lease operations	RMB200,000,000	30%	—	Equity method
重慶前沿城市大數據管理有限公司	PRC	R&D, production and sales of communications equipment	RMB200,000,000	51%	—	Equity 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
ZTE Energy Co., Ltd.	PRC	Energy	RMB1,290,000,000	23.26%	—	Equity method
ZTE Software Technology (Nanchang) Company Limited	PRC	Computer application services	RMB15,000,000	30%	—	Equity method
Nanjing Piaoxun Network Technology Company Limited	PRC	Computer application services	RMB870,000	20%	—	Equity method
Telecom Innovations	Uzbekistan	Sales and production of communications equipment	USD4,875,347.3	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
ZTE 9 (Wuxi) Co., Ltd.	PRC	Computer application services	RMB10,000,000	28.82%	—	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.	RMB20,000,000	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
Shanghai ZTE Straw Communication Limited	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 business	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 software and hardware	RMB5,000,000	30%	—	Equity method
中興智慧成都有限公司	PRC	R&D of urban smart city applications services and 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 technical research and 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	Ring-back tone and other value-added telecommunications services	USD500	49%	—	Equity method
中山優順置業有限公司	PRC	Real estate development and operation and property management	RMB10,000,000	20%	—	Equity method
鐵建聯合（北京）科技有限公司	PRC	Network information services	RMB20,000,000	30%	—	Equity method

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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:

	30 June 2016	31 December 2015
Joint ventures		
Aggregate carrying value of investment	102,514	77,341
	Six months ended 30 June 2016	Six months ended 30 June 2015
Aggregate amounts of the following attributable to shareholdings:		
Net profit	1,533	294
Other comprehensive income	—	—
Total comprehensive income	1,533	294
	30 June 2016	31 December 2015
Associates		
Aggregate carrying value of investments	444,337	483,598
	Six months ended 30 June 2016	Six months ended 30 June 2015
Aggregate amounts of the following attributable to shareholdings:		
Net loss	(21,050)	(38,405)
Other comprehensive income	—	—
Total comprehensive income	(21,050)	(38,405)

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VIII. RISKS RELATING TO FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

30 June 2016

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	—	30,373,185	—	—	30,373,185
Derivative financial assets	24,582	—	—	5,844	30,426
Available-for-sale financial assets	—	—	2,194,383	—	2,194,383
Bills receivable	—	4,617,975	—	—	4,617,975
Trade receivables and long-term receivables	—	30,487,796	—	—	30,487,796
Factored trade receivables and factored long-term receivables	—	3,584,930	—	—	3,584,930
Other receivables	—	2,060,372	—	—	2,060,372
Other non-current assets	—	3,084,239	—	—	3,084,239
	24,582	74,208,497	2,194,383	5,844	76,433,306

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	68,001	—	34,783	102,784
Bank loans	—	21,072,887	—	21,072,887
Bill payables	—	10,182,851	—	10,182,851
Trade payables	—	25,238,981	—	25,238,981
Bank advances on factored trade receivables and long-term trade receivables	—	3,585,794	—	3,585,794
Other payables (excluding accruals and staff housing fund contributions)	—	6,096,335	—	6,096,335
Other non-current liabilities	—	233,967	—	233,967
	68,001	66,410,815	34,783	66,513,599

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VIII. RISKS RELATING TO FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (continued)

31 December 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 payable	—	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 RELATING TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfer of financial assets

Transferred financial assets that are not derecognized in their entirety

During the period, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group was of the view that not substantially all risks and rewards relating to bills receivable with a carrying amount of RMB184,183,000 (31 December 2015: RMB106,892,000) had been transferred upon discounting and therefore such 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 30 June 2016, trade receivables that have been transferred but not settled by the debtors amounted to RMB1,910,172,000 (31 December 2015: RMB1,061,220,000).

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 recognised to the extent of trade receivables transferred under continuous involvement. As at 30 June 2016, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB8,736,493,000 (31 December 2015: RMB9,585,140,000). 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 amortised cost) Trade receivables/long-term receivables	
	30 June 2016 RMB'000	31 December 2015 RMB'000
Carrying value of assets under continuous involvement	1,674,759	1,804,377
Carrying value of liabilities under continuous involvement	1,675,623	1,805,654

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 30 June 2016, the amount of factored trade receivables was RMB3,584,930,000 (31 December 2015: RMB2,865,596,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 30 June 2016, the amount of bank advances on factored trade receivables was RMB3,585,794,000 (31 December 2015: RMB2,866,874,000).

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VIII. RISKS RELATING TO FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfer of financial assets (continued)

Transferred financial assets that are not derecognized in their entirety (continued)

Transfer of long-term receivables comprised factored trade receivables recognized under continuous involvement as described below:

In a 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 arrangements. Pursuant to the factored trade receivables agreements between the Company and the banks, the banks will charge interest at 6-month USD LIBOR+1.5% or LIBOR+1.8% during the financing period. Such interest 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 (final compensation and liability for damages, etc) on the factored amount, unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 30 June 2016, under the above arrangement, trade receivable due from the customer amounted to RMB5,834,491,000 (31 December 2015: RMB6,036,698,000) among which RMB4,596,019,000 (31 December 2015: RMB4,829,358,000) 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 RMB1,238,472,000 (31 December 2015: RMB1,207,340,000) 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 30 June 2016 amounted to RMB187,240,000 (31 December 2015: RMB250,698,000), comprising RMB1,888,000 (31 December 2015: RMB37,153,000) due within one year and classified as other payables (see Note V. 28) and RMB185,352,000 (31 December 2015: RMB213,545,000) due after one year and classified as other non-current liabilities (see Note V. 32).

Transferred financial assets derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the interim period. The Group was of the view that there were no bills receivable (31 December 2015: bills receivable with a book value of RMB385,920,000) of which substantially all risks and rewards were transferred upon discounting and therefore qualified for the derecognition of financial assets. For the relevant period, the Group did not recognise any profit or loss in respect of the derecognised bills receivable as at the date of transfer. No profit or loss relating to continuous involvement was recognised in respect of the current interim period and the previous year.

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VIII. RISKS RELATING TO FINANCIAL INSTRUMENTS (CONTINUED)

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.2.10.

Although the top five accounts accounted for 29.31% (2015: 26.85%) 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.

Since the Group trades only with recognised 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, other receivables and long-term receivables as at 30 June 2016 was analysed as follows:

30 June 2016

	Total	Not overdue/ not impaired	Overdue for			
			Less than 1 year	1-2 years	2-3 years	Over 3 years
Trade receivables	29,311,949	3,655,589	22,329,360	2,986,241	340,759	—
Long-term receivables	1,175,847	1,175,847	—	—	—	—
Other receivables	2,060,372	—	1,430,760	324,380	204,670	100,562

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(Prepared under PRC ASBEs)
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VIII. RISKS RELATING TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

31 December 2015

		Not overdue/ not impaired	Overdue for			
	Total		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

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 and other interest-bearing loans. With the exception of the noncurrent portion of bank loans, all borrowings are repayable within one year.

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarised as follows:

30 June 2016

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	14,545,791	2,884,583	3,913,377	257,373	21,601,124
Derivative financial liabilities	—	102,784	—	—	—	102,784
Bills payable	—	10,182,851	—	—	—	10,182,851
Trade payables	25,238,981	—	—	—	—	25,238,981
Bank advances on factored trade receivables and factored long-term trade receivable	—	2,200,916	432,798	350,619	736,682	3,721,015
Other payables (excluding accruals and staff housing fund contributions)	6,096,335	—	—	—	—	6,096,335
Other non-current liabilities	50,000	—	106,045	94,547	259,332	509,924
	31,385,316	27,032,342	3,423,426	4,358,543	1,253,387	67,453,014

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VIII. RISKS RELATING TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

31 December 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

Market risk

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

As at 30 June 2016, 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 0 and 6.9%. 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 30 June 2016, taking into account interest rate swaps for a nominal principal amount of USD100 million (31 December 2015: USD100 million) already executed, approximately 31% (31 December 2015: 36%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

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VIII. RISKS RELATING TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Interest-bearing borrowings with floating interest rate were mainly denominated in USD and EUR. 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 net profit or loss (through the impact on floating rate loans) and other comprehensive income (net of tax) 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
Six months ended 30 June 2016	0.25%	(15,240)	245	(14,995)
	(0.25%)	15,240	(245)	14,995
Six months ended 30 June 2015	0.25%	(18,131)	1,806	(16,325)
	(0.25%)	18,131	(1,806)	16,325

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 and 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 net profit or loss, with all other variables held constant, as at the balance sheet date.

	Increase/ (decrease) in US dollars exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income (net of tax)	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2016				
Weaker RMB against USD	3%	188,063	—	188,063
Stronger RMB against USD	(3%)	(188,063)	—	(188,063)
Six months ended 30 June 2015				
Weaker RMB against USD	3%	133,589	—	133,589
Stronger RMB against USD	(3%)	(133,589)	—	(133,589)

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VIII. RISKS RELATING TO FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk (continued)

	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
Six months ended 30 June 2016				
Weaker RMB against EUR	5%	55,475	—	55,475
Stronger RMB against EUR	(5%)	(55,475)	—	(55,475)
Six months ended 30 June 2015				
Weaker RMB against EUR	5%	34,371	—	34,371
Stronger RMB against EUR	(5%)	(34,371)	—	(34,371)

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 current period ended 30 June 2016.

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:

	30 June 2016	31 December 2015
Interest-bearing bank borrowings	21,072,887	18,541,430
Interest-bearing bonds	—	4,000,000
Bank advances on factored trade receivables and long-term receivables	3,585,794	2,866,874
Total interest-bearing liabilities	24,658,681	25,408,304
Owner's equity	43,932,898	43,348,605
Owner's equity and interest-bearing net liabilities	68,591,579	68,756,909
Financial gearing ratio	36.0%	37.0%

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IX. DISCLOSURES OF FAIR VALUES

1. Assets and liabilities measured at fair value:

30 June 2016

	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	—	30,426	—	30,426
Available-for-sale financial assets				
Investment in equity instruments	851,818	—	—	851,818
Investment properties				
Leased properties	—	—	2,012,612	2,012,612
	851,818	30,426	2,012,612	2,894,856
Derivative financial liabilities	—	(102,784)	—	(102,784)
	—	(102,784)	—	(102,784)

31 December 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 properties	—	—	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)

Notes to Financial Statements

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IX. DISCLOSURES 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 30 June 2016, 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 30 June 2016, 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.

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 as at 30 June 2016 was RMB2,012,612,000 (31 December 2015: RMB2,010,396,000).

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IX. DISCLOSURES OF FAIR VALUES (CONTINUED)

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of level 3:

30 June 2016

	Fair value at period-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,012,612,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long-term vacancy rate Discount rate	RMB45.5–RMB477 1%–5% 5% 6%–7.3%

31 December 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) Rent growth (p.a.) Long-term vacancy rate Discount rate	RMB45.5–RMB477 1%–5% 5% 6%–7.3%

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorised within Level 3 of the fair value hierarchy:

30 June 2016

	Opening Balance	Transfer into Level 3	Transfer out of Level 3	<u>Total profit or loss for the period</u>		Acquisition	Closing Balance	Change in unrealized profit or loss for the period of assets held at the end of the period included in profit and loss
				Included in profit and loss	Included in other comprehensive income			
Investment properties	2,010,396	—	—	2,216	—	—	2,012,612	2,216

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IX. DISCLOSURES OF FAIR VALUES (CONTINUED)

4. Fair value measurement adjustment (continued)

31 December 2015

	Opening Balance	Transfer into Level 3	Transfer out of Level 3	Total profit or loss for the period		Acquisition	Closing Balance	Change in unrealized profit or loss 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

In the continuous fair value measurement at level 3, profit and loss included in current profit and loss relating to financial assets and non-financial assets is analysed as follows:

	Six months ended 30 June 2016 Relating to non-financial assets	Six months ended 30 June 2015 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	2,216	64,681
Change in unrealized profit or loss for the period of assets held at the end of the period included in profit and loss	2,216	64,681

5. Transfers between levels of fair value measurement

During the period, 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	30.57%	30.57%

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. Changes in the Scope of Consolidation and Note VII Interests in Other Entities.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note V. 11.

4. Other related parties

	Relationship
深圳市中興新地技術股份有限公司	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	Subsidiary of a company for which a Director of the Company acted as director
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Company for which a connected natural person of the Company 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 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

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

	Relationship
Zhongxing Development Company Limited	Company for which a connected natural person of the Company acted as director
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director
Huatong Technology Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director
中興軟件技術（瀋陽）有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
三河中興發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
三河中興物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
杭州中興發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
中興綠色農業有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
杭州中興中投物業管理有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
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
深圳中興環保集團股份有限公司 (formerly “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	Company for which a connected natural person of the Company acted as chairman
廈門市美亞柏科信息股份有限公司	Company for which a connected natural person of the Company acted as independent non-executive director
Yunnan Baiyao Group Co., Ltd.	Company for which a connected natural person of the Company acted as independent non-executive director
上海歡流傳媒有限公司**	Company for which a connected natural person of the Company acted as chairman

* The Company completed the disposal of its entire equity interests in 上海中興群力信息科技有限公司 (“Shanghai Qunli”) in April 2016, and Shanghai Qunli had ceased to be an associate of the Company as from May 2016. 南京中興群力信息科技有限公司, its subsidiary, had also ceased to be a connected party of the Company as from May 2016.

** The Company completed the disposal of its entire equity interests in 上海歡流傳媒有限公司 (“Shanghai Huanliu”) on 28 January 2016. A connected natural person of the Company had ceased to be the chairman of Shanghai Huanliu as from 28 January 2016, and Shanghai Huanliu will cease to be a related corporation of the Company as from 28 January 2017.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties

(1) Transaction of goods with related parties

Sales of goods to related parties

	Six months ended 30 June 2016 Amount	Six months ended 30 June 2015 Amount
Shenzhen Zhongxing Information Company Limited	3,889	—
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	1,066	2,501
深圳市中興新地技術股份有限公司	8	1,543
ZTE Software Technology (Nanchang) Company Limited	—	5,031
Mobi Antenna Technologies (Shenzhen) Company Limited	114	4
南京中興群力信息科技有限公司	41	6,637
Puxing Mobile Tech Company Limited	(255)	125,444
深圳市中興昆騰有限公司	63	9
Zhongxing Development Company Limited	35	1
上海歡流傳媒有限公司	78	13,546
ZTE Energy Company Limited	—	5
深圳市航天歐華科技發展有限責任公司	294,472	303,964
Telecom Innovations	4,382	5,889
興天通訊技術有限公司	2,109	1,037
ZTE 9 (Wuxi) Co., Ltd.	—	5
深圳中興創新材料技術有限公司	377	127
中興軟件技術（瀋陽）有限公司	11	3
江蘇中興微通信息科技有限公司	13	21
上海市和而泰酒店投資管理有限公司	829	—
Shanghai ZTE Straw Communication Limited	2	196
三河中興發展有限公司	10	—
中興儀器（深圳）有限公司	—	706
深圳中興節能環保股份有限公司	3,779	470
重慶前沿城市大數據管理有限公司	12,449	—
廈門智慧小區網絡科技有限公司	295	—
Yunnan Baiyao Group Co., Ltd.	746	—
深圳微品致遠信息科技有限公司	2	—
深圳市新宇騰躍電子有限公司	54	—
石家莊市善理通益科技有限公司	1,952	—
善理通益信息科技（深圳）有限公司	59	—
	326,580	467,139

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(1) Transaction of goods with related parties (continued)

Purchases of goods and services from related parties

	Six months ended 30 June 2016 Amount	Six months ended 30 June 2015 Amount
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	132,253	129,248
深圳市中興新地技術股份有限公司	46,736	142,382
深圳市新宇騰躍電子有限公司	30,794	43,686
Mobi Antenna Technologies (Shenzhen) Company Limited	498,736	530,378
Huatong Technology Company Limited	21,521	11,971
ZTE Software Technology (Nanchang) Company Limited	19,698	10,177
Shenzhen Zhongxing Information Company Limited	410	3,193
深圳市航天歐華科技發展有限責任公司	317	1,462
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	10,212	11,980
南京中興和泰酒店管理有限公司	1,838	1,737
上海市和而泰酒店投資管理有限公司	2,904	1,958
西安中興和泰酒店管理有限公司	1,680	433
Zhongxing Energy (Shenzhen) Company Limited	731	971
Zhongxing Energy (Tianjin) Company Limited	478	604
南京中興群力信息科技有限公司	154	—
ZTE 9 (Wuxi) Co., Ltd.	71	—
Shanghai ZTE Straw Communication Limited	385	659
興天通訊技術有限公司	1,089	—
北京中興協力科技有限公司	—	66
Puxing Mobile Tech Company Limited	—	2,004
中興儀器（深圳）有限公司	9,189	—
上海中興派能能源科技有限公司	1,123	—
CASIC Shenzhen (Group) Limited	350	—
Zhongxing Development Company Limited	254	—
石家莊市善理通益科技有限公司	710	—
	781,633	892,909

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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

	Leased assets Type	Six months ended 30 June 2016 Lease income	Six months ended 30 June 2015 Lease income
Zhongxing Development Company Limited	Office	1,166	1,073
深圳中興科揚節能環保股份有限公司	Office	166	160
中興綠色農業有限公司	Office	—	53
Puxing Mobile Tech Company Limited	Office	248	168
中興儀器（深圳）有限公司	Office	564	564
深圳中興環保集團股份有限公司	Office	243	224
南京中興群力信息科技有限公司	Office	118	234
上海歡流傳媒有限公司	Office	—	164
Shanghai ZTE Straw Communication Limited	Office	95	260
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	8,245	7,576
南京中興和泰酒店管理有限公司	Property and equipment and facilities	3,555	2,817
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	13,702	12,993
西安中興和泰酒店管理有限公司	Property and equipment and facilities	13,019	10,072
		41,121	36,358

As lessee

	Leased assets Type	Six months ended 30 June 2016 Lease expense	Six months ended 30 June 2015 Lease expense
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4,414	4,414
Zhongxing Development Company Limited	Office	23,516	20,991
Chongqing Zhongxing Development Company Limited	Office	4,455	4,495
三河中興發展有限公司	Office	4,382	4,380
三河中興物業服務有限公司	Office	1,280	1,279
杭州中興發展有限公司	Quarters and plants	2,925	—
杭州中興中投物業管理有限公司	Quarters and plants	858	—
		41,830	35,559

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(3) Guarantees for related parties

In the first half of 2016 and 2015, no guarantee was provided by/to related parties to/by the Group.

(4) Transfer of equity interests to related parties

In the first half of 2016 and 2015, the Group did not transfer any equity interests to related parties.

(5) Transfer of assets to related parties

In the first half of 2016 and 2015, the Group did not transfer any assets to related parties.

(6) Other major related transactions

	Six months ended 30 June 2016 Amount	Six months ended 30 June 2015 Amount
Remuneration of key management personnel	22,501	27,094

Notes:

- (i) Commercial transactions with related parties: Commercial transactions with related parties was conducted by the Group at market price during the first 6 months of the year.
- (ii) Leasing property from/to related parties: Office space, equipment and facilities were leased to the aforesaid related parties by the Group during the first 6 months of the year and lease income of RMB41,121,000 (6 months ended 30 June 2015: RMB36,358,000) was recognized in accordance with relevant lease contracts.
- Office space was leased to the Group by the aforesaid related parties during the first 6 months of the year and lease expenses of RMB41,830,000 (6 months ended 30 June 2015: RMB35,559,000) 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 first 6 months of the year was RMB22,501,000 (6 months ended 30 June 2015: RMB27,094,000). The corresponding cost for share-based payment was RMB2,888,000 (6 months ended 30 June 2015: RMB4,333,000). 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.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties

Item	Name of related companies	30 June 2016	31 December 2015
Bills receivable	深圳市航天歐華科技發展有限責任公司	349,973	190,931
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	358	639
	Puxing Mobile Tech Company Limited	115,494	—
	深圳市中興新地技術股份有限公司	39	233
		465,864	191,803
Trade receivables	Puxing Mobile Tech Company Limited	46,710	70,988
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	501	786
	深圳市中興新地技術股份有限公司	22	171
	Xi'an Microelectronics Technology Research Institute	9	9
	深圳市中興昆騰有限公司	375	84
	深圳市航天歐華科技發展有限責任公司	213,300	107,484
	ZTE 9 (Wuxi) Co., Ltd.	—	231
	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	1,569	784
	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	4,810	2,777
	寧波中興雲祥科技有限公司	57	57
	ZTE Software Technology (Nanchang) Company Limited	3,724	3,724
	中興儀器（深圳）有限公司	70	217
	Shenzhen Zhongxing Information Company Limited	190	595
	深圳市新宇騰躍電子有限公司	26	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 Company Limited	1	1
	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	107	103
	深圳中興節能環保股份有限公司	917	456
	石家莊市善理通益科技有限公司	1,389	2,333
	重慶前沿城市大數據管理有限公司	14,251	—
	廈門智慧小區網絡科技有限公司	173	—
	三河中興發展有限公司	11	—
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	1,970	—
		290,185	201,230
Prepayments	深圳中興環保集團股份有限公司	3,582	—
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	242	242
	Zhongxing Development Company Limited	778	14
	Shanghai ZTE Straw Communication Limited	—	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	1,319	898
		5,921	1,362

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related companies	30 June 2016	31 December 2015
Other receivables	南京中興和泰酒店管理有限公司	2	2
	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	201	—
	ZTE 9 (Wuxi) Co., Ltd.	2,219	2,230
	Shenzhen Zhongxing Information Company Limited	14	14
	Zhongxing Development Company Limited	365	365
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	10,799	3
	Chongqing Zhongxing Development Company Limited	24	24
	Zhengzhou ZTE Communications Technology Company Limited	—	3
	深圳市中興新地技術股份有限公司	445	445
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	1,843	1,850
		21,752	10,776
Bills payable	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	—	49
	深圳市新宇騰躍電子有限公司	3,657	6,533
	深圳市航天歐華科技發展有限責任公司	1,431	1,431
		5,088	8,013
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	53,402	61,007
	深圳市新宇騰躍電子有限公司	5,347	1,804
	Mobi Antenna Technologies (Shenzhen) Co., Ltd.	101,857	58,823
	深圳市中興新地技術股份有限公司	6,550	13,476
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	183	183
	Shenzhen Zhongxing WXT Equipment Company Limited	327	327
	Shenzhen Zhongxing Information Company Limited	8,732	8,731
	Shenzhen Gaodonghua Communication Technology Company Limited	176	176
	Puxing Mobile Tech Company Limited	10,720	11,973
	深圳市航天歐華科技發展有限責任公司	2,279	3,017
	中興能源（天津）節能服務有限公司	2,032	2,773
	興天通訊技術有限公司	2,587	1,319
	Shanghai ZTE Straw Communication Limited	1	1
	Xi'an Microelectronics Technology Research Institute	192	192
	Huatong Technology Company Limited	445	445
	北京中興協力科技有限公司	113	250
	江蘇中興華易科技發展有限公司	20	140
	ZTE Software Technology (Nanchang) Company Limited	—	190

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related companies	30 June 2016	31 December 2015
Trade payables	深圳中興環保集團股份有限公司	4,483	4,483
	廈門市美亞柏科信息股份有限公司	—	1,816
	Zhongxing Development Company Limited	—	691
	CASIC Shenzhen (Group) Limited	3	62
	ZTE 9 (Wuxi) Co., Ltd.	83	—
	石家莊市善理通益科技有限公司	5	—
	中興儀器（深圳）有限公司	2,983	—
	廣東歐科空調製冷有限公司	5,429	—
	上海中興派能能源科技有限公司	453	—
		208,402	171,879
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	5,327	5,327
	Puxing Mobile Tech Company Limited	115,871	20,757
	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
	深圳市航天歐華科技發展有限責任公司	41,394	53,290
	中興軟件技術（瀋陽）有限公司	4	14
	上海歡流傳媒有限公司	—	1
	興天通訊技術有限公司	67	—
	Shanghai ZTE Straw Communication Limited	73	1
	ZTE Energy Company Limited	1	1
	深圳市中興昆騰有限公司	3	—
	中興儀器（深圳）有限公司	—	6
	深圳中興創新材料技術有限公司	—	639
	江蘇中興微通信息科技有限公司	4	8
	南京皓信達訊網絡科技有限公司	8	8
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	—	1
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	484	25
	深圳中興環保集團股份有限公司	378	60
	善理通益信息科技（深圳）有限公司	1,170	1,239
	南京中興和泰酒店管理有限公司	21	—
	寧波中興雲祥科技有限公司	57	—
	中興智慧成都有限公司	4,909	—
		171,554	83,495

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties (continued)

Item	Name of related companies	30 June 2016	31 December 2015
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 Development Company Limited	215	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	330	308
	深圳市中興昆騰有限公司	114	—
	興天通訊技術有限公司	82	—
	ZTE Energy Company Limited	2	—
	Huatong Technology Company Limited	28	308
	Shanghai ZTE Straw Communication Limited	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	8,000
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	3,427	1,407
	南京中興和泰酒店管理有限公司	4	—
	ZTE 9 (Wuxi) Co., Ltd.	1	—
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	352	—
	中山優順置業有限公司	2,000	—
		14,720	10,403

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts due from related parties were interest-free, unsecured and had a credit term of 0–90 days, which could be extended to a maximum of 1 year depending on the credit standing of the customers

7. Deposit and lending services provided by ZTE Group Finance to related parties

(1) Customer deposits

	30 June 2016	31 December 2015
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	3,764	3,396
南京中興和泰酒店管理有限公司	4,836	3,818
上海市和而泰酒店投資管理有限公司	5,048	8,968
西安中興和泰酒店管理有限公司	3,722	6,166
Shenzhen Weipin Zhiyuan Information Technology Company Limited	168	120
前海融資租賃股份有限公司	1	1
	17,539	22,469

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7. Deposit and lending services provided by ZTE Group Finance to related parties (continued)

(2) Interest expenses

	Six months ended 30 June 2016	Six months ended 30 June 2015
南京中興和泰酒店管理有限公司	21	15
上海市和而泰酒店投資管理有限公司	21	40
西安中興和泰酒店管理有限公司	46	55
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	23	83
Shenzhen Weipin Zhiyuan Information Technology Company Limited	2	—
	113	193

(3) Loans and advances — loan drawdown

	30 June 2016	31 December 2015
前海融資租賃股份有限公司	100,000	100,000
Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	3,000
	100,000	103,000

(4) Loans and advances — factoring

	30 June 2016	31 December 2015
Shenzhen Weipin Zhiyuan Information Technology Company Limited	3,984	—
	3,984	—

(5) Interest income from loans and discounted bills

	Six months ended 30 June 2016	Six months ended 30 June 2015
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	—	1,815
杭州中興發展有限公司	—	10
Shenzhen Weipin Zhiyuan Information Technology Company Limited	142	—
前海融資租賃股份有限公司	2,107	—
	2,249	1,825

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7. Deposit and lending services provided by ZTE Group Finance to related parties (continued)

(6) Interest receivable

	30 June 2016	31 December 2015
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

	30 June 2016	31 December 2015
南京中興和泰酒店管理有限公司	—	1
上海市和而泰酒店投資管理有限公司	—	3
西安中興和泰酒店管理有限公司	—	5
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	—	3
	—	12

(8) Consultation and service income

	Six months ended 30 June 2016	Six months ended 30 June 2015
前海融資租賃股份有限公司	472	—
Shenzhen Weipin Zhiyuan Information Technology Company Limited	20	—
	492	—

(9) Advanced receipts

	30 June 2016	31 December 2015
前海融資租賃股份有限公司	417	917
	417	917

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XI. SHARE-BASED PAYMENT

1. Overview

	30 June 2016	31 December 2015
Total amount of equity instruments granted	524,023	524,023

Equity-settled share-based payments are as follows

	Six months ended 30 June 2016	Six months ended 30 June 2015
Accumulated balance of equity-settled share-based payments credited to capital reserves*	286,608	290,218
Total costs of equity-settled share-based payments in the period	54,884	89,121

* Among which the cost of equity-settled share-based payment amounting to RMB16,101,000 arising from the exercise of share options was transferred to the share premium under capital reserve.

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)” (《上市公司股权激励管理办法（试行）》). 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.

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

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.

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%	2015.11.1–2016.10.31	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%	2016.11.1–2017.10.31	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%	2017.11.1–2018.10.31	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

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

The fair value of the share options amounted to RMB524,023,000, among which the share options tariff confirmed by the Company during the six months ended 30 June 2016 amounted to RMB54,884,000.

Outstanding share options under the scheme are as follows:

	30 June 2016		31 December 2015	
	Weighted average exercise price*	Number of share options	Weighted average exercise price*	Number of share options
	RMB/shares	('000)	RMB/shares	('000)
Opening balance	11.22	90,871	13.66	102,989
Conversion of capital reserve into share capital	—	—	11.22	20,598
Lapsed	—	—	11.22	(6,974)
Exercised during the period	11.22	(3,451)	11.22	(25,742)
Closing balance	11.22	87,420	11.22	90,871

The weighted average share price for share options exercised during the six months ended 30 June 2016 as at the date of exercise was RMB11.22. (2015: RMB11.22).

As at the balance sheet date, the exercise prices for effective exercise periods for outstanding share options are as follows:

30 June 2016 Number of share options ('000)	Exercise price* RMB/share	Effective exercise period
5,692	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
87,420	11.22	

31 December 2015 Number of share options ('000)	Exercise price* RMB/share	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	

* 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 PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

For the six months ended 30 June 2016, the Company issued 3,450,879 ordinary shares as a result of the exercise of 3,450,879 share options. The share capital was enlarged by RMB3,451,000, and the share premium amounted to RMB51,368,000 (before issue expenses). Please refer to Note V.33 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)	1.33	1.33	1.33
Volatility (%)	36.99	38.04	39.47
Risk-free interest rate (%)	4.01	4.06	4.11
Demotion 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

	30 June 2016	31 December 2015
Contracted but not provided of		
Capital commitments	1,258,651	904,363
Investment commitments	155,140	37,465
	1,413,791	941,828

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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 and demanded indemnity in the amount of PKR762,984,000 (equivalent to approximately RMB48,564,000). 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 RMB20,880,000) 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.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated, hence no additional provision was made in respect of this litigation during the period.

- 2.2 Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), 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 China Construction Fifth Division, 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 Division be revoked and a penalty payment for work delay in the amount of RMB12,817,000 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 ("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 the Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") had 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 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 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.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.2 (continued)

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 filed an appeal with the 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. On 17 June 2016, the Company received through the Guangdong Higher Court the ruling of the Supreme People's Court, which ordered the Guangdong Higher Court to conduct a retrial in respect of the aforesaid second trial judgement.

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 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.

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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 million 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 million in actual damages and USD20 million 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 Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

- 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 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 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.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.4 (continued)

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 ruling that the Company and ZTE USA had not infringed upon the patents. The Company has appointed a legal counsel to conduct active defense in respect of the said case and will appeal against the aforesaid ruling of the Federal District Court of Delaware that the three patents have been infringed upon.

The Company, based on the advice from the Company'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 ("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 RMB198 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. As at the balance sheet date of 2013, the Company had made provisions of BRL5.22 million (equivalent to approximately RMB10.33 million).

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated. No additional provision was made in respect of this litigation during the period.

2.6 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.

The Company, based on the advice from the Company'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, 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.

The Company, based on the advice from the Company'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 DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, 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 RMB64,240,000). 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 July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB63,980,000), together with accruable interests and legal costs. 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 RMB63,980,000) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. The Company has appointed a legal counsel to conduct active defense in respect of the said case.

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 RMB170 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

The Company, based on the advice from the Company'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 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 30 June 2016, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB8,671,828,000 (31 December 2015: RMB7,656,101,000).
- 2.11. As at 30 June 2016, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB50,000,000 (31 December 2015: RMB50,000,000). The guarantee will expire in September 2018.

XIII. EVENTS AFTER THE REPORTING PERIOD

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

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XIV. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2016	31 December 2015
Within one year (including first year)	232,478	223,696
In the first to second years (including second year)	84,055	74,770
In the second to third years (including third year)	56,593	28,552
After the third year	157,557	84,454
	530,683	411,472

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. 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:

	30 June 2016	31 December 2015
Within one year (including first year)	129,505	91,882
In the first to second years (including second year)	70,840	54,643
In the second to third years (including third year)	40,980	41,879
After the third year	386,261	403,159
	627,586	591,563

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.

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

- (3) The government and corporate network business is focused on meeting requirements of government and corporate clients, providing top-level design and consultation services as well as implementation, operation and maintenance of integrated 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.

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 2015 have been restated on the same basis.

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Six months ended 30 June 2016				
Segment revenue				
Revenue from external transactions	28,734,974	14,415,057	4,607,271	47,757,302
Sub-total	28,734,974	14,415,057	4,607,271	47,757,302
Segment results	8,070,444	261,906	1,250,760	9,583,110
Unallocated revenue				2,263,730
Unallocated cost				(9,178,250)
Finance costs				95,058
Loss from changes in fair values				(36,350)
Investment loss from associates and joint ventures				(19,517)
Total profit				2,707,781
30 June 2016				
Total assets				
Segment assets	45,658,651	19,475,787	7,320,757	72,455,195
Unallocated assets				57,461,088
Sub-total				129,916,283
Total liabilities				
Segment liabilities	13,443,985	3,519,122	2,155,564	19,118,671
Unallocated liabilities				66,864,714
Sub-total				85,983,385
Supplemental information				
Six months ended 30 June 2016				
Depreciation and amortization expenses	766,677	384,608	122,927	1,274,212
Capital expenditure	1,106,100	554,882	177,349	1,838,331
Asset impairment losses	632,505	317,299	101,414	1,051,218

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Six months ended 30 June 2015				
Segment revenue				
Revenue from external transactions	27,354,512	14,047,702	4,496,574	45,898,788
Sub-total	27,354,512	14,047,702	4,496,574	45,898,788
Segment results	7,640,319	683,327	969,400	9,293,046
Unallocated revenue				2,131,212
Unallocated cost				(8,246,613)
Finance costs				(1,007,102)
Gain from changes in fair values				9,956
Investment loss from associates and joint ventures				(38,111)
Total profit				2,142,388
31 December 2015				
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				
Six months ended 30 June 2015				
Depreciation and amortization expenses	579,849	297,778	95,317	972,944
Capital expenditure	919,189	472,042	151,098	1,542,329
Asset impairment losses	1,121,687	576,034	184,385	1,882,106

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

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

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	30 June 2016	31 December 2015
The PRC	13,256,497	12,708,691
Asia (excluding the PRC)	1,111,232	1,329,223
Africa	326,598	354,310
Europe, America and Oceania	893,838	1,001,187
	15,588,165	15,393,411

Non-current assets are analysed by geographic locations where the assets (excluding long-term equity investments, financial assets, deferred tax assets and other long-term receivables) are located.

Information of major customers

Operating revenue of RMB8,032,456,000 was derived from carriers' network and handset terminal revenue from one major customer (Six months ended 30 June 2015: RMB8,375,181,000 from one major customer).

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

Aging analysis of trade receivables:

	30 June 2016	31 December 2015
Within 1 year	27,295,164	26,989,228
1–2 years	4,254,120	4,442,095
2–3 years	2,251,619	2,518,017
Over 3 years	6,427,404	6,198,292
	40,228,307	40,147,632
Less: bad debt provision for trade receivables	4,381,039	4,018,645
	35,847,268	36,128,987

	30 June 2016				31 December 2015			
	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	263,287	1	263,287	100	422,515	1	422,515	100
For which bad debt provision has been collectively made								
0–6 months	22,019,921	55	—	—	23,327,507	59	—	—
7–12 months	5,275,243	13	192,469	4	3,633,304	9	154,226	4
13–18 months	2,455,407	6	533,897	22	3,178,010	8	575,048	18
19–24 months	1,798,713	4	676,630	38	1,264,085	3	557,141	44
2–3 years	2,251,619	6	925,700	41	2,518,017	6	806,122	32
Over 3 years	6,164,117	15	1,789,056	29	5,804,194	14	1,503,593	26
	39,965,020	99	4,117,752	10	39,725,117	99	3,596,130	9
	40,228,307	100	4,381,039		40,147,632	100	4,018,645	

Movements in bad-debt provisions for trade receivables:

Opening balance	Provision for the period	Decrease during the period		Closing balance
		Write back	Write off	
4,018,645	542,454	—	(180,060)	4,381,039

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables

The aging analysis of other receivables:

	30 June 2016	31 December 2015
Within 1 year	2,466,615	3,101,265
1 to 2 years	2,178,606	279,447
2 to 3 years	267,585	2,661,630
Over 3 years	2,405,480	2,616,751
	7,318,286	8,659,093

Other receivables are analysed as follows:

	30 June 2016	31 December 2015
Staff loans	153,378	215,216
Transactions with third parties	7,164,908	8,443,877
	7,318,286	8,659,093

3. Available-for-sale financial assets

	30 June 2016	31 December 2015
Available-for-sale equity instruments		
At cost	368,148	366,724

Available-for-sale financial assets at cost:

30 June 2016

	Book balance			Shareholding percentage (%)	Cash dividend for the period
	Opening balance	Increase during the period	Decrease during the period	Closing balance	
航天投資控股有限公司	201,734	—	—	201,734	2.69
Others	164,990	6,000	(4,576)	166,414	15,000
	366,724	6,000	(4,576)	368,148	15,000

Notes to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

3. Available-for-sale financial assets (continued)

31 December 2015

	Book balance			Shareholding percentage (%)	Cash dividend for the period
	Opening balance	Increase during the period	Decrease during the period		
航天投資控股有限公司	201,734	—	—	5	981
Others	171,821	—	(6,831)		14,000
	373,555	—	(6,831)		14,981

4. Long-term trade receivables

	30 June 2016	31 December 2015
Loans granted to subsidiaries (Note 1)	5,674,550	5,581,046
Installment payments for the provision of telecommunication system construction projects	366,241	380,812
Less: Bad debt provision for long-term receivables	54,601	53,361
	5,986,190	5,908,497

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.

Movements in bad debt provision for long-term receivables during the period are as follows:

Opening balance	Provision for the period	Decrease during the period		Closing balance
		Write back	Write off	
53,361	1,240	—	—	54,601

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".

Notes to Financial Statements

(Prepared under PRC ASBEs)
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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments

		30 June 2016	31 December 2015
Equity method			
Joint ventures	(1)	54,307	55,548
Associates	(2)	393,114	431,327
Less: Provision for impairment in long-term equity Investments	(2)	4,764	4,764
		442,657	482,111
Cost method			
Subsidiaries	(3)	7,716,841	6,947,646
Less: Provision for impairment in long-term equity Investments	(4)	78,849	78,849
		7,637,992	6,868,797
		8,080,649	7,350,908

(1) Joint ventures

	Movements during the period									
	Balance as at the beginning of the period	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 period	Impairment provision at the end of the period
Puxing Mobile Tech Company Limited	53,756	—	—	449	—	—	—	—	54,205	—
江蘇中興微通信息科技有限公司	1,792	—	—	(1,690)	—	—	—	—	102	—
	55,548	—	—	(1,241)	—	—	—	—	54,307	—

(2) Associates

	Movements during the period									
	Balance as at the beginning of the period	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 period	Impairment provision at the end of the period
KAZNURTEL Limited Liability Company	2,477	—	—	—	—	—	—	—	2,477	—
思卓中興(杭州)科技有限公司	20,843	—	—	—	—	—	—	—	20,843	—
上海中興群力信息科技有限公司	18,251	—	(18,251)	—	—	—	—	—	—	—
ZTE Energy Co., Ltd	353,712	—	—	(11,982)	—	—	—	—	341,730	—
ZTE Software Technology (Nanchang) Company Limited	3,722	—	—	(1,283)	—	—	—	—	2,439	—
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,079	—	—	(815)	—	—	—	—	4,264	—
北京億科三友科技发展有限公司	—	—	—	—	—	—	—	—	—	(4,764)
Shanghai ZTE Straw Communication Limited	10,190	—	—	(1,467)	—	—	—	—	8,723	—
江蘇中興華易科技发展有限公司	2,920	—	—	(941)	—	—	—	—	1,979	—
中興羅維科技江蘇有限公司	4,517	—	—	(179)	—	—	—	—	4,338	—
Shenzhen Weipin Zhiyuan Information Technology Company Limited	4,852	—	—	(3,295)	—	—	—	—	1,557	—
	426,563	—	(18,251)	(19,962)	—	—	—	—	388,350	(4,764)

Notes to Financial Statements

(Prepared under PRC ASBEs)
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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Shenzhen Zhongxing Software Company Limited	263,293	263,293	—	263,293	100%	100%	—
ZTEsoft Technology Company Limited	250,441	89,921	160,520	250,441	89%	89%	160,520
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	91,957	—	91,957	68.4%	68.4%	—
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	—	179,767	90%	90%	—
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%	—
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 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%	8,250
ZTE (Heyuan) Company Limited	500,000	500,000	—	500,000	100%	100%	—
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	—	215,400	(215,400)	—	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%	—
ZTE Supply Chain Co., Ltd.	28,500	28,500	—	28,500	95%	95%	—

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(Prepared under PRC ASBEs)
Currency: RMB'000
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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
北京中興網捷科技有限公司	159,341	159,341	—	159,341	100%	100%	—
北京中興高達通訊技術有限公司	47,500	45,125	2,375	47,500	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	29,340	—	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	112,500	42,500	70,000	112,500	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%	—
深圳市中興智谷科技有限公司	15,000	15,000	—	15,000	100%	100%	—
Jiaxing Xinghe Equity Investment Partnership	100,000	100,000	—	100,000	28.9%	*	—
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%	—
深圳市中興視通科技有限公司	35,400	35,400	—	35,400	100%	100%	—
北京市中保網盾科技有限公司	20,000	20,000	—	20,000	100%	100%	—
中興（溫州）軌道通訊技術有限公司	25,500	25,500	—	25,500	51%	51%	—
長沙中興智能技術有限公司	350,000	10,000	340,000	350,000	100%	100%	—
河南中興光伏科技有限責任公司	3,000	3,000	—	3,000	100%	100%	—
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	—	19,500	65%	65%	—
Zhongxing (Shenyang) Financial Technology Company Limited	22,000	22,000	—	22,000	100%	100%	—
ZTE (Huai'an) Smart Industries Company Limited	1,020	1,020	—	1,020	51%	51%	—
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	—	50,000	100%	100%	—
Shenzhen Zhiheng Technology Company Limited	1,000	1,000	—	1,000	100%	100%	—
Nanjing ZTE Investment Management Company Limited	100	950	(850)	100	95%	95%	—
ZTE Feiliu IT Company Limited	10,000	—	10,000	10,000	51%	51%	—
ZTE Gaoneng Technology Company Limited	400,000	—	400,000	400,000	80%	80%	—
Jiyuan ZTE Smart Technology Industries Company Limited	2,550	—	2,550	2,550	51%	51%	—
	6,947,646	769,195	7,716,841				168,770

* This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

Notes to Financial Statements

(Prepared under PRC ASBEs)
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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

5. Long-term equity investments (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/decrease during the period	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
	78,849	—	78,849

6. Operating revenue and costs

	Six months ended 30 June 2016		Six months ended 30 June 2015	
	Revenue	Cost	Revenue	Cost
Revenue	36,117,321	37,835,111	35,015,315	37,506,082
Other income	9,486,996	1,509	9,517,772	335
	45,604,317	37,836,620	44,533,087	37,506,417

7. Investment income

	Six months ended 30 June 2016	Six months ended 30 June 2015
Investment loss from long-term equity investment under equity method	(21,203)	(35,426)
Investment income from long-term equity investment under cost method	168,770	1,081,296
Investment gain earned during the period of holding available-for-sale financial assets	15,000	14,000
Investment (loss)/income from financial assets at fair value through profit and loss for the period of holding	(28,221)	72,734
Gain from the disposal of available-for-sale financial assets	5,424	38,670
Investment income from the disposal of long-term equity investment	17,283	—
	157,053	1,171,274

Supplementary Information to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Six months ended 30 June 2016
Loss from the disposal of non-current assets	(4,659)
Investment gain from the disposal of long-term equity investments	36,798
Gain/loss from fair-value change in trading financial assets and trading financial liabilities, and investment gain from disposal of trading financial assets and trading financial liabilities, excluding effective value-protection hedges related to the ordinary business of the Company	(173,021)
Gain from change in fair value of investment properties	2,216
Net amount of other non-operating income and expenses	252,262
	113,596
Effect of income tax	(17,039)
Effect of non-controlling interests (net of tax)	(3,402)
	93,155

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:

	Six months ended 30 June 2016	Reason
Refund of VAT on software products	1,362,573	In line with national policies and received on an ongoing basis
Special financial subsidies	420,000	In line with national policies and received on an ongoing basis
Investment income of ZTE Capital	449,366	Within the scope of business

Supplementary Information to Financial Statements

(Prepared under PRC ASBEs)
 Currency: RMB'000
 (English translation for reference only)

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

30 June 2016

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	5.83%	RMB0.43	RMB0.42
Net profit after extraordinary items attributable to ordinary shareholders of the Company	5.52%	RMB0.40	RMB0.40

30 June 2015

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	6.26%	RMB0.39	RMB0.39
Net profit after extraordinary items attributable to ordinary shareholders of the Company	3.64%	RMB0.23	RMB0.22

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 for the period.

Consolidated Statement of Comprehensive Income

(Prepared under HKAS 34)
Six months ended 30 June 2016

	Note	Six months ended 30 June 2016 (unaudited) RMB'000	Six months ended 30 June 2015 (unaudited) RMB'000
Revenue	4	47,757,302	45,898,788
Cost of sales		(32,629,903)	(32,088,400)
Gross profit		15,127,399	13,810,388
Other income and gains	4	3,681,447	2,840,276
Research and development costs		(7,059,164)	(5,491,912)
Selling and distribution expenses		(6,052,152)	(5,406,796)
Administrative expenses		(1,454,669)	(1,243,793)
Other expenses		(912,331)	(1,635,567)
Finance costs	6	(603,232)	(692,097)
Share of profits and losses of:			
Joint ventures		1,533	294
Associates		(21,050)	(38,405)
Profit before tax	5	2,707,781	2,142,388
Income tax expense	7	(519,427)	(310,202)
Profit for the period		2,188,354	1,832,186
Attributable to:			
Ordinary equity holders of the parent		1,766,397	1,615,585
Perpetual capital instruments		249,963	180,753
Non-controlling interests		171,994	35,848
		2,188,354	1,832,186
Other comprehensive income			
Other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods:			
Hedges — effective portion of changes in fair value of hedging instruments		(59,507)	917
Changes in fair value of available-for-sale investments, net of tax		(198,699)	542,186
Exchange differences on translation of foreign operations		(415,540)	16,470
Net other comprehensive (loss)/income to be reclassified to profit or loss in subsequent periods		(673,746)	559,573
Other comprehensive (loss)/income for the period, net of tax		(673,746)	559,573
Total comprehensive income for the period		1,514,608	2,391,759
Attributable to:			
Ordinary equity holders of the parent		1,238,044	1,763,173
Perpetual capital instruments		249,963	180,753
Non-controlling interests		26,601	447,833
		1,514,608	2,391,759
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic		RMB0.43	RMB0.39
Diluted		RMB0.42	RMB0.39

Consolidated Statement of Financial Position

(Prepared under HKAS 34)
30 June 2016

	Note	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
Non-current assets			
Property, plant and equipment		8,630,218	8,368,754
Prepaid land lease payments		1,151,539	1,214,106
Intangible assets		3,767,158	3,772,451
Investment properties		2,012,612	2,010,396
Investments in joint ventures		102,514	77,341
Investments in associates		444,337	483,598
Available-for-sale investments		2,194,383	2,381,467
Long-term trade receivables	11	1,175,847	362,831
Factored long-term trade receivables		1,450,559	1,593,528
Deferred tax assets		1,439,153	1,434,143
Pledged deposits		3,084,239	3,515,601
Long-term prepayments, deposits and other receivables		360,312	359,587
Total non-current assets		25,812,871	25,573,803
Current assets			
Prepaid land lease payments		26,638	27,704
Inventories		25,767,664	19,731,741
Amount due from customers for contract works	10	7,996,830	13,928,446
Trade and bills receivables	11	33,929,924	28,714,645
Factored trade receivables		2,134,371	1,272,068
Prepayments, deposits and other receivables		9,865,541	7,304,441
Derivative financial instruments		30,426	10,110
Pledged deposits		1,459,756	1,202,984
Time deposits with original maturity of over three months		982,056	205,029
Cash and cash equivalents		27,931,373	26,616,996
Total current assets		110,124,579	99,014,164
Current liabilities			
Trade and bills payables	12	35,421,832	32,817,995
Amount due to customers for contract works	10	8,412,857	4,423,103
Other payables and accruals		20,100,281	15,003,939
Provisions		708,224	776,682
Derivative financial instruments		102,784	19,840
Interest-bearing bank borrowings		14,396,513	12,525,176
Bank advances on factored trade receivables		2,135,235	1,273,346
Tax payable		542,914	484,627
Dividends payable		1,630	7,418
Bonds payable		—	4,000,000
Total current liabilities		81,822,270	71,332,126
Net current assets		28,302,309	27,682,038
Total assets less current liabilities		54,115,180	53,255,841

Consolidated Statement of Financial Position (continued)

(Prepared under HKAS 34)
30 June 2016

	Note	30 June 2016 (unaudited) RMB'000	31 December 2015 (audited) RMB'000
Non-current liabilities			
Interest-bearing bank borrowings		6,676,374	6,016,254
Bank advances on factored long-term trade receivables		1,450,559	1,593,528
Financial guarantee contract		3,689	3,689
Deferred tax liabilities		76,697	52,769
Provision for retirement benefits		143,286	144,280
Other non-current liabilities		1,831,677	2,096,716
Total non-current liabilities		10,182,282	9,907,236
Net assets		43,932,898	43,348,605
Equity			
Equity attributable to ordinary equity holders of the parent			
Issued capital		4,154,242	4,150,791
Reserves		26,817,217	25,509,303
		30,971,459	29,660,094
Perpetual capital instruments	13	9,137,341	9,321,327
Non-controlling interests		3,824,098	4,367,184
Total equity		43,932,898	43,348,605

Zhao Xianming
Director

Wei Zaisheng
Director

Consolidated Statement of Changes in Equity

(Prepared under HKAS 34)
Six months ended 30 June 2016

	Attributable to ordinary equity holders of the parent										
								Total	Perpetual capital instruments	Non-controlling interests	Total equity
	Issued capital	Capital reserve	Hedging reserve	Share incentive scheme reserve	Statutory reserves	Exchange fluctuation reserve	Retained profits				
(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2016	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
Profit for the period	—	—	—	—	—	—	1,766,397	1,766,397	249,963	171,994	2,188,354
Other comprehensive income for the period:											
Hedges, net of tax	—	—	(59,507)	—	—	—	—	(59,507)	—	—	(59,507)
Changes in fair value of available-for-sale investments, net of tax	—	(55,474)	—	—	—	—	—	(55,474)	—	(143,225)	(198,699)
Exchange differences on translation of foreign operations	—	—	—	—	—	(413,372)	—	(413,372)	—	(2,168)	(415,540)
Total comprehensive (loss)/income for the period	—	(55,474)	(59,507)	—	—	(413,372)	1,766,397	1,238,044	249,963	26,601	1,514,608
Issue of ordinary shares	3,451	35,269	—	—	—	—	—	38,720	—	—	38,720
Acquisition of non-controlling shareholders	—	(20,283)	—	—	—	—	—	(20,283)	—	(140,238)	(160,521)
Capital withdrawal by non-controlling shareholders	—	—	—	—	—	—	—	—	—	(402,859)	(402,859)
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(26,590)	(26,590)
Repayment of interests of perpetual capital instruments	—	—	—	—	—	—	—	—	(433,949)	—	(433,949)
Share incentive scheme:											
— Equity-settled share option expenses	—	—	—	54,884	—	—	—	54,884	—	—	54,884
At 30 June 2016 (unaudited)	4,154,242	11,245,509	(58,115)	302,709	2,022,709	(2,140,214)	15,444,619	30,971,459	9,137,341	3,824,098	43,932,898

	Attributable to ordinary equity holders of the parent										
	Issued capital	Capital reserve	Hedging reserve	Share incentive scheme reserve	Statutory reserves	Exchange fluctuation reserve	Retained profits		Perpetual capital instruments	Non-controlling interests	Total equity
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	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 period	—	—	—	—	—	—	1,615,585	1,615,585	180,753	35,848	1,832,186
Other comprehensive income for the period:											
Cash flow hedges, net of tax	—	—	917	—	—	—	—	917	—	—	917
Changes in fair value of available-for-sale investments	—	126,144	—	—	—	—	—	126,144	—	416,042	542,186
Exchange differences on translation of foreign operations	—	—	—	—	—	20,527	—	20,527	—	(4,057)	16,470
Total comprehensive income for the period	—	126,144	917	—	—	20,527	1,615,585	1,763,173	180,753	447,833	2,391,759
Issue of perpetual capital instruments	—	—	—	—	—	—	—	—	7,415,500	—	7,415,500
Acquisition of non-controlling shareholders	—	(1,648)	—	—	—	—	—	(1,648)	—	(22,594)	(24,242)
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(13,969)	(13,969)
Capital contributions by non-controlling shareholders	—	—	—	—	—	—	—	—	—	5,000	5,000
Share incentive scheme:											
— Equity-settled share option expenses	—	—	—	89,121	—	—	—	89,121	—	—	89,121
At 30 June 2015 (unaudited)	3,437,541	9,550,878	(6,190)	290,218	1,769,012	(1,339,366)	13,027,127	26,729,220	7,596,253	1,830,200	36,155,673

Consolidated Cash Flow Statement

(Prepared under HKAS 34)
Six months ended 30 June 2016

Item	Six months ended 30 June 2016 (unaudited) RMB'000	Six months ended 30 June 2015 (unaudited) RMB'000
Net cash inflow from operating activities	1,831,593	873,596
Net cash outflow used in investing activities	(1,508,319)	(1,132,709)
Net cash inflow from financing activities	1,326,283	527,698
Net increase in cash and cash equivalents	1,649,557	268,585
Cash and cash equivalents at beginning of period	26,616,996	17,230,140
Effect of foreign exchange rate changes, net	(335,180)	(181,183)
Cash and cash equivalents at end of period	27,931,373	17,317,542
Analysis of balance of cash and cash equivalents		
Unrestricted bank balances and cash	27,594,889	17,097,784
Time deposits with original maturity of less than three months	336,484	219,758
	27,931,373	17,317,542

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)
30 June 2016

1. CORPORATE 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 period, 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, mobile terminal products and solutions.

In the opinion of the directors, in accordance with the Chapter 8 Qualifications for Listing of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”), a limited liability company registered in the PRC.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1 Basis of preparation

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

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

2.2 New and revised standards and interpretations adopted by the Group

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2016

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 New and revised standards and interpretations adopted by the Group (continued)

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

Amendments to HKFRS 11

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

Amendments to HKAS 1

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

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2016

3. 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, providing top-level design and consultation services as well as implementation, operation and maintenance of integrated informatisation solutions for the government and corporate informatisation projects through the application of Cloud Computing, Communications Networks, Internet of Things, Big Data technologies and related core M-ICT products

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

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

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2016

3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2016

3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2016

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

Of the revenue for the reporting period, RMB8,032,456,000 was from Carriers' Networks and handset terminal derived from one single major customer (first half of 2015: RMB8,375,181,000 derived from one single major customer).

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2016

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

An analysis of revenue, other income and gains is set out as follows:

	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000
Revenue		
Telecommunications system contracts	31,675,335	31,116,034
Sale of goods and services	16,014,399	14,720,523
Rental income	67,568	62,231
	47,757,302	45,898,788
	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000
Other income		
VAT refunds for software products [#]	1,362,573	1,454,782
Bank interest income	442,372	298,730
Exchange gains	455,359	—
Dividend income	25,773	24,024
Others ^{##}	901,156	676,430
	3,187,233	2,453,966
Gains		
Revaluation gains on investment properties	2,216	64,681
Gains from disposal of available-for-sale financial assets	455,200	101,099
Gains from disposal of long-term equity investment	36,798	—
Gains from disposal of derivative financial instruments	—	220,530
	494,214	386,310
	3,681,447	2,840,276

[#] VAT refund for software products represents tax payments by subsidiaries of the Group on any effective VAT rate in excess of 3% in respect of software product sales which are immediately refundable upon payment 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.

^{##} Others mainly represent government subsidies, gains from contract penalties and other gains.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2016

5. PROFIT BEFORE TAX

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

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

* 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.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2016

6. FINANCE COSTS

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

7. INCOME TAX

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

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

Under the new enterprise income tax law of 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% in 2016 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% in 2016 as a national-grade hi-tech enterprise.

Nubia Technology Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2016

7. INCOME TAX (CONTINUED)

ZTE Microelectronics Technology Company Limited was subject to an enterprise income tax rate of 15% in 2016 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited was 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 was subject to an enterprise income tax rate of 15% in 2016 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% in 2016 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 2016 as a national-encouraged industry enterprise.

ZTE ICT Company Limited was subject to an enterprise income tax rate of 15% from 2013–2015 as a national-grade hi-tech enterprise. Application for the status of national-grade hi-tech enterprise for years 2016 to 2018 was currently in progress.

Nanjing ZTEsoft Software Technology Company Limited was subject to an enterprise income tax rate of 15% from 2013–2015 as a national-grade hi-tech enterprise. Application for the status of national-grade hi-tech enterprise for years 2016 to 2018 was currently in progress.

8. DIVIDEND

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

9. 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 period attributable to holders of ordinary shares of the Company by the weighted average number of ordinary shares in issue.

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2016

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

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

	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000
Earnings		
Profit for the period attributable to ordinary equity holders of the parent	1,766,397	1,615,585
	Six months ended 30 June 2016 '000 Share	Six months ended 30 June 2015 '000 Share
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation (Note 1)	4,153,594	4,125,049
Effect of dilution — weighted average number of ordinary shares:	13,420	44,768
Adjusted weighted average number of ordinary shares in issue	4,167,014	4,169,817

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

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

10. TELECOMMUNICATIONS SYSTEM CONTRACTS

	30 June 2016 RMB'000	31 December 2015 RMB'000
Amount due from customers for contract works	7,996,830	13,928,446
Amount due to customers for contract works	(8,412,857)	(4,423,103)
	(416,027)	9,505,343
Contract costs incurred plus recognised profits	85,465,794	60,891,156
Less: Recognised losses to date	767,568	400,087
Less: Progress billings	85,114,253	50,985,726
	(416,027)	9,505,343

Notes to Condensed Consolidated Interim Financial Statements (continued)

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

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

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is normally 90 days, and is extendable up to one year depending on customers' creditworthiness customers 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 set out as follows:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Within 6 months	27,648,014	24,060,630
7 to 12 months	4,130,757	2,716,472
1 to 2 years	2,986,241	2,106,596
2 to 3 years	340,759	193,778
	35,105,771	29,077,476
Current portion of trade and bills receivables	(33,929,924)	(28,714,645)
Long-term portion	1,175,847	362,831

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

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

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

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

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

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 analysed as follows:

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

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

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

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12. TRADE AND BILLS PAYABLES

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

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

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

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

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

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

13. 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.

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13. PERPETUAL CAPITAL INSTRUMENTS (CONTINUED)

(a) Medium Term Notes outstanding as at the end of the period (continued)

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 RMB1,500,000,000 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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13. PERPETUAL CAPITAL INSTRUMENTS (CONTINUED)

(b) Movement of issued Medium Term Note as at the end of the period

Face value	Issue date	Volume	Amount RMB'000	Opening balance RMB'000	Interest charge for the period RMB'000	Interest payment for the period RMB'000	Closing balance RMB'000
6,000,000	2015.1.27	60,000,000	6,000,000	6,252,364	173,822	(348,600)	6,077,586
1,500,000	2015.2.6	15,000,000	1,500,000	1,572,198	42,558	(85,349)	1,529,407
1,500,000	2015.11.20	15,000,000	1,500,000	1,496,765	33,583	—	1,530,348
9,000,000		90,000,000	9,000,000	9,321,327	249,963	(433,949)	9,137,341

14. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Guarantees given to banks in connection with borrowings to customers	50,000	50,000
Guarantees given to banks in respect of performance bonds	8,671,828	7,656,101
	8,721,828	7,706,101

(b) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762,984,000 (equivalent to approximately RMB48,564,000). 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 RMB20,880,000) 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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14. 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. 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. On 17 June 2016, the Company received through the Guangdong Higher Court the ruling of the Supreme People's Court, which ordered the Guangdong Higher Court to conduct a retrial in respect of the aforesaid second trial judgement.

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14. CONTINGENT LIABILITIES (CONTINUED)

(c) (continued)

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 cases 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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14. 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, 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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14. 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 RMB198 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. As at the balance sheet date of 2013, the Company had made provisions of BRL5.22 million (equivalent to approximately RMB10.33 million).

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. 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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14. 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 DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, 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 RMB64,240,000). 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 July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB63,980,000), together with accruable interests and legal costs. 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 RMB63,980,000) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. The Company has appointed a legal counsel to conduct active defense in respect of the said case.

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 RMB170 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 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.

- (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 19 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.

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15. 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. No operating lease rental income was recognized for the period under the aforesaid arrangement (30 June 2015: RMB18,860,000).

The Group leases its investment properties under operating lease arrangement, with leases negotiated for terms ranging from 6 months to 15 years. The terms of the leases generally require the tenants to pay security deposits and periodic rent according to the lease contracts.

At 30 June 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Within one year	129,505	91,882
In the second to fifth years, inclusive	193,780	178,482
After five years	304,301	321,199
	627,586	591,563

(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 30 June 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2016 RMB'000	31 December 2015 RMB'000
Within one year	232,478	223,696
In the second to fifth years, inclusive	184,262	125,624
After five years	113,943	62,152
	530,683	411,472

16. COMMITMENTS

	30 June 2016 RMB'000	31 December 2015 RMB'000
Contracted, but not provided for:		
Land and buildings	1,258,651	904,363
Investments in associates	114,290	28,590
	1,372,941	932,953

Notes to Condensed Consolidated Interim Financial Statements (continued)

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17. 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 period:

	Notes	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	132,253	129,248
Sales of finished goods	(b)	1,066	2,501
Rental expense	(c)	4,414	4,414
Associates:			
Purchase of raw materials	(a)	31,076	22,816
Sales of finished goods	(b)	6,633	25,709
Rental income	(e)	8,340	8,000
Interest expense	(f)	25	83
Interest income	(f)	142	—
Consulting service income	(g)	20	—
Joint ventures:			
Purchase of raw materials	(a)	—	2,004
Sales of finished goods	(b)	12,207	125,465
Rental income	(e)	248	168
Interest income	(f)	2,107	—
Consulting service income	(g)	472	—
Entities controlled by key management personnel of the Group			
Purchase of raw materials	(a)	410	530,378
Sales of finished goods	(b)	3,889	5
Rental income	(e)	—	1,073
Rental expense	(d)	—	20,991
Interest income	(f)	—	1,815
Entities controlled by the controlling shareholder			
Purchase of raw materials	(a)	87,842	186,068
Sales of finished goods	(b)	502	2,385
Rental income	(e)	564	564

In the opinion of the directors, the related party transactions were conducted in the ordinary course of business.

Notes:

- (a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the Group's suppliers to their major customers.
- (b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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17. RELATED PARTY TRANSACTIONS (CONTINUED)

(I) Transactions with related parties (continued)

Notes: (continued)

- (c) The housing rental expense was charged at rates of RMB40 per square metre per month and RMB200 per car parking space per month
- (d) The housing rental expense was charged at rates of RMB145 per square metre per month. The rental expense for car parking space was RMB350 per ground level car parking space and RMB600 per underground car parking per month.
- (e) The rental income was earned from RMB21.22 to RMB126 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) Compensation of key management personnel of the Group

	Six months ended 30 June 2016 RMB'000	Six months ended 30 June 2015 RMB'000
Short-term employee benefits	19,368	22,524
Post-employment benefits	245	237
Equity-settled share option expense	2,888	4,333
Total compensation paid to key management personnel	22,501	27,094

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.

18. 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, amounts due from/to subsidiaries, 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.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

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 and bills receivables, deposits and other receivables and interest-bearing bank and other 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 30 June 2016 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.

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 30 June 2016

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	851,818	—	—	851,818
Derivative financial instruments	—	30,426	—	30,426
	851,818	30,426	—	882,244

Notes to Condensed Consolidated Interim Financial Statements (continued)

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18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

Assets measured at fair value: (continued)

As at 31 December 2015

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using 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

Liabilities measured at fair value:

As at 30 June 2016

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(102,784)	—	(102,784)

As at 31 December 2015

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(19,840)	—	(19,840)

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets and liabilities (2015: Nil).

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19. EVENTS AFTER THE REPORTING PERIOD

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

20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 25 August 2016.

Documents Available for Inspection

- (I) Text of the 2016 interim report signed by the Chairman of the Board of Directors;
- (II) Original copies of the Group's unaudited financial reports and consolidated financial statements for the six months ended 30 June 2016 prepared under the PRC ASBES and HKFRSs, respectively, and duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;
- (III) Original copies of all documents and announcements of the Company published in China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn>; and
- (IV) Articles of Association.

By order of the Board
Zhao Xianming
Chairman

26 August 2016

www.zte.com.cn

