

# ZTE 中兴通讯股份有限公司

ZTE CORPORATION



2015  
Interim Report

Stock Code : 000063.SZ 763.HK

# 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 Thirtieth Meeting of the Sixth Session of the Board of Directors of the Company. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Wang Zhanchen, Director, to vote on his behalf. Mr. Dong Lianbo, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Xie Weiliang, Vice Chairman, 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. Tan Zhenhui, Independent Non-executive Director, to vote on his behalf.

The interim financial reports of the Group for the six months ended 30 June 2015 were unaudited.

Mr. Hou Weigui, 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 2015.

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.

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

Gongjin Electronics	Shenzhen Gongjin Electronics Co., Ltd.
Great Power	Guangzhou Great Power Energy & Technology Co., Ltd.
Enablence Technologies	Enablence Technologies Inc.
ZTE Capital	Shenzhen ZTE Capital Management Company Limited
Zhonghe Chunsheng Fund	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I
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.

# Glossary

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

2G	Second-generation mobile networks featuring digital wireless radio technology that enables larger network capacity, improved voice quality and more secure encryption, as well as seamless international roaming for users which includes GSM and CDMA. GSM (Global System for Mobile Communication) is a global system for cellular mobile communications originated in Europe using TDMA, while CDMA is a standard for spread spectrum technology. The data rate of 2G can reach 115.2Kbps. The data rate of GSM using EDGE (enhanced data rate for GSM evolution) can reach 384Kbps.
3G	Third-generation mobile networks supporting peak data rate of 144Kbps at mobile user speeds, 384Kbps at pedestrian user speeds and 2Mbps at fixed locations.
4G	Fourth-generation mobile networks operating according to IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, which support theoretical download rates of 1Gbit/s at fixed locations and 100Mbit/s in motion.
5G	Fifth-generation mobile communications, which is a general reference to the ensemble of post-4G broadband wireless communication technologies. The general view of the industry is that 5G is capable of providing faster data throughput (1,000 times faster than currently available) and more connections (100 times more than currently available), more efficient utilisation of energy (10 times of the current level of efficiency) and shorter end-to-end time delay (1/5 of the current length of time delay). It goes beyond human-to-human communication to cover a wide range of applications such as ultra-intensive networks, machine-to-machine communication and the internet of vehicles.
Pre-5G	The adoption of the 5G technology without modifying existing air interfaces standards, providing in advance a 5G-like user experience on existing terminals.
UMTS	A reference to WCDMA standards generally used in Europe. 3G technologies have been collectively referred to as UMTS (Universal Mobile Telecommunications System) by European Telecommunications Standards Institute (ETSI) since the early 1990s.
TD-SCDMA	Time division synchronous code division multiple access, a 3G technology developed by the PRC to support voice and data transmission.
LTE	LTE (Long Term Evolution) which is the long-term evolution of 3G technology, refers to fourth-generation mobile communication technologies with OFDM as its core technology. LTE is being promoted by 3GPP and is continuously under evolution. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE of frequency division and TDD-LTE of time division. The mixed operation of FDD-LTE and TDD-LTE is supported. In terms of networking, 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).
Smart Pipe	It is customary for the IT industry to refer to the entire Internet structure as “end — pipe — cloud,” where the “pipe” refers to networks such as bearer networks and access networks. The smart pipe fulfills different needs of various businesses and users, fully realizes the value of the network and enhances the operating efficiency of the network through technologies such as flow sensor, classification and control, etc on the network level.

Cloud Computing	A 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.
Internet of Things	A network interconnecting all things in the physical world, characterised by comprehensive sensors, reliable transmission and smart processing and aiming at connection at any time, any location and among any objects. It can help to realise the organic integration of the human society with the physical world, so that humankind can manage production and life in a more detailed and dynamic way to generally enhance the level of informatisation of the society.
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 smart 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.
Bearer Network	A network at the bearer's level constituted by technologies and equipment at different levels, such as optical transmission, Ethernet switch and IP router, providing fundamental bearer functions for the traditional telecommunications business and Internet businesses. The bearer network constitutes the backbone of the Internet, connecting various Internet services on the one hand and the users' terminal, through the access net (wireline broadband and wireless broadband), on the other. Substantially all Internet flow will go through the bearer network.
SDN	Software Defined networking transforms a closed-end telecommunication equipment accommodating hardware and software into a novel architecture that features central control, open access and programmable software by separating the control face and the data face. SDN affords significant flexibility for network planning and administration and provides a foundation and platform for innovation in novel network businesses.
PON	Provision of optical fiber access service through unpowered optical network technologies, using point-to-multipoint topological structures that enable conservation of optical fiber resources for the main trunk as well as flow management and security control functions. PON can be distinguished into FTTH, FTTDp, FTTB and FTTC based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON based on different technology standards.
QCell	QCell connects the BBU (base-band unit) to the PICO RRU (a small remote radio unit) and facilitates power supply to the PICO RRU through Ethernet, enabling LTE indoor coverage with the deployment of Ethernet cables only.

## Glossary

Cloud Radio	An innovative radio solution capable of automatic selection of optimal synchronization modes based on the properties of the mobile networks and mobile bearer conditions. It can effectively reduce inter-cell interference in LTE networks and significantly boost network performance in the cell edge.
Magic Radio	An innovative technology which allows GSM and LTE to share the same frequency spectrum, hence supporting more GSM and LTE services within limited frequency spectrum width.
M-ICT Strategy	The strategy of ZTE is to be an “Enabler@M-ICT that facilitates the creation of value through information.” The letter “M” denotes a variety of meanings, which include: 1) Mobile: as handheld smart terminals become increasingly popular, ICT services are present everywhere; 2) M2M: the inter-connection of all things (Man-Man, Man-Machine, Machine-Machine); 3) Multiple connection: all-present connection; 4) Multiservice, More coverage and accessibility; 5) More secure, More reliable and easier to use.
M-ICT+	The implementation of the Internet+ strategy through M-ICT to assist the transformation of carriers and to help customers in the government and corporate service sector to increase efficiency and upgrade their operations, to the ends that the quality of people’s life in general is improved. Internet+ connects the Internet with traditional industries and incorporates the Internet characteristics of openness, inter-connection, collaborative sharing and business innovation into the manufacturing and service operations of traditional industries, so as to drive the upgrade of these traditional industries, increase social productivity and promote changes in lifestyle.
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.
Mobile Internet	Internet access service facilitated through mobile terminals such as smart phones/handheld digital assistants, notebooks and Pad, etc. Enriched by the popularization of smart terminals, Mobile Internet services now include mobile computing, mobile music, smart phone games, positioning technology, wireless communities and wireless payments, etc.
Industry 4.0	A concept introduced by the German Federal Ministry of Education and Research and Federal Ministry of Economics and Technology at the 2013 Hanover Fair. It represents the fourth industrial revolution of humankind, following the three previous industrial revolutions characterised by the steam engine, mass production and information technology, respectively. It is based on cyber-physical systems and marked by a high level of digitalisation, Internet applications, and machine self-organization. It is essentially the application of the Internet of Things and service nets in manufacturing and the integration of industries and information based on the intelligent factory, aiming to drive the transformation of manufacturing into an intelligent operation.



# Corporate Information

- |    |   |   |
|----|---|---|
| 1. | Legal name (in Chinese)<br>Chinese abbreviation<br>Legal name (in English)<br>English abbreviation  | 中興通訊股份有限公司<br>中興通訊<br>ZTE Corporation<br>ZTE  |
| 2. | Legal representative  | Hou Weigui  |
| 3. | Secretary to the Board of Directors/<br>Company Secretary<br>Securities affairs representatives<br>Correspondence address<br><br>Telephone<br>Facsimile<br>E-mail                             | Feng Jianxiong<br><br>Xu Yulong, Cao Wei<br>No. 55, Keji Road South, Shenzhen, Guangdong Province<br>The People's Republic of China<br>+86 755 26770282<br>+86 755 26770286<br>fengjianxiong@zte.com.cn   |
| 4. | Registered and office address<br><br>Postal code<br>Website<br>E-mail<br>Principal place of business in Hong Kong   | ZTE Plaza, Keji Road South, Hi-Tech Industrial Park<br>Nanshan District<br>Shenzhen, Guangdong Province<br>The People's Republic of China<br>518057<br><a href="http://www.zte.com.cn">http://www.zte.com.cn</a><br><a href="mailto:fengjianxiong@zte.com.cn">fengjianxiong@zte.com.cn</a><br>36/F, Tower Two, Time Square 1 Matheson Street<br>Causeway Bay<br>Hong Kong |
| 5. | Authorized representatives  | Shi Lirong<br>Feng Jianxiong  |
| 6. | Newspapers designated for information<br>disclosure by the Company<br>Authorised websites on which this report is<br>made available<br>Place where this report is available for<br>inspection | China Securities Journal, Securities Times, Shanghai<br>Securities News<br><a href="http://www.cninfo.com.cn">http://www.cninfo.com.cn</a><br><a href="http://www.hkexnews.hk">http://www.hkexnews.hk</a><br>No. 55, Keji Road South, Shenzhen, Guangdong Province<br>The People's Republic of China  |
| 7. | Listing information   | <b>A shares</b><br>Shenzhen Stock Exchange<br>Abbreviated name of stock: 中興通訊<br>Stock code: 000063<br><b>Corporate Bonds</b><br>Shenzhen Stock Exchange<br>Abbreviated name of bond: 12中興01<br>Bond code: 112090<br>Matured on 13 June 2015<br><br><b>H shares</b><br>Hong Kong Stock Exchange<br>Abbreviated name of stock: 中興通訊<br>Stock code: 763                     |

## Corporate Information

8. Change in registration details
- There were no change in the registration details, such as the date and place of registration, corporate business licence registration number, tax registration number and entity code, etc, of the Company during the reporting period. For details please refer to the section headed “Corporate Information” in the 2014 Annual Report.
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 RESTATED ACCOUNTING DATA OF THE PREVIOUS YEAR BECAUSE OF CHANGES IN ACCOUNTING POLICIES OR FOR THE RECTIFICATION OF ACCOUNTING ERRORS

Yes     No

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

Unit: RMB in thousands

Item	End of the reporting period (30 June 2015)	End of last year (31 December 2014)	Change as at the end of the reporting period compared with the end of last year
Total assets	113,143,588	106,214,196	6.52%
Owner's equity attributable to holders of ordinary shares of the listed company <sup>Note 1</sup>	26,729,220	24,878,574	7.44%
Share capital (thousand shares)	3,437,541	3,437,541	—
Net asset per share attributable to holders of ordinary shares of the listed company (RMB/share) <sup>Note 1</sup>	7.78	7.24	7.46%
Gearing ratio(%)	68.04%	75.25%	Decreased by 7.21 percentage points

Unit: RMB in thousands

Item	Reporting period (Six months ended 30 June 2015)	Same period of last year (Six months ended 30 June 2014)	Changes compared with the same period of last year
Operating revenue	45,898,788	37,697,309	21.76%
Operating profit	76,343	(210,049)	136.35%
Total profit	2,142,388	1,643,986	30.32%
Net profit attributable to holders of ordinary shares of the listed company <sup>Note 2</sup>	1,615,585	1,128,206	43.20%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company <sup>Note 2</sup>	938,000	932,304	0.61%
Basic earnings per share (RMB/share) <sup>Note 2</sup>	0.47	0.33	42.42%
Diluted earnings per share (RMB/share) <sup>Note 3</sup>	0.46	0.33	39.39%
Basic earnings per share after extraordinary items (RMB/share) <sup>Note 2</sup>	0.27	0.27	—
Weighted average return on net assets (%) <sup>Note 4</sup>	6.26%	4.86%	Increased by 1.40 percentage points
Weighted average return on net assets after extraordinary items (%) <sup>Note 4</sup>	3.64%	4.02%	Decreased by 0.38 percentage points
Net cash flows from operating activities	1,507,886	715,309	110.80%
Net cash flows from operating activities per share (RMB/share)	0.44	0.21	109.52%

## Highlights of Accounting Data and Financial Indicators

- Note 1: The Company completed the issue of 2015 Tranche I Perpetual Medium Term Notes for an amount of RMB6 billion on 27 January 2015 and the issue of 2015 Tranche II Perpetual Medium Term Notes for an amount of RMB1.5 billion on 6 February 2015, which were presented under “Other equity instruments” under “Shareholders’ equity” in the balance sheet in the Interim Report. Owners’ equity attributable to holders of ordinary shares of the listed company as at 30 June 2015 has been stated after deducting equity of RMB7,415,500,000 and accruable interests of RMB180,753,000 attributable to holders of perpetual medium term notes. Net asset per share attributable to holders of ordinary shares of the listed company has been arrived at by dividing the owners’ equity attributable to holders of ordinary shares of the listed company by the number of ordinary shares in issue at the end of the period;
- Note 2: Net profit attributable to holders of ordinary shares of the listed company and net profit after extraordinary items attributable to holders of ordinary shares of the listed company for the six months ended 30 June 2015 have been stated after deducting accruable interests of RMB180,753,000 attributable to holders of perpetual medium term notes. Basic earnings per share and basic earnings per share after extraordinary items have been arrived at by dividing net profit attributable to holders of ordinary shares of the listed company and net profit after extraordinary items attributable to holders of ordinary shares of the listed company, respectively, by the weighted average number of ordinary shares in issue;
- Note 3: As share options granted by the Company have given rise to 44,768,000 potentially dilutive ordinary shares for the reporting period, diluted earnings per share for the reporting period has been calculated on the basis of basic earnings per share taking into account the said factor. As there was no diluting effect under the Share Option Incentive Scheme of the Company for the same period last year, diluted earnings per share was the same as basic earnings per share for the same period last year;
- Note 4: Weighted average return on net assets and weighted average return on net assets after extraordinary items for the six months ended 30 June 2015 have been arrived at by dividing net profit attributable to holders of ordinary shares of the listed company and net profit after extraordinary items attributable to holders of ordinary shares of the listed company, respectively, by weighted average net assets after deducting equity of RMB7,415,500,000 and accruable interests of RMB180,753,000 attributable to holders of perpetual medium term notes.

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

Unit: RMB in thousands

<b>Extraordinary item</b>	<b>Amount</b>
Non-operating income	476,016
Gains/(Losses) from fair value change	9,956
Investment income	376,355
Less: (Gains)/Losses on disposal of non-current assets	16,044
Less: Other non-operating expenses	49,123
Less: Effect of income tax	119,575
<b>Total</b>	<b>677,585</b>

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

<b>Item</b>	<b>Six months ended 30 June 2015</b>	Six months ended 30 June 2014
Basic earnings per share (RMB/share) <sup>Note 1</sup>	<b>0.47</b>	0.33
Weighted average return on net assets (%) <sup>Note 2</sup>	<b>6.26%</b>	4.86%
Weighted average return on net assets after extraordinary items (%) <sup>Note 2</sup>	<b>3.64%</b>	4.02%
<b>Item</b>	<b>30 June 2015</b>	31 December 2014
Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share) <sup>Note 3</sup>	<b>7.78</b>	7.24

- Note 1: The Company completed the issue of 2015 Tranche I Perpetual Medium Term Notes for an amount of RMB6 billion on 27 January 2015 and the issue of 2015 Tranche II Perpetual Medium Term Notes for an amount of RMB1.5 billion on 6 February 2015, which were presented under “Perpetual capital instruments” under “Equity” in the statement of financial position. Net profit attributable to holders of ordinary shares of the listed company for the six months ended 30 June 2015 has been stated after deducting accruable interests of RMB180,753,000 attributable to holders of perpetual medium term notes. Basic earnings per share has been arrived at by dividing net profit attributable to holders of ordinary shares of the listed company by the weighted average number of ordinary shares in issue;
- Note 2: Weighted average return on net assets and weighted average return on net assets after extraordinary items for the six months ended 30 June 2015 have been arrived at by dividing net profit attributable to holders of ordinary shares of the listed company and net profit after extraordinary items attributable to holders of ordinary shares of the listed company, respectively, by weighted average net assets after deducting equity of RMB7,415,500,000 and accruable interests of RMB180,753,000 attributable to holders of perpetual medium term notes;
- Note 3: Owners’ equity attributable to holders of ordinary shares of the listed company as at 30 June 2015 has been stated after deducting equity of RMB7,415,500,000 and accruable interests of RMB180,753,000 attributable to holders of perpetual medium term notes. Net asset per share attributable to holders of ordinary shares of the listed company has been arrived at by dividing the owners’ equity attributable to holders of ordinary shares of the listed company by the number of ordinary shares in issue at the end of the period.

**(IV) THE AMOUNT OF NET PROFIT AND SHAREHOLDERS’ EQUITY OF THE GROUP FOR THE SIX MONTHS ENDED AND AS AT 30 JUNE 2015 CALCULATED IN ACCORDANCE WITH PRC ASBEs ARE FULLY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.**

# Report of the Board of Directors

The Board of Directors of the Company is pleased to present this interim report together with the financial statements of the Group for the six months ended 30 June 2015.

## FINANCIAL RESULTS

Please refer to page 75 and page 205 of this report for the results of the Group for the six months ended 30 June 2015 prepared in accordance with PRC ASBEs and HKFRSs.

### (I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2015

#### 1. Overview of the domestic telecommunications industry for the first half of 2015

Currently, the domestic telecommunications industry is undergoing a stage of transition in both network and business model. The flow volume business provided an engine for carriers' revenue growth, while the businesses of platforms and contents started to show their value. Meanwhile, the accelerated development of ICT technologies and the integration between IT and CT was driving the transformation of the telecommunications network infrastructure into a smart information service framework. During the first half of 2015, domestic carriers' investment in equipment remained stable given the progress of 4G network deployment and expedited broadband development as a matter of national policy. While the wireless, transmission and broadband sectors remained heavily favoured spots for equipment investment by carriers, Smart Pipe, Cloud Computing, Big Data, Internet of Things and Smart City were also garnering increasing attention and investments.

#### 2. Overview of the global telecommunications industry for the first half of 2015

During the first half of 2015, the development of the global telecommunications industry benefitted primarily from the large-scale deployment, capacity expansion, performance optimisation and in-depth coverage of 4G networks and the construction of related ancillary equipment and facilities. The evolution of 5G technology standards, operations based on the value of pipeline flow volume, the development of integrated innovative businesses and the balance between security and privacy remained some of the most debated issues in the industry. Facing opportunities as well as challenges, traditional telecommunication carriers continued to increase their investments in Cloud Computing and data centres and constructed smart pipes to cater to the rapid growth in data flow, while remaining focused on LTE, broadband access and optical networks, in a bid to achieve effective transformation by exploring new opportunities for development.

#### 3. Operating Results of the Group for the first half of 2015

During the first half of 2015, the Group's operating revenue increased by 21.76% to RMB45,899 million as compared to the first half of 2014, primarily reflecting growth in operating revenue for 3G system equipment in the domestic market, FDD-LTE system equipment in the domestic and international markets, TD-LTE system equipment in the international market, wireline switch and access systems in the domestic market and optical communication systems in the domestic market. During the first half of 2015, the Group increased its investments in the research and development of products such as LTE, bearer network, SDN and GPON, while cost as a percentage of operating revenue for the period was largely unchanged from the same period last year following enhanced management over selling and distribution costs and administrative expenses. As a result of the aforesaid factors, the Group reported net profit attributable to holders of ordinary shares of the listed company of RMB1,616 million for the six months ended 30 June 2015, representing a year-on-year growth of 43.20%. Basic earnings per share amounted to RMB0.47.

**(1) By market***The domestic market*

During the reporting period, the Group reported operating revenue of RMB24,361 million from the domestic market, accounting for 53.08% of the Group's overall operating revenue. The issuance of FDD-LTE permits facilitated further increase in overall investments in network equipment, wireline broadband network entered into a phase of fast development following the implementation of the broadband China strategy and the increase in demand for conversion of existing wireline broadband network. In the meantime, the demand for Cloud Computing and Big Data applications, Smart City and high-end routers continued to grow, as the Group worked proactively in support of the network construction plans of domestic carriers and government and corporate clients and maintained its dominant market position with quality growth by offering competitive innovative solutions.

*The international market*

During the reporting period, the Group reported operating revenue of RMB21,538 million from the international market, accounting for 46.92% of the Group's operating revenue. The Group reported stable operations and quality growth on the back of more comprehensive partnerships with mainstream global carriers and optimised international market presence in persistent adherence to the strategy of focusing on major populous nations and mainstream global carriers.

**(2) By product**

During the reporting period, the Group reported operating revenue of RMB28,514 million for carriers' networks. Operating revenue for handset terminals amounted to RMB9,959 million. Operating revenue for telecommunications software systems, services and other products amounted to RMB7,426 million.

*Carriers' networks*

In connection with wireless products, the Group persisted in prioritising innovation and ongoing enhancement of the competitiveness of its products and solutions, seeking to fulfill the requirements of carriers through cutting-edge products and solutions, such as QCell, Cloud Radio TM and Magic Radio. In the 4G market, the Group was a leader in terms of domestic market share with ongoing expansion in the overseas market, as it enhanced the level of refined operation in relation to carriers and lowered carriers' overall costs through technological innovation. In the traditional 2G/3G markets, the Group achieved stable growth through ongoing optimisation of its market profile and in-depth operation. In anticipation of future developments in wireless communications, the Group pioneered in the presentation of the Pre-5G concept and the conduct of commercial trials on the basis of core carrier requirements in the next 3 to 5 years, while forming a solid foundation for large-scale commercialisation by making key investments in core 5G technologies.

In connection with wireline and optical communications products, the Group achieved stable growth as it continued to enhance the competitiveness of its products and optimise its global market presence through committed efforts in product innovation and solution-based operations and in-depth implementation of its strategy of focusing on populous nations and mainstream carriers.

In connection with Cloud Computing and IT products, the Cloud Computing and data centre businesses of the Group reported ongoing growth and became major partners of the three leading carriers and other Internet companies in China.

## Report of the Board of Directors

### *Handset terminals*

The Group has positioned itself as “focusing on China and the Americas while expanding into the rest of the world.” In the United States, we were focused on branding, innovation, boutique items and service upgrades; in China, we were focused on our flagship series, boutique series and value boutique series (with items typically priced around RMB1,000) to forge a sustainable business development model underpinned by carriers, channels and e-commerce. In addition, the Group’s investment in brand promotion and marketing has also yielded positive results.

### *Telecommunications software systems, services and other products*

For the reporting period, operating revenue from the Group’s telecommunications software systems, services and other products increased 36.11%, year-on-year. The increase was mainly attributable to year-on-year growth in operating revenue from video and network terminal products.

The Group is also vigorously developing the market for government and corporate sectors and services in pursuit of sustainable development, committing strong efforts to businesses such as railway transport and Smart City.

## (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 2015	Six months ended 30 June 2014	Percentage of increase/decrease
Operating revenue	45,898,788	37,697,309	21.76%
Operating profit	76,343	(210,049)	136.35% <sup>Note 1</sup>
Net profit attributable to holders of ordinary shares of the listed company	1,615,585	1,128,206	43.20% <sup>Note 2</sup>

Note 1: Mainly attributable to the improvements in operating revenue as well as gross profit;

Note 2: Mainly attributable to the increase in operating profit and non-operating income.



2. Breakdown of indicators for the reporting period by industry, product and region segments and comparison with the same period last year

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)
<b>I. By industry</b>						
Manufacturing of communication equipment	45,898,788	30,426,748	33.71%	21.76%	19.27%	1.38
<b>Total</b>	<b>45,898,788</b>	<b>30,426,748</b>	<b>33.71%</b>	<b>21.76%</b>	<b>19.27%</b>	<b>1.38</b>
<b>II. By product</b>						
Carriers' networks	28,513,830	17,282,703	39.39%	30.58%	29.05%	0.72
Handset terminals <sup>Note</sup>	9,959,487	8,387,638	15.78%	(4.29%)	(4.13%)	(0.15)
Telecommunications software systems, services and other products	7,425,471	4,756,407	35.94%	36.11%	41.20%	(2.31)
<b>Total</b>	<b>45,898,788</b>	<b>30,426,748</b>	<b>33.71%</b>	<b>21.76%</b>	<b>19.27%</b>	<b>1.38</b>
<b>III. By region</b>						
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)
<b>Total</b>	<b>45,898,788</b>	<b>30,426,748</b>	<b>33.71%</b>	<b>21.76%</b>	<b>19.27%</b>	<b>1.38</b>

Note: Handset terminals include handsets, data cards, etc.

(1) Analysis of change in revenue

The Group reported RMB45,898,788,000 in operating revenue for the first six months of 2015, a 21.76% increase as compared to the same period last year, of which the domestic operating revenue increased by 26.49% to RMB24,360,835,000, while the international operating revenue increased by 16.81% to RMB21,537,953,000 as compared to the same period last year.

Analysed by product, there was growth in the Group's operating revenue for the first six months of 2015 as compared to the same period last year, which reflected mainly the increase in operating revenue from carriers' networks, telecommunications software systems, services and other products in both the domestic and international markets as compared to the same period last year. Year-on-year growth in the Group's operating revenue from carriers' networks for the first six months of 2015 was mainly attributable to the increase in operating revenue from 3G system equipment in the domestic market, FDD-LTE system equipment in both the domestic and international markets, TD-LTE system equipment in the international market, wireline switch and access systems in the domestic market and optical communication systems in the domestic market. Year-on-year decline in the Group's operating revenue from handset terminals for the first six months of 2015 was mainly attributable to the decrease in operating revenue from handset terminals in the domestic market. Year-on-year growth in the Group's operating revenue from telecommunications software systems, services and other products for the first six months of 2015 mainly reflected the growth in operating revenue from video and network terminals.

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

安徽中興通訊傳媒有限責任公司 (“Anhui Media”), a wholly-owned subsidiary of the Company, completed the deregistration with industrial and commercial administration authorities in February 2015 and Anhui Media was deconsolidated from the consolidated statements of the Group as from February 2015. As the operating revenue and operating costs of Anhui Media for the six months ended 30 June 2014 had minimal impact on the Group's financial data for the six months ended 30 June 2014, no analysis for the period was made on the comparable operating revenue and operating costs for the same period last year.

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

Unit: RMB in thousands

By product	Operating revenue	Operating costs	Gross profit margin
Carriers' network	28,513,830	17,282,703	39.39%
Handset terminals	9,959,487	8,387,638	15.78%
Telecommunications software systems, services and other products	7,425,471	4,756,407	35.94%

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

Unit: RMB in thousands

Industry	Item	Six months ended 30 June 2015		Six months ended 30 June 2014		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	23,990,315	78.85%	19,599,809	76.83%	22.40%
	Engineering costs	5,578,664	18.33%	5,164,446	20.25%	8.02%
	Total	29,568,979	97.18%	24,764,255	97.08%	19.40%

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

Unit: RMB in thousands

Item	Six months ended 30 June 2015	Six months ended 30 June 2014	Year-on-year increase/decrease
Selling and distribution expenses	5,333,174	4,741,335	12.48%
General and administrative expenses	1,207,807	1,072,251	12.64%
Finance expenses	1,007,102	507,970	98.26% <sup>Note 1</sup>
Income tax	310,202	472,675	(34.37%) <sup>Note 2</sup>
Research and development expenses	5,491,912	4,126,546	33.09% <sup>Note 3</sup>

Note 1: Mainly attributable to exchange losses for the period versus exchange gains for the same period last year, both as a result of exchange rate volatility;

Note 2: Mainly attributable to lower income tax charge rates as a result of the Group's arrangements in internal transactions and transfer prices during the period;

Note 3: Mainly attributable to ongoing increase in investment in the research and development of products such as LTE, bearer network, SDN and GPON during the period.

The Group's research and development expenses for the reporting period accounted for 20.55% and 11.97%, respectively, of the Group's net assets attributable to holders of ordinary shares of the listed company and operating revenue.

## 6. Breakdown of the Group's cash flow

Unit: RMB in thousands

Item	Six months ended 30 June 2015	Six months ended 30 June 2014	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	55,598,529	45,802,572	21.39%
Sub-total of cash outflows from operating activities	54,090,643	45,087,263	19.97%
Net cash flows from operating activities	1,507,886	715,309	110.80% <sup>Note 1</sup>
Sub-total of cash inflows from investing activities	1,250,812	1,053,510	18.73%
Sub-total of cash outflows from investing activities	2,206,962	1,840,359	19.92%
Net cash flows from investing activities	(956,150)	(786,849)	(21.52%)
Sub-total of cash inflows from financing activities	14,441,247	21,894,336	(34.04%) <sup>Note 2</sup>
Sub-total of cash outflows from financing activities	14,724,398	25,955,754	(43.27%) <sup>Note 3</sup>
Net cash flows from financing activities	(283,151)	(4,061,418)	93.03% <sup>Note 4</sup>
Net increase in cash and cash equivalents	87,402	(4,067,094)	102.15% <sup>Note 4</sup>

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

Note 2: Mainly attributable to the decrease in cash received from loans for the period;

Note 3: Mainly attributable to the decrease in cash outlay for the repayment of debts for the period;

Note 4: Mainly attributable to the increase in cash received in connection with the issue of perpetual medium term notes for the period.

For an explanation of reasons for the difference between net cash flows from operating activities and net profit of the Group for the reporting period, please refer to "Note V.51 Supplemental Information for the Cash Flow Statement" to the financial report prepared under PRC ASBES.

## 7. 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.

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- (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 2015, the Group reported operating profit of RMB76,343,000, an increase by 136.35% compared to the same period last year, which was mainly attributable to improvements in both operating revenue and gross profit. Expenses for the period amounted to RMB13,039,995,000, which was 24.81% higher as compared to the same period last year, reflecting mainly increased investment in research and development for the period and exchange losses recorded for the period versus exchange gains recorded for the same period last year both as a result of exchange rate volatility. Investment income amounted to RMB362,268,000, increasing by 574.34% as compared to the same period last year and reflecting mainly substantial gain from settlement of forward exchange contracts upon maturity for the period versus loss incurred for the same period last year. Net non-operating income and expenses amounted to RMB2,066,045,000, a year-on-year increase of 11.44%, reflecting year-on-year growth in income from software VAT rebate.

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

The Group reported growth in both operating revenue and gross profit for the first half of 2015, reflecting growth in operating revenue and gross profit for 3G system equipment in the domestic market, FDD-LTE system equipment in the domestic and international markets, TD-LTE system equipment in the international market, wireline switch and access systems in the domestic market and optical communication systems in the domestic market.

### 8. 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	240,973	(83,157)	—	—	—	—	79,640
3. Available-for-sale financial assets	319,469	—	542,186	—	296,868	386,302	810,995
Sub-total of financial assets	560,442	(83,157)	542,186	—	296,868	386,302	890,635
Investment properties	2,004,465	64,681	—	—	—	—	2,069,146
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
<b>Total</b>	<b>2,564,907</b>	<b>(18,476)</b>	<b>542,186</b>	<b>—</b>	<b>296,868</b>	<b>386,302</b>	<b>2,959,781</b>
Financial liabilities <sup>Note</sup>	71,485	28,432	917	—	—	—	17,529

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 USD 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.

**9. Financial assets and financial liabilities held in foreign currencies**

Unit: RMB in thousands

Item	Opening balance	Gains/ losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	240,973	(83,157)	—	—	79,640
Including: Derivative financial assets	240,973	(83,157)	—	—	79,640
2. Loans and receivables	40,510,003	—	—	714,324	39,286,878
3. Available-for-sale financial assets	348,375	—	(159,932)	—	124,246
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	41,099,351	(83,157)	(159,932)	714,324	39,490,764
Financial liabilities	13,189,929	28,432	917	—	12,416,105

**10. Technological innovations**

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 2015, the Group further introduced the "M-ICT+" philosophy of development on the back of the M-ICT strategy announced in 2014. With a strong emphasis on the "interconnection of all things and the cogeneration of value," vigorous efforts were

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made to enhance our presence in the market segments of carriers, government and corporations, handset terminals 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 interconnection of all things.

The Group maintains an annual R&D budget equivalent to approximately 10% of its sales revenue. Currently, the Group has approximately 19 R&D centres in China, the United States, Sweden, France 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 2015, the Group held patent assets of over 64,000 items, including granted patents of over 19,000 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 30,000 research papers in aggregate to international standardisation organisations and editorships and authorships for more than 220 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.

"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. In the second half of 2015, the Group will continue to drive the establishment of united innovation centres and united laboratories in association with tertiary institutions and the joint undertaking of key national projects and industrialization projects of the National Development and Reform Commission.

During the first half of 2015, the Group undertook leading roles in the R&D and industrialization of numerous projects, such as the National 863 Project, Electronic Development Foundation, Cloud Computing, and Guangdong Technology Programme.

### 11. Analysis of investments

#### (1) Equity investments

##### ① Overview

The Group's equity investments during the reporting period amounted to approximately RMB486,830,000, representing an increase of 9.68% compared to RMB443,870,000 for the same period last year.

For details of the Company's equity investments and the investees, please refer to Note V.11 "Long-term equity investments" to the financial report prepared under PRC ASBES.

## ② Investment in securities

## A. Securities investment at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at	Shareholding	Shares held	Shareholding	Book value at the end of the period	Profit and loss in the reporting period	Accounting classification	Source of shares
				the beginning of the period (10 thousands shares)	percentage at the beginning of the period	at the end of the period (10 thousands shares)	percentage at the end of the period				
Convertible bonds <sup>Note 1</sup>	N/A	N/A	16,309.61	N/A	N/A	N/A	N/A	—	105.70	Other receivables	Initial investment
Convertible bonds <sup>Note 2</sup>	N/A	N/A	28,293.65	N/A	N/A	N/A	N/A	—	552.84	Other receivables, other non-current assets	Initial investment
Other securities investments held at the end of the reporting period			—	—	—	—	—	—	—	—	—
<b>Total</b>			<b>44,603.26</b>	不適用	—	不適用	—	—	<b>658.54</b>	—	—

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

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

## B. Details of investment in securities

Pursuant to the "Resolution on the subscription for shares and convertible bonds of China All Access (Holdings) Limited by ZTE HK" considered and approved at the Thirty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 16 November 2012, ZTE HK, a wholly-owned subsidiary of the Company, entered into the "Agreement on the Subscription for Shares and Convertible Bonds of China All Access (Holdings) Limited" with China All Access on 16 November 2012. On 15 January 2013, ZTE HK completed subscription for convertible bonds with a principal amount of HKD201.5 million issued by China All Access for a total cash consideration of HKD201.5 million. On 14 January 2015, the HKD201.5 million China All Access convertible bonds held by ZTE HK were converted into 92,177,493 China All Access shares at a conversion price of HKD2.186 per share.

Pursuant to the "Resolution on the subscription of China All Access (Holdings) Limited convertible bonds by ZTE HK" considered and approved at the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, ZTE HK, a wholly-owned subsidiary of the Company, entered into the "Agreement on the Subscription of CHINA ALL ACCESS (HOLDINGS) LIMITED Convertible Bonds" with China All Access on 23 December 2014 for the subscription of convertible bonds issued by China All Access with a principal amount of HKD350.0 million at an annual interest rate of 6% and with the principal amount paid annually within two years. On 26 February 2015, ZTE HK completed the subscription of the China All Access convertible bonds with an amount of HKD350.0 million. On 30 June 2015, ZTE HK transferred China All Access convertible bonds with an amount of HKD350.0 million to Oriental (Asia) Investment Holdings Limited (東方(亞洲)投資控股有限公司) for a consideration of approximately HKD356,904,110, comprising HKD350,000,000 as the principal amount of the bonds and HKD6,904,110 as the interest income ZTE HK entitled to for the period of bond holding.

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As at the end of the reporting period, ZTE HK no longer held any convertible bonds of China All Access.

### ③ Holding of equity interests in other listed companies

#### A. Holding of equity interests in other listed companies at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Shares held at	Shareholding percentage at the beginning of the period	Shares held	Shareholding percentage at the end of the period	Book value at the end of the period	Profit and loss in the reporting period		Accounting classification	Source of shares
				(10 thousands shares)		(10 thousands shares)			period	period		
Stock	300322	Speed <sup>Note 1</sup>	762.79	480.00	2.14%	864.00	2.14%	12,752.64	—	—	Available-for-sale financial assets	Initial investment
Stock	603118	Gongjin Electronics <sup>Note 1</sup>	4,274.93	1,037.15	3.46%	1,037.15	3.46%	47,076.40	—	—	Available-for-sale financial assets	Initial investment
Stock	300438	Great Power <sup>Note 1</sup>	3,095.24	300.00	3.57%	300.00	3.57%	20,730.00	—	—	Available-for-sale financial assets	Initial investment
Stock	00633.HK	China All Access <sup>Note 2</sup>	32,619.22	9,698.20	6.13%	—	—	—	4,614.40	—	Available-for-sale financial assets	Initial investment and conversion from bonds
Stock	ENA:TSV	Enablence Technologies <sup>Note 3</sup>	1,393.10	1,800.00	9.88%	1,800.00	8.18%	540.48	—	—	Available-for-sale financial assets	Initial investment
<b>Total</b>			<b>42,145.28</b>	<b>13,315.35</b>	<b>—</b>	<b>4,001.15</b>	<b>—</b>	<b>81,099.52</b>	<b>4,614.40</b>	<b>—</b>		<b>—</b>

Note 1: Figures corresponding to Speed, Gongjin Electronics and Great Power are provided with Zhonghe Chunsheng Fund as the accounting subject.

Note 2: The initial investment for ZTE HK's acquisition of China All Access shares amounted to approximately HKD201.5 million, equivalent to approximately RMB163.1 million based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.80941) on 31 January 2013.

Note 3: The initial investment for ZTE HK's acquisition of Enablence Technologies shares amounted to approximately CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The book value of the investment as at the end of the reporting period was approximately HKD6,749,700, equivalent to approximately RMB5,404,800 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.80074) on 30 June 2015.

#### B. Details of holding of equity interests in other listed companies

##### a. Shareholdings in Speed

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund. Zhonghe Chunsheng Fund was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Zhonghe Chunsheng Fund held 8.64 million shares in Speed, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 2.14% of the total share capital of Speed (following Speed's implementation of its 2014 plan for profit distribution and conversion of capital reserves).



b. Shareholdings in Gongjin Electronics

As at the end of the reporting period, Zhonghe Chunsheng Fund held 10,371,500 shares in or 3.46% of the total share capital of Gongjin Electronics (a company listed on the Main Board of the Shanghai Stock Exchange).

c. Shareholdings in Great Power

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

d. Shareholdings in China All Access

Pursuant to the “Agreement on the Subscription for Shares and Convertible Bonds of China All Access (Holdings) Limited” entered into by ZTE HK, a wholly-owned subsidiary of the Company, with China All Access on 16 November 2012, ZTE HK subscribed for 112 million shares allotted and issued by China All Access on 15 January 2013 for a total cash consideration of HKD201.5 million.

For details of share conversion transaction from convertible bonds of China All Access held by ZTE HK, please refer to the sub-section headed “Details of investment in securities” under this section.

As at the end of the reporting period, ZTE HK no longer held any shares in China All Access.

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 ZTE HK on 6 January 2015 for a total cash consideration of CAD2.70 million. As at the end of the reporting period, ZTE HK held 18 million shares in Enablence Technologies, accounting for 8.18% of its total share capital.

④ *Save as aforesaid, the Group did not invest in non-listed financial enterprises such as commercial banks, securities firms, insurance companies, trusts or futures companies, or conduct securities investment such as dealing in stocks of other listed companies during the reporting period.*

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### (2) Derivative investments, entrusted investments and entrusted loans

#### ① Derivative Investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Whether a Connected relationship	connected transaction	Type of derivative investment <sup>Note 1</sup>	Initial investment amount in the derivative investment	Start date	End date	Opening balance of investment amount	Impairment provision (if any)	Closing balance of investment amount	Closing of the Company at the end of the period (%)	Actual profit or loss for the reporting period	Closing balance of investment amount as a percentage of net assets <sup>Note 2</sup>
HSBC	N/A	No	Interest rate swap <sup>Note 3</sup>	—	2011/12/19	2016/7/8	31,002.50	—	31,042.00	1.16%	—	
Standard Chartered Bank	N/A	No	Interest rate swap <sup>Note 3</sup>	—	2011/12/22	2016/7/8	31,002.50	—	31,042.00	1.16%	—	
BOC	N/A	No	Foreign exchange forwards	—	2014/11/3	2015/12/31	195,576.94	—	112,390.90	4.20%	5,666.00	
BNP Paribas	N/A	No	Foreign exchange forwards	—	2014/10/30	2015/12/31	171,398.53	—	65,592.50	2.45%	3,306.74	
CITIC Bank	N/A	No	Foreign exchange forwards	—	2015/2/9	2015/12/30	32,336.23	—	57,101.76	2.14%	2,878.69	
Other banks	N/A	No	Foreign exchange forwards	—	2014/10/28	2015/12/31	284,498.51	—	202,358.71	7.57%	10,201.57	
Total				—	—	—	745,815.21	—	499,527.87	18.68%	22,053.00	

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 Sixteenth Meeting of the Sixth Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2014,” both dated 26 March 2014, and “Announcement Resolutions of the Twenty-fifth Meeting of the Sixth Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2015,” both dated 25 March 2015.

Date of announcement of the general meeting in respect of the approval of derivative investments (if any)

“Announcement on Resolutions of the 2013 Annual General Meeting” dated 29 May 2014 and “Announcement of Resolutions on the 2014 Annual General Meeting” dated 28 May 2015.

Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period

Value-protection derivative investments were conducted by the Company during the first six months of 2015. The major risks and control measures are discussed as follows:

1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date;
2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company's budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company's current assets was insignificant;
3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks;
4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks;
5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.

## Report of the Board of Directors

Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives

Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period

Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control

The Company has recognised gains from investments in derivatives during the reporting period. Total gains recognised for the reporting period amounted to RMB220.53 million, comprising losses from fair-value change of RMB54.73 million and recognised investment income of RMB275.26 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.

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.

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 banks involved;

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

Note 3: Gains or losses arising from interest rate swap transactions for the period were recognised in the capital reserve in accordance with the accounting treatment for value-protection hedging.

② *Entrusted investments*

Unit: RMB in ten thousands

Name of trustee	Connected relationship	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
Wing Hang Bank (China) Limited, Shenzhen Branch	N/A	No	Bank investment product	3,000	2014-12-18	2015-12-18	Spot realisation on effective date of contract	–	–	–	113
Wing Hang Bank (China) Limited, Shenzhen Branch	N/A	No	Bank investment product	3,000	2014-12-23	2015-12-22	Spot realisation on effective date of contract	–	–	–	113
Wing Hang Bank (China) Limited, Shenzhen Branch	N/A	No	Bank investment product	2,999	2015-1-6	2016-1-5	Spot realisation on effective date of contract	–	–	–	114
Wing Hang Bank (China) Limited, Shenzhen Branch	N/A	No	Bank investment product	1,696	2015-1-8	2016-1-8	Spot realisation on effective date of contract	–	–	–	64
China Merchants Bank, Licheng Sub-branch, Quanzhou	N/A	No	Bank investment product	320	2014-12-25	2015-3-10	Settlement upon maturity based on the actual amount	320	–	–	0.63
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	438	2015-1-6	Option of redemption on the trading date immediately following the date of subscription	Calculation of investment income of the previous month at the monthly dividend registration date	438	–	–	7.67
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	500	2015-1-12	2015-1-28	Settlement upon maturity based on the actual amount	500	–	–	1.13
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	800	2015-1-13	2015-2-16	Settlement upon maturity based on the actual amount	800	–	–	3.95
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	1,500	2015-1-19	2015-2-26	Settlement upon maturity based on the actual amount	1,500	–	–	8.43
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	500	2015-2-3	2015-4-8	Settlement upon maturity based on the actual amount	500	–	–	4.65
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	500	2015-3-4	2015-4-20	Settlement upon maturity based on the actual amount	500	–	–	3.28
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	1,000	2015-3-11	2015-5-29	Settlement upon maturity based on the actual amount	1,000	–	–	11.47
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	800	2015-3-11	2015-7-10	Settlement upon maturity based on the actual amount	–	–	–	–
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	500	2015-4-20	2015-6-1	Settlement upon maturity based on the actual amount	500	–	–	3.05
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	500	2015-4-27	2015-7-7	Settlement upon maturity based on the actual amount	–	–	–	–
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	500	2015-6-2	2015-8-11	Settlement upon maturity based on the actual amount	–	–	–	–
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	500	2015-6-10	2015-9-18	Settlement upon maturity based on the actual amount	–	–	–	–
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	200	2015-6-19	2015-7-21	Settlement upon maturity based on the actual amount	–	–	–	–
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	N/A	No	Bank investment product	250	2015-6-25	2015-8-24	Settlement upon maturity based on the actual amount	–	–	–	–
China Merchants Bank, Zhongguancun Sub-branch, Beijing	N/A	No	Bank investment product	1,000	2015-5-26	2015-8-26	Settlement upon maturity based on the actual amount	–	–	–	–
National Development Bank Corporation, Shenzhen Branch	N/A	No	Bank investment product	1,500	2015-4-17	2015-7-14	Settlement upon maturity based on the actual amount	–	–	–	–
National Development Bank Corporation, Shenzhen Branch	N/A	No	Bank investment product	1,900	2015-5-15	2015-8-13	Settlement upon maturity based on the actual amount	–	–	–	–
China Guangfa Bank Co., Ltd, Futian Sub-branch, Shenzhen Branch	N/A	No	Bank investment product	3,990	2015-6-23	2015-7-24	Settlement upon maturity based on the actual amount	–	–	–	–
<b>Total</b>				<b>27,893</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>6,058</b>	<b>–</b>	<b>–</b>	<b>448.26</b>

Source of funds for entrusted investment      Internal funds

Aggregate amount of overdue and outstanding principal and gain      Nil

Litigation incurred (if applicable)      N/A

## Report of the Board of Directors

Date of announcement of the Board of Directors regarding the approval of entrusted investment (if any)	“Announcement Resolutions of the Twenty-fifth Meeting of the Sixth Session of the Board of Directors” published on 25 March 2015
Date of announcement of the general meeting regarding the approval of entrusted investment (if any)	N/A

③ *During the reporting period, the Company had no entrusted loans.*

### (3) Use of Issue Proceeds

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

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

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

#### ② *Commitments of issue proceeds*

Applicable     N/A

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

Applicable     N/A

**(4) Analysis of principal subsidiaries and investee companies**

Unit: RMB in thousands

Name of company	Corporate type	Business sector	Principal products or services	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Shenzhen Zhongxing Microelectronics Technology Company Limited	Subsidiary	Communications and related equipment manufacturing	Design, generation and sales of integrated circuits	RMB100 million	2,523,484	1,003,738	2,812,892	217,639	273,298
Zhongxing Software	Subsidiary	Manufacturing	Software development	RMB51.08million	18,507,336	5,084,284	10,482,680	(141,333)	871,948
Nubia Technology Limited	Subsidiary	Communications and related equipment manufacturing	Production and sales of communications products	RMB79,166,000	3,511,759	1,419,925	2,244,822	139,231	168,775
ZTE Telecom India Private Ltd.	Subsidiary	Communications	Sales and technical support of communications products	INR2,242,658,600	2,397,777	(1,128,407)	172,240	(257,891)	(257,892)
ZTE DO BRAZIL LTDA	Subsidiary	Communications	Production and sales of communications products	BRL6.50 million	752,365	(1,720,601)	233,990	(259,855)	(260,492)
ZTE HK	Subsidiary	Information technology	General	HKD995 million	26,528,546	2,156,984	10,116,898	338,653	331,556

For information of other subsidiaries and principal investee companies, please refer to Note V.11 “Long-term equity investments” and Note VII to the financial report prepared in accordance with PRC ASBES.

**(5) Significant investments using funds other than issue proceeds**

Applicable     N/A

12. **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

13. **Explanatory statement from the Board of Directors and Supervisory Committee of the Company on the accountant’s “qualified opinion” for the reporting period**

Applicable     N/A

14. **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

15. **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

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

Applicable     N/A

## Report of the Board of Directors

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

New tier-two subsidiaries established during the first half of 2015 included 山西中興網信科技有限公司, 中興(銀川)智慧城市研究院(有限公司), 大連中興網信科技有限公司 and 綏化中興智慧城市發展有限公司.

安徽中興通訊傳媒有限責任公司, a tier-one subsidiary of the Company, completed deregistration with industrial and commercial administration authorities according to the PRC Corporate Regulations on 15 February 2015 and 安徽中興通訊傳媒有限責任公司 had been deconsolidated from the consolidated statements of the Group as from February 2015.

### 18. Profit distribution or conversion of capital reserves

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 was 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 and Conversion of Capital Reserve of the Company for 2014” considered and approved at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, a cash dividend of RMB2.0 for every 10 shares (before tax) held will be paid and 2 shares will be created for every 10 shares by way of conversion of capital reserve on the basis of the total share capital of the Company of 3,437,541,278 shares as at 31 December 2014. The proposal was considered and approved at the 2014 Annual General Meeting of the Company held on 28 May 2015 and was completed on 17 July 2015. For details of implementation, please refer to the section headed “Material Matters – (II) Implementation of the 2014 plan for profit distribution and conversion of capital reserve of the Company” in this report.

Aggregate profit distribution of the Company in the form of cash in 2012–2014 accounted for 163.42% 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 (amended in June 2014) 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.

### 19. Establishment and implementation of the System of Registration of Owners of Inside Information

To regulate the Company’s management of inside information, enhance confidential treatment of inside information and safeguard fairness in information disclosure, the Company formulated the System of Registration of Owners of Inside Information in accordance with provisions of relevant laws and regulations, which was considered and passed at the Thirtieth Meeting of the Fourth Session of the Board of Directors



of the Company held on 27 October 2009. The amendment of the system was considered and approved at the Thirty-second Meeting of the Fifth Session of the Board of Directors of the Company held on 22 August 2012 and published on <http://www.cninfo.com.cn> on 28 October 2009 and 23 August 2012, respectively. During the reporting period, the Company diligently implemented relevant provisions of the System of Registration of Owners of Inside Information and vigorously commenced work on inside information management.

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

## 20. Reception of investors and analysts, communications and press interviews of the Company during the reporting period

During the Reporting Period, the Company hosted 14 receptions of investors for research purposes and received 18 institutional investors. No individual investors or other researchers have been received. For details, please refer to the following table. The Company has not disclosed, divulged or given away any unpublished material information to investors.

Nature	Time	Location	Mode	Audience received	Key contents of discussion	Materials furnished
External meetings	January 2015	Shanghai	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	January 2015	Shenzhen	Guosen Securities investors' meeting	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2015	Shenzhen	Sinolink Securities investors' meeting	Customers of Sinolink Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2015	Shenzhen	Orient Securities investors' meeting	Customers of Orient Securities	Day-to-day operations of the Company	Published announcements and regular reports
	April 2015	Hong Kong	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	May 2015	Hong Kong	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2015	Hong Kong	BNP investors' meeting	Customers of BNP	Day-to-day operations of the Company	Published announcements and regular reports
	May 2015	Hong Kong	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	May 2015	Xiamen	Shenyin Wanguo investors' meeting	Customers of Shenyin Wanguo	Day-to-day operations of the Company	Published announcements and regular reports
	June 2015	Shanghai	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2015	Shanghai	Zheshang Securities investors' meeting	Customers of Zheshang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2015	Shanghai	Haitong Securities investors' meeting	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2015	Beijing	BOCI investors' meeting	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
June 2015	Kunming	Essence Securities investors' meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports	
Presentation of the Company	March 2015	Hong Kong	Results presentation	Analysts and investors	2014 Annual Report	Published announcements and regular reports
Company visits by investors				Overseas investors		
	January to June 2015	Company	Verbal	Jana Partners, Value Partners, Resona Bank HK, Samsung Securities, Cantor Fitzgerald, East Capital, Neuberger Berman Investment Management, BNP, Matthews International Funds, Allianz Global Investments, Mizuho Securities Asia Limited, Merrill Lynch Securities, Nezu Asia Capital	Day-to-day operations of the Company	Published announcements and regular reports
	January to June 2015	Company	Verbal	China Securities, New China Asset Management, First Capital Securities, Truvalue Asset Management, Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports

## Report of the Board of Directors

### (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 product segments of the Group for the periods indicated, in monetary amount and as a percentage of the total operating revenue:

Unit: RMB in millions

Product segment	For the six months ended 30 June 2015		For the six months ended 30 June 2014	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	28,513.8	62.1%	21,835.7	57.9%
Handset terminals	9,959.5	21.7%	10,406.2	27.6%
Telecommunications software systems, services and other products	7,425.5	16.2%	5,455.4	14.5%
<b>Total</b>	<b>45,898.8</b>	<b>100.0%</b>	<b>37,697.3</b>	<b>100.0%</b>

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 2015		For the six months ended 30 June 2014	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	24,360.8	53.1%	19,259.6	51.1%
Asia (excluding the PRC)	7,197.2	15.7%	5,867.7	15.6%
Africa	3,207.4	7.0%	2,210.7	5.9%
Europe, the Americas and Oceania	11,133.4	24.2%	10,359.3	27.4%
<b>Total</b>	<b>45,898.8</b>	<b>100.0%</b>	<b>37,697.3</b>	<b>100.0%</b>

The Group reported RMB45,898.8 million in operating revenue for the first six months of 2015, a 21.8% increase as compared to the same period last year, of which the domestic operating revenue increased by 26.5% to RMB24,360.8 million, while the international operating revenue increased by 16.8% to RMB21,538.0 million as compared to the same period last year.

Analysed by product, there was growth in the Group's operating revenue for the first six months of 2015 as compared to the same period last year, which reflected mainly the increase in operating revenue from carriers' networks, telecommunications software systems, services and other products in both the domestic and international markets as compared to the same period last year. Year-on-year growth in the Group's operating revenue from carriers' networks for the first six months of 2015 was mainly attributable to the

increase in operating revenue from 3G system equipment in the domestic market, FDD-LTE system equipment in both the domestic and international markets, TD-LTE system equipment in the international market, wireline switch and access systems in the domestic market and optical communication systems in the domestic market. Year-on-year decline in the Group's operating revenue from handset terminals for the first six months of 2015 was mainly attributable to the decrease in operating revenue from handset terminals in the domestic market. Year-on-year growth in the Group's operating revenue from telecommunications software systems, services and other products for the first six months of 2015 mainly reflected the growth in operating revenue from video and network terminals.

### 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

Product segment	For the six months ended 30 June 2015		For the six months ended 30 June 2014	
	Cost of sales	As a percentage of product segment revenue	Cost of sales	As a percentage of product segment revenue
Carriers' networks	18,605.5	65.3%	14,124.7	64.7%
Handset terminals	8,409.7	84.4%	8,780.9	84.4%
Telecommunications software systems, services and other products	5,073.2	68.3%	3,670.6	67.3%
<b>Total</b>	<b>32,088.4</b>	<b>69.9%</b>	<b>26,576.2</b>	<b>70.5%</b>

Unit: RMB in millions

Product segment	For the six months ended 30 June 2015		For the six months ended 30 June 2014	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	9,908.3	34.7%	7,711.0	35.3%
Handset terminals	1,549.8	15.6%	1,625.3	15.6%
Telecommunications software systems, services and other products	2,352.3	31.7%	1,784.8	32.7%
<b>Total</b>	<b>13,810.4</b>	<b>30.1%</b>	<b>11,121.1</b>	<b>29.5%</b>

Cost of sales of the Group for the first six months of 2015 increased 20.7% as compared to the same period last year to RMB32,088.4 million. The Group's overall gross profit margin for the first half of 2015 of 30.1% was 0.6 percentage point higher as compared to the same period last year, reflecting mainly growth in operating revenue from carriers' networks, which commanded a higher gross profit margin, as a percentage of total revenue.

Cost of sales of the Group's carriers' networks for the first six months of 2015 amounted to RMB18,605.5 million, a 31.7% increase compared to the same period last year. The relevant gross profit margin was 34.7% versus 35.3% for the same period last year. The slight decrease in gross profit margin of carriers' networks mainly reflected the combined effect of the slight decrease in gross profit margin for wireless system equipment in the domestic market and the increase in gross profit margin for wireless system equipment in the international market recognised for the period.

## Report of the Board of Directors

Cost of sales of the Group's handset terminals for the first six months of 2015 amounted to RMB8,409.7 million, a decline of 4.2% compared to the same period last year. The gross profit margin of handset terminals remained unchanged over the same period last year at 15.6%.

Cost of sales of the Group's telecommunications software systems, services and other products for the first six months of 2015 amounted to RMB5,073.2 million, increasing by 38.2% compared to the same period last year. The relevant gross profit margin was 31.7%, compared to 32.7% for the same period last year. The decrease in gross profit margin of telecommunications software systems, services and other products was mainly attributable to lower gross profit margin for video and network terminals in the domestic market.

### Other Income and Gains

Other income and gains of the Group for the first six months of 2015 amounted to RMB2,840.3 million, representing a 16.2% increase compared to RMB2,444.3 million for the first six months of 2014. The increase reflected mainly substantial gain from settlement of forward exchange contracts upon maturity by the Group during the period versus loss incurred for the same period last year.

### Research and Development Costs

The Group's research and development costs for the first six months of 2015 increased by 33.1% to RMB5,491.9 million from RMB4,126.5 million for the first six months of 2014, and increased by 1.1 percentage points to 12.0% from 10.9% for the first six months of 2014 as a percentage of operating revenue, attributable mainly to the Group's ongoing increase in investment in the research and development of products such as LTE, bearer network, SDN and GPON during the period.

### Selling and Distribution Expenses

The Group's selling and distribution expenses for the first six months of 2015 increased by 12.5% to RMB5,406.8 million from RMB4,806.4 million for the first six months of 2014, reflecting mainly increased staff expenses and investment in the Asian, European and United States markets by the Group during the period. Selling and distribution expenses as a percentage of operating revenue was 11.8% for the first six months of 2015, decreasing by 0.9 percentage point compared to 12.7% for the first six months of 2014.

### Administrative Expenses

Administrative expenses of the Group for the first six months of 2015 increased by 8.8% to RMB1,243.8 million, as compared to RMB1,142.8 million for the first six months of 2014, which was mainly attributable to the increase in the Group's staff expenses for the period. Administrative expenses as a percentage of operating revenue decreased by 0.3 percentage point to 2.7% from 3.0% for the first six months of 2014.

### Other Expenses

Other expenses of the Group for the first six months of 2015 increased by 55.5% to RMB1,635.6 million, as compared to RMB1,051.6 million for the first six months of 2014, reflecting mainly the increase in the Group's provision for bad debts of trade receivables for the period.

### Profit from Operating Activities

The Group's profit from operating activities for the first six months of 2015 increased by 17.8% to RMB2,872.6 million, as compared to RMB2,438.1 million for the first six months of 2014, while the operating profit margin decreased by 0.2 percentage point to 6.3% from 6.5% for the first six months of 2014, reflecting primarily the combined effect of the increase in gross profit and the increase in research and development costs of the Group for the period.

### Finance Costs

Finance costs of the Group for the first six months of 2015 decreased by 8.2% to RMB692.1 million compared to RMB753.7 million for the first six months of 2014, which was attributable mainly to the Group's efforts to enhance treasury management, adjust debt structure and actively expand overseas low-cost financing channels.

### Income Tax Expense

The Group's income tax expense for the first six months of 2015 was RMB310.2 million, which was 34.4% lower as compared to RMB472.7 million for the first six months of 2014, which was mainly attributable to lower income tax charge rates as a result of the Group's arrangements in internal transactions and transfer prices during the period.

### Profit Attributable to Non-Controlling Interests

The Group's profit attributable to non-controlling interests for the first six months of 2015 amounted to RMB35.8 million, representing a decrease of 16.9% compared to RMB43.1 million for the first six months of 2014, mainly attributable to the decrease in profit recorded by certain subsidiaries of the Group for the period.

### Other Comprehensive Income

Other comprehensive income of the Group for the first six months of 2015 amounted to RMB559.6 million, compared to RMB-1.5 million for the first six months of 2014, reflecting mainly gains for the period arising from the fair-value revaluation of the Group's available-for-sale financial assets at the end of the period.

### Debt-Equity Ratio

The Group's debt-equity ratio for the first six months of 2015 was 40.0%, decreasing by 13.9 percentage points as compared to 53.9% for the first six months of 2014. The decrease was mainly attributable to the combined effect of the issuance of perpetual medium term notes by the Group and the continuous growth in its profitability.

### Cash Flow Data

Unit: RMB in millions

Item	For the six months ended 30 June 2015	For the six months ended 30 June 2014
Net cash inflow from operating activities	873.6	1,038.3
Net cash outflow from investing activities	(1,132.7)	(1,894.5)
Net cash inflow (outflow) from financing activities	527.7	(3,276.7)
Net increase (decrease) in cash and cash equivalents	268.6	(4,132.9)
Cash and cash equivalents at the end of the period	17,317.5	16,051.2

As at 30 June 2015, the Group's cash and cash equivalents amounted to RMB17,317.5 million, which were mainly denominated in RMB, and to a lesser extent in USD, EUR, HKD and other currencies.

## Report of the Board of Directors

### Operating Activities

The Group reported net cash inflow from operating activities of RMB873.6 million for the first six months of 2015, compared to RMB1,038.3 million for the first six months of 2014, mainly reflecting year-on-year increase of cash received from sales of goods and provision of services by RMB9,334.5 million, increase in other cash received relating to operating activities by RMB221.5 million and increase in tax rebates by RMB239.9 million; coupled with increase of cash paid for the purchase of goods and services by RMB6,093.5 million, increase in cash payments to and on behalf of employees by RMB1,915.3 million, increase in tax payments by RMB900.9 million, increase in other cash payments relating to operating activities by RMB93.7 million and increase in cash payments relating to dividend distribution or interest repayment by RMB26.1 million.

### Investing Activities

The Group's net cash outflow from investing activities was RMB1,132.7 million for the first six months of 2015 versus RMB1,894.5 million for the first six months of 2014, reflecting mainly the decrease in pledged bank deposits of the Group for the period versus an increase in the same for the same period last year.

### Financing Activities

The Group's net cash inflow from financing activities for the first six months of 2015 was RMB527.7 million, compared to net cash outflow of RMB3,276.7 million for the first six months of 2014, reflecting mainly the increase of RMB7,415.5 million in connection with the issuance of perpetual medium term notes by the Group during the period.

### Indebtedness

Unit: RMB in millions

Item	30 June 2015	31 December 2014
Secured bank loans	113.7	606.6
Unsecured bank loans	20,252.0	20,474.2

Unit: RMB in millions

Item	30 June 2015	31 December 2014
Short-term bank loans	10,815.7	11,041.1
Long-term bank loans	9,550.0	10,039.7

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. Of the Group's long-term banks loans, RMB loans with an amount of RMB 1,638.2 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 balance of the Group's bank loans as at 30 June 2015 was RMB715.1 million less than that as at 31 December 2014. The reduction mainly reflected improvements in the Group's operating cash flow and the repayment of certain bank loans during the period.

## Capital Commitments

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

Unit: RMB in millions

Item	30 June 2015	31 December 2014
Land and buildings:		
Contracted, but not provided for	902.9	214.4
Investment in associates:		
Contracted, but not provided for	71.6	5.2
Land and buildings:		
Authorised, but not contracted	21,238.0	21,897.5

## Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40 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 2014 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

## (IV) BUSINESS OUTLOOK FOR THE SECOND HALF OF 2015 AND RISK EXPOSURES

### 1 Business outlook for the second half of 2015

Looking to the second half of 2015, global economic recovery has fostered a positive environment for the telecommunications industry, while investments in 4G networks are expected to continue. Nevertheless, the traditional telecommunications industry will face challenges as well as opportunities, as they look to reduce the cost of network construction and operation, build broadband connections with higher speed, monetise the added value of Big Data, strengthen network information security and develop smart terminals and wearable devices. In connection with carriers' networks, large-scale deployment, capacity expansion, performance optimisation, and in-depth coverage of 4G networks will drive new demand for investments in the telecommunications industry, while the construction of smart pipelines by carriers to cope with the rapid growth of data flow represents new opportunities for us. In connection with government and corporate networks, the sophisticated integration between the Mobile Internet and traditional industries, underpinned by latest technologies such as the Internet of Things, Cloud Computing, Big Data and high-power wireless charge, will trigger off an information revolution, while the increasingly acute issue of information security and the fast-growing demand for Smart-City solutions will give rise to opportunities to government and corporate networks. In connection with handset terminals, the slowdown in penetration and growth of the global smart phone market means that the global market has reached a stage where competition is ultimately determined by the overall strengths of the players. The new generation of handset terminals will emphasise the enhancement of users' experience with stronger integration of Big Data and Cloud services and contents.

To address the aforesaid challenges and opportunities in the second half of 2015, the Group will focus on the three mainstream markets of "carriers, government and corporate sectors and consumers" under the theme of "capitalising on opportunities arising from macro-restructuring to create value out of information," seeking to achieve breakthroughs in profitability through innovations in technologies and business models as we build our presence in the "new sectors." For the carriers, the Group will be committed to enhancing pipeline intelligentisation to support the transformation of telecommunication carriers into information carriers. For the government and corporate sector, the Group will actively drive



## Report of the Board of Directors

the transition of various sectors to “Industry 4.0” or “Industrial Internet” while increasing the operation efficiency of corporates. For consumers, the Group will enhance its channel building, market promotion and design capabilities with the primary aim of enhancing users’ value.

### 2 Risk exposures

#### (1) Country risk

Given the complex nature of international economic and political conditions, 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 operates its business. As such, a very high level of operational and risk control capabilities is required. Currently, the Group conducts systematic management of country risks mainly through regular assessment, timely warning and proactive response.

#### (2) Risk associated with intellectual property rights

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

#### (3) Exchange rate risk

The Group’s consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB. The Group seeks to mitigate the impact of exchange rate volatility on its operations by managing its foreign exchange risks through business planning, consolidated hedging and financial instruments, etc based on the principle of exposure management.

#### (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 and 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 structure of its interest-bearing liabilities.

#### (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.



# Material Matters

## (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.

The Company conducted with focused efforts the following internal control work in the first half of 2015 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 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 CSRC Shenzhen Branch:

The Company's internal control work during the first quarter of 2015 mainly involved overall review and evaluation of its internal control work in 2014, completion of the Self-assessment Report on Internal Control of the Company in 2014 and inspection of the compliance of derivative investments in 2014. For details, please refer to the section headed "3. Material Matters — 3.7 Development and implementation of internal control in the first quarter of 2015" in the 2015 first quarterly report of the Company.

Details of the development and implementation of internal control in the second quarter of 2015 are as follows:

- (1) An independent consultant agency was engaged to provide specific training in accordance with regulatory requirements for risk management and internal control;
- (2) Expertise in risk management and internal control was continuously enhanced as the Company promoted know-how in risk management and internal control on an ongoing basis and drew conclusions from various practices;
- (3) Risks in the Company's operations were analysed and identified and ongoing control was exercised;
- (4) Internal control over the government and corporate sector business and project work outsourcing was further enhanced; and
- (5) The Company started work relating to the 2015 self-assessment of internal control and the update and application of the internal control manual to improve its internal control standard and strengthen its execution.

## Material Matters

2. During the period from 1 January to 30 June 2015, the Company fully complied with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules.

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 2015.

### (II) IMPLEMENTATION OF THE 2014 PLAN FOR PROFIT DISTRIBUTION AND CONVERSION OF CAPITAL RESERVE OF THE COMPANY

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

### (III) PROFIT DISTRIBUTION PROPOSAL AND PROPOSAL FOR CONVERSION OF CAPITAL RESERVE FOR THE SIX MONTHS ENDED 30 JUNE 2015

The Company does not propose any profit distribution or conversion of capital reserve for the six months ended 30 June 2015.

### (IV) 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 and other litigation and arbitration proceedings incurred during the reporting period are set out as follows:

- (1) 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, Inc (“ZTE USA”), a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company’s terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also

demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its initial determination in respect of the case, ruling that one of the patent relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of ITC.

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

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

- (2) In February 2013, Vringo Germany GmbH ("Vringo Germany") filed a patent litigation with the Court of Mannheim, Germany against the Company and ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, pleading for the UMTS products of the Company and ZTE Deutschland with TSTD (Time Switched Transmitter Diversity) functions to be ruled to have infringed upon the patent rights of Vringo Germany. In December 2013, the Court of Mannheim, Germany handed down the first trial judgement, ruling that the Company and ZTE Deutschland had infringed upon the patent rights and issuing an injunction order against the Company and ZTE Deutschland in respect of the UMTS products with TSTD functions. The Company and ZTE Deutschland filed an appeal to the aforesaid court in January 2014, pleading for the rejection of the patent infringement claims of Vringo Germany and revocation of the injunction order. Vringo Germany withdrew its litigation in October 2014. In December 2014, Vringo Germany filed a patent litigation with the Court of Dusseldorf, Germany in respect of the patents involved against the Company and ZTE Service GmbH ("ZTE Service"), a wholly-owned subsidiary of the Company. As the UMTS products of the Company, ZTE Deutschland and ZTE Service sold in Germany do not support TSTD functions, the injunction order will not have any impact on the business of the Company, ZTE Deutschland and ZTE Service in Germany.

## Material Matters

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

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

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

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

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.

- (3) In August 2013, Dataquill Limited of the United States filed a claim with the Eastern District Court of Texas, alleging infringement upon five of its patent rights by smart phones sold in the United States by the Company, ZTE USA and ZTE Solutions, Inc., both wholly-owned subsidiaries of the Company. Defendants in this case included other companies in the industry. In March 2015, Dataquill Limited has withdrawn the Company and ZTE Solution, Inc. from defendants. In June 2015, the jury of the Eastern District Court of Texas issued its verdict in respect of the aforesaid

case which ruled that the products of ZTE USA subject to the infringement allegations to have infringed upon two patent rights involved, and that ZTE USA was required to pay a compensation amount of approximately USD31.50 million. The verdict is pending endorsement by the judge. ZTE USA has engaged a legal counsel to actively deal with the 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.

## 2. General Media Queries

Applicable     N/A

### (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. Progress of the asset transaction disclosed by the Group is set out as follows:

On 16 November 2012, the Company and CCB International (Shenzhen) Investment Co., Ltd. ("CCBI") entered into the "Equity Transfer Agreement for the Transfer of 30% Equity Interests in Shenzhen Changfei Investment Company Limited" (the "Former Equity Transfer Agreement"), pursuant to which the Company would transfer its 30% equity interests in Shenzhen Changfei Investment Company Limited ("Changfei") to CCBI and provide an undertaking of compensation in respect of the operating results of Changfei for the years 2012 to 2016. For details, please refer to the "Discloseable Transactions Disposal of Equity Interest in Shenzhen Changfei Investment Company Limited" published by the Company on 16 November 2012.

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

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

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. 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

## Material Matters

Sixth Session of the Board of Directors of the Company held on 31 October 2013, the date of grant has been set for 31 October 2013 (Thursday), on which 102.989 million share options were granted to 1,528 Scheme Participants. The exercise price for the share options granted was RMB13.69 per A share.

Details of share options held by Scheme Participants 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 exercised during the reporting period	Number of unexercised options at the end of the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period
Zhang Jianheng	Director	30,000	0	0	30,000	0	0
Xie Weiliang	Director	30,000	0	0	30,000	0	0
Wang Zhanchen	Director	30,000	0	0	30,000	0	0
Zhang Junchao	Director	30,000	0	0	30,000	0	0
Dong Lianbo	Director	30,000	0	0	30,000	0	0
Tian Wenguo	Executive Vice President	200,000	0	0	200,000	0	0
Qiu Weizhao	Executive Vice President	500,000	0	0	500,000	0	0
Fan Qingfeng	Executive Vice President	500,000	0	0	500,000	0	0
Zeng Xuezhong	Executive Vice President	450,000	0	0	450,000	0	0
Zhao Xianming	Executive Vice President	500,000	0	0	500,000	0	0
Pang Shengqing	Senior Vice President	450,000	0	0	450,000	0	0
Xu Huijun	Senior Vice President	350,000	0	0	350,000	0	0
Ye Weimin	Senior Vice President	400,000	0	0	400,000	0	0
Zhu Jinyun	Senior Vice President	450,000	0	0	450,000	0	0
Zhang Renjun	Senior Vice President	350,000	0	0	350,000	0	0
Chen Jianzhou	Senior Vice President	450,000	0	0	450,000	0	0
Cheng Lixin	Senior Vice President	200,000	0	0	200,000	0	0
Xiong Hui	Senior Vice President	400,000	0	0	400,000	0	0
Zhang Zhenhui	Senior Vice President	195,000	0	0	195,000	0	0
Feng Jianxiong	Board Secretary	400,000	0	0	400,000	0	0
Other scheme participants	1,508 persons	97,044,000	0	0	97,044,000	0	0
<b>Total</b>	<b>1,528 persons</b>	<b>102,989,000</b>	<b>0</b>	<b>0</b>	<b>102,989,000</b>	<b>0</b>	<b>0</b>

Note: The number of share options listed in the above table has not been adjusted according to the 2013 profit distribution plan and the 2014 plan for profit distribution and conversion of capital reserve.



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:

<b>Exercise period</b>	<b>Duration</b>	<b>Exercisable share options as a percentage of the total number of share options granted</b>
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%

For further details of the share option incentive scheme implemented by the Company, please refer to the section headed “Material Matters – (V) IMPLEMENTATION AND IMPACT OF THE COMPANY’S SHARE OPTION INCENTIVE SCHEME” in the 2014 Annual Report of the Company.

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

## **(VIII) INFORMATION ON THE CORPORATE BONDS OF THE COMPANY**

To meet the Company’s working capital requirements, further improve its debt structure and lower its finance costs, the Company was given approval to issue corporate bonds with a nominal value of not more than RMB6 billion (the “Issue”) in accordance with relevant provisions of the Company Law, Securities Law, Trial Measures for the Issue of Corporate Bonds and other pertinent laws, regulations and regulatory documents, following consideration and approval at the Twenty-sixth Meeting of the Fifth Session of the Board of Directors of the Company held on 8 March 2012 and the First Extraordinary General Meeting of 2012 of the Company held on 11 April 2012 and approval by the CSRC by virtue of the document Zheng Jian Xu Ke [2012] No. 754. The bonds were issued at a price of RMB100 each with a coupon interest rate of 4.20% for a term of 3 years. The Issue was conducted by way of a combination of online offering to public investors and offline bid placing to institutional investors. Corporate bonds under the Issue were listed on Shenzhen Stock Exchange on 16 July 2012 under the bond code “112090” and the abbreviated bond name “12中興01”.

## Material Matters

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

### (IX) REGISTRATION AND ISSUE OF PERPETUAL MEDIUM TERM NOTE BY THE COMPANY

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

The aforesaid matter was considered and approved at the Twentieth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2014 of the Company. For details please refer to the “Announcement Resolutions of the Twentieth Meeting of the Sixth Session of the Board of Directors” and “Announcement on Resolutions of the First Extraordinary General Meeting of 2014” published by the Company on 22 August 2014 and 15 October 2014. The National Association of Financial Market Institutional Investors has accepted the registration of the RMB9 billion Medium Term Note of the Company. For details, please refer to the “Announcement on the Approval of Registration for the Issue of Medium Term Note” published by the Company on 15 December 2014.

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

### (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 Company has proposed to apply to the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) for the registration and issue of super and short-term commercial paper (“SCP”) with an amount of not more than RMB8,000 million. SCP is a debenture issued by non-financial enterprises with the status of corporate person and typically higher credit ratings in the interbank bond market for a term of not more than 270 days.

The aforesaid matter has been considered and approved at the Twenty-fifth Meeting of the Six Session of the Board of Directors and the 2014 Annual General Meeting. For details, please refer to the “Announcement Resolutions of the Twenty-fifth Meeting of the Sixth Session of the Board of Directors” and the Announcement on Resolutions of the 2014 Annual General Meeting” published by the Company on 25 March 2015 and 28 May 2015, respectively. The National Association of Financial Market Institutional Investors has accepted the registration of the RMB8,000 million SCP of the Company. For details, please refer to the “Announcement on the Approval of Registration for the Issue of Super and Short-term Commercial Paper” published by the Company on 20 August 2015.



## (XI) 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 approved cap classification has been exceeded (%)	the same approved cap has been exceeded (%)		for similar transactions available		
Zhongxingxin and its subsidiaries	Controlling shareholder of the Company and its subsidiaries	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Continuing connected transactions in respect of the Group's purchases from connected parties were conducted in the ordinary course of business of the two parties on normal commercial terms and terms no less favourable than those available to or from (as the case may be) independent third parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1-RMB30,000 per unit depending on level of sophistication; cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; Shelters: RMB5,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB11,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	31,531.59	1.19%	No	Commercial acceptance bill	N/A	2012-12-29	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna	A company at which a supervisor of the Company's controlling shareholder acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party	products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Communication antenna: RMB100-RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100-9,999 per unit depending on technical parameters and functional features; Feeder: RMB1-200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1-100 per piece depending on technical parameters and functional features.	53,037.83	2.00%	No	Commercial acceptance bill	N/A	2012-12-29	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
											2015-3-26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
											2015-5-29	Announcement No. 201522 "Announcement on Resolutions of the 2014 Annual General Meeting"
Huatong	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	1,197.05	0.05%	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 the Chairman of the Company concurrently acted as chairman	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	1,017.73	0.04%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

## Material Matters

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	As a percentage of transactions in the same classification			Whether approved has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
						Amount (RMB in ten thousands)	the same classification (%)	approved cap					
Zhongxing Hetai and its subsidiaries	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.	1,610.72	0.06%	No	Tele-transfer	N/A	2014-5-30	Announcement No. 201424 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	
Zhongxing Development	A Company for which the Chairman of the Company concurrently acted as chairman	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m.; Lease of parking spaces (from 1 January 2015 to 17 April 2015); 25 ground level parking spaces and 138 underground parking spaces; parking spaces (from 18 April 2015 to 17 April 2017); 25 ground level parking spaces and 127 underground parking spaces by the Company from the connected party		From 1 January 2015 to 17 April 2015: monthly rent of RMB130/sq.m.; monthly rent of ground level parking spaces of RMB150 each; monthly rent of underground parking spaces of RMB500 each. (Property management undertaken by ZTE and no management fees are payable.) From 18 April 2015 to 17 April 2017: monthly rent of RMB145/sq.m.; monthly rent of ground level parking spaces of RMB350 each; monthly rent of underground parking spaces of RMB600 each. (Property management undertaken by ZTE and no management fees are payable.)	2,099.14	5.90%	No	Tele-transfer	N/A	2012-12-29  2015-3-26	Announcement No. 201263 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"  Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	
Chongqing Zhongxing Development	Subsidiary of the company for which the Chairman of the Company concurrently acted as chairman	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. and 97 parking spaces by the Company from the connected party		Monthly rent of RMB50/sq.m. and RMB45/sq.m. for the office (for a maximum leased GFA of 18,532.08 sq.m.) and cafeteria (for a maximum leased GFA of 1,467.92 sq.m.) respectively; monthly garden area management fee of RMB3/sq.m. based on actual GFA leased; monthly rent of parking space: RMB150 each.	449.47	1.26%	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 the company for which the Chairman of the Company concurrently acted as chairman	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		Six months ended 30 June 2015: Rent: RMB68/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB42/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB110/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB41/sq.m./month for hotel and related equipment and facilities in Xi'an.	3,345.82	22.82%	No	Tele-transfer	N/A	2014-5-30	Announcement No. 201424 "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 the company for which the Chairman of the Company concurrently acted as chairman	Financial services	The provision of deposit services by ZTE Group Finance to the connected party		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; in case the interest rate announced by PBOC was not applicable, ZTE Group Finance would pay interest to the connected party at a rate not higher than the interest rate level adopted by similar businesses carried out by other independent financial institutions.	4,517.32 <small>Note 1</small>	0.47%	No	Tele-transfer	N/A	2015-3-26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	
Mobi Antenna	A company at which a supervisor of the Company's controlling shareholder acted as director	Financial services	The provision of bill discounting services by ZTE Group Finance to the connected party		Bill discounting services were conducted during the ordinary course of business of the two parties based on normal commercial terms. The interest rate for discounting was determined on the basis of the rediscount rate announced by the PBOC taking into account prevailing market levels and in compliance with relevant guidelines and requirements of the PBOC.	10,100.00 <small>Note 2</small>	4.35%	No	Tele-transfer	N/A	2015-3-26  2015-5-29	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"  Announcement No. 201522 "Announcement on Resolutions of the 2014 Annual General Meeting"	

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	As a percentage of transactions in the same classification			Whether approved has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
						Amount (RMB in ten thousands)	(%)						
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.	30,396.36	0.67%	No	Tele-transfer or bank acceptance bill	N/A	2014-10-24	Announcement No. 201446 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	
Nanchang Software	A company of which the majority of board members can be controlled by another company for which the Chairman of the Company concurrently acted as chairman	Sales of products and rendering of services	The provision by the Company to the connected party of software and hardware equipment and engineering services required for smart campus and campus IT development, and integrated solutions for smart traffic, city emergency command system, smart military camp and government/corporate IT systems		Based on market prices and not lower than prices at which similar products and services of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	503.09	0.01%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"	
<b>Total</b>						<b>139,806.12</b>	<b>N/A</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	

Detailed information of substantial sales return: None

Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market): The aforesaid connected parties were able to manufacture products required by the Group and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to its operations.

Effect of the connected transaction on the independence of the listed company: All transactions between the Company and the connected parties were in compliance with pertinent national laws and regulations without any compromise to the interest of the Company and its shareholders. The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.

The Company's dependence on the connected party and relevant solutions (if any): The Company was not dependent on the connected parties.

Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any):

At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2015 be capped at RMB1,100 million (before VAT);

At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the estimated purchases from Mobi Antenna, a connected party, by the Group in 2015 be capped at RMB900 million (before VAT); at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015 and the 2014 Annual General Meeting held on 28 May 2015, it was considered and approved that the cap for estimated purchases from Mobi Antenna, a connected party, by the Group in 2015 be revised to RMB1,500 million (before VAT);

At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated purchases from Hualong and Nanchang Software, both connected parties, by the Company in 2015 be capped at RMB60 million and RMB51 million, respectively (before VAT);

At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated sales of products and rendering of services to Nanchang Software, a connected party, by the Company in 2015 be capped at RMB29 million (before VAT);

At the Thirty-eighth Meeting of the Fifth Session of the Board of Directors of the Company held on 28 December 2012, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB50.80 million for a term commencing on 18 April 2013 and ending on 17 April 2015; at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB54 million for a term commencing on 18 April 2015 and ending on 17 April 2017;

At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the annual rent payable by the Company to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB13 million for a term commencing on 1 January 2015 and ending on 31 December 2017;

At the Eighteenth Meeting of the Sixth Session of the Board of Directors of the Company held on 29 May 2014, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2014 and ending on 30 June 2015; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB75 million for the period commencing on 1 July 2014 and end on 30 June 2015;

At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the estimated daily deposit balance (principal cum interest) of the deposit service provided by ZTE Group Finance to Zhongxing Hetai and its subsidiaries in 2015 shall be capped at RMB70 million;

At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015 and the 2014 Annual General Meeting held on 28 May 2015, it was considered and approved that the estimated daily balance of outstanding discounted bills (principal cum interest) of the bill discounting service provided by ZTE Group Finance to Mobi Antenna in 2015 shall be capped at RMB300 million;

At the Twenty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 23 October 2014, it was considered and approved that the estimated sales of digital communications products and communications products to 航天睿华 by the Company in 2015 be capped at RMB1,000 million (before VAT); and

Please refer to the above table for details of the execution of the aforesaid connected transactions.

Reason for the substantial difference between transaction prices and referential market prices (if applicable): N/A

## Material Matters

Note 1: The amount represented the estimated maximum daily deposit balance (principal cum interest) for the six months ended 30 June 2015;

Note 2: The amount represented the estimated maximum daily balance of outstanding discounted bills (principal cum interest) for the six months ended 30 June 2015;

Note 3: ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2015, and the funds utilized 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 the approved caps 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)."

2. **The Company did not conduct any connected transactions arising from asset acquisitions or disposals during the reporting period**
3. **There were no connected transactions of the Company involving joint investment in third parties during the reporting period**
4. **Creditors and debtors with connected parties**

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

5. **Other material connected transactions**

At the Twenty-sixth Meeting of the Sixth Session of the Board of Directors of the Company held on 23 April 2015, the major connected transaction between the Company and Zhongxing Hetai was considered and passed as follows (for details, please refer to the "Overseas Regulatory Announcement" published by the Company on 23 April 2015):

- (1) The maximum amount of the purchases of hotel services by the Company from Zhongxing Hetai, a connected party, and its subsidiaries for the period from 1 July 2015 to 30 June 2016 was estimated by the Company at RMB90 million;
- (2) The maximum amount for the lease of properties and related equipment by Zhongxing Hetai and its subsidiaries from the Company for the period from 1 July 2015 to 30 June 2016 was estimated by Zhongxing Hetai and its subsidiaries at RMB85 million.

## **(XII) THERE WAS NO APPROPRIATION AND REPAYMENT OF NON-OPERATING FUNDS OF THE COMPANY BY THE CONTROLLING SHAREHOLDER AND ITS CONNECTED PARTIES DURING THE REPORTING PERIOD.**

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

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

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

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

## Material Matters

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

Third-party guarantees provided by the Company (excluding guarantees on behalf of subsidiaries)								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Djibouti Telecom S.A.	19 April 2007 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	No	No
Zena Technologies & Telecommunication Systems Co. WLL	18 December 2013 201375	KWD0.82 million	25 January 2014	KWD0.82 million	Guarantee by pledge	Commencing on the date of submission of the tender for the GPON Project II of the Ministry of Communications of Kuwait and ending on the date of announcement of the tender award for the project	Yes	No
Total amount of third-party guarantee approved during the reporting period (A1)				Total amount of third-party guarantee actually incurred during the reporting period (A2)				—
Total amount of third-party guarantee approved as at the end of the reporting period (A3)				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
Closed Joint-Stock Company CJSC TK Mobile	12 May 2009 200917	USD70.60 million	N/A	—	Pledge of equity	—	N/A	No
ZTE (H.K.) Limited	9 April 2011 201112 9 July 2011 201130	USD900 million	8 July 2011	USD450 million	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	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	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	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

## 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 <sup>Note 6</sup>	27 March 2014 201413	Not more than USD600 million or RMB4,000 million	18 July 2014	USD450 million	Joint liability assurance	Not more than 5 years (from the date on which the debt financing agreement comes into effect)	No	No
			12 January 2015	EUR40 million	Joint liability assurance	From 12 January 2015 to (1) 6 months after 12 January 2018, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
			20 March 2015	USD60 million	Joint liability assurance	From 20 March 2015 to 20 March 2019	No	No
ZTE (H.K.) Limited <sup>Note 7</sup>	23 August 2014 201435	RMB2,000 million	30 December 2014	RMB1,500 million	Joint liability assurance	Not more than 3 years (from the date on which the resolution of the general meeting takes effect)	No	No
ZTE (Malaysia) Corporation SDN. BHD <sup>Note 8</sup>	24 September 2014 201440	USD20 million	27 November 2014	USD20 million	Joint liability	Commencing on the date on which the "UM Wireless Capacity Expansion Contract" comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Malaysia under the "UM Wireless Capacity Expansion Contract" is completed.	No	No
ZTE (Malaysia) Corporation SDN. BHD <sup>Note 8</sup>	24 September 2014 201440	USD2 million	4 January 2015	USD2 million	Joint liability	Not more than 3 years from the date on which the bank letter of guarantee comes into effect upon issuance.	No	No
ZTE (H.K.) Limited or ZTE COOPERATIEF UA <sup>Note 9</sup>	26 March 2015 201511	EUR200 million	24 June 2015	EUR70 million	Joint liability assurance	From 24 June 2015 to 22 December 2018	No	No
			24 June 2015	EUR30 million	Joint liability assurance	From 24 June 2015 to (1) 6 months after 24 June 2018, or (2) the irrevocable settlement in full by ZTE Netherlands of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)		RMB1,389,120,000	Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)				RMB1,357,304,800	
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)		RMB13,962,495,800	Total amount of guarantee on behalf of subsidiaries actually incurred as at the end of the reporting period (B4)				RMB8,910,494,800	

## Material Matters

### 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 <sup>Note 10</sup>	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 <sup>Note 11</sup>	N/A	RMB60.005 million	13 March 2015	RMB60.005 million	Joint liability	5 years	No	No
Total amount of guarantee for subsidiary approved during the reporting period (C1)		RMB60,005,000		Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)			RMB60,005,000	
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)		RMB220,005,000		Total amount of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)			RMB220,005,000	
<b>Total amount guaranteed by the Company (sum of the three categories aforesaid)</b>								
Total amount of guarantee approved during the reporting period (A1+B1+C1)			RMB1,449,125,000	Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)			RMB1,417,309,800	
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)			RMB14,232,500,800	Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)			RMB9,180,499,800	
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company							34.35%	
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)							RMB8,910,494,800	
Amount of total guarantee exceeding 50% of net assets (F)							0	
Aggregate amount of the three guarantee amounts stated above (D+E+F)							RMB 8,910,494,800	
Statement on potential joint liability involved in outstanding guarantees							N/A	
Statement on provision of guarantee to third parties in violation of stipulated procedures							N/A	

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

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

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

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

Note 5: It was considered and approved at the Ninth Meeting of the Sixth Session of the Board of Directors that a performance guarantee of USD40 million be provided by the Company for ZTE Indonesia, a wholly-owned subsidiary of the Company, and application be made by the Company to the relevant bank for the issuance of a letter of



performance guarantee with an amount of USD15 million. Since the gearing ratio of ZTE Indonesia was above 70%, the aforesaid guarantees were approved at the Third Extraordinary General Meeting of 2013. As at the end of the reporting period, a USD15 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's bank credit facilities had been executed and the USD40 million performance guarantee agreement had been signed.

- Note 6: The Company proposed to seek medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company would provide guarantee by way of joint liability assurance for an amount of not more than USD600 million (or not more than RMB4,000 million) in relation to the aforesaid debt financing of ZTE HK. The aforesaid guarantee was considered and passed at the Sixteenth Meeting of the Sixth Session of the Board of Directors. As the amount guaranteed by the Company in respect of the syndicate loan of ZTE HK exceeded 10% of the net assets of the Company, and the gearing ratio of ZTE HK was above 70%, the aforesaid guarantee was submitted to the 2013 Annual General Meeting of the Company and was considered and approved. The total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) represented the higher of USD600 million or RMB4,000 million. In July 2014, ZTE HK entered into a USD450 million syndicate loan agreement with 12 international banks including BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide joint liability assurance for an amount of not more than USD450 million in favour of the lending banks for ZTE HK. ZTE HK entered into a EUR40 million loan agreement with Banco Santander, S.A. and a USD60 million loan agreement with DBS Bank in January and March 2015, respectively. At the same time, the Company entered into guarantee agreements with Banco Santander, S.A. and DBS Bank, respectively, to provide guarantee to Banco Santander, S.A. and DBS Bank for amounts of not more than EUR40 million and USD60 million, respectively, by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE HK.
- Note 7: The Company conducted overseas debt financing (including but not limited to bank loans and the issue of corporate bonds) of not more than RMB2,000 million with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee for ZTE HK by way of joint liability assurance for an amount of not more than RMB2,000 million in relation to the aforesaid debt financing for a term of not more than 3 years (from the date on which the resolution of the general meeting takes effect). The aforesaid guarantee was considered and passed at the Twentieth Meeting of the Sixth Session of the Board of Directors of the Company. As the gearing ratio of ZTE HK was above 70%, the aforesaid guarantee was submitted to the 2014 First Extraordinary General Meeting of the Company and was considered and approved. ZTE HK entered into a loan agreement with a total amount of RMB1,500 million with BOC London in December 2014. At the same time, the Company entered into a guarantee agreement with BOC London to provide joint liability assurance for an amount of not more than RMB1,500 million for ZTE HK.
- Note 8: At the Twenty-first Meeting of the Sixth Session of the Board of Directors, it was considered and approved that the Company would provide a USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, and apply to relevant banks for the issuance of a USD2 million bank letter of guarantee. As the gearing ratio of ZTE Malaysia was above 70%, the aforesaid guarantee was considered and approved at the First Extraordinary General Meeting of 2014 of the Company. As at the end of the reporting period, the USD20 million performance guarantee provided by the Company for ZTE Malaysia and the USD2 million bank letter of guarantee issued by relevant banks, applied for by the Company on behalf of ZTE Malaysia had come into effect.
- Note 9: The Company conducted outside Mainland China medium- to long-term debt financing (including but not limited to banks facilities and issue of bonds) with ZTE HK or ZTE Netherlands, each a wholly-owned subsidiary, as the principal. The Company provided guarantee for ZTE HK or ZTE Netherlands by way of joint liability assurance for an amount of not more than EUR200 million (or the equivalent in other currencies, calculated according to the Company's foreign currency statement book exchange rate) in relation to the aforesaid debt financing in relation to the aforesaid debt financing for a term of not more than 5 years (from the date on which the debt financing agreement takes effect). The aforesaid matter was considered and approved at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company. As the gearing ratios of both ZTE HK and ZTE Netherlands were above 70%, the aforesaid guarantee was submitted to the 2014 Annual General Meeting of the Company and was considered and approved. ZTE Netherlands entered into respective loan agreements with BOC Luxembourg and Santander HK for amounts of EUR70 million and EUR30 million, respectively, in June 2015. At the same time, the Company entered into guarantee agreements with BOC Luxembourg and Santander HK, respectively, to provide guarantee to BOC Luxembourg and Santander HK for amounts of not more than EUR70 million and EUR30 million, respectively, by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE Netherlands.
- Note 10: It was considered and approved at the board meeting and general meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide guarantee by way of joint liability assurance for an amount of RMB160 million in respect of the project financing of ZTE ICT, a wholly-owned subsidiary of the Company, for a term of 5 years (from the date of issuance of the loan). As at the end of the reporting period, the aforesaid guarantee documents had come into effect and the other shareholder of ZTE ICT (holding a 10% interest in ZTE ICT) had provided a counter-guarantee for RMB16 million in favour of ZTE Group Finance in respect of the aforesaid guarantee.

## Material Matters

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

Note 12: The guaranteed amounts are translated at the book exchange rates of the Company as at 30 June 2015: USD1: RMB6.2084, EUR1: RMB6.9456, KWD1: RMB23.3398.

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. Tan Zhenhui, Mr. Richard Xike Zhang, Mr. Chen Shaohua, Mr. Lü Hongbing and Mr. Bingsheng Teng as follows:

- (1) As at 30 June 2015, the transfer of funds between the Company and the controlling shareholder and other connected parties represented transactions in the ordinary course of business. Neither the controlling shareholder of the Company nor other connected parties had appropriated the Company’s funds for non-operating purposes or compromised the interests of the Company and its shareholders. As required by CSRC, the Independent Non-executive Directors of the Company have conducted reviews in the light of the “Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies” (Zheng Jian Fa [2003] No. 56) and are of the view that the Company has diligently implemented the relevant provisions under the notice and have not found any matter which is in breach of the notice.
- (2) As at 30 June 2015, the balance of guarantees provided by the Company actually incurred was approximately RMB9,180,499,800, accounting for approximately 34.35% of the owner’s equity attributable to holders of ordinary shares of the parent company as at 30 June 2015. For details of the third party guarantees of the Company, please refer to the sub-section headed “2. Third-party guarantees of the Group” in this section. The information on guarantees disclosed in the 2015 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. 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
4	Framework Agreement of Chipset Procurement for Calendar Years 2012–2015 between the Company and Qualcomm	21 February 2012	By reference to market prices	Subject to long-term supply contracts signed between the two parties and specific purchase orders	No	Under normal progress

#### (XIV) UNDERTAKING

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

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 shall 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.

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 and to sell down shareholdings by a volume equivalent to 5% or more within six months after the first sell-down, by way of an indicative announcement to be published by the Company within two trading days before the first sell-down.

## Material Matters

### 2. Undertaking of Directors and Senior Management of the Company to Increase Shareholdings in the Company

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

As of 29 July 2015, 11 members of the directors and senior management of the Company, including Director Mr. He Shiyou and senior management members Messrs. Zhang Zhenhui, Qiu Weizhao, Chen Jianzhou, Fan Qingfeng, Pang Shengqing, Zhang Renjun, Ye Weimin, Xiong Hui, Chen Jie and Feng Jianxiong (Secretary to the Board of Directors), have fulfilled and completed their undertaking to increase shareholdings in the Company by way of direct personal acquisition or through private asset management plans of securities companies. The aggregate amount of increased shareholdings was approximately RMB1,706,100. Shares in the Company acquired as aforesaid will not be sold within the coming six months.

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

Applicable     N/A

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

### (XVI) DURING THE REPORTING PERIOD, NONE OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR SHAREHOLDER INTERESTED IN MORE THAN 5% OF THE SHARES 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, PUNISHMENT BY OTHER ADMINISTRATIVE AUTHORITIES OR PUBLIC CENSURE BY THE STOCK EXCHANGE.

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

### (XVIII) 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.

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

<b>Date of domestic disclosure</b>	<b>Announcement</b>
16 January 2015	Announcement of Resolutions of the Twenty-fourth Meeting of the Sixth Session of the Board of Directors
20 January 2015	Preliminary Results Announcement for the Year Ended 31 December 2014
28 January 2015	Announcement on the Result of the Medium Term Notes Issue
7 February 2015	Announcement on the Result of the Medium Term Notes Issue
12 February 2015	Announcement Election of Independent Non-executive Directors
26 March 2015	Announcement Resolutions of the Twenty-fifth Meeting of the Sixth Session of the Board of Directors Announcement Resolutions of the Nineteenth Meeting of the Sixth Session of the Supervisory Committee 2014 Annual Report Summary Announcement on the Application for Derivative Investment Limits for 2015 Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange Notice of the 2014 Annual General Meeting
24 April 2015	Announcement Resolutions of the Twenty-sixth Meeting of the Sixth Session of the Board of Directors Announcement Resolutions of the Twentieth Meeting of the Sixth Session of the Supervisory Committee Text of 2015 First Quarterly Report Full Text of 2015 First Quarterly Report Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange Statements of Candidates for Independent Non-executive Directors Statement of Nominator of Independent Non-executive Directors Supplementary Notice of Ex Tempore Motion at the 2014 Annual General Meeting
29 April 2015	Indicative Announcement on the Convening of the 2014 Annual General Meeting
9 May 2015	Indicative Announcement on the Convening of the 2014 Annual General Meeting
29 May 2015	Announcement on Resolutions of the 2014 Annual General Meeting
9 June 2015	Announcement of 2015 Redemption and Interest Payment for and Delisting of the Corporate Bonds (Tranche 1) 2012

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: shares

	Beginning of the reporting period		Increase/decrease resulting from changes in the reporting period (+/-)					End of the reporting period	
	Number of shares	Percentage	New issue	Bonus issue	Conversion of capital reserve	Others <sup>Note</sup>	Sub-total	Number of shares	Percentage
<b>I. Shares subject to lock-up</b>	<b>6,770,578</b>	<b>0.19%</b>	—	—	—	-733,545	-733,545	<b>6,037,033</b>	<b>0.17%</b>
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic share	—	—	—	—	—	—	—	—	—
Comprising: Domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	6,770,578	0.19%	—	—	—	-733,545	-733,545	6,037,033	0.17%
<b>II. Shares not subject to lock-up</b>	<b>3,430,770,700</b>	<b>99.81%</b>	—	—	—	<b>733,545</b>	<b>733,545</b>	<b>3,431,504,245</b>	<b>99.83%</b>
1. RMB ordinary shares	2,801,185,255	81.49%	—	—	—	733,545	733,545	2,801,918,800	81.51%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	629,585,445	18.32%	—	—	—	—	—	629,585,445	18.32%
4. Others	—	—	—	—	—	—	—	—	—
<b>III. Total number of shares</b>	<b>3,437,541,278</b>	<b>100.00%</b>	—	—	—	—	—	<b>3,437,541,278</b>	<b>100.00%</b>

Note: 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: shares

No.	Name of shareholders subject to lock-up	Number of shares subject to lock-up as at 31 Dec 2014	Number of shares released from lock-up during the reporting period	Increase in the number of shares subject to lock-up during the reporting period	Number of shares subject to lock-up at the end of the reporting period	Lock-up conditions	Date of unlocking
1	Hou Weigui	973,103	—	—	973,103	Restricted senior management shares	Note
2	Chen Jie	558,437	45,000	—	513,437	Restricted senior management shares	Note
3	Yin Yimin	474,624	—	—	474,624	Restricted senior management shares	Note
4	Shi Lirong	412,882	—	—	412,882	Restricted senior management shares	Note
5	Pang Shengqing	316,051	—	—	316,051	Restricted senior management shares	Note
6	Xu Huijun	420,709	105,177	—	315,532	Restricted senior management shares	Note
7	Xie Daxiong	309,877	—	—	309,877	Restricted senior management shares	Note
8	Ye Weimin	297,936	22,500	—	275,436	Restricted senior management shares	Note
9	Fan Qingfeng	361,875	90,469	—	271,406	Restricted senior management shares	Note
10	Zhu Jinyun	361,844	90,461	—	271,383	Restricted senior management shares	Note
11	Others	2,283,240	379,938	—	1,903,302	Restricted senior management shares	Note
	<b>Total</b>	<b>6,770,578</b>	<b>733,545</b>	—	<b>6,037,033</b>	—	—

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

### (III) ISSUE AND LISTING OF SECURITIES IN THE PAST THREE YEARS

1. The Company completed the issue of the 2012 corporate bonds (tranche 1) on 15 June 2012. The finalized online and offline issue volumes amounted to RMB200 million and RMB5,800 million, respectively, with a coupon interest rate of 4.20%. The corporate bonds under the said issue were listed on Shenzhen Stock Exchange on 16 July 2012 under the bond code “112090” and the abbreviated bond name “12中興01”. The corporate bonds matured on 13 June 2015.
2. On 31 October 2013, the Company granted 102,989,000 share options to 1,528 Scheme Participants. Registration for the 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 held on 22 July 2015 that the number of share options be adjusted to 123,586,800.
3. Changes in the structure of assets and liabilities of the Company as a result of changes in the total number and structure of shares of the Company

Following the Company’s repurchase and cancellation of 2,536,742 restricted shares not qualified for unlocking under the Phase I Share Incentive Scheme in 2013, the total share capital of the Company has changed from 3,440,078,020 shares to 3,437,541,278 shares. The matters had no material impact on the structure of assets and liabilities of the Company.

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

4. The Company had no employees’ shares.



## Changes in Shareholdings and Information of Shareholders

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

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

		Total number of shareholders					
As at 30 June 2015		194,677 shareholders (of which 194,338 were holders of A shares and 339 were holders of H shares)					
		Shareholdings of top ten shareholders or shareholders holding 5% or above of the shares					
Name of shareholders	Nature of shareholders	Percentage of shareholding	Number of shares held 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	30.78%	1,058,191,944	—	—	Nil	
2. HKSCC Nominees Limited	Foreign shareholders	18.28%	628,436,285	+101,945	—	Unknown	
3. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.06%	36,320,008	-1,130,601	—	Unknown	
4. NSSF Portfolio #103	Others	0.64%	21,999,684	+20,999,684	—	Unknown	
5. New China Life Insurance Company Ltd. – Dividend – Individual Dividend – 018L-FH002 Shen	Others	0.61%	20,975,368	+20,975,368	—	Unknown	
6. ICBC – Harvest Cyclical Select Stock Fund	Others	0.58%	20,004,979	+20,004,979	—	Unknown	
7. China Life Insurance Company Limited – Dividend – Individual Dividend – 005L-FH002 Shen	Others	0.47%	16,181,362	+8,027,207	—	Unknown	
8. Seventh Research Institute of China Mobile	State-owned corporation	0.46%	15,894,950	—	—	Unknown	
9. CASIC Shenzhen (Group) Company Limited	State-owned corporation	0.35%	12,155,870	—	—	Unknown	
10. Bank of China Limited – Harvest Contrarian Strategy Stock Fund	Others	0.35%	12,000,000	+12,000,000	—	Unknown	



## Shareholdings of top ten holders of shares not subject to lock-up

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,058,191,944	A share
2. HKSCC Nominees Limited	628,436,285	H share
3. Hunan Nantian (Group) Co., Ltd.	36,320,008	A share
4. NSSF Portfolio #103	21,999,684	A share
5. New China Life Insurance Company Ltd. – Dividend – Individual Dividend – 018L-FH002 Shen	20,975,368	A share
6. ICBC – Harvest Cyclical Select Stock Fund	20,004,979	A share
7. China Life Insurance Company Limited – Dividend – Individual Dividend – 005L-FH002 Shen	16,181,362	A share
8. Seventh Research Institute of China Mobile	15,894,950	A share
9. CASIC Shenzhen (Group) Company Limited	12,155,870	A share
10. Bank of China Limited – Harvest Contrarian Strategy Stock Fund	12,000,000	A share

Descriptions of any connected party relationships or concerted party relationships among the above shareholders

- Zhongxingxin was a connected party (as defined under the Shenzhen Listing Rules), but not a concerted party, of the 9th ranking shareholder among the top ten shareholders and top ten holders of shares that were not subject to lock-up; save for the above, Zhongxingxin did not have any connected party relationships or concerted party relationships with other top ten shareholders and other top ten holders of shares that were not subject to lock-up.
- 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 top 10 shareholders' involvement in financing and securities lending businesses (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 30.78% of the Company's shares, 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	1,058,191,944	A share	0	1,058,191,944	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.**

## Changes in Shareholdings and Information of Shareholders

### 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:

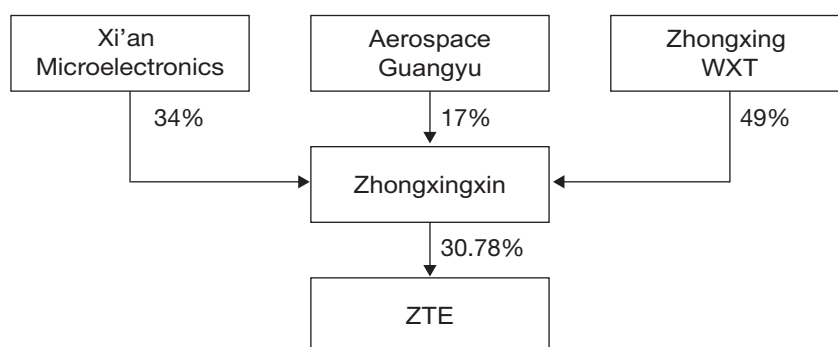
Name of controlling shareholder:	Zhongxingxin
Legal representative:	Xie Weiliang
Date of incorporation:	29 April 1993
Organisation number:	19222451-8
Registered capital:	RMB100 million

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. For details of these three shareholders, please refer to the section headed "Changes in Shareholdings and Information of Shareholders – (IV) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY AS AT THE END OF THE YEAR" in the 2014 Annual Report of the Company.

The following diagram shows the shareholding and controlling relationships between the said corporate shareholders and the Company as at 30 June 2015:



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

As at 30 June 2015, the following shareholders held interests or short positions in 5% or more in any class of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO.

Name	Capacity	Number of shares held	Approximate shareholding as a percentage (%) of <sup>NOTE</sup> :	
			Total share capital	Relevant class of shares
Zhongxingxin	Beneficial owner	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
Zhongxing WXT	Interest of controlled corporation	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
Xi'an Microelectronics	Interest of controlled corporation	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
China Aerospace Electronics Technology Research Institute	Interest of controlled corporation	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
China Aerospace Science and Technology Corporation	Interest of controlled corporation	1,058,191,944 A shares (L)	30.78(L)	37.69(L)
Value Partners Group Limited	Interest of controlled corporation	67,996,480 H shares (L)	1.98(L)	10.80(L)
BlackRock, Inc.	Interest of controlled corporation	48,412,266 H shares (L)	1.41(L)	7.69(L)
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	1.12(L)	6.10(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 3,437,541,278 shares, comprising 2,807,955,833 A shares and 629,585,445 H shares, as at 30 June 2015.

Save as disclosed above, as at 30 June 2015, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

#### 7. Purchase, sale and redemption of securities

During the 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 SHAREHOLDINGS OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The effective shareholdings in the issued share capital of the Company held by the Directors, Supervisors and senior management of the Company at the end of the reporting period were as follows:

No.	Name	Title	Status of office	Gender	Age	Term of office commencing on	Term of office ending on	Number Increase			Reason for change	Whether remuneration is received from shareholder entities	
								shares held at the beginning of the reporting period (shares)	number of shares held during the period (shares)	Decrease in the number of shares held at the end of the reporting period (shares)			
<b>Directors of the Company</b>													
1	Hou Weigui	Chairman	Incumbent	Male	74	3/2013	3/2016	1,297,472	—	—	1,297,472	—	No
2	Zhang Jianheng	Vice Chairman	Incumbent	Male	54	3/2013	3/2016	—	—	—	—	—	No
3	Xie Weiliang	Vice Chairman	Incumbent	Male	59	3/2013	3/2016	32,760	—	—	32,760	—	Yes
4	Wang Zhanchen	Director	Incumbent	Male	63	3/2013	3/2016	—	—	—	—	—	No
5	Zhang Junchao	Director	Incumbent	Male	62	3/2013	3/2016	32,760	—	—	32,760	—	No
6	Dong Lianbo	Director	Incumbent	Male	58	3/2013	3/2016	32,760	—	—	32,760	—	Yes
7	Shi Lirong	Director and President	Incumbent	Male	51	3/2013	3/2016	550,511	—	—	550,511	—	No
8	Yin Yimin	Director	Incumbent	Male	52	3/2013	3/2016	632,833	—	—	632,833	—	No
9	He Shiyou	Director	Incumbent	Male	49	3/2013	3/2016	344,940	—	—	344,940	—	No
10	Qu Xiaohui	Independent Non-executive Director	Note 3	Female	61	3/2013	7/2015	—	—	—	—	—	No
11	Wei Wei	Independent Non-executive Director	Note 3	Male	50	3/2013	7/2015	—	—	—	—	—	No
12	Chen Naiwei	Independent Non-executive Director	Note 3	Male	58	3/2013	7/2015	—	—	—	—	—	No
13	Tan Zhenhui	Independent Non-executive Director	Incumbent	Male	71	3/2013	3/2016	—	—	—	—	—	No
14	Richard Xike Zhang	Independent Non-executive Director	Incumbent	Male	45	6/2013	3/2016	—	—	—	—	—	No
<b>Supervisors of the Company</b>													
15	Xie Daxiong	Chairman of Supervisory Committee	Incumbent	Male	52	3/2013	3/2016	413,169	—	—	413,169	—	No
16	He Xuemei	Supervisor	Incumbent	Female	45	3/2013	3/2016	60,260	—	—	60,260	—	No
17	Zhou Huidong	Supervisor	Incumbent	Male	39	3/2013	3/2016	58,618	—	—	58,618	—	No
18	Xu Weiyuan	Supervisor	Incumbent	Female	53	3/2013	3/2016	9,199	—	—	9,199	—	No
19	Chang Qing	Supervisor	Incumbent	Male	60	3/2013	3/2016	—	—	—	—	—	Yes
<b>Senior management of the Company</b>													
20	Wei Zaisheng	Executive Vice President and Chief Financial Officer	Incumbent	Male	53	4/2013	3/2016	333,065	—	—	333,065	—	No
21	Tian Wenguo	Executive Vice President	Incumbent	Male	46	4/2013	3/2016	153,658	—	—	153,658	—	No
22	Qiu Weizhao	Executive Vice President	Incumbent	Male	52	4/2013	3/2016	289,414	—	72,300	217,114	Note 1	No
23	Fan Qingfeng	Executive Vice President	Incumbent	Male	47	4/2013	3/2016	361,875	—	90,469	271,406	Note 1	No
24	Zeng Xuezhong	Executive Vice President	Incumbent	Male	42	1/2014	3/2016	325,700	—	—	325,700	—	No
25	Zhao Xianming	Executive Vice President	Incumbent	Male	49	1/2014	3/2016	242,929	—	—	242,929	—	No
26	Chen Jie	Senior Vice President	Incumbent	Female	57	4/2013	3/2016	684,583	—	70,000	614,583	Note 1	No
27	Pang Shengqing	Senior Vice President	Incumbent	Male	47	4/2013	3/2016	421,402	—	80,000	341,402	Note 1	No
28	Xu Huijun	Senior Vice President	Incumbent	Male	42	4/2013	3/2016	420,709	—	—	420,709	—	No
39	Ye Weimin	Senior Vice President	Incumbent	Male	49	4/2013	3/2016	367,248	—	91,812	275,436	Note 1	No
30	Zhu Jinyun	Senior Vice President	Incumbent	Male	43	4/2013	3/2016	361,844	—	—	361,844	—	No
31	Zhang Renjun	Senior Vice President	Incumbent	Male	46	4/2013	3/2016	—	—	—	—	—	No
32	Chen Jianzhou	Senior Vice President	Incumbent	Male	45	4/2013	3/2016	97,521	—	24,380	73,141	Note 1	No
33	Cheng Lixin	Senior Vice President	Incumbent	Male	49	4/2013	3/2016	3,000	—	—	3,000	—	No
34	Xiong Hui	Senior Vice President	Incumbent	Male	46	1/2014	3/2016	—	—	—	—	—	No
35	Zhang Zhenhui	Senior Vice President	Incumbent	Male	42	1/2014	3/2016	65,000	—	—	65,000	—	No
36	Feng Jianxiong	Secretary to the Board of Directors	Incumbent	Male	41	4/2013	3/2016	275,000	—	68,750	206,250	Note 1	No
—	<b>Total</b>	—	—	—	—	—	—	<b>7,868,230</b>	—	<b>497,711</b>	<b>7,370,519</b>	—	—

Note 1: Reduction 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”.

Note 2: None of the Company’s Directors, Supervisors and senior management held H shares in the issued share capital of the Company during the reporting period.

Note 3: The term of office of each of Ms. Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei, Independent Non-executive Directors of the Sixth Session of the Board of Directors of the Company, ended on 21 July 2015 upon the expiration of a period of 6 years. At the 2014 Annual General Meeting of the Company held on 28 May 2015, Mr. Chen Shaohua, Mr. Lü Hongbing and Mr. Bingsheng Teng were elected Independent Non-executive Directors of the Sixth Session of the Board of Directors of the Company for a term commencing on 22 July 2015 and ending on the date of conclusion of the term of the Sixth Session of the Board of Directors (namely, 29 March 2016).

### Share incentives granted to Directors, Supervisors and senior management during the reporting period

Applicable     N/A

There was no change to the share options held by the Directors and senior management of the Company during the reporting period. For details of the share options of the Company held by the Directors and senior management of the Company, 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 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
Xie Weiliang	Zhongxingxin	Chairman	May 2013	Note	No
	CASIC Shenzhen (Group) Company Limited	Inspector (bureau level)	October 2014	Incumbent	Yes
Dong Lianbo	CASIC Shenzhen (Group) Company Limited	Head of first inspection team of CASIC	January 2014	Incumbent	Yes
Chang Qing	Zhongxingxin	Assistant to general manager	April 2008	Incumbent	Yes
		Chairman of labor union	December 2012	Incumbent	No
Wei Zaisheng	Zhongxingxin	Director	Note	Note	No

Note: It was considered and passed at the shareholders’ meeting of Zhongxingxin that the term for the 8th session of the board of directors of Zhongxingxin would be from August 2015 to August 2018. Mr. Xie Weiliang has ceased to be chairman of Zhongxingxin as from August 2015, and Mr. Yin Yimin has been appointed chairman of Zhongxingxin as from August 2015. Mr. Wei Zaisheng’s term of office at Zhongxingxin was revised to one commencing in August 2015 and ending in August 2018.

## Directors, Supervisors and Senior Management

### (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 <sup>Note 1</sup>	Held positions in 11 subsidiaries including Zhongxing Software	Chairman	No
	Zhongxing WXT	Chairman	No
	Zhongxing Development	Chairman	No
	Zhongxing Energy Company Limited	Chairman	No
	Zhongxing Energy (Tianjin) Company Limited 天津中興資本管理有限公司	Chairman	No
Zhang Jianheng	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
	China Aerospace International Holding Limited	Non-executive director and chairman of the board	No
	China Lucky Group Corporation	Chairman	No
	China Aerospace Investment Holdings Limited	Chairman	No
Xie Weiliang	Aerospace Guangyu	General manager	No
Dong Lianbo	Aerospace Guangyu	Deputy general manager	No
Shi Lirong	Held positions in 3 subsidiaries including ZTE Kangxun	Director	No
	Zhongxing WXT	Director	No
Yin Yimin	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
	Jiaxing Xinghe Capital Management Company Limited	Executive director	No
He Shiyou	Zhongxing WXT	General manager	Yes
	中興健康科技有限公司	Supervisor	No
		Chairman/general manager	No
Qu Xiaohui <sup>Note 2</sup>	Xiamen University	Professor	Yes
		Head/dean	No
	Yunnan Baiyao Group Co., Ltd.	Independent non-executive director	Yes
	Taikang Life Insurance Co., Ltd.	Independent non-executive director	Yes
	Guangzhou Baiyun Electric Equipment Co., Ltd.	Independent non-executive director	Yes
	Xiamen NetinNet Software Company Limited	Financial advisor	Yes
	Sinotex Investment & Development Co., Ltd.	Independent non-executive director	Yes
Wei Wei <sup>Note 3</sup>	Peking University HSBC Business School	Associate Professor	Yes
	Dalian Zhangzidao Fishery Group Company Limited	Independent non-executive director	Yes
	Telling Telecommunication Holding Co., Ltd.	Independent non-executive director	Yes
	Skyworth Digital Holdings Limited	Independent non-executive director	Yes
	AVIC International Holdings Limited	Independent non-executive director	Yes
Chen Naiwei	Shanghai Allbright Law Offices	Partner/lawyer	Yes
	Fudan University	Professor	Yes
	Shanghai Pharmaceuticals Holding Co., Ltd.	Independent non-executive director	Yes
	Shanghai Taisheng Wind Power Equipment Co., Ltd.	Independent non-executive director	Yes
	Shanghai Kinlita Chemical Co., Ltd.	Independent non-executive director	Yes
	Shanghai Jiaoyun Group Co., Ltd.	Independent non-executive director	Yes
Tan Zhenhui	Beijing Jiaotong University	Head of University Academic Committee/Professor	Yes
Richard Xike Zhang	Apax Partners	Equity Partner and Head of Greater China	Yes
Xie Daxiong <sup>Note 4</sup>	Held positions in 2 subsidiaries including Zhongxing Software	Chairman/director	No
Zhou Huidong <sup>Note 5</sup>	Held positions in 21 subsidiaries including ZTE Group Finance	Supervisor/chairman of supervisory committee	No
	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

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Xu Weiyan	ZTE Kangxun	Supervisor	No
	Puxing Mobile Tech Company Limited (普興移動通訊設備有限公司)	Chairman of supervisory committee	No
Wei Zaisheng	Held positions in 17 subsidiaries including ZTE Group Finance	Chairman/director	No
	Zhongxing WXT	Director	No
	Shenzhen Capital Group Co., Ltd.	Supervisor	No
Tian Wenguo	Held positions in 17 subsidiaries including Shenzhen ZTE Supply Chain Co., Ltd.	Chairman/director	No
Qiu Weizhao	Shenzhen Zhongxing Microelectronics Technology Company Limited	Director	No
Fan Qingfeng	Held positions in 4 subsidiaries including Shenzhen Zhongliancheng Electronic Development Company Limited	Chairman/director	No
Zeng Xuezhong	Held positions in 7 subsidiaries including Shenzhen ZTE Mobile Telecom Company Limited (renamed Nubia Technology Limited (努比亞技術有限公司) in March 2015)	Chairman/executive director	No
	ZTE 9 (Wuxi) Co., Ltd. (中興九城網絡科技無錫有限公司)	Chairman	No
Zhao Xianming	Held positions in 6 subsidiaries including ZTE Integration Telecom Company Limited	Chairman	No
Chen Jie	Held positions in 14 subsidiaries including ZTEsoft Technology Company Limited	Chairman	No
Pang Shengqing	Held positions in 14 subsidiaries including Shanghai Zhongxing Software Company Limited	Chairman/director	No
	KAZNURTEL Limited Liability Company	Director	No
Xu Huijun	Held positions in 3 subsidiaries including ZTE Technology & Service Company Limited (深圳市中興通訊技術服務有限責任公司)	Chairman/general manager/ chairman of supervisory committee	No
	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No
Zhu Jinyun	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No
Zhang Renjun	ZTE Japan K.K.	Director	No
Cheng Lixin	Held positions in 3 subsidiaries including ZTE (USA), Inc	Chairman/director/general manager	Note 8
Zhang Zhenhui	Held positions in 4 subsidiaries including Anhui Wantong Postal and Telecom Company Limited	Chairman/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 北京中興網捷科技有限公司 as from January 2015.

Note 2: Ms. Qu Xiaohui was appointed independent non-executive director of Sinotex Investment & Development Co., Ltd. in May 2015.

Note 3: Mr. Wei Wei has ceased to be associate dean of Peking University HSBC Business School as from April 2015.

Note 4: Mr. Xie Daxiong has ceased to be director of 安徽中興通訊傳媒有限責任公司 as from February 2015.

Note 5: Mr. Zhou Huidong was appointed chairman of supervisory committee of each of 北京中興網捷科技有限公司 and 深圳市中興通訊資產管理有限公司 and supervisor of 深圳市中興通訊節能服務有限責任公司 in January 2015; chairman of supervisory committee of each of Shenzhen Guoxin Electronics Development Company Limited and 西安中興精誠科技有限公司 in March 2015; supervisor of 北京市中保網盾科技有限公司 in April 2015; and chairman of supervisory committee of 中興耀維科技江蘇有限公司 in June 2015.

Note 6: Ms. He Xuemei has ceased to be director and general manager of 深圳市中興宜和投資發展有限公司 as from March 2015.

Note 7: Mr. Chang Qing has ceased to be director of 陝西中興百綠環保工程有限責任公司 as from May 2015.

Note 8: 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 SUBSEQUENT TO THE END OF THE REPORTING PERIOD**

The six-year term of the offices of the Independent Non-executive Directors of the Sixth Session of the Board of Directors of the Company, Ms. Qu Xiaohui, Mr. Wei Wei and Mr. Chen Naiwei, concluded on 21 July 2015. At the 2014 Annual General Meeting of the Company held on 28 May 2015, Mr. Chen Shaohua, Mr. Lü Hongbing and Mr. Bingsheng Teng were elected as Independent Non-executive Directors of the Sixth Session of the Board of Directors for a term commencing on 22 July 2015 and ending upon the conclusion of the term of office of the Sixth Session of the Board of Directors of the Company (namely 29 March 2016).

Pursuant to the “Resolution of the Company on the Appointment of Senior Management Personnel” considered and passed at the Seventh Meeting of the Nomination Committee of the Sixth Session of the Board of Directors of the Company held on 25 August 2015 and the Thirtieth Meeting of the Sixth Session of the Board of Directors of the Company held on 26 August 2015, it was approved that Mr. Huang Dabin, general manager of the 2nd Marketing Department, be appointed Senior Vice President of the Company for a term commencing on the date on which the resolution was considered and passed at the said meeting of the Board of Directors of the Company and ending upon the conclusion of the term of office of the Sixth Session of the Board of Directors of the Company (namely 29 March 2016).

Please refer to sections (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 2015 are set out in the section of this chapter headed “(I) Changes in the Shareholdings of the Company’s Directors, Supervisors and Senior Management”.

Save as disclosed above, as at 30 June 2015, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 30 June 2015, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

# Consolidated Balance Sheet

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

	Note V	30 June 2015 (unaudited)	31 December 2014 (audited)
<b>Assets</b>			
<b>Current assets</b>			
Cash	1	18,448,405	18,115,874
Financial assets dealt with at fair value through current profit or loss	2	79,640	240,973
Bills receivable	3	3,520,977	2,086,771
Trade receivables	4	26,381,265	25,152,963
Factored trade receivables	4	2,204,311	3,160,705
Other receivables	5	2,554,339	2,159,677
Prepayments	6	699,065	682,778
Inventories	7	21,618,152	19,592,298
Amount due from customers for contract works	8	12,670,977	11,033,468
<b>Total current assets</b>		<b>88,177,131</b>	<b>82,225,507</b>
<b>Non-current assets</b>			
Available-for-sale financial assets	9	2,195,085	1,739,664
Long-term trade receivables	10	342,111	266,501
Factored long-term trade receivables	10	1,522,368	1,701,978
Long-term equity investments	11	486,830	461,316
Investment properties	12	2,069,146	2,004,465
Property, plant and equipment	13	7,123,222	7,348,292
Construction in progress	14	619,207	262,863
Intangible assets	15	1,381,877	1,364,695
Deferred development costs	16	3,843,096	3,483,505
Deferred tax assets	17	1,429,882	1,284,493
Long-term deferred assets		42,316	53,287
Other non-current assets	19	3,911,317	4,017,630
<b>Total non-current assets</b>		<b>24,966,457</b>	<b>23,988,689</b>
<b>Total assets</b>		<b>113,143,588</b>	<b>106,214,196</b>

# Consolidated Balance Sheet (continued)

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

	Note V	30 June 2015 (unaudited)	31 December 2014 (audited)
<b>Liabilities</b>			
<b>Current liabilities</b>			
Short-term loans	20	9,093,643	10,998,077
Financial liabilities dealt with at fair value through current profit or loss	21	17,130	70,604
Bank advances on factored trade receivables	4	2,215,181	3,175,432
Bills payable	22	11,791,950	10,381,688
Trade payables	23	20,954,675	19,244,400
Amount due to customers for contract works	8	4,911,812	3,825,106
Advances from customers	24	4,698,795	3,305,520
Salary and welfare payables	25	3,427,895	2,806,947
Taxes payable	26	(4,023,496)	(2,790,280)
Dividends payable	27	8,113	8,113
Other payables	28	7,761,193	7,531,970
Deferred income		540,831	451,507
Provisions	29	586,487	741,391
Long-term loans due within one year	30	1,722,000	6,174,257
<b>Total current liabilities</b>		<b>63,706,209</b>	<b>65,924,732</b>
<b>Non-current liabilities</b>			
Long-term loans	31	9,550,012	10,039,687
Bank advances on factored long-term trade receivables	10	1,522,368	1,701,978
Provision for retirement benefits		114,660	115,450
Deferred tax liabilities	17	173,176	159,340
Deferred income		630,746	631,149
Other non-current liabilities	32	1,290,744	1,349,356
<b>Total non-current liabilities</b>		<b>13,281,706</b>	<b>13,996,960</b>
<b>Total liabilities</b>		<b>76,987,915</b>	<b>79,921,692</b>

# Consolidated Balance Sheet (continued)

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

	Note V	30 June 2015 (unaudited)	31 December 2014 (audited)
<b>Shareholders' equity</b>			
Issued capital	33	3,437,541	3,437,541
Capital reserve	35	8,812,227	8,724,754
Other comprehensive income	36	(316,687)	(464,275)
Surplus reserve	37	1,769,012	1,769,012
Retained profits	38	12,339,619	10,724,034
Proposed final dividends		687,508	687,508
<b>Total equity attributable to ordinary equity holders of the parent</b>		<b>26,729,220</b>	<b>24,878,574</b>
<b>Other equity instruments</b>	34	<b>7,596,253</b>	—
<b>Non-controlling interests</b>		<b>1,830,200</b>	<b>1,413,930</b>
<b>Total shareholders' equity</b>		<b>36,155,673</b>	<b>26,292,504</b>
<b>Total liabilities and shareholders' equity</b>		<b>113,143,588</b>	<b>106,214,196</b>

The financial statements set out on pages 72 to 204 have been signed by:

Legal representative: Hou Weigui 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 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)
<b>Operating revenue</b>	39	<b>45,898,788</b>	37,697,309
Less: Operating costs	39	<b>30,426,748</b>	25,509,830
Taxes and surcharges	40	<b>845,820</b>	672,289
Selling and distribution costs	41	<b>5,333,174</b>	4,741,335
Administrative expenses	42	<b>1,207,807</b>	1,072,251
Research and development costs		<b>5,491,912</b>	4,126,546
Finance expenses	45	<b>1,007,102</b>	507,970
Impairment losses	46	<b>1,882,106</b>	1,141,995
Add: Gains/(Losses)from changes in fair values	43	<b>9,956</b>	(58,769)
Investment income/(loss)	44	<b>362,268</b>	(76,373)
Including: Share of losses of associates and joint ventures		<b>(38,111)</b>	(40,448)
<b>Operating profit/(loss)</b>		<b>76,343</b>	(210,049)
Add: Non-operating income	47	<b>2,131,212</b>	1,912,664
Less: Non-operating expenses	47	<b>65,167</b>	58,629
Including: losses on disposal of non-current assets		<b>16,044</b>	16,179
<b>Total profit</b>		<b>2,142,388</b>	1,643,986
Less: Income tax	48	<b>310,202</b>	472,675
<b>Net profit</b>		<b>1,832,186</b>	1,171,311
Attributable to owners of the parent:			
Ordinary equity holders of the parent		<b>1,615,585</b>	1,128,206
Perpetual capital instruments		<b>180,753</b>	—
Non-controlling interests		<b>35,848</b>	43,105
Other comprehensive income, net of tax		<b>559,573</b>	(1,458)
Other comprehensive income attributable to ordinary equity holders of the parent, net of tax	36	<b>147,588</b>	(851)
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		<b>126,144</b>	(134,448)
Effective portion of cash flow hedging instruments		<b>917</b>	848
Exchange differences on translation of foreign operations		<b>20,527</b>	132,749
		<b>147,588</b>	(851)
Other comprehensive income attributable to non-controlling interests, net of tax		<b>411,985</b>	(607)
<b>Total comprehensive income</b>		<b>2,391,759</b>	1,169,853
<b>Total comprehensive income attributable to owners of the parent:</b>			
Ordinary equity holders of the parent		<b>1,763,173</b>	1,127,355
Perpetual capital instruments		<b>180,753</b>	—
<b>Total comprehensive income attributable to non-controlling interests</b>		<b>447,833</b>	42,498
<b>Earnings per share (RMB/share)</b>			
Basic	49	<b>RMB0.47</b>	RMB0.33
Diluted	49	<b>RMB0.46</b>	RMB0.33

# Consolidated Statement of Changes in Equity

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

	Six months ended 30 June 2015 (unaudited)										
	Equity attributable ordinary equity holders of the parent							Other equity instruments		Non-controlling interests	Total shareholders' equity
	Issued capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Proposed final dividends	Sub-total	Perpetual capital instruments			
I. Current period's opening balance	3,437,541	8,724,754	(464,275)	1,769,012	10,724,034	687,508	24,878,574	—	1,413,930	26,292,504	
II. Changes during the period											
(I) Net profit	—	—	—	—	1,615,585	—	1,615,585	180,753	35,848	1,832,186	
(II) Other comprehensive income	—	—	147,588	—	—	—	147,588	—	411,985	559,573	
Total comprehensive income	—	—	147,588	—	1,615,585	—	1,763,173	180,753	447,833	2,391,759	
(III) Shareholder's capital injection and capital reduction											
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	5,000	5,000	
2. Capital injection by holders of other equity instruments	—	—	—	—	—	—	—	7,415,500	—	7,415,500	
3. Equity-settled share option expense	—	89,121	—	—	—	—	89,121	—	—	89,121	
4. Acquisition of non-controlling interest	—	(1,648)	—	—	—	—	(1,648)	—	(22,594)	(24,242)	
(IV) Profit appropriation											
1. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	—	
2. Distribution to shareholders	—	—	—	—	—	—	—	—	(13,969)	(13,969)	
3. Proposed final dividends	—	—	—	—	—	—	—	—	—	—	
III. Current period's closing balance	3,437,541	8,812,227	(316,687)	1,769,012	12,339,619	687,508	26,729,220	7,596,253	1,830,200	36,155,673	

	Six months ended 30 June 2014 (unaudited) (Restated)									
	Equity attributable to ordinary equity holders of the parent							Non-controlling interests	Total shareholders' equity	
	Issued capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Proposed final dividends	Sub-total			
I. Current period's opening balance	3,437,541	8,545,701	(100,703)	1,613,195	8,933,788	103,126	22,532,648	1,093,041	23,625,689	
II. Changes during the period										
(I) Net profit	—	—	—	—	1,128,206	—	1,128,206	43,105	1,171,311	
(II) Other comprehensive income	—	—	(851)	—	—	—	(851)	(607)	(1,458)	
Total comprehensive income	—	—	(851)	—	1,128,206	—	1,127,355	42,498	1,169,853	
(III) Shareholder's capital injection and capital reduction										
1. Capital injection from shareholders	—	—	—	—	—	—	—	—	—	
2. Equity-settled share option expense	—	89,120	—	—	—	—	89,120	—	89,120	
3. Shareholder's capital reduction	—	—	—	—	—	—	—	(48,990)	(48,990)	
4. Acquisition of non-controlling interest	—	—	—	—	—	—	—	—	—	
(IV) Profit appropriation										
1. Appropriation to surplus reserve	—	—	—	—	—	—	—	—	—	
2. Distribution to shareholders	—	—	—	—	—	—	—	(9,148)	(9,148)	
3. Proposed final dividends	—	—	—	—	—	—	—	—	—	
III. Current period's closing balance	3,437,541	8,634,821	(101,554)	1,613,195	10,061,994	103,126	23,749,123	1,077,401	24,826,524	

# Consolidated Cash Flow Statement

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

	Note V	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)
<b>I. Cash flows from operating activities</b>			
Cash received from sale of goods or rendering of services		51,026,906	41,692,381
Refunds of taxes		3,526,114	3,286,212
Cash received relating to other operating activities	50	1,045,509	823,979
<b>Sub-total of cash inflows</b>		<b>55,598,529</b>	<b>45,802,572</b>
Cash paid for goods and services		38,482,957	32,389,429
Cash paid to and on behalf of employees		7,456,185	5,540,915
Cash paid for various types of taxes		4,311,365	3,410,470
Cash paid relating to other operating activities	50	3,840,136	3,746,449
<b>Sub-total of cash outflows</b>		<b>54,090,643</b>	<b>45,087,263</b>
<b>Net cash flows from operating activities</b>	51	<b>1,507,886</b>	<b>715,309</b>
<b>II. Cash flows from investing activities</b>			
Cash received from sale of investments		800,001	983,731
Cash received from return on investments		441,778	54,465
Net cash received from the disposal of property, plant and equipment, intangible assets and other long-term assets		9,033	15,314
<b>Sub-total of cash inflows</b>		<b>1,250,812</b>	<b>1,053,510</b>
Cash paid for acquisition of property, plant and equipment, intangible assets and other long-term assets		1,352,721	951,924
Cash paid for acquisition of investments		854,241	888,435
<b>Sub-total of cash outflows</b>		<b>2,206,962</b>	<b>1,840,359</b>
<b>Net cash flows used in investing activities</b>		<b>(956,150)</b>	<b>(786,849)</b>
<b>III. Cash flows from financing activities</b>			
Cash received from capital injection		5,000	—
Including: Capital injection into subsidiaries by minority shareholders		5,000	—
Cash received from the issuance of perpetual capital instruments		7,415,500	—
Cash received from borrowings		7,020,747	21,894,336
<b>Sub-total of cash inflows</b>		<b>14,441,247</b>	<b>21,894,336</b>
Cash repayment of borrowings		13,913,549	25,171,010
Cash payments for distribution of dividends, profits and for interest expenses		810,849	784,744
Including: Distribution of dividends and profits by subsidiaries to minority shareholders		13,969	30,470
<b>Sub-total of cash outflows</b>		<b>14,724,398</b>	<b>25,955,754</b>
<b>Net cash flows used in financing activities</b>		<b>(283,151)</b>	<b>(4,061,418)</b>
<b>IV. Effect of changes in foreign exchange rate on cash and cash equivalents</b>		<b>(181,183)</b>	<b>65,864</b>
<b>V. Net increase in cash and cash equivalents</b>		<b>87,402</b>	<b>(4,067,094)</b>
Add: cash and cash equivalents at the beginning of period		17,230,140	20,118,274
<b>VI. Net balance of cash and cash equivalents at the end of period</b>	51	<b>17,317,542</b>	<b>16,051,180</b>

# Balance Sheet

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

	Note XIV	30 June 2015 (unaudited)	31 December 2014 (audited)
<b>Assets</b>			
<b>Current assets</b>			
Cash		9,697,648	10,025,991
Financial assets dealt with at fair value through current profit or loss		24,382	53,390
Bills receivable		3,274,308	1,873,999
Trade receivables	1	35,402,073	36,620,720
Factored trade receivables		448,176	1,259,713
Prepayments		53,484	66,692
Dividends receivable		3,558,377	2,487,128
Other receivables	2	6,176,945	6,338,933
Inventories		12,843,375	12,353,923
Amount due from customers for contract works		7,954,513	7,799,190
<b>Total current assets</b>		<b>79,433,281</b>	<b>78,879,679</b>
<b>Non-current assets</b>			
Available-for-sale financial assets	3	366,924	373,555
Long-term trade receivables	4	5,678,976	5,480,245
Factored long-term trade receivables		1,208,420	1,287,954
Long-term equity investments	5	6,916,210	6,884,411
Investment properties		1,624,703	1,597,919
Property, plant and equipment		4,318,693	4,458,748
Construction in progress		120,948	11,909
Intangible assets		529,081	515,110
Deferred development costs		892,011	846,625
Deferred tax assets		736,898	674,629
Long-term deferred assets		36,411	44,518
Other non-current assets		3,842,316	3,879,675
<b>Total non-current assets</b>		<b>26,271,591</b>	<b>26,055,298</b>
<b>Total assets</b>		<b>105,704,872</b>	<b>104,934,977</b>



# Balance Sheet (continued)

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

Note XIV	30 June 2015 (unaudited)	31 December 2014 (audited)
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Short-term loans	6,844,160	8,418,581
Financial liabilities dealt with at fair value through current profit or loss	3,703	17,587
Bank advances on factored trade receivables	457,527	1,274,440
Bills payable	13,590,610	12,389,807
Trade payables	31,655,871	31,214,686
Amount due to customers for contract works	3,170,404	2,654,158
Advances from customers	4,282,232	3,411,519
Salary and welfare payables	1,230,491	771,370
Taxes payable	(3,072,259)	(2,377,915)
Dividends payable	156	156
Other payables	17,694,959	19,020,951
Deferred income	304,282	191,584
Provisions	317,808	388,995
Long-term loans due within one year	1,720,000	6,131,185
<b>Total current liabilities</b>	<b>78,199,944</b>	<b>83,507,104</b>
<b>Non-current liabilities</b>		
Long-term loans	1,301,680	2,980,100
Bank advances on factored long-term trade receivables	1,208,420	1,287,954
Provision for retirement benefits	114,660	115,450
Deferred tax liabilities	162,367	158,350
Other non-current liabilities	1,290,327	1,348,475
<b>Total non-current liabilities</b>	<b>4,077,454</b>	<b>5,890,329</b>
<b>Total liabilities</b>	<b>82,277,398</b>	<b>89,397,433</b>
<b>Shareholders' equity</b>		
Issued capital	3,437,541	3,437,541
Capital reserve	8,829,804	8,740,683
Other comprehensive income	720,841	720,953
Surplus reserve	1,107,256	1,107,256
Retained profits	1,048,271	843,603
Proposed final dividends	687,508	687,508
<b>Total equity attributable to ordinary equity holders</b>	<b>15,831,221</b>	<b>15,537,544</b>
<b>Other equity instruments</b>	<b>7,596,253</b>	<b>—</b>
<b>Total shareholders' equity</b>	<b>23,427,474</b>	<b>15,537,544</b>
<b>Total liabilities and shareholders' equity</b>	<b>105,704,872</b>	<b>104,934,977</b>

# Income Statement

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

	Note XIV	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)
<b>Operating revenue</b>	6	<b>44,533,087</b>	34,822,306
Less: Operating costs	6	<b>37,506,417</b>	30,353,179
Taxes and surcharges		<b>501,735</b>	383,730
Selling and distribution costs		<b>3,468,013</b>	3,036,239
Administrative expenses		<b>799,335</b>	618,287
Research and development costs		<b>1,456,751</b>	1,109,489
Finance expenses		<b>752,215</b>	417,058
Impairment losses		<b>1,436,623</b>	943,466
Add: Gains/(losses) from changes in fair values		<b>11,659</b>	(37,898)
Investment income	7	<b>1,171,274</b>	1,472,184
Including: Share of losses of associates and joint ventures		<b>(35,426)</b>	(34,282)
<b>Operating loss</b>		<b>(205,069)</b>	(604,856)
Add: Non-operating income		<b>624,991</b>	340,246
Less: Non-operating expenses		<b>70,646</b>	21,781
Including: losses on disposal of non-current assets		<b>5,259</b>	9,369
<b>Total profit/(loss)</b>		<b>349,276</b>	(286,391)
Less: Income tax		<b>(36,145)</b>	(44,261)
<b>Net profit/(loss)</b>		<b>385,421</b>	(242,130)
Ordinary equity holders		<b>204,668</b>	(242,130)
Perpetual capital instruments		<b>180,753</b>	—
Other comprehensive income, net of tax			
Other comprehensive income that cannot be reclassified to profit or loss in subsequent accounting periods			
Change in net liabilities arising from the re-measurement of defined benefit plans		—	—
Other comprehensive income that will be reclassified to profit or loss in subsequent accounting periods			
Exchange differences on translation of foreign operations		<b>(112)</b>	753
Other comprehensive income, net of income tax effect on respective items		<b>(112)</b>	753
<b>Total comprehensive income</b>		<b>385,309</b>	(241,377)
Ordinary equity holders		<b>204,556</b>	(241,377)
Perpetual capital instruments		<b>180,753</b>	—

# Statement of Changes in Equity

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

	Six months ended 30 June 2015 (unaudited)								
	Issued capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Proposed final dividends	Total equity of ordinary equity holders	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	843,603	687,508	15,537,544	–	15,537,544
II. Changes during the period									
(I) Net profit	–	–	–	–	204,668	–	204,668	180,753	385,421
(II) Other comprehensive income	–	–	(112)	–	–	–	(112)	–	(112)
Total comprehensive income	–	–	(112)	–	204,668	–	204,556	180,753	385,309
(III) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	–	–	–	–	–	–	–	–	–
2. Capital injection by other equity instrument holders	–	–	–	–	–	–	–	7,415,500	7,415,500
3. Equity – settled share option expenses	–	89,121	–	–	–	–	89,121	–	89,121
(IV) Profit appropriation									
1. Appropriation to surplus reserve	–	–	–	–	–	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	–	–	–
3. Proposed final dividends	–	–	–	–	–	–	–	–	–
III. Current period's closing balance	3,437,541	8,829,804	720,841	1,107,256	1,048,271	687,508	15,831,221	7,596,253	23,427,474

	Six months ended 30 June 2014 (unaudited) (Restated)							
	Issued capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit/(losses not made up for)	Proposed final dividends	Total shareholders' equity	
I. Current period's opening balance	3,437,541	8,561,630	736,957	951,439	128,756	103,126	13,919,449	
II. Changes during the period								
(I) Net loss	–	–	–	–	(242,130)	–	(242,130)	
(II) Other comprehensive income	–	–	753	–	–	–	753	
Total comprehensive income	–	–	753	–	(242,130)	–	(241,377)	
(III) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	–	–	–	–	–	–	–	
2. Equity – settled share option expense	–	89,120	–	–	–	–	89,120	
(IV) Profit appropriation								
1. Appropriation to surplus reserve	–	–	–	–	–	–	–	
2. Distribution to shareholders	–	–	–	–	–	–	–	
3. Proposed final dividends	–	–	–	–	–	–	–	
III. Current period's closing balance	3,437,541	8,650,750	737,710	951,439	(113,374)	103,126	13,767,192	

# Cash Flow Statement

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

	Six months ended 30 June 2015 (unaudited)	Six months ended 30 June 2014 (unaudited)
<b>I. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	49,590,344	36,099,764
Refunds of taxes	1,996,750	1,885,621
Cash received relating to other operating activities	686,153	598,013
<b>Sub-total of cash inflows</b>	<b>52,273,247</b>	<b>38,583,398</b>
Cash paid for goods and services	45,376,455	34,183,700
Cash paid to and on behalf of employees	2,671,191	1,899,459
Cash paid for various types of taxes	702,106	416,839
Cash paid relating to other operating activities	2,832,110	2,737,826
<b>Sub-total of cash outflows</b>	<b>51,581,862</b>	<b>39,237,824</b>
<b>Net cash flows from/(used in) operating activities</b>	<b>691,385</b>	<b>(654,426)</b>
<b>II. Cash flows from investing activities</b>		
Cash received from sale of investments	45,474	21,300
Cash received from return on investment	96,781	38,079
Net cash received from the disposal of property, plant and equipment, intangible assets and other long-term assets	8,165	9,313
Net cash received from the disposal of subsidiaries	126	1,343
<b>Sub-total of cash inflows</b>	<b>150,546</b>	<b>70,035</b>
Cash paid for acquisition of property, plant and equipment, intangible assets and other long-term assets	355,356	326,771
Cash paid for acquisition of investments	72,288	1,292
<b>Sub-total of cash outflows</b>	<b>427,644</b>	<b>328,063</b>
<b>Net cash flows used in investing activities</b>	<b>(277,098)</b>	<b>(258,028)</b>
<b>III. Cash flows from financing activities</b>		
Cash received from the issuance of perpetual capital instruments	7,415,500	—
Cash received from borrowings	5,140,138	6,006,450
<b>Sub-total of cash inflows</b>	<b>12,555,638</b>	<b>6,006,450</b>
Cash repayment of borrowings	12,607,186	9,153,276
Cash payments for distribution of dividends, profits and for interest expenses	619,638	625,993
<b>Sub-total of cash outflows</b>	<b>13,226,824</b>	<b>9,779,269</b>
<b>Net cash flows used in financing activities</b>	<b>(671,186)</b>	<b>(3,772,819)</b>
<b>IV. Effect of changes in foreign exchange rate on cash and cash equivalents</b>	<b>(116,941)</b>	<b>71,545</b>
<b>V. Net increase in cash and cash equivalents</b>	<b>(373,840)</b>	<b>(4,613,728)</b>
Add: cash and cash equivalents at the beginning of period	9,715,869	11,756,439
<b>VI. Net balance of cash and cash equivalents at the end of period</b>	<b>9,342,029</b>	<b>7,142,711</b>

# 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 26 August 2015.

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 2015 and the results of their operations and their cash flows for the six months ended 30 June 2015.

### 2. Financial year

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

### 3. Reporting currency

Reporting currency and the currency used in preparing the financial statements were Renminbi. The amounts in the financial statements were denominated in 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.

#### *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.

# Notes to Financial Statements

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

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 4. Business combination (continued)

#### *Business combinations not involving entities under common control (continued)*

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 2015. Subsidiaries are those enterprises or entities which the Company has control over (including enterprises, separable components of investee units and structured entities controlled by the Company).

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

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

For subsidiaries obtained through a business combination not involving entities under common control, the operating results and cash flows of the acquirees will be 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.

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.

# Notes to Financial Statements

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

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 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 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.

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.



# 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)

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.

#### 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.

# 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)

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.

##### *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.

# 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 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.

#### 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.

# 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)

#### 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.

#### 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.

# 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)

#### Impairment of financial assets (continued)

##### *Assets carried at amortised cost (continued)*

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.

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.

# 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)

#### 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.

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## 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:

	<b>Percentage of provision (%)</b>
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.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 12. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates.

Long-term equity investments were recorded at initial investment cost on acquisition. For long-term equity investments acquired through the business combination of entities under common control, the initial investment cost shall be the share of carrying value of the owners' equity of the merged party at the date of combination as stated in the consolidated financial statements of the ultimate controlling party. Any difference between the initial investment cost and the carrying value of the consideration for the combination shall be dealt with by adjusting the capital reserve (if the capital reserve is insufficient for setting off the difference, such difference shall be further set off against retained profits). Upon disposal of the investment, other comprehensive income prior to the date of combination shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. For long-term equity investments acquired through the business combination of entities not under common control, the initial investment cost shall be the cost of combination (for business combinations of entities not under common control achieved in stages through multiple transactions, the initial investment cost shall be the sum of the carrying value of the equity investment in the acquired party held at the date of acquisition and new investment cost incurred as at the date of acquisition). The cost of combination shall be the sum of assets contributed by the acquiring party, liabilities incurred or assumed by the acquiring party and the fair value of equity securities issued. Upon disposal of the investment, other comprehensive income recognised under the equity method held prior to the date of acquisition shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. The accumulated fair value change of equity investments held prior to the date of acquisition and included in the other comprehensive income as financial instruments shall be transferred in full to current profit and loss upon the change to cost accounting. The initial investment cost of long-term equity investments other than those acquired through business combination shall be 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."



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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.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 14. Property, Plant and Equipment

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.

Property, plant and equipment are initially recognised at cost taking into account the impact of expected future disposal expenditure. Cost of purchased property, plant and equipment includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working conditions for its intended use.

Property, plant and equipment 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 property, plant and equipment 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 property, plant and equipment when it is ready for its intended use.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 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., property, plant and equipment, 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.

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.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 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:

	<b>Estimated useful life</b>
Software	2–5 years
Technology know-how	2–10 years
Land use rights	50–70 years
Franchise	3–10 years

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and property, plant and equipment, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as property, plant and equipment 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.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 18. Provisions

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

### 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, except where vesting is conditional upon a market or non-vesting condition, which are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other non-market conditions 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.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 19. Share-based payments (continued)

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.

### 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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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 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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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 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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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 25. Hedge accounting

For the purpose of hedge accounting, hedges are classified as: Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or an exchange rate risk in an unrecognised firm commitment.

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.

### 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.

# Notes to Financial Statements

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

## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 26. Impairment (continued)

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.

### 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.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 27. Employee remuneration (continued)

#### *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 and 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.

#### *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.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 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.

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.



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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 30. Significant accounting judgements and estimates (continued)

#### Judgements (continued)

##### *Revenue Recognition (continued)*

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss and title have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because legal title or the risk of loss on products was not transfer to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when title or the risk of loss passes either on delivery or on receipt of payment from the customer.

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Note III.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.

#### Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent financial years, are discussed below.

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## III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

### 30. Significant accounting judgements and estimates (continued)

#### Estimation uncertainty (continued)

##### *Impairment of property, plant and equipment, construction in progress and intangible assets*

The Group assesses at each balance sheet date whether there is an indication that property, plant and equipment, 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 property, plant and equipment, 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 property, plant and equipment 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 property, plant and equipment are placed into productive use. The estimated useful lives and dates that the Group places the items of property, plant and equipment into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets.

##### *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.

##### *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.

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

### 30. Significant accounting judgements and estimates (continued)

#### Estimation uncertainty (continued)

##### *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 2015 was RMB2,069,146,000 (31 December 2014: RMB2,004,465,000).

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## IV. TAXATION

### 1. Principal tax items and tax rates

- |                                       |  |
|---------------------------------------|--|
| Value-added tax                       | — Payable on income generated from domestic sales of products and equipment repair services at a tax rate of 17%; Output tax at a tax rate of 6% is payable on sales service income generated from amended or new additional scope of business deducting the current balance of tax credit available for offsetting. |
| Business tax                          | — In accordance with relevant PRC tax regulations, business tax was payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which were subject to business tax.   |
| City maintenance and construction tax | — In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.  |
| Education surcharge                   | — In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.  |
| Individual income tax                 | — In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.   |
| Overseas tax                          | — Overseas taxes were payable in accordance with tax laws of various countries and regions.  |
| Enterprise income tax                 | — In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income.   |

# Notes to Financial Statements

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## IV. TAXATION (CONTINUED)

### 2. Tax concession

The Company is subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise incorporated in Shenzhen. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

ZTE ICT Company Limited was subject to an enterprise income tax rate of 15% from 2013 to 2015 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

Nubia Technology Limited (努比亞技術有限公司) 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% from 2014 to 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% from 2014 to 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% from 2014 to 2016 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% from 2013 to 2020 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 to 2015 as a national-grade hi-tech enterprise.

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

### 1. Cash

	30 June 2015	31 December 2014
Cash	14,456	16,314
Bank deposit	17,552,105	17,381,254
Other cash	881,844	718,306
	<b>18,448,405</b>	<b>18,115,874</b>

As at 30 June 2015, the Group's time deposit of RMB23,000,000 (31 December 2014: RMB23,000,000) was pledged to secure bank borrowings for a term of 1 year.

As at 30 June 2015, the Group's overseas currency deposits amounted to RMB6,871,700,000 (31 December 2014: RMB6,039,157,000). Funds placed overseas and subject to remittance restrictions amounted to RMB93,749,000 (31 December 2014: RMB70,175,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for time deposits varies from 7 days to 1 year. 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 RMB249,019,000 (31 December 2014: RMB167,428,000) were not included in cash and cash equivalents.

### 2. Financial assets dealt with at fair value through current profit or loss

	30 June 2015	31 December 2014
Trading financial assets		
Derivative financial assets	79,640	240,973

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

### 3. Bills receivable

	30 June 2015	31 December 2014
Commercial acceptance bills	2,417,110	988,599
Bank acceptance bills	1,103,867	1,098,172
	<b>3,520,977</b>	<b>2,086,771</b>

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

	30 June 2015		31 December 2014	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Bank acceptance bills	371,818	54,066	294,779	44,028

As at 30 June 2015, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2014: Nil).

As at 30 June 2015, no bills were pledged for obtaining short-term borrowing (31 December 2014: Nil).

As at 30 June 2015, there were no outstanding bills receivable endorsed on behalf of third parties (31 December 2014: Nil).

### 4. Trade receivables

Trade receivables arising from communications systems construction works and the provision of labour services are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables arising in the sales of goods normally ranges from 0 to 90 days, and may be extended to a maximum of 1 year depending on the credit standing of the customer. Trade receivables are interest-free.

Aging analysis of trade receivables was as follows:

	30 June 2015	31 December 2014
Within 1 year	24,602,363	23,604,948
1 to 2 years	3,217,924	2,626,579
2 to 3 years	1,820,595	1,310,146
Over 3 years	2,148,544	1,928,466
	<b>31,789,426</b>	<b>29,470,139</b>
Less: bad debt provision for trade receivables	5,408,161	4,317,176
	<b>26,381,265</b>	<b>25,152,963</b>

# Notes to Financial Statements

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

### 4. Trade receivables (continued)

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

	30 June 2015				31 December 2014			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	429,880	1	429,880	100	509,312	2	509,312	100
For which bad debt provision has been collectively made based on credit risks								
0-6 months	19,521,463	62	—	—	20,307,402	69	—	—
7-12 months	5,080,900	16	445,605	9	3,297,545	11	292,712	9
13-18 months	1,970,126	6	590,841	30	1,712,530	6	425,970	25
19-24 months	1,247,798	4	806,121	65	914,049	3	580,641	64
2-3 years	1,820,595	6	1,417,050	78	1,304,670	4	1,083,910	83
Over 3 years	1,718,664	5	1,718,664	100	1,424,631	5	1,424,631	100
	<b>31,359,546</b>	<b>99</b>	<b>4,978,281</b>	<b>16</b>	<b>28,960,827</b>	<b>98</b>	<b>3,807,864</b>	<b>13</b>
	<b>31,789,426</b>	<b>100</b>	<b>5,408,161</b>		<b>29,470,139</b>	<b>100</b>	<b>4,317,176</b>	

As at 30 June 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	163,203	163,203	100%	Debtor running into serious financial difficulties
Overseas carriers 2	127,576	127,576	100%	Debtor running into serious financial difficulties
Overseas carriers 3	77,902	77,902	100%	Debtor running into serious financial difficulties
Others	61,199	61,199	100%	Debtor running into serious financial difficulties
	<b>429,880</b>	<b>429,880</b>		



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

### 4. Trade receivables (continued)

As at 31 December 2014, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	173,226	173,226	100%	Debtor running into serious financial difficulties
Overseas carriers 2	162,995	162,995	100%	Debtor running into serious financial difficulties
Overseas carriers 3	77,858	77,858	100%	Debtor running into serious financial difficulties
Others	95,233	95,233	100%	Debtor running into serious financial difficulties
	509,312	509,312		

As at 30 June 2015, trade receivables which were individually significant and for which bad-debt provision had been made separately amounting to RMB33,782,000 had been written off (31 December 2014: Nil), while settlement amounts of RMB45,650,000 had been recovered (31 December 2014: Nil).

Top 5 accounts of trade receivables as at 30 June 2015 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	4,009,026	12.61%	16,132
Customer 2	2,739,268	8.62%	31,225
Customer 3	2,091,656	6.58%	21,183
Customer 4	1,075,665	3.38%	35,927
Customer 5	557,114	1.75%	6,625
Total	10,472,729	32.94%	111,092

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.

# Notes to Financial Statements

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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 2015	31 December 2014
Within 1 year	2,093,913	1,592,615
1 to 2 years	336,955	317,980
2 to 3 years	67,845	159,854
Over 3 years	55,626	89,228
	<b>2,554,339</b>	<b>2,159,677</b>

Other receivables analysed by nature as follows:

	30 June 2015	31 December 2014
Staff loans	340,328	321,500
Transactions with third parties	1,942,676	1,446,721
Others	271,335	391,456
	<b>2,554,339</b>	<b>2,159,677</b>

Top 5 accounts of other receivables as at 30 June 2015 were as follows:

Due from	Closing balance	As a percentage of total amounts of other receivables	Nature
Third-party entity 1	1,176,698	46.07%	Transactions with third parties
Third-party entity 2	200,000	7.83%	Others
Third-party entity 3	93,659	3.67%	Transactions with third parties
Third-party entity 4	39,900	1.56%	Transactions with third parties
Third-party entity 5	34,000	1.33%	Transactions with third parties
Total	<b>1,544,257</b>	<b>60.46%</b>	

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 2015		31 December 2014	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	699,065	100%	682,778	100%

Top 5 accounts of prepayments as at 30 June 2015 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	38,699	5.54%
Supplier 2	32,874	4.70%
Supplier 3	21,613	3.09%
Supplier 4	20,028	2.86%
Supplier 5	19,978	2.86%
Total	133,192	19.05%

### 7. Inventories

	30 June 2015			31 December 2014		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	4,858,391	475,957	4,382,434	3,024,252	423,227	2,601,025
Materials under subcontract processing	374,797	13,988	360,809	302,833	14,602	288,231
Work-in-progress	1,511,763	76,528	1,435,235	1,340,404	71,860	1,268,544
Finished goods	5,116,453	437,180	4,679,273	4,352,821	321,735	4,031,086
Dispatch of goods	12,430,088	1,669,687	10,760,401	12,555,690	1,152,278	11,403,412
	24,291,492	2,673,340	21,618,152	21,576,000	1,983,702	19,592,298

Please refer to Note V.18 for details of movements in the provision for impairment of inventory during the 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 2015	31 December 2014
Amount due from customers for contract works	12,670,977	11,033,468
Amount due to customers for contract works	(4,911,812)	(3,825,106)
	<b>7,759,165</b>	<b>7,208,362</b>
Contract costs incurred plus recognized gross profits to date	73,433,345	64,203,987
Less: Estimated loss	257,252	340,199
Progress billings	65,416,928	56,655,426
	<b>7,759,165</b>	<b>7,208,362</b>

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 2015			31 December 2014		
	Book balance	Impairment provision	Carrying amount	Book balance	Impairment provision	Carrying amount
Available-for-sale equity instruments						
At fair value	810,995	—	810,995	319,470	—	319,470
At cost	1,384,090	—	1,384,090	1,420,194	—	1,420,194
	<b>2,195,085</b>	<b>—</b>	<b>2,195,085</b>	1,739,664	—	1,739,664

Available-for-sale financial assets at fair value:

	30 June 2015 Available-for- sale equity instruments	31 December 2014 Available-for- sale equity instruments
Equity instrument cost	95,261	147,608
Fair value	810,995	319,470
Accumulated fair value change included in other comprehensive income	715,734	171,862

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

### 9. Available-for-sale financial assets (continued)

Available-for-sale financial assets at cost:

	Book balance			Closing 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	—	—	201,734	5%	14,000
中國教育出版傳媒股份有限公司	196,000	—	—	196,000	0.985%	—
Others	1,022,460	—	(36,104)	986,356		6,919
	1,420,194	—	(36,104)	1,384,090		20,919

### 10. Long-term trade receivables

	30 June 2015	31 December 2014
Installment payments for the provision of system construction projects telecommunication	419,866	345,916
Less: Bad debt provision for long-term trade receivables	77,755	79,415
	342,111	266,501

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 trade receivables during the period.

### 11. Long-term equity investments

	30 June 2015	31 December 2014
Equity method		
Joint ventures	(1) 128,659	67,607
Associates	(2) 358,171	393,709
	486,830	461,316

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

### 11. Long-term equity investments (continued)

30 June 2015

#### (1) Joint ventures

	Balance as at the beginning of the period	Movements during the period							Carrying value as at the end of the period	Impairment provision at the end 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		
Bestel Communications Ltd.	2,255	—	—	—	—	—	—	—	2,255	—
普興移動通訊設備有限公司	50,485	—	—	2,900	—	—	—	—	53,385	—
江蘇中興微通信息科技有限公司	5,236	—	—	(2,606)	—	—	—	—	2,630	—
Pengzhong Xingsheng	9,631	—	—	—	—	—	—	—	9,631	—
前海融資租賃股份有限公司	—	60,758	—	—	—	—	—	—	60,758	—
	67,607	60,758	—	294	—	—	—	—	128,659	—

#### (2) Associates

	Balance as at the beginning of the period	Movements during the period							Carrying value as at the end of the period	Impairment provision at the end 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		
KAZNURTEL Limited Liability Company	2,477	—	—	—	—	—	—	—	2,477	—
思卓中興(杭州)科技有限公司	20,012	—	—	47	—	—	—	—	20,059	—
上海中興群力信息科技有限公司	22,427	—	—	(8,758)	—	—	—	—	13,669	—
ZTE Energy Co. Ltd	265,706	—	—	(23,773)	—	—	—	—	241,933	—
Nanjing Piaoxun Network Technology Company Limited	25	—	—	—	—	—	—	—	25	—
上海歡流傳媒有限公司	3,227	—	—	(829)	—	—	—	—	2,398	—
Telecom Innovations	10,234	—	—	—	(369)	—	—	—	9,865	—
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	7,016	—	—	(614)	—	—	—	—	6,402	—
北京億科三友科技發展有限公司	4,764	—	—	—	—	—	—	(4,764)	—	(4,764)
興天通訊技術(天津)有限公司	17,644	—	—	(613)	—	—	—	—	17,031	—
南京皓信達網絡科技有限公司	3,205	—	—	(83)	—	—	—	—	3,122	—
中興九城網絡科技無錫有限公司	1,914	—	—	(1,176)	—	—	—	—	738	—
寧波中興興通供應鏈有限公司	4,097	8,000	—	16	—	—	—	—	12,113	—
寧波中興雲祥科技有限公司	15,516	—	—	—	—	—	—	—	15,516	—
上海中興思格通訊有限公司	13,789	—	—	(1,546)	—	—	—	—	12,243	—
江蘇中興華易科技發展有限公司	1,656	—	—	(1,076)	—	—	—	—	580	—
	393,709	8,000	—	(38,405)	(369)	—	—	(4,764)	358,171	(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 2015

	Buildings RMB'000
Opening balance	2,004,465
Acquisition	—
Fair value change (Note 43)	64,681
Closing balance	2,069,146

#### 31 December 2014

	Buildings RMB'000
Opening balance	1,855,246
Acquisition	18,913
Fair value change	130,306
Closing balance	2,004,465

During the period, the investment properties of the Group leased buildings to Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited, a related party, and other non-related parties by way of operating lease.

As at 30 June 2015, investment properties with a carrying value of RMB1,479,501,000 (31 December 2014: RMB1,420,685,000) had yet to obtain title registration certificates.

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

### 13. Property, Plant and Equipment

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
<b>Cost</b>							
Opening balance	5,690,083	53,996	3,668,001	2,641,521	301,683	222,180	12,577,464
Acquisitions	35,284	—	187,768	78,410	3,819	7,985	313,266
Disposal or retirement	(12,863)	—	(174,066)	(19,503)	(7,840)	(28,385)	(242,657)
Exchange rate adjustments	(28,744)	(7,825)	(17,971)	(19,182)	(1,567)	(5,342)	(80,631)
Closing balance	5,683,760	46,171	3,663,732	2,681,246	296,095	196,438	12,567,442
<b>Accumulated depreciation</b>							
Opening balance	906,338	—	2,647,935	1,356,319	170,155	143,579	5,224,326
Provision	100,131	—	230,209	113,117	12,566	12,531	468,554
Disposed or retirement	(232)	—	(152,076)	(16,714)	(5,813)	(20,921)	(195,756)
Exchange rate adjustments	(21,672)	—	(14,852)	(16,308)	(1,050)	(3,865)	(57,747)
Closing balance	984,565	—	2,711,216	1,436,414	175,858	131,324	5,439,377
<b>Provision for impairment</b>							
Opening balance	—	—	2,677	2,092	—	77	4,846
Provision	—	—	—	—	—	—	—
Disposal or retirement	—	—	—	—	—	—	—
Exchange rate adjustments	—	—	—	3	—	(6)	(3)
Closing balance	—	—	2,677	2,095	—	71	4,843
<b>Net book value</b>							
At the end of the period	4,699,195	46,171	949,839	1,242,737	120,237	65,043	7,123,222
At the beginning of the period	4,783,745	53,996	1,017,389	1,283,110	131,528	78,524	7,348,292

As at 30 June 2015, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Xi'an and Hengyang of Hunan in China with a net book value of approximately RMB3,355,759,000 (31 December 2014: RMB3,616,184,000).



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

### 14. Construction in progress

	Opening balance	Increase during the period	Transfer to property, plant and equipment	Transfer to Investment properties during the period	Closing balance	Source of funds
Shenzhen staff quarters	6,155	106,896	—	—	113,051	Internal funds
Sanya R&D Base Project	6,589	432	—	—	7,021	Internal funds
Equipment installation	29,923	—	—	—	29,923	Internal funds
Xi'an District 2 Phase 1	95,360	24,252	—	—	119,612	Internal funds
Heyuan R&D training Center Phase I	35,878	188,660	—	—	224,538	Internal funds
Nanjing District 3 Phase I	688	—	—	—	688	Internal funds
Nanjing staff quarters	12,246	4,907	—	—	17,153	Internal funds
Zhongxing ICT Qinhuangdao Northern Base infrastructure	5,609	6,270	—	—	11,879	Internal funds
IDC data centre engine room	25,739	7,565	—	—	33,304	Internal funds
Nanjing Wulian office	15,061	16,613	—	—	31,674	Internal funds
Others	29,615	749	—	—	30,364	Internal funds
<b>Total</b>	<b>262,863</b>	<b>356,344</b>	<b>—</b>	<b>—</b>	<b>619,207</b>	

As at 30 June 2015, there was no capitalized interest in the balance of the construction in progress (31 December 2014: Nil).

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

### 15. Intangible assets

	Software	Technology know-how	Land use right	Franchise	Total
<b>Cost</b>					
Opening balance	484,992	8,255	1,230,245	409,022	2,132,514
Acquisition	44,331	12	—	17,595	61,938
Disposal or retirement	(173,372)	—	—	—	(173,372)
Closing balance	355,951	8,267	1,230,245	426,617	2,021,080
<b>Accumulated amortization</b>					
Opening balance	301,043	2,869	117,237	340,348	761,497
Provision	13,143	493	11,650	16,943	42,229
Disposal or retirement	(170,845)	—	—	—	(170,845)
Closing balance	143,341	3,362	128,887	357,291	632,881
<b>Provision for impairment</b>					
Opening balance	—	—	6,322	—	6,322
Provision	—	—	—	—	—
Disposal or retirement	—	—	—	—	—
Closing balance	—	—	6,322	—	6,322
<b>Book value</b>					
At the end of the period	212,610	4,905	1,095,036	69,326	1,381,877
At the beginning of the period	183,949	5,386	1,106,686	68,674	1,364,695

As at 30 June 2015, intangible assets with a book value of RMB74,058,000 (31 December 2014: RMB79,963,000) were subject to ownership restriction as they had been pledged as security for borrowings.

As at 30 June 2015, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Sanya and Nanjing in the PRC, with a net carrying value of approximately RMB559,825,000 (31 December 2014: RMB565,604,000).

### 16. Deferred development costs

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Handsets	305,203	84,930	(70,471)	319,662
System Products	3,178,302	721,107	(375,975)	3,523,434
	3,483,505	806,037	(446,446)	3,843,096

The Group adopts the timing of the product development project listing as the starting point for capitalisation. All research and development projects were under normal implementation according to the research and development milestone schedules.

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

### 17. Deferred tax assets/liabilities

	30 June 2015		31 December 2014	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealized profits arising on consolidation	552,433	117,170	572,329	126,540
Provision for impairment in inventory	1,003,654	156,987	831,424	123,081
Foreseeable contract losses	214,300	32,145	204,058	30,609
Amortization of deferred development costs	1,164,175	174,627	1,028,752	130,897
Provision for warranties and returned goods	427,705	84,148	626,318	98,325
Provision for retirement benefits	114,660	17,230	115,450	17,348
Deductible tax losses	2,340,033	406,130	2,392,613	423,283
Accruals	1,474,993	243,888	1,082,895	153,361
Overseas taxes pending deduction	1,019,977	152,997	999,046	149,857
Share option scheme expenses	297,068	44,560	207,948	31,192
	<b>8,608,998</b>	<b>1,429,882</b>	<b>8,060,833</b>	<b>1,284,493</b>

	30 June 2015		31 December 2014	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	1,126,945	173,176	1,062,264	159,340

Deductible tax losses of unrecognised deferred tax assets:

	30 June 2015	31 December 2014
Deductible tax losses	<b>8,172,238</b>	<b>8,344,266</b>

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

### 17. Deferred tax assets/liabilities (continued)

Deductible tax losses of unrecognised deferred tax assets expiring in the following periods:

	30 June 2015	31 December 2014
2015	—	—
2016	1,633,674	1,633,674
2017	5,146,909	5,146,909
After 2017	1,391,655	1,563,683
	<b>8,172,238</b>	<b>8,344,266</b>

The group recognised 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 expiring of deductible loss and tax allowance.

### 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	4,396,591	1,198,413	(61,116)	(14,735)	(33,237)	5,485,916
Including: Trade						
receivables	4,317,176	1,198,348	(61,116)	(14,735)	(31,512)	5,408,161
Long-term						
trade	79,415	65	—	—	(1,725)	77,755
receivables						
Provision for impairment	1,983,702	764,606	(24,561)	(26,462)	(23,945)	2,673,340
of inventories						
Provision for impairment	4,846	—	—	—	(3)	4,843
of property, plant						
and equipment						
Provision for impairment	6,322	—	—	—	—	6,322
of intangible assets						
Provision for impairment	—	4,764	—	—	—	4,764
of long-term equity						
investment						
	<b>6,391,461</b>	<b>1,967,783</b>	<b>(85,677)</b>	<b>(41,197)</b>	<b>(57,185)</b>	<b>8,175,185</b>

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.

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

### 19. Other non-current assets

	30 June 2015	31 December 2014
Prepayments for project and equipment	235,414	223,158
Risk compensation fund	3,675,903	3,744,472
Others	—	50,000
	<b>3,911,317</b>	<b>4,017,630</b>

### 20. Short-term loans

		30 June 2015		31 December 2014	
		Original	RMB equivalent	Original	RMB equivalent
Credit loans	RMB	4,552,365	4,552,365	4,132,364	4,132,364
	USD	500,485	3,107,250	1,016,544	6,303,083
	EUR	196,000	1,361,337	—	—
Bill discounted loans	RMB	54,066	54,066	544,028	544,028 Note 1
Pledged loans	USD	3,000	18,625	3,000	18,602 Note 2
		<b>9,093,643</b>		<b>10,998,077</b>	

As at 30 June 2015, the annual interest rate of the above loans ranged from 1.25%–7.20% (31 December 2014: 1.44%–7.20%).

Note 1: Bill discounted loans were loans discounted by bank acceptance bills.

Note 2: Pledged loans with an amount of RMB23,000,000 were loans secured by time deposits.

### 21. Financial liabilities dealt with at fair value through current profit or loss

	30 June 2015	31 December 2014
Trading financial liability		
Derivative financial liability	11,846	64,904
Hedging instruments — current portion	5,284	5,700
	<b>17,130</b>	<b>70,604</b>

# Notes to Financial Statements

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 Currency: RMB'000  
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## V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

### 22. Bills payable

	30 June 2015	31 December 2014
Bank acceptance bills	5,141,666	4,774,931
Commercial acceptance bills	6,650,284	5,606,757
	<b>11,791,950</b>	<b>10,381,688</b>

As at 30 June 2015, there was no due and outstanding bills payable (31 December 2014: Nil).

### 23. Trade payables

An aging analysis of the trade payables are as follows:

	30 June 2015	31 December 2014
0 to 6 months	20,411,479	18,794,292
7 to 12 months	285,449	298,251
1 to 2 years	106,884	14,258
2 to 3 years	98,036	114,309
Over 3 years	52,827	23,290
	<b>20,954,675</b>	<b>19,244,400</b>

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

As at 30 June 2015, there were no material trade payables aged over 1 year (31 December 2014: Nil).

### 24. Advances from customers

	30 June 2015	31 December 2014
Advanced payments for system project work	3,477,011	2,596,703
Advanced payments for terminals	1,221,784	708,817
	<b>4,698,795</b>	<b>3,305,520</b>

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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	2,756,305	8,502,902	(7,946,873)	3,312,334
Post-employment benefits (defined deposit plan)	46,135	579,930	(514,992)	111,073
Termination benefits	4,507	760	(779)	4,488
	<b>2,806,947</b>	<b>9,083,592</b>	<b>(8,462,644)</b>	<b>3,427,895</b>

Short-term remuneration analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus and allowance	1,791,537	7,694,243	(7,227,009)	2,258,771
Staff welfare	4,665	29,199	(29,738)	4,126
Social insurance	18,131	268,100	(238,611)	47,620
Including: Medical Insurance	17,150	236,641	(210,990)	42,801
Work Injuries Insurance	408	12,306	(10,812)	1,902
Maternity Insurance	573	19,153	(16,809)	2,917
Housing funds	34,067	225,129	(188,186)	71,010
Labour union fund and employee education fund	907,905	286,231	(263,329)	930,807
	<b>2,756,305</b>	<b>8,502,902</b>	<b>(7,946,873)</b>	<b>3,312,334</b>

The defined deposit plan was as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic pension insurance	44,963	545,550	(484,466)	106,047
Unemployment insurance	1,172	34,380	(30,526)	5,026
	<b>46,135</b>	<b>579,930</b>	<b>(514,992)</b>	<b>111,073</b>

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

### 26. Taxes payable

	30 June 2015	31 December 2014
Value-added tax	(5,026,270)	(4,040,415)
Business tax	426,487	565,212
Income tax	358,139	489,141
PRC tax	353,068	363,422
Overseas tax	5,071	125,719
Individual income tax	122,630	89,430
City maintenance and construction tax	51,902	52,762
Education surcharge	51,677	43,069
Other taxes	(8,061)	10,521
	<b>(4,023,496)</b>	<b>(2,790,280)</b>

### 27. Dividends payable

	30 June 2015	31 December 2014
Dividends payable to holders of restricted shares	156	156
Dividends payable to minority shareholders	7,957	7,957
	<b>8,113</b>	<b>8,113</b>

### 28. Other payables

	30 June 2015	31 December 2014
Accruals	1,305,003	1,123,200
Contributions to staff housing	66,168	66,168
Payables to external parties	5,494,649	5,319,690
Deposits	29,329	29,972
Factored interests payable	66,731	71,233
Payables to employees	473,514	483,277
Others	325,799	438,430
	<b>7,761,193</b>	<b>7,531,970</b>



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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	160,915	8,300	(77,250)	91,965
Provision for returned handsets	266,809	104,681	(195,389)	176,101
Provision for warranties	313,667	34,814	(30,060)	318,421
	<b>741,391</b>	<b>147,795</b>	<b>(302,699)</b>	<b>586,487</b>

### 30. Long-term non-current liabilities due within one year

	30 June 2015	31 December 2014
Long-term loans due within one year	1,722,000	43,072
Bonds payable due within one year	—	6,131,185
	<b>1,722,000</b>	<b>6,174,257</b>

### 31. Long-term loans

		30 June 2015		31 December 2014	
		Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans	RMB	97,249	97,249	1,740,000	1,740,000
	USD	200,000	1,241,680	200,000	1,240,100
Guaranteed loans	RMB	1,500,000	1,500,000	1,500,000	1,500,000
	USD	951,303	5,906,067	889,539	5,515,587
	EUR	110,000	764,016	—	—
Secured loans	RMB	41,000	41,000	44,000	44,000
		<b>9,550,012</b>		<b>10,039,687</b>	

Note 1 The guaranteed loans comprised mainly guaranteed loans provided by the Company for its subsidiary ZTE (H.K.) Limited and ZTE COOPERATIEF UA.

Note 2 The secured loans was pledged by Site C-2-06 of 湖南網信公司 with a value of RMB74,058,000.

As at 30 June 2015, the annual interest rate for the aforesaid loans was 3.9%-6.15% (31 December 2014: 3.93%-6.55%).

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

### 32. Other non-current liabilities

	30 June 2015	31 December 2014
Long-term financial guarantee contract	3,689	3,689
Factored interests payable	179,682	204,435
Hedging instruments — non-current portion	399	881
Deferred income relating to staff housing	1,106,974	1,140,351
	<b>1,290,744</b>	<b>1,349,356</b>

### 33. Issued capital

	Opening balance	Increase/ decrease during the period	Closing balance
Restricted shares			
Senior management shares	6,771	(734)	6,037
Total number of restricted shares	6,771	(734)	6,037
Unrestricted shares			
RMB Ordinary shares	2,801,185	734	2,801,919
Overseas listed foreign shares	629,585	—	629,585
Total number of unrestricted shares	3,430,770	734	3,431,504
Total number of shares	<b>3,437,541</b>	<b>—</b>	<b>3,437,541</b>

### 34. Other Equity Instruments

(1) *General information on perpetual capital instruments issued and 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 (the initial interest spread is the difference between the coupon interest rate and the initial benchmark rate) and a further 300 basis points, 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](http://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.

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

### 34. Other Equity Instruments (continued)

(1) *General information on perpetual capital instruments issued and outstanding as at the end of the period (continued)*

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.

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 equity holders;
2. Reduction in registered capital.

(2) *Change in perpetual capital instruments issued and outstanding as at the end of the period*

As at 1 January 2015		Additions		Deductions		As at 30 June 2015	
Volume (10,000)	Nominal value	Volume (10,000)	Nominal value	Volume (10,000)	Nominal value	Volume (10,000)	Nominal value
—	—	7,500	7,596,253	—	—	7,500	7,596,253

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

### 35. Capital reserve

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	8,443,657	—	(1,648)	8,442,009
Share-based payment	201,097	89,121	—	290,218
Capital investment by government	80,000	—	—	80,000
	<b>8,724,754</b>	<b>89,121</b>	<b>(1,648)</b>	<b>8,812,227</b>

### 36. Other comprehensive income

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

	1 January 2014	Increase/ decrease	31 December 2014	Increase/ decrease	30 June 2015
Changes in net liabilities arising from the re-measurement of defined benefit plans	(38,851)	(16,599)	(55,450)	—	(55,450)
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss in subsequent periods upon fulfillment of certain conditions	41,260	3,090	44,350	—	44,350
Change in fair value of available-for-sale financial assets	161,856	(40,800)	121,056	126,144	247,200
Effective portion of cash flow hedging instruments	(11,072)	3,965	(7,107)	917	(6,190)
Exchange differences on translation of foreign operations	(1,046,665)	(313,228)	(1,359,893)	20,527	(1,339,366)
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
	<b>(100,703)</b>	<b>(363,572)</b>	<b>(464,275)</b>	<b>147,588</b>	<b>(316,687)</b>

# Notes to Financial Statements

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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 ordinary equity holders of the parent company incurred during the current period:

	Amount before taxation	Income tax	Amount after taxation
Other comprehensive income to be subsequently reclassified to profit or loss			
Change in fair value of available-for-sale financial assets	286,076	—	286,076
Less: amount recognized in other comprehensive income for the previous period and profit and loss for the current period	(159,932)	—	(159,932)
Effective portion of cash flow hedging instruments	917	—	917
Exchange differences on translation of foreign operations	20,527	—	20,527
	147,588	—	147,588

### 37. Surplus reserve

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserve	1,769,012	—	—	1,769,012

### 38. Retained profits

	30 June 2015
Retained profits at the beginning of the year	10,724,034
Net profit attributable to holders of ordinary shares of the parent	1,615,585
Less: Statutory surplus reserve	—
Proposed final dividends	—
Retained profits at the end of the period	12,339,619

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.

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

### 39. Operating revenue and costs

	Six months ended 30 June 2015		Six months ended 30 June 2014	
	Revenue	Cost	Revenue	Cost
Revenue	45,642,976	30,326,398	37,505,232	25,464,930
Other income	255,812	100,350	192,077	44,900
	<b>45,898,788</b>	<b>30,426,748</b>	<b>37,697,309</b>	<b>25,509,830</b>

Operating revenue is analysed as follows:

	Six months ended 30 June 2015	Six months ended 30 June 2014
Telecommunications systems contracts	35,920,223	27,272,638
Sales of goods	9,959,487	10,406,174
Rendering of services	19,078	18,497
	<b>45,898,788</b>	<b>37,697,309</b>

### 40. Taxes and surcharges

	Six months ended 30 June 2015	Six months ended 30 June 2014
Business tax	478,504	381,650
City maintenance and construction tax	178,193	137,692
Education surcharge	149,773	113,820
Others	39,350	39,127
	<b>845,820</b>	<b>672,289</b>

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

### 41. Selling and distribution costs

	Six months ended 30 June 2015	Six months ended 30 June 2014
Wages, welfare and bonuses	2,288,619	1,819,571
Consulting and services charges	510,574	1,236,409
Travelling expenses	381,449	363,784
Transportation and fuel charges	375,165	221,192
Office expenses	169,988	134,218
Advertising and promotion expenses	534,883	370,587
Rental fee	234,626	206,361
Communication expenses	51,937	42,564
Others	785,933	346,649
	<b>5,333,174</b>	<b>4,741,335</b>

### 42. Administrative expenses

	Six months ended 30 June 2015	Six months ended 30 June 2014
Wages, welfare and bonuses	621,495	447,508
Office expenses	55,676	50,836
Amortization and depreciation charges	135,309	141,839
Taxes	87,931	87,897
Rental fees	80,044	81,915
Travelling expenses	43,208	43,573
Others	184,144	218,683
	<b>1,207,807</b>	<b>1,072,251</b>

### 43. Gains/(losses) from changes in fair values

	Six months ended 30 June 2015	Six months ended 30 June 2014
Financial assets/liabilities at fair value through profit or loss	(54,725)	(136,244)
Including: Derivative financial instruments	(54,725)	(261,024)
Investment properties at fair value	64,681	77,475
	<b>9,956</b>	<b>(58,769)</b>

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

### 44. Investment income/(loss)

	Six months ended 30 June 2015	Six months ended 30 June 2014
Investment loss from long-term equity investment under equity method	(38,111)	(40,448)
Investment gain from holding available-for-sale financial assets	24,024	1,609
Investment gain/(loss) arising from the disposal of financial assets at fair value through profit or loss	275,256	(36,248)
Investment gain/(loss) from the disposal of available-for-sale financial assets	101,099	(1,286)
	<b>362,268</b>	<b>(76,373)</b>

### 45. Financial expenses

	Six months ended 30 June 2015	Six months ended 30 June 2014
Interest expenses	692,097	753,749
Less: Interest income	298,730	253,587
Loss/(gain) on foreign currency exchange	428,340	(198,949)
Cash discounts and interest subsidy	75,788	71,218
Bank charges	109,607	135,539
	<b>1,007,102</b>	<b>507,970</b>

### 46. Impairment losses

	Six months ended 30 June 2015	Six months ended 30 June 2014
Bad debt provisions	1,137,297	819,172
Inventories provisions	740,045	322,823
Provisions for long-term equity investment	4,764	—
	<b>1,882,106</b>	<b>1,141,995</b>



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

### 47. Non-operating income/Non-operating expenses

#### *Non-operating income*

	Six months ended 30 June 2015	Six months ended 30 June 2014	Amount of recurrent gain/ loss recognized for the period
Refund of VAT on software products (Note 1)	1,454,782	1,313,580	—
Others (Note 2)	676,430	599,084	476,016
	<b>2,131,212</b>	1,912,664	476,016

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 2015	Six months ended 30 June 2014	Amount of recurrent gain/ loss recognized for the period
Compensation	13,216	5,819	13,216
Loss arising from the disposal of non-current assets	16,044	16,179	16,044
Others	35,907	36,631	35,907
	<b>65,167</b>	58,629	65,167

### 48. Income tax

	Six months ended 30 June 2015	Six months ended 30 June 2014
Current income tax	441,755	481,132
Deferred income tax	(131,553)	(8,457)
	<b>310,202</b>	472,675

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

### 48. Income tax (continued)

Reconciliation between income tax and total profit was as follows:

	Six months ended 30 June 2015	Six months ended 30 June 2014
Total profit	2,142,388	1,643,986
Tax at statutory tax rate (Note 1)	535,597	410,997
Effect of different tax rates applicable to certain subsidiaries	(320,147)	(116,545)
Adjustment to current tax in previous period	(67,043)	(82,662)
Profits and losses attributable to joint ventures entities and associates	5,711	6,005
Income not subject to tax	(225,440)	(201,617)
Expenses not deductible for tax	280,921	317,347
Utilization of tax losses from previous years	(181,531)	(155,431)
Unrecognized tax losses	282,134	294,581
<b>Tax charge at the Group's effective rate</b>	<b>310,202</b>	<b>472,675</b>

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.

### 49. 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.

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

### 49. Earnings per share (continued)

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

	Six months ended 30 June 2015	Six months ended 30 June 2014
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	1,615,585	1,128,206
Shares		
Weighted average number of ordinary shares of the Company	3,437,541	3,437,541
Diluting effect — weighted average number of ordinary shares		
Share option	44,768	—
Adjusted weighted average number of ordinary shares of the Company	3,482,309	3,437,541

### 50. Notes to major items in cash flow statement

	Six months ended 30 June 2015	Six months ended 30 June 2014
Cash received in connection with other operating activities:		
Interest income	298,730	253,587
Cash paid in connection with other operating activities:		
Selling and distribution costs	2,861,549	2,830,676
Administrative expenses and research and development costs	542,360	807,806

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

### 51. 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 2015	Six months ended 30 June 2014
Net profit	1,832,186	1,171,311
Add: Provision for impairment of assets	1,882,106	1,141,995
Depreciation of property, plant and equipment	468,554	481,958
Amortization of intangible assets and deferred development costs	488,675	395,585
Amortization of long-term deferred assets	15,715	16,643
Loss on disposal of property, plant and equipment, intangible assets and other long-term assets	16,044	16,179
(Gain)/loss from changes in fair value	(9,956)	58,769
Financial expenses	1,930,343	927,124
Investment (income)/loss	(362,268)	76,373
Increase in deferred tax assets	(145,389)	(29,046)
Increase in deferred tax liabilities	13,836	20,589
Increase in inventories	(2,741,954)	(6,667,491)
(Increase)/decrease in operating receivables	(5,119,107)	603,194
Increase in operating payables	3,326,540	3,520,704
Cost of share-based payment	89,121	89,120
Increase in cash not immediately available for payments	(176,560)	(1,107,698)
Net cash flow from operating activities	1,507,886	715,309

(2) *Change in cash and cash equivalents:*

	Six months ended 30 June 2015	Six months ended 30 June 2014
Cash		
Including: Cash on hand	14,456	27,390
Bank deposit readily available	17,303,086	16,023,790
Cash and cash equivalents at end of period	17,317,542	16,051,180

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

### 52. Assets under restrictions on ownership or right of use

	30 June 2015	31 December 2014	
Cash	904,844	741,306	Note 1
Bills receivable	54,066	44,028	Note 2
Trade receivables	—	—	Note 3
Property, plant and equipment	—	—	Note 4
Intangible assets	74,058	79,963	Note 5
	<b>1,032,968</b>	<b>865,297</b>	

Note 1: As at 30 June 2015, the Group's cash subject to ownership restriction amounted to RMB904,844,000 (31 December 2014: RMB741,306,000), including time deposits of RMB23,000,000 (31 December 2014: RMB23,000,000) pledged to secure bank borrowings, acceptance bill deposits of RMB44,906,000 (31 December 2014: RMB63,030,000), letter of credit deposits of RMB137,361,000 (31 December 2014: RMB10,711,000), deposit for guarantee letter of RMB289,369,000 (31 December 2014: RMB99,891,000), dues from the People's Bank of China of RMB277,409,000 (31 December 2014: RMB376,188,000) and risk compensation fund to be released within one year of RMB132,799,000 (31 December 2014: RMB168,486,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 30 June 2015, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB3,808,702,000 (31 December 2014: RMB3,912,958,000). Risk compensation fund to be released within one year amounting to RMB132,799,000 (31 December 2014: RMB168,486,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB3,675,903,000 (31 December 2014: RMB3,744,472,000) was accounted for as other non-current assets.

Note 2: As at 30 June 2015, bank acceptance bills with a carrying value of RMB54,066,000 (31 December 2014: RMB44,028,000) were pledged to secure bank borrowing.

Note 3: As at 30 June 2015, no trade receivables (31 December 2014: nil) were pledged to secure bank borrowings.

Note 4: As at 30 June 2015, no property, plant and equipment (31 December 2014: nil) were pledged to secure bank borrowings.

Note 5: As at 30 June 2015, intangible assets with a carrying value of RMB74,058,000 (31 December 2014: RMB79,963,000) were pledged to secure bank borrowings.

# Notes to Financial Statements

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

### 53. Monetary items in foreign currencies

		30 June 2015			31 December 2014		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash	USD	883	6.2084	5,479	1,433	6.2005	8,884
	SAR	82	1.6556	136	45	1.6526	74
	DZD	7,241	0.0627	454	4,753	0.0709	337
	INR	411	0.0974	40	410	0.0975	40
	THB	11	0.1834	2	361	0.1886	68
	PLN	—	1.6481	—	129	1.7544	227
	KZT	811	0.0333	27	3,663	0.0344	126
	EGP	102	0.8150	83	93	0.8697	81
Bank deposit	USD	486,114	6.2084	3,017,992	579,892	6.2005	3,595,620
	HKD	737,718	0.8007	590,691	109,384	0.7984	87,332
	BRL	64,158	1.9780	126,904	27,724	2.3133	64,134
	PKR	1,483,404	0.0611	90,636	1,551,826	0.0619	96,058
	EGP	225,416	0.8150	183,714	193,939	0.8697	168,669
	IDR	28,274,000	0.0005	14,137	130,878,000	0.0005	65,439
	EUR	118,965	6.9456	826,286	206,682	7.5342	1,557,184
	DZD	773,397	0.0627	48,492	446,417	0.0709	31,651
	MYR	63,730	1.6411	104,587	43,244	1.7726	76,654
	ETB	336,486	0.3019	101,585	168,210	0.3095	52,061
	CAD	8,456	5.0226	42,471	14,887	5.2755	78,536
	GBP	5,376	9.7631	52,487	5,229	9.6475	50,447
	THB	461,270	0.1834	84,597	814,316	0.1886	153,580
	RUB	125,948	0.1118	14,081	331,339	0.1105	36,612
	JPY	5,858,915	0.0507	297,047	3,943,141	0.0519	204,649
	VEF	119,386	0.9855	117,655	15,046	0.9842	14,808
	COP	12,237,500	0.0024	29,370	14,365,769	0.0026	37,351
NPR	2,873,092	0.0608	174,684	2,886,976	0.0615	177,549	
CLP	1,777,959	0.0098	17,424	1,510,980	0.0102	15,412	
Other cash	USD	15,630	6.2084	97,039	31,176	6.2005	193,304
Trade receivables	USD	1,815,100	6.2084	11,268,867	1,498,159	6.2005	9,289,333
	EUR	254,235	6.9456	1,765,818	229,447	7.5342	1,728,697
	BRL	45,965	1.9780	90,918	59,670	2.3133	138,034
	THB	217,977	0.1834	39,977	165,933	0.1886	31,295
	INR	17,165,534	0.0974	1,671,923	22,795,426	0.0975	2,222,554
	Sub-total			20,875,603			20,176,800

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)

### 54. Hedging

	30 June 2015	31 December 2014
	Liabilities	Liabilities
Interest rate swap agreement	5,683	6,581
Non-current portion	399	881
Current portion	5,284	5,700

Periods during which the Group's estimated cash flow under hedge as at 30 June 2015 is expected to occur:

	30 June 2015		31 December 2014	
	Cash outflows	Net cash flows	Cash outflows	Net cash flows
Within 1 year	(2,792)	(2,792)	(2,282)	(2,282)
1 to 3 years	(756)	(756)	(4,273)	(4,273)

As at 30 June 2015, 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 2015	31 December 2014
Within 1 year	(2,792)	(2,282)
1 to 3 year	(756)	(4,273)

The key terms of interest rate swap agreement were under negotiation in order to be consistent with the committed terms. The evaluation results of the estimated future interest for related cash flow hedging payment was highly effective, and the net gain of RMB917,000 was included in other comprehensive income as follows:

	30 June 2015	31 December 2014
Net fair value gain included in other comprehensive income	917	3,965
Net gain cash flow hedging	917	3,965

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## VI. CHANGES IN THE SCOPE OF CONSOLIDATION

New tier-two subsidiaries established during the period included: 山西中興網信科技有限公司, 中興(銀川)智慧城市研究院(有限公司), 大連中興網信科技有限公司 and 綏化中興智慧城市發展有限公司.

安徽中興通訊傳媒有限責任公司, a tier-one subsidiary, completed deregistration with industrial and commercial administration authorities on 15 February 2015 in accordance with the Regulations for the Administration of Corporate Legal Persons of the People's Republic of China. The Group has ceased to include 安徽中興通訊傳媒有限責任公司 in its consolidated financial statements as from February 2015.

## VII. INTERESTS IN OTHER ENTITIES

### 1. Interests in subsidiaries

Particulars of the subsidiaries of the Company are as below:

Type of subsidiary	Place of registration/ principal place of business	Business nature	Registered capital	Percentage of shareholding	
				Direct	Indirect
<b>Subsidiaries acquired by way of incorporation or investment</b>					
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	RMB50 million	90%	10%
ZTE Kangxun Telecom Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB1,755 million	100%	—
ZTEsoft Technology Company Limited	Nanjing	Manufacturing	RMB300 million	80.1%	—
Nubia Technology Limited (努比亞技術有限公司)	Shenzhen	Telecommunications and related equipment manufacturing	RMB79.166 million	90%	—
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Telecommunications services	RMB10 million	90%	—
Xi'an Zhongxing New Software Company Limited	Xi'an	Telecommunications and related equipment manufacturing	RMB600 million	100%	—
ZTE (Hangzhou) Company Limited	Hangzhou	Telecommunications and related equipment manufacturing	RMB100 million	100%	—
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB60 million	90%	—



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## VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

### 2. Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of shareholding		Accounting method
				Direct	Indirect	
<b>Joint Ventures</b>						
Bestel Communications Ltd.	Republic of Cyprus	Information technology	EUR446,915	50%	—	Equity method
普興移動通訊設備有限公司	PRC	R&D, production and sales of communications equipment	RMB128,500,000	33.85%	—	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	50%	—	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
<b>Associates</b>						
KAZNURTEL Limited Liability Company	Kazakhstan	Manufacturing of computers and related equipment	USD3,000,000	49%	—	Equity method
北京中鼎盛安科技有限公司	PRC	Computer application services	RMB4,000,000	49%	—	Equity method
思卓中興(杭州)科技有限公司	PRC	Sales and R&D of communications equipment	USD7,000,000	49%	—	Equity method
上海中興群力信息科技有限公司	PRC	Manufacturing of computers and related equipment	RMB 5,000,000	40%	—	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
上海歡流傳媒有限公司	PRC	Advertising, Internet, communications and import and export	RMB10,000,000	33%	—	Equity method
Telecom Innovations	Uzbekistan	Sales and production of communications equipment	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
興天通訊技術(天津)有限公司	PRC	Communications business and related services	RMB20,000,000	30%	—	Equity method
南京皓信達訊網絡科技有限公司	PRC	Network software development and sales and related technical services	USD2,000,000	25%	—	Equity method
中興九城網路科技無錫有限公司	PRC	Computer application services	RMB10,000,000	33.50%	—	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
上海中興思秸通訊有限公司	PRC	R&D, sales and investments in communications and related equipment	RMB57,680,000	30%	—	Equity method
江蘇中興華易科技發展有限公司	PRC	Computer hardware, electronic equipment and development of network technologies	RMB30,000,000	35%	—	Equity method

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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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 2015	31 December 2014
<b>Joint ventures</b>		
Aggregate carrying value of investments	128,659	67,607
	Six months ended 30 June 2015	Six months ended 30 June 2014
Aggregate amounts of the following attributable to shareholdings:		
Net profit	294	716
Other comprehensive income	—	—
Total comprehensive income	294	716
	30 June 2015	31 December 2014
<b>Associates</b>		
Aggregate carrying value of investments	358,171	393,709
	Six months ended 30 June 2015	Six months ended 30 June 2014
Aggregate amounts of the following attributable to shareholdings:		
Net loss	(38,405)	(53,759)
Other comprehensive income	(369)	3,434
Total comprehensive loss	(38,774)	(50,325)

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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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 2015**

*Financial assets*

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available-for- sale financial assets	Total
Cash	—	18,448,405	—	18,448,405
Financial assets dealt with at fair value through current profit or loss	79,640	—	—	79,640
Available-for-sale financial assets	—	—	2,195,085	2,195,085
Bills receivable	—	3,520,977	—	3,520,977
Trade receivables and long-term receivables	—	26,723,376	—	26,723,376
Factored trade receivables and factored long-term receivables	—	3,726,679	—	3,726,679
Other receivables (excluding dividends receivable)	—	2,154,339	—	2,154,339
Other non-current assets	—	3,675,903	—	3,675,903
	<b>79,640</b>	<b>58,249,679</b>	<b>2,195,085</b>	<b>60,524,404</b>

# Notes to Financial Statements

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

### 1. Classification of financial instruments (continued)

#### 30 June 2015 (continued)

##### Financial liabilities

	Financial liabilities at fair value through current profit and loss Trading	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Financial liabilities dealt with at fair value through current profit or loss	11,846	—	5,284	17,130
Bank loans	—	20,365,655	—	20,365,655
Bills payable	—	11,791,950	—	11,791,950
Trade payables	—	20,954,675	—	20,954,675
Bank advances on factored trade receivables and long-term trade receivables	—	3,737,549	—	3,737,549
Other payables (excluding accruals and staff housing fund contributions)	—	6,390,022	—	6,390,022
Other non-current liabilities	—	183,371	399	183,770
	11,846	63,423,222	5,683	63,440,751

#### 31 December 2014

##### Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available-for-sale financial assets	Total
Cash	—	18,115,874	—	18,115,874
Financial assets dealt with at fair value through current profit or loss	240,973	—	—	240,973
Available-for-sale financial assets	—	—	1,739,664	1,739,664
Bills receivable	—	2,086,771	—	2,086,771
Trade receivables and long-term receivables	—	25,419,464	—	25,419,464
Factored trade receivables and factored long-term receivables	—	4,862,683	—	4,862,683
Other receivables (excluding dividends receivable)	—	2,159,677	—	2,159,677
Other non-current assets	—	3,794,472	—	3,794,472
	240,973	56,438,941	1,739,664	58,419,578

# Notes to Financial Statements

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

### 1. Classification of financial instruments (continued)

#### 31 December 2014 (continued)

*Financial liabilities (continued)*

	Financial liabilities at fair value through current profit and loss trading	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Financial liabilities dealt with at fair value through current profit or loss	64,904	—	5,700	70,604
Bank loans	—	21,080,836	—	21,080,836
Bills payable	—	10,381,688	—	10,381,688
Trade payables	—	19,244,400	—	19,244,400
Bank advances on factored trade receivables and long-term trade receivables	—	4,877,410	—	4,877,410
Other payables (excluding accruals and staff housing fund contributions)	—	6,342,602	—	6,342,602
Bonds payable	—	6,131,185	—	6,131,185
Other non-current liabilities	—	208,124	881	209,005
	64,904	68,266,245	6,581	68,337,730

### 2. Transfers of financial assets

*Transferred financial assets that are not derecognized in their entirety*

During the current period ended 30 June 2015, 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 RMB54,066,000 (31 December 2014: RMB44,028,000) 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 2015, trade receivables that have been transferred but not settled by the debtors amounted to RMB2,087,216,000 (31 December 2014: RMB2,915,814,000).

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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)*

According to some trade receivables factoring agreements, the Group is exposed to 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 2015, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB7,750,101,000 (31 December 2014: RMB9,547,043,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	<b>Financial assets (at amortised cost)</b>	
	<b>Trade receivables/long-term receivables</b>	
	<b>30 June 2015</b>	31 December 2014
	<b>RMB'000</b>	RMB'000
Carrying value of assets under continuous involvement	<b>1,639,463</b>	1,946,869
Carrying value of liabilities under continuous involvement	<b>1,650,333</b>	1,961,596

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 2015, the amount of factored trade receivables was RMB3,726,679,000 (31 December 2014: RMB4,862,683,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on factored long-term trade receivables." As at 30 June 2015, the amount of bank advances on factored trade receivables was RMB3,737,549,000 (31 December 2014: RMB4,877,410,000).

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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 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 2015, under the above arrangement, trade receivable due from the customer amounted to RMB5,644,113,000 (31 December 2014: RMB6,559,107,000) among which RMB4,515,290,000 (31 December 2014: RMB5,247,286,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in ASBEs No. 23. An associated liability of RMB1,128,823,000 (31 December 2014: RMB1,311,821,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

In addition, factored finance interest for future periods relating to the derecognition of trade receivables undertaken by the Company as at 30 June 2015 amounted to RMB246,413,000 (31 December 2014: RMB275,668,000), comprising RMB66,731,000 (31 December 2014: RMB71,233,000) due within one year and classified as other payables (see Note V. 28) and RMB179,682,000 (31 December 2014: RMB204,435,000) 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 substantially all risks and rewards relating to bills receivable with a book value of RMB371,818,000 (31 December 2014: RMB294,779,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognized at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognised bills receivable and the undiscounted cash flow for the repurchase of such bills equal to the carrying amounts of the bills receivable. The Group is of the view that the fair value of continuous involvement in the derecognised bills receivable is not significant. 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.

Although the top five accounts accounted for 32.94% (2014: 32.09%) of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

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 2015 was analysed as follows:

#### 30 June 2015

	Total	Not overdue/not impaired	Overdue for			
			Less than 1 year	1-2 years	2-3 years	Over 3 years
Trade receivables	26,381,265	2,457,658	21,699,100	1,820,962	403,545	—
Long-term trade receivables	342,111	342,111	—	—	—	—
Other receivables	2,554,339	—	2,093,913	336,955	67,845	55,626



# Notes to Financial Statements

(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 2014**

	Total	Not overdue/ not impaired	Overdue for			
			Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	25,152,963	2,533,268	20,778,967	1,619,968	220,760	—
Long-term trade receivables	266,501	266,501	—	—	—	—
Other receivables	2,159,677	—	1,592,615	317,980	159,854	89,228

#### *Liquidity risk*

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of its financial instruments (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans, bonds payable and other interest-bearing loans. With the exception of the non-current 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 2015**

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	11,068,206	4,504,174	2,142,849	3,298,450	21,013,679
Financial liabilities dealt with at fair value through current profit or loss	—	17,130	—	—	—	17,130
Bills payable	—	11,791,950	—	—	—	11,791,950
Trade payables	20,954,675	—	—	—	—	20,954,675
Bank advances on factored trade receivables and factored long-term trade receivable	—	2,270,290	641,829	293,560	641,532	3,847,211
Other payables (excluding accruals and staff housing fund contributions)	6,390,022	—	—	—	—	6,390,022
Other non-current liabilities	50,000	528	59,462	49,399	111,345	270,734
	27,394,697	25,148,104	5,205,465	2,485,808	4,051,327	64,285,401

# Notes to Financial Statements

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

### 3. Risks of financial instruments (continued)

#### *Liquidity risk (continued)*

#### 31 December 2014

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	11,193,023	6,431,576	1,368,816	3,048,910	22,042,325
Financial liabilities dealt with at fair value through current profit or loss	—	70,604	—	—	—	70,604
Bills payable	—	10,381,688	—	—	—	10,381,688
Trade payables	19,244,400	—	—	—	—	19,244,400
Bank advances on factored trade receivables and factored long-term trade receivable	—	3,254,431	638,663	389,151	735,447	5,017,692
Other payables (excluding accruals and staff housing fund contributions)	6,342,602	—	—	—	—	6,342,602
Bonds payable	—	6,252,000	—	—	—	6,252,000
Other non-current liabilities	50,000	571	74,223	63,889	189,065	377,748
	25,637,002	31,152,317	7,144,462	1,821,856	3,973,422	69,729,059

#### *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 2015, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company 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 7.2%. 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 nominal principal amount. As at 30 June 2015, taking into account interest rate swaps for a nominal principal amount of USD100 million (31 December 2014: USD100 million) already executed, approximately 58% (31 December 2014: 40%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on total profit (through the impact on floating rate loans) and shareholders' equity assuming that other variables remain constant and taking into account the effect of interest rate swaps.

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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)

#### *Market risk (continued)*

#### *Interest rate risk (continued)*

	Increase/ (decrease) in basis points	Increase/ (decrease) in total profit	Increase/ (decrease) in shareholders' equity*
Six months ended 30 June 2015	0.25% (0.25%)	(21,331) 21,331	1,806 (1,806)
Six months ended 30 June 2014	0.25% (0.25%)	(31,453) 31,453	3,207 (3,207)

\* excluding retained earnings.

#### *Foreign currency risk*

The Group is exposed to trading exchange rate risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's total profit, with all other variables held constant, as at the balance sheet date.

	Increase/(decrease) in US dollars exchange rate	Increase/ (decrease) in total profit
Six months ended 30 June 2015		
Weaker RMB against USD	3%	157,163
Stronger RMB against USD	(3%)	(157,163)
Six months ended 30 June 2014		
Weaker RMB against USD	3%	38,270
Stronger RMB against USD	(3%)	(38,270)

# Notes to Financial Statements

(Prepared under PRC ASBES)  
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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 total profit
Six months ended 30 June 2015		
Weaker RMB against EUR	5%	40,436
Stronger RMB against EUR	(5%)	(40,436)
Six months ended 30 June 2014		
Weaker RMB against EUR	5%	161,039
Stronger RMB against EUR	(5%)	(161,039)

### 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 2015.

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 2015 RMB'000	31 December 2014 RMB'000
Interest-bearing bank borrowings	20,365,655	21,080,836
Interest-bearing bonds	—	6,131,185
Bank advances on factored trade receivables and long-term receivables	3,737,549	4,877,410
Total interest-bearing liabilities	24,103,204	32,089,431
Owner's equity	36,155,673	26,292,504
Owner's equity and interest-bearing liabilities	60,258,877	58,381,935
Financial gearing ratio	40.0%	55.0%

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## IX. DISCLOSURES OF FAIR VALUE

### 1. Assets and liabilities measured at fair value:

30 June 2015

	Input applied in the measurement of fair value				Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3		
Continuous measurement of fair value					
Financial assets dealt with at fair value through current profit or loss:					
Trading financial assets					
Derivative financial assets	—	79,640	—		79,640
Available-for-sale financial assets					
Investment in equity instruments	810,995	—	—		810,995
Investment properties					
Leased properties	—	—	2,069,146		2,069,146
	810,995	79,640	2,069,146		2,959,781
Financial liabilities dealt with at fair value through current profit or loss					
Trading financial liabilities					
Derivative financial liabilities	—	(11,846)	—		(11,846)
Hedging instruments	—	(5,683)	—		(5,683)
	—	(17,529)	—		(17,529)

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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## IX. DISCLOSURES OF FAIR VALUE (CONTINUED)

### 1. Assets and liabilities measured at fair value: (continued)

31 December 2014

	Input applied in the measurement of fair value			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Continuous measurement of fair value				
Financial assets dealt with at fair value through current profit or loss:				
Trading financial assets				
Derivative financial assets	—	240,973	—	240,973
Available-for-sale financial assets				
Investment in equity instruments	319,470	—	—	319,470
Investment properties				
Leased properties	—	—	2,004,465	2,004,465
	319,470	240,973	2,004,465	2,564,908
Financial liabilities dealt with at fair value through current profit or loss				
Trading financial liabilities				
Derivative financial liabilities	—	(64,904)	—	(64,904)
Hedging instruments	—	(6,581)	—	(6,581)
	—	(71,485)	—	(71,485)

### 2. Assets and liabilities disclosed at fair value

30 June 2015

	Input applied in the measurement of fair value			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Long-term trade receivables	—	342,111	—	342,111
Long-term loans	—	9,550,012	—	9,550,012

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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## IX. DISCLOSURES OF FAIR VALUE (CONTINUED)

### 2. Assets and liabilities disclosed at fair value (continued)

31 December 2014

	Input applied in the measurement of fair value			Total
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	
Long-term trade receivables	—	266,501	—	266,501
Long-term loans	—	10,039,687	—	10,039,687
Bonds payable	—	6,131,185	—	6,131,185

### 3. 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 2015, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity instruments are determined on the basis of market prices.

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal input of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of an interest rate swap and a forward exchange contract is identical with its fair value. As at 30 June 2015, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default. Changes in the credit risk profile of counterparties did not have any material impact on the evaluation of the hedging effectiveness of designated derivative instruments in the hedge and other financial instruments measured at fair value.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## IX. DISCLOSURES OF FAIR VALUE (CONTINUED)

### 3. Estimation of fair value (continued)

#### *Fair value of investment properties*

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties as at 30 June 2015 was RMB2,069,146,000 (31 December 2014: RMB2,004,465,000).

### 4. Unobservable inputs

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

#### 30 June 2015

	Fair value at period-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,069,146,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long term vacancy rate Discount rate	RMB51–RMB477  1%–3% 5% 6%

#### 31 December 2014

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,004,465,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long term vacancy rate Discount rate	RMB24–RMB477  1%–5% 5% 6%



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## IX. DISCLOSURES OF FAIR VALUE (CONTINUED)

### 5. Fair value measurement adjustment

Reconciliation of continuous fair value measurement of Level 3:

#### 30 June 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 period-end included in profit and loss
				Included in profit and loss	Included in other comprehensive income			
Investment properties	2,004,465	—	—	64,681	—	—	2,069,146	64,681

#### 31 December 2014

	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	1,855,246	—	—	130,306	—	18,913	2,004,465	130,306

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

	Six months ended 30 June 2015 Relating to non-financial assets	Six months ended 30 June 2014 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	64,681	77,475
Change in unrealized profit or loss for the period of assets held at the end of the period included in profit and loss	64,681	77,475

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## IX. DISCLOSURES OF FAIR VALUE (CONTINUED)

### 6. 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.

## 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	30.78%	30.78%

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.

# Notes to Financial Statements

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## X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### 4. Other related parties

	Relationship
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	Subsidiary of the Company's controlling shareholder
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
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
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
Shenzhen Zhongxing Information Company Limited	Company with equity investment from shareholders of the Company's controlling shareholder
Shenzhen Gaodonghua Communication Technology Company Limited	Company for which a connected natural person of the Company acted as chairman
北京中興協力科技有限公司 (Formerly known as "北京協力超越科技有限公司")	Subsidiary of shareholders of the Company's controlling shareholder
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	Company for which a supervisor of the Company's controlling shareholder acted as director
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
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman

# Notes to Financial Statements

(Prepared under PRC ASBES)  
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## X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

### 4. Other related parties (continued)

	<b>Relationship</b>
Zhongxing Energy (Hubei) Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
Huatong Technology Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
中興軟件技術(瀋陽)有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
三河中興發展有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
三河中興物業服務有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
Hangzhou Zhongxing Development Company Limited	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
重慶中興中投物業服務有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
中興綠色農業有限公司	Subsidiary of a company for which the Chairman of the Company concurrently acted as chairman
Zhongxing Development Company Limited	Company for which the Chairman of the Company concurrently acted as chairman
深圳中興科揚節能環保股份有限公司	Company for which a connected natural person of the Company acted as director
深圳中興新源環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
INTLIVE TECHNOLOGIES(PRIVATE) LIMITED	Company for which a connected natural person of the Company acted as chairman
深圳中興環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
深圳中興節能環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
鄭州中興綠色產業有限公司	Subsidiary of a company for which a connected natural person of the Company acted as chairman

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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 2015 Amount	Six months ended 30 June 2014 Amount
Shenzhen Zhongxing Information Company Limited	—	6
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	2,501	1,964
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	1,543	949
Mobi Antenna Technologies (Shenzhen) Company Limited	4	44
南京中興群力信息科技有限公司	6,637	460
普興移動通訊設備有限公司	125,444	340,501
北京中興協力科技有限公司	—	15
ZTE Software Technology (Nanchang) Company Limited	5,031	109
深圳市中興昆騰有限公司	9	56
中興軟件技術(瀋陽)有限公司	3	2
上海歡流傳媒有限公司	13,546	713
Zhongxing Energy Company Limited	5	—
深圳市航天歐華科技發展有限責任公司	303,964	93,760
Telecom Innovations	5,889	14,962
興天通訊技術(天津)有限公司	1,037	784
中興九城網路科技無錫有限公司	5	11,299
深圳中興創新材料技術有限公司	127	21
江蘇中興微通信息科技有限公司	21	333
寧波中興雲祥科技有限公司	—	134
上海中興思秸通訊有限公司	196	442
中興儀器(深圳)有限公司	706	96
深圳中興節能環保股份有限公司	470	—
Zhongxing Development Company Limited	1	—
	<b>467,139</b>	<b>466,650</b>

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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 from related parties

	Six months ended 30 June 2015 Amount	Six months ended 30 June 2014 Amount
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	129,248	125,166
深圳市新宇騰躍電子有限公司	43,686	31,593
Mobi Antenna Technologies (Shenzhen) Company Limited	530,378	386,390
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	142,382	92,114
ZTE Software Technology (Nanchang) Company Limited	10,177	10,886
Huatong Technology Company Limited	11,971	12,598
Zhongxing Energy (Tianjin) Company Limited	604	3,957
Zhongxing Energy (Shenzhen) Company Limited	971	859
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	11,980	14,182
南京中興和泰酒店管理有限公司	1,737	1,685
上海市和而泰酒店投資管理有限公司	1,958	1,873
西安中興和泰酒店管理有限公司	433	458
Shenzhen Zhongxing Information Company Limited	3,193	3,976
中興九城網路科技無錫有限公司	—	5,404
上海中興思秸通訊有限公司	659	45
普興移動通訊設備有限公司	2,004	—
北京中興協力科技有限公司	66	—
深圳市航天歐華科技發展有限責任公司	1,462	—
	<b>892,909</b>	<b>691,186</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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## X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

#### (2) Leasing with related parties

As lessor:

Property leased		Six months ended 30 June 2015 Lease income	Six months ended 30 June 2014 Lease income
Zhongxing Development Company Limited	Office	1,073	1,073
深圳中興科揚節能環保股份有限公司	Office	160	156
中興綠色農業有限公司	Office	53	130
上海中興思秸通訊有限公司	Office	260	—
普興移動通訊設備有限公司	Office	168	129
中興儀器(深圳)有限公司	Office	564	216
深圳中興環保股份有限公司	Office	224	—
南京中興群力信息科技有限公司	Office	234	223
上海歡流傳媒有限公司	Office	164	156
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	7,576	4,022
南京中興和泰酒店管理有限公司	Property and equipment and facilities	2,817	2,137
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	12,993	8,054
西安中興和泰酒店管理有限公司	Property and equipment and facilities	10,072	8,734

As lessee:

Property leased		Six months ended 30 June 2015 Lease expense	Six months ended 30 June 2014 Lease expense
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4,414	4,414
Zhongxing Development Company Limited	Office	20,991	22,867
Chongqing Zhongxing Development Company Limited	Office	4,495	4,015
三河中興發展有限公司	Office	4,380	1,566
三河中興物業服務有限公司	Office	1,279	375

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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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 2015 and first half of 2014, 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 2015 and first half of 2014, the Group did not transfer any equity interests to related parties.

#### (5) Transfer of assets to related parties

In the first half of 2015 and first half of 2014, the Group did not transfer any assets to related parties.

#### (6) Other major related transactions

	Six months ended 30 June 2015	Six months ended 30 June 2014
Remuneration of key management personnel	34,782	15,469

Notes:

- (i) Commercial transactions with related parties: During the six months ended 30 June 2015, commercial transactions with related parties was conducted by the Group at market price
- (ii) Leasing property from/to related parties: During the six months ended 30 June 2015, office space was leased to the aforesaid related parties by the Group and lease income of RMB36,358,000 (six months ended 30 June 2014: RMB25,030,000) was recognized in accordance with relevant lease contracts.
- During the six months ended 30 June 2015, office space was leased to the Group by the aforesaid related parties and lease expenses of RMB35,559,000 (six months ended 30 June 2014: RMB33,237,000) was recognized in accordance with relevant lease contracts.
- (iii) Other major related transactions: During the six months ended 30 June 2015, the total amount of remuneration (in the form of monetary amounts physical rewards or otherwise) for the key management personnel of the Company incurred the Group for the year was RMB34,782,000 (six months ended 30 June 2014: RMB15,469,000). Corresponding cost for share-based payment was RMB4,333,000 (six months ended 30 June 2014: RMB4,630,000). Certain key management personnel mentioned above were simultaneously entitled to defined benefit plans provided by the Group, the amount of which are not included in the aforesaid remuneration.



# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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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 2015	31 December 2014
Bills receivable	深圳市航天歐華科技發展有限責任公司 Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	179,497	95,836
	普興移動通訊設備有限公司 Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	40,240	166
		2,323	514
		<b>222,060</b>	<b>96,516</b>
Trade receivables	普興移動通訊設備有限公司 Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	184,180	418,059
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	1,220	930
	Xi'an Microelectronics Technology Research Institute	328	1,314
	深圳市中興昆騰有限公司	9	9
	深圳市航天歐華科技發展有限責任公司	—	37
	上海中興派能能源科技有限公司	114,784	60,097
	中興九城網路科技無錫有限公司	—	28
	鄂爾多斯市雲端科技有限公司	231	839
	興天通訊技術(天津)有限公司	1	1
	江蘇中興微通信息科技有限公司	3,509	2,928
	上海歡流傳媒有限公司	4	2
	寧波中興雲祥科技有限公司	2,777	2,970
	上海中興思秸通訊有限公司	—	86
	ZTE Software Technology (Nanchang) Company Limited	9	24
	中興儀器(深圳)有限公司	4,273	116
	中興軟件技術(瀋陽)有限公司	814	132
		3	—
	<b>312,142</b>	<b>487,572</b>	
Prepayments	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	4	445
	重慶中興中投物業服務有限公司	—	100
	中興九城網路科技無錫有限公司	2,231	2,250
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	242	283
	Zhongxing Development Company Limited	14	14
	深圳市航天歐華科技發展有限責任公司	109	—
	南京中興群力信息科技有限公司	120	—
	深圳中興環保股份有限公司	7,471	—
	Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	18,805	—
		<b>28,996</b>	<b>3,092</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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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 2015	31 December 2014
Other receivables	南京中興和泰酒店管理有限公司	2	2
	Nanjing Piaoxun Network Technology Company Limited	—	179
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	1,108	1,727
	Hangzhou Zhongxing Development Company Limited	304	304
	江蘇中興微通信息科技有限公司	—	30
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	—	174
	北京億科三友科技發展有限公司	5,840	5,840
	興天通訊技術(天津)有限公司	—	5,534
	中興九城網路科技無錫有限公司	—	29
	Mobi Antenna Technologies (Shenzhen) Company Limited	—	61
	Shenzhen Zhongxing Information Company Limited	38	38
	北京中興協力科技有限公司	—	123
	Zhongxing Development Company Limited	20	72
	Chongqing Zhongxing Development Company Limited	24	—
	上海中興派能能源科技有限公司	28	—
		<b>7,364</b>	<b>14,113</b>
Bills payable	中興九城網路科技無錫有限公司	—	2,166
	Mobi Antenna Technologies (Shenzhen) Company Limited	—	449
	深圳市新宇騰躍電子有限公司	6,340	6,908
	南京中興群力信息科技有限公司	—	150
		<b>6,340</b>	<b>9,673</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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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 2015	31 December 2014	
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	54,826	53,879	
	深圳市新宇騰躍電子有限公司	9,180	17,251	
	Mobi Antenna Technologies (Shenzhen) Company Limited	65,359	133,225	
	Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited	—	778	
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	183	183	
	Shenzhen Zhongxing WXT Equipment Company Limited	327	327	
	Shenzhen Zhongxing Information Company Limited	7,728	5,632	
	Shenzhen Gaodonghua Communication Technology Company Limited	176	176	
	普興移動通訊設備有限公司	2,001	20,669	
	深圳市航天歐華科技發展有限責任公司	4,162	2,795	
	中興能源(天津)節能服務有限公司	2,773	3,801	
	興天通訊技術(天津)有限公司	1,319	7,894	
	上海中興思秸通訊有限公司	—	5	
	Xi'an Microelectronics Technology Research Institute	192	192	
	Huatong Technology Company Limited	445	—	
	北京中興協力科技有限公司	66	—	
		<b>148,737</b>	<b>246,807</b>	
	Advanced receipts	Zhongxing Software Technology (Nanchang) Company Limited	5,327	5,327
		普興移動通訊設備有限公司	141	4
Xi'an Microelectronics Technology Research Institute		1,628	1,628	
北京中興協力科技有限公司		155	155	
南京中興群力信息科技有限公司		56	7,821	
深圳市航天歐華科技發展有限責任公司		79,014	33,909	
中興軟件技術(瀋陽)有限公司		3	3	
上海歡流傳媒有限公司		2	5,250	
興天通訊技術(天津)有限公司		186	1,272	
上海中興思秸通訊有限公司		305	310	
ZTE Energy Co., Ltd.		1	1	
深圳市中興昆騰有限公司		3	4	
中興儀器(深圳)有限公司		700	450	
深圳中興創新材料技術有限公司		144	138	
Shenzhen Zhongxing Xindi Telecommunications Equipment Company Limited		—	18	
江蘇中興微通信信息科技有限公司		2	—	
南京皓信達訊網絡科技有限公司		8	—	
	<b>87,675</b>	<b>56,290</b>		

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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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 2015	31 December 2014
Other payables	深圳市新宇騰躍電子有限公司	31	31
	Shenzhen Zhongxing WXT Equipment Company Limited	12	12
	Shenzhen Zhongxing Information Company Limited	48	48
	Zhongxing Energy (Hubei) Company Limited	53	53
	Zhongxing Development Company Limited	215	260
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	308	310
	深圳市中興昆騰有限公司	—	51
	江蘇中興微通信信息科技有限公司	4	3
	興天通訊技術(天津)有限公司	—	345
	ZTE Energy Co., Ltd	—	85
	Huatong Technology Company Limited	—	227
	深圳中興新源環保股份有限公司	4	4
	上海中興思秸通訊有限公司	70	70
	普興移動通訊設備有限公司	15,596	—
	寧波中興興通供應鏈有限公司	8,000	—
	Mobi Antenna Technologies (Shenzhen) Company Limited	81	—
	鄭州中興綠色產業有限公司	2,129	—
	上海中興派能能源科技有限公司	1	—
		<b>26,552</b>	<b>1,499</b>

Amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. And trade receivables from related parties were interest-free, unsecured and its credit term ranges from 0 to 90 days and may be extended to a maximum of 1 year depending on the credit standing.

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

#### (1) Customer deposits

	30 June 2015	31 December 2014
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	13,090	19,237
南京中興和泰酒店管理有限公司	3,092	3,086
上海市和而泰酒店投資管理有限公司	11,726	4,571
西安中興和泰酒店管理有限公司	17,265	6,879
	<b>45,173</b>	<b>33,773</b>

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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## X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

#### (2) Interest expenses

	30 June 2015	31 December 2014
南京中興和泰酒店管理有限公司	15	17
上海市和而泰酒店投資管理有限公司	40	48
西安中興和泰酒店管理有限公司	55	44
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	83	18
	<b>193</b>	<b>127</b>

#### (3) Release of loans and advances — discounted bills

	30 June 2015	31 December 2014
Hangzhou Zhongxing Development Company Limited	—	429
Mobi Antenna Technologies (Shenzhen) Company Limited	37,452	—
	<b>37,452</b>	<b>429</b>

As at 30 June 2015, issuers of bills of approximately RMB37,452,000 were Group companies. Assets and liabilities arising therefrom have been set off on consolidation of the Group account.

#### (4) Interest income from loans and bills discounting

	30 June 2015	30 June 2014
北京億科三友科技發展有限公司	—	110
Hangzhou Zhongxing Development Company Limited	10	—
Mobi Antenna Technologies (Shenzhen) Company Limited	1,815	—
	<b>1,825</b>	<b>110</b>

#### (5) Interest payable

	30 June 2015	31 December 2014
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	—	4
西安中興和泰酒店管理有限公司	—	5
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	—	5
	<b>—</b>	<b>15</b>

# Notes to Financial Statements

(Prepared under PRC ASBES)  
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## XI. SHARE-BASED PAYMENT

### 1. Overview

	30 June 2015	31 December 2014
Total amount of options granted	524,023	524,023

Equity-settled share-based payments are as follows:

	Six months ended 30 June 2015	Six months ended 30 June 2014
Accumulated balance of equity-settled share-based payments credited to capital reserves	290,218	111,976
Total costs of equity-settled share-based payments in the period	89,121	89,120

### 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) (《上市公司股權激勵管理辦法(試行)》). 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 Fourth 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 2 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.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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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:

<b>Exercise period</b>	<b>Percentage of options exercisable</b>	<b>Duration</b>	<b>Conditions for exercise</b>
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

# Notes to Financial Statements

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## XI. SHARE-BASED PAYMENT (CONTINUED)

### 2. Share option incentive scheme (continued)

(2) (continued)

The fair value of the share options granted in 2013 amounted to RMB524,023,000, among which the share options tariff confirmed by the Company during the six months ended 30 June 2015 amounted to RMB89,121,000.

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second	Third
Estimated dividend payment (RMB)	0.18	0.18	0.18
Volatility (%)	40.25	39.69	43.18
Risk-free interest rate (%)	3.34	3.40	3.46
Demission rate			
Directors & senior management	5%	5%	5%
Key staff of the Company	5%	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

## XII. COMMITMENTS AND CONTINGENT EVENTS

### 1. Material commitments

	30 June 2015	31 December 2014
Capital commitments		
Contracted but not provided of	902,924	214,356
Authorised by the Board but not yet contracted	21,238,020	21,897,474
	22,140,944	22,111,830
Investment commitments		
Contracted but performance not completed	88,379	8,323



# Notes to Financial Statements

(Prepared under PRC ASBEs)  
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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 PKR762.98 million (equivalent to approximately RMB46,618,000). 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 their award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB20,043,000) be paid by the Company. As at the balance sheet date, the Company had made provisions in respect of 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 made any payments of compensation pursuant to the aforesaid judgement.

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

2.2 In April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased, in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Shenzhen Nanshan District People's Court ("Nanshan Court"), pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The Nanshan Court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth. China Construction Fifth filed an appeal against the aforesaid judgement with 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") handed down the final trial judgement for China Construction Fifth'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 was not required to pay the penalty payment of RMB12.817 million to the Company.

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.

# Notes to Financial Statements

(Prepared under PRC ASBEs)  
 Currency: RMB'000  
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## XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

### 2. Contingent events (continued)

#### 2.2 (continued)

In July 2009, China Construction Fifth 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, while China Construction Fifth should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth were rejected. China Construction Fifth 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, while China Construction Fifth should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company.

In July 2014, China Construction Fifth 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.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

- 2.3 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 with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. As at the end of the reporting period, the arbitration court had yet to make a final ruling.

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## XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

### 2. Contingent events (continued)

#### 2.3 (continued)

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.4 On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier. Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company has a valid defense against the allegation.

2.5 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 ZTE and ZTE USA, a wholly-owned subsidiary of ZTE. 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)

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

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

- 2.6 On 20 May 2013, ZTE Brazil received another notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interest and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB191 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the primary administrative court under the tax bureau of Sao Paulo State, stating that (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced as a result, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil was notified of the ruling by the primary administrative court under the tax bureau of Sao Paulo State that supported the administrative penalty. On 18 October 2013, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State. The case is awaiting judgement by the secondary administrative court of the tax bureau of Sao Paulo State. The Company had made a provision of BRL5.22 million (equivalent to approximately RMB10.33 million) in respect of the said litigation.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim can be reliably estimated. No additional provision in respect of the litigation was made.

# Notes to Financial Statements

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## XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

### 2. Contingent events (continued)

2.7 In May 2012, the U.S. Flashpoint Technology Inc. filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a limited exclusion and injunction order against the Company's product that had allegedly infringed its patent rights. 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 1 October 2013, ITC announced the preliminary decision on the case that the Company and ZTE USA did not infringe upon the patent rights as stipulated in Section 337. On 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.8 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 ITC case included other companies in the industry. In the ITC case, the said U.S. company demanded the issue of a permanent exclusion and injunction order against the Company's product that had allegedly infringed its patent rights. In the case filed with the Federal District Court, damages for losses and payments of legal fees were demanded of the defendants, although no specific amount of compensation was named. The litigation procedure at the Federal District Court 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. Currently, the litigation procedure at the Federal District Court of California has been resumed. There has been no substantial progress in the litigation process.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.9 In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB62,020,000). 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.

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## XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

### 2. Contingent events (continued)

#### 2.9 (continued)

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 RMB164 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 Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.10 In February 2013, Vringo Germany GmbH ("Vringo Germany") filed a patent litigation with the Court of Mannheim, Germany against the Company and ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, pleading for the UMTS products of the Company and ZTE Deutschland with TSTD (Time Switched Transmitter Diversity) functions to be ruled to have infringed upon the patent rights of Vringo Germany. In December 2013, the Court of Mannheim, Germany handed down the first trial judgement, ruling that the Company and ZTE Deutschland had infringed upon the patent rights and issuing an injunction order against the Company and ZTE Deutschland in respect of the UMTS products with TSTD functions. The Company and ZTE Deutschland filed an appeal to the aforesaid court in January 2014, pleading for the rejection of the patent infringement claims of Vringo Germany and revocation of the injunction order. Vringo Germany withdrew its litigation in October 2014. In December 2014, Vringo Germany filed a patent litigation with the Court of Dusseldorf, Germany in respect of the patents involved against the Company and ZTE Service GmbH ("ZTE Service"), a wholly-owned subsidiary of the Company. As the UMTS products of the Company, ZTE Deutschland and ZTE Service sold in Germany do not support TSTD functions, the injunction order will not have any impact on the business of the Company, ZTE Deutschland and ZTE Service in Germany.

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



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## XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

### 2. Contingent events (continued)

#### 2.10 (continued)

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

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

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

The Company, based on the advice from the Group’s legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

# Notes to Financial Statements

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## XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

### 2. Contingent events (continued)

2.11 In August 2013, Dataquill Limited of the United States filed a claim with the Eastern District Court of Texas, alleging infringement upon five of its patent rights by smart phones sold in the United States by the Company, ZTE USA and ZTE Solutions, Inc., both wholly-owned subsidiaries of the Company. Defendants in this case included other companies in the industry. In March 2015, Dataquill Limited has withdrawn the Company and ZTE Solution, Inc. from defendants. In June 2015, the jury of the Eastern District Court of Texas issued its verdict in respect of the aforesaid case which ruled that the products of ZTE USA subject to the infringement allegations to have infringed upon two patent rights involved, and that ZTE USA was required to pay a compensation amount of approximately USD31.50 million. The verdict is pending endorsement by the judge. ZTE USA has engaged a legal counsel to actively deal with the case.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.12 As at 30 June 2015, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB8,329,196,000 (31 December 2014: RMB7,458,959,000).

2.13 As at 30 June 2015, the Group provided financial guarantee (including interests accruable) to independent customers for a maximum amount of RMB50,000,000 (31 December 2014: RMB67,390,000).

## XIII. 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 2015	31 December 2014
Within one year (including first year)	218,354	282,519
In the first to second years (including second year)	106,305	122,796
In the second to third years (including third year)	59,969	76,897
After the third year	72,090	36,648
	<b>456,718</b>	<b>518,860</b>



# Notes to Financial Statements

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## XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 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 networks (communication system) segment includes wireless communications, wireline switch and access and optical and data communications;
- (2) The terminals segment engages in the manufacture and sale of mobile phone handsets and data card products;
- (3) The telecommunications software systems, services and other products segment represent the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

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.

# Notes to Financial Statements

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## XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 2. Segment reporting (continued)

*Operating segments (continued)*

Inter-segment sales and transfers are transacted with reference to the fair value prices used for sales made to third parties.

	Network (communication systems)	Handset terminals	Telecommunication software systems, services and other products	Total
<b>Six months ended 30 June 2015</b>				
Segment revenue				
Revenue from telecommunications systems contracts	28,513,830	—	7,406,393	35,920,223
Sales of goods and services	—	9,959,487	19,078	9,978,565
Sub-total	28,513,830	9,959,487	7,425,471	45,898,788
Segment results	7,392,534	231,082	1,669,430	9,293,046
Unallocated revenue				2,131,212
Unallocated cost				(10,260,817)
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
Income tax				(310,202)
Net Profit				1,832,186
<b>30 June 2015</b>				
Total assets				
Segment assets	45,287,295	11,179,309	11,793,557	68,260,161
Unallocated assets				44,883,427
Sub-total				113,143,588
Total liabilities				
Segment liabilities	9,781,349	1,019,582	2,547,225	13,348,156
Unallocated liabilities				63,639,759
Sub-total				76,987,915
<b>Supplemental information</b>				
<b>Six months ended 30 June 2015</b>				
Depreciation and amortization expenses	604,425	211,117	157,402	972,944
Capital expenditure	958,145	334,667	249,517	1,542,329
Asset impairment losses	1,169,226	408,394	304,486	1,882,106

# Notes to Financial Statements

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## XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 2. Segment reporting (continued)

*Operating segments (continued)*

	Network (communication systems)	Handset terminals	Telecommunication software systems, services and other products	Total
<b>Six months ended</b>				
<b>30 June 2014</b>				
Segment revenue				
Revenue from				
telecommunications				
systems contracts	21,835,700	—	5,436,938	27,272,638
Sales of goods and				
services	—	10,406,174	18,497	10,424,671
Sub-total	21,835,700	10,406,174	5,455,435	37,697,309
Segment results	5,307,362	163,021	1,303,472	6,773,855
Unallocated revenue				1,912,664
Unallocated cost				(6,435,346)
Finance costs				(507,970)
Gain from changes in fair values				(58,769)
Investment income from associates and joint ventures				(40,448)
Total profit				1,643,986
Income tax				(472,675)
Net Profit				1,171,311
<b>31 December 2014</b>				
Total assets				
Segment assets	36,161,825	17,874,444	8,958,415	62,994,684
Unallocated assets				43,219,512
Sub-total				106,214,196
Total liabilities				
Segment liabilities	8,866,579	938,004	2,203,453	12,008,036
Unallocated liabilities				67,913,656
Sub-total				79,921,692
<b>Supplemental information</b>				
<b>Six months ended</b>				
<b>30 June 2014</b>				
Depreciation and amortization expenses	517,946	246,836	129,404	894,186
Capital expenditure	895,104	426,577	223,633	1,545,314
Asset impairment losses	661,486	315,243	165,266	1,141,995

# Notes to Financial Statements

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## XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

### 2. Segment reporting (continued)

#### *Group information*

#### *Geographic information*

#### Revenue from external customers

	Six months ended 30 June 2015	Six months ended 30 June 2014
The PRC	24,360,835	19,259,606
Asia (excluding the PRC)	7,197,236	5,867,677
Africa	3,207,354	2,210,694
Europe, America and Oceania	11,133,363	10,359,332
	<b>45,898,788</b>	<b>37,697,309</b>

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

#### Total non-current assets

	30 June 2015	31 December 2014
The PRC	12,363,247	11,812,310
Asia (excluding the PRC)	1,255,972	1,198,456
Africa	371,298	375,623
Europe, America and Oceania	1,088,347	1,130,718
	<b>15,078,864</b>	<b>14,517,107</b>

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 RMB8,375,181,000 was derived from carriers' network and handset terminal revenue from one major customer (Six months ended 30 June 2014: RMB8,663,024,000 from one major customer).

# Notes to Financial Statements

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## XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

### 1. Trade receivables

Aging analysis of trade receivables:

	30 June 2015	31 December 2014
Within 1 year	27,165,158	27,795,706
1-2 years	4,030,398	5,042,898
2-3 years	3,539,523	2,788,914
Over 3 years	4,611,881	4,131,488
	<b>39,346,960</b>	39,759,006
Less: bad debt provision for trade receivables	<b>3,944,887</b>	3,138,286
	<b>35,402,073</b>	36,620,720

	30 June 2015				31 December 2014			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	378,672	1	378,672	100	458,033	1	458,033	100
For which bad debt provision has been collectively made								
0-6 months	20,343,447	52	—	—	23,497,793	59	—	—
7-12 months	6,821,711	17	265,971	4	4,297,913	11	160,968	4
13-18 months	2,257,608	6	504,781	22	3,631,313	9	311,189	9
19-24 months	1,772,790	4	362,432	20	1,411,584	4	430,435	30
2-3 years	3,539,523	9	1,170,294	33	2,786,001	7	834,942	30
Over 3 years	4,233,209	11	1,262,737	30	3,676,369	9	942,719	26
	<b>38,968,288</b>	<b>99</b>	<b>3,566,215</b>	<b>9</b>	<b>39,300,973</b>	<b>99</b>	<b>2,680,253</b>	<b>7</b>
	<b>39,346,960</b>	<b>100</b>	<b>3,944,887</b>	<b>10</b>	<b>39,759,006</b>	<b>100</b>	<b>3,138,286</b>	<b>8</b>

Movements in bad-debt provisions for trade receivables:

Opening balance	Provision for the period	Decrease during the period		Closing balance
		Write-back	Write-off	
3,138,286	861,060	(45,650)	(8,809)	3,944,887

# Notes to Financial Statements

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

### 2. Other receivables

The aging analysis of other receivables:

	30 June 2015	31 December 2014
Within 1 year	3,848,549	379,947
1 to 2 years	269,410	2,962,180
2 to 3 years	1,562,180	2,068,545
Over 3 years	496,806	928,261
	<b>6,176,945</b>	<b>6,338,933</b>

Other receivables are analysed as follows:

	30 June 2015	31 December 2014
Staff loans	71,409	72,698
Transactions with third parties	6,105,536	6,266,235
	<b>6,176,945</b>	<b>6,338,933</b>

### 3. Available-for-sale financial assets

	30 June 2015	31 December 2014
Available-for-sale equity instruments		
At cost	<b>366,924</b>	373,555

Available-for-sale financial assets at cost:

	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%	14,000
Others	171,821	—	6,631		—
	<b>373,555</b>	<b>—</b>	<b>6,631</b>		<b>14,000</b>

# Notes to Financial Statements

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

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

### 4. Long-term trade receivables

	30 June 2015	31 December 2014
Loans granted to subsidiaries (Note 1)	5,376,960	5,234,574
Installment payments for the provision of telecommunication system construction projects	353,030	296,620
Less: Bad debt provision for long-term receivables	51,014	50,949
	<b>5,678,976</b>	<b>5,480,245</b>

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 year	Decrease during the period		Closing balance
			Write-back	Write-off	
	50,949	65	—	—	51,014

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables".

### 5. Long-term equity investments

	30 June 2015	31 December 2014
Equity method		
Joint ventures (1)	56,015	55,721
Associates (2)	302,127	337,847
Cost method		
Subsidiaries (3)	6,642,177	6,570,188
Less: Provision for impairment in long-term equity Investments (4)	84,109	79,345
	<b>6,916,210</b>	<b>6,884,411</b>

# Notes to Financial Statements

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

### 5. Long-term equity investments (continued)

#### (1) Joint Ventures

	Movement during the period									
	Balance as at the beginning of the period	Increase of investment	Decrease of investment	Investment				Allowance for impairment provision	Carrying value as at the end of the period	Impairment provision at the end of the period
				gains/ losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared			
普興移動通訊設備有限公司	50,485	—	—	2,900	—	—	—	—	53,385	—
江蘇中興微通信息科技有限公司	5,236	—	—	(2,606)	—	—	—	—	2,630	—
	55,721	—	—	294	—	—	—	—	56,015	—

#### (2) Associate

	Movement during the period									
	Balance as at the beginning of the period	Increase of investment	Decrease of investment	Investment				Allowance for impairment provision	Carrying value as at the end of the period	Impairment provision at the end of the period
				gains/ losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared			
KAZNURTEL Limited Liability Company	2,477	—	—	—	—	—	—	—	2,477	—
思卓中興(杭州)科技有限公司	20,012	—	—	47	—	—	—	—	20,059	—
上海中興群力信息科技有限公司	22,427	—	—	(8,758)	—	—	—	—	13,669	—
ZTE Energy Co., Ltd	265,706	—	—	(23,773)	—	—	—	—	241,933	—
ZTE Software Technology (Nanchang) Company Limited	—	—	—	—	—	—	—	—	—	—
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	7,016	—	—	(614)	—	—	—	—	6,402	—
北京億科三友科技發展有限公司	4,764	—	—	—	—	—	—	(4,764)	—	(4,764)
上海中興思裕通訊有限公司	13,789	—	—	(1,546)	—	—	—	—	12,243	—
江蘇中興華易科技發展有限公司	1,656	—	—	(1,076)	—	—	—	—	580	—
	337,847	—	—	(35,720)	—	—	—	(4,764)	297,363	(4,764)



# Notes to Financial Statements

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

## XIV. 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%	1,000,000
ZTEsoft Technology Company Limited	89,921	89,921	—	89,921	80.10%	80.10%	—
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	—	37,382	90%	90%	—
ZTE Kangxun Telecom Company Limited	580,000	580,000	—	580,000	100%	100%	—
ZTE Microelectronics Technology Company Limited	102,174	102,174	—	102,174	100%	100%	—
Anhui Wantong Posts and Telecommunication Company Limited	35,495	11,329	24,166	35,495	78.38%	78.38%	3,997
ZTE Integration Telecom Limited	41,250	41,250	—	41,250	80%	80%	—
Nubia Technology Limited (努比亚技术有限公司)	321,407	321,407	—	321,407	90%	90%	71,249
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 (Malaysia) Corporation SDN. BHD	496	496	—	496	100%	100%	—
ZTE Holdings (Thailand) Co., Ltd	10	10	—	10	100%	100%	—
ZTE (Thailand) Co., Ltd.	5,253	5,253	—	5,253	100%	100%	—
ZTE (USA) Inc.	190,133	190,133	—	190,133	100%	100%	—
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	—	42	100%	100%	—

# Notes to Financial Statements

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

## XIV. 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
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%	—
ZhongxingTelecom Pakistan (Private) Ltd.	5,279	5,279	—	5,279	93%	93%	—
Closed Joint Stock Company TKMobile	16,871	16,871	—	16,871	51%	51%	—
ZTE (H.K.) Limited	853,800	853,800	—	853,800	100%	100%	—
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	—	16,500	55%	55%	6,050
ZTE (Heyuan) Company Limited	500,000	500,000	—	500,000	100%	100%	—
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	257,400	257,400	—	257,400	31%	*	—
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	—	1,000,000	100%	100%	—
深圳市百維技術有限公司	16,000	16,000	—	16,000	100%	100%	—
深圳市中興供應鏈有限公司	28,500	28,500	—	28,500	95%	95%	—
北京中興網捷科技有限公司	159,341	159,341	—	159,341	100%	100%	—
安徽中興通訊傳媒有限責任公司	—	300	(300)	—	100%	100%	—
深圳市中興高遠技術有限公司	45,125	45,125	—	45,125	95%	95%	—
深圳市中興雲服務有限公司	50,000	50,000	—	50,000	100%	100%	—
天津中興智聯科技有限公司	32,600	32,600	—	32,600	100%	100%	—
深圳市中興系統集成技術有限公司	30,000	30,000	—	30,000	100%	100%	—
福建海絲路科技有限公司	47,500	47,500	—	47,500	95%	95%	—
中興新能源汽車有限責任公司	42,500	42,500	—	42,500	85%	85%	—
西安中興通訊終端科技有限公司	300,000	300,000	—	300,000	100%	100%	—
中興健康科技有限公司	15,000	15,000	—	15,000	50%	50%	—
深圳微品致遠信息科技有限公司	9,000	9,000	—	9,000	90%	90%	—
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	30%	*	—
合肥中興電子科技有限責任公司	8,730	—	8,730	8,730	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%	—
		6,570,188	71,989	6,642,177			1,081,296

\* 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)  
 Currency: RMB'000  
 (English translation for reference only)

## XIV. 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
Telrise (Cayman) Telecom Limited	—	—	—
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Nubia Technology Limited (努比亞技術 有限公司)	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)	2,029	—	2,029
ZTE Corporation Mexico S.DER. LDEC.V.	42	—	42
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L.	827	—	827
ZTE (Malaysia) Corporation SDN. BHD 北京億科三友科技發展有限公司	496	—	496
	—	4,764	4,764
	79,345	4,764	84,109

# Notes to Financial Statements

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

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

### 6. Operating revenue and costs

	Six months ended 30 June 2015		Six months ended 30 June 2014	
	Revenue	Cost	Revenue	Cost
Revenue	35,015,315	37,506,082	27,494,760	30,352,058
Other income	9,517,772	335	7,327,546	1,121
	<b>44,533,087</b>	<b>37,506,417</b>	<b>34,822,306</b>	<b>30,353,179</b>

### 7. Investment income

	Six months ended 30 June 2015	Six months ended 30 June 2014
Investment loss from long-term equity investment under equity method	(35,426)	(34,282)
Investment income from long-term equity investment under cost method	1,081,296	1,511,289
Investment gain from holding of available for sale financial assets	14,000	910
Investment income from financial assets at fair value through profit and loss for the period of holding	72,734	1,119
Investment income from the disposal of available-for-sale financial assets	38,670	—
Investment loss from the disposal of long-term equity investment	—	(6,852)
	<b>1,171,274</b>	<b>1,472,184</b>

# 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 2015
Loss from the disposal of non-current assets	(16,044)
Investment loss from disposal of available-for-sale financial assets	101,099
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	220,531
Gain from change in fair value of investment properties	64,681
Net amount of other non-operating income and expenses	426,893
Effect of income tax	(119,575)
	<b>677,585</b>

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 2015	Reason
Refund of VAT on software products	1,454,782	In line with national policies and received on an ongoing basis
Refund of individual tax	4,544	In line with national policies and received on an ongoing basis

## 2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

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%	RMB0.47	RMB0.46
Net profit after extraordinary items attributable to ordinary shareholders of the Company	3.64%	RMB0.27	RMB0.27

# 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 (CONTINUED)

30 June 2014

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	4.86%	RMB0.33	RMB0.33
Net profit after extraordinary items attributable to ordinary shareholders of the Company	4.02%	RMB0.27	RMB0.27

## 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 2015

	Notes	Six months ended 30 June 2015 (unaudited) RMB'000	Six months ended 30 June 2014 (unaudited) RMB'000
<b>REVENUE</b>	4	45,898,788	37,697,309
Cost of sales		(32,088,400)	(26,576,161)
Gross profit		13,810,388	11,121,148
Other income and gains	4	2,840,276	2,444,284
Research and development costs		(5,491,912)	(4,126,546)
Selling and distribution expenses		(5,406,796)	(4,806,361)
Administrative expenses		(1,243,793)	(1,142,763)
Other expenses		(1,635,567)	(1,051,579)
Finance costs	6	(692,097)	(753,749)
Share of profits and losses of:			
Joint ventures		294	(667)
Associates		(38,405)	(39,781)
<b>PROFIT BEFORE TAX</b>	5	2,142,388	1,643,986
Income tax expense	7	(310,202)	(472,675)
<b>PROFIT FOR THE PERIOD</b>		1,832,186	1,171,311
<b>Attributable to:</b>			
Ordinary equity holders of the parent		1,615,585	1,128,206
Perpetual capital instruments		180,753	—
Non-controlling interests		35,848	43,105
		1,832,186	1,171,311
<b>Earnings per share attributable to ordinary equity holders of the parent</b>	9		
Basic		RMB0.47	RMB0.33
Diluted		RMB0.46	RMB0.33
<b>OTHER COMPREHENSIVE INCOME</b>			
Cash flow hedges — effective portion of changes in fair value of hedging instruments arising during the period		917	848
Changes in fair value of available-for-sale investments		542,186	(132,607)
Exchange differences on translation of foreign operations		16,470	130,301
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX</b>		559,573	(1,458)
<b>TOTAL COMPREHENSIVE INCOME</b>		2,391,759	1,169,853
<b>Attributable to:</b>			
Ordinary equity holders of the parent		1,763,173	1,127,355
Perpetual capital instruments		180,753	—
Non-controlling interests		447,833	42,498
		2,391,759	1,169,853

# Consolidated Statement of Financial Position

(Prepared under HKAS 34)  
30 June 2015

	Notes	30 June 2015 (unaudited) RMB'000	31 December 2014 (audited) RMB'000
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment		7,784,745	7,664,442
Prepaid land lease payments		1,070,558	1,082,208
Intangible assets		4,129,937	3,741,514
Investment properties		2,069,146	2,004,465
Investments in joint ventures		128,659	67,607
Investments in associates		358,171	393,709
Available-for-sale investments		2,195,085	1,739,664
Long-term trade receivables	11	342,111	266,501
Factored long-term trade receivables		1,522,368	1,701,978
Deferred tax assets		1,429,882	1,284,493
Pledged deposits		3,675,903	3,744,472
Long-term prepayments, deposits and other receivables		235,414	273,158
Total non-current assets		24,941,979	23,964,211
<b>CURRENT ASSETS</b>			
Prepaid land lease payments		24,478	24,478
Inventories		21,618,152	19,592,298
Amount due from customers for contract works	10	12,670,977	11,033,468
Trade and bills receivables	11	29,902,242	27,239,734
Factored trade receivables		2,204,311	3,160,705
Prepayments, deposits and other receivables		8,279,672	6,882,868
Derivative financial instruments		79,640	240,973
Pledged deposits		881,844	718,306
Time deposits with original maturity of over three months		249,019	167,428
Cash and cash equivalents		17,317,542	17,230,140
Total current assets		93,227,877	86,290,398
<b>CURRENT LIABILITIES</b>			
Trade and bills payables	12	32,746,625	29,626,088
Amount due to customers for contract works	10	4,911,812	3,825,106
Other payables and accruals		17,659,834	15,598,327
Derivative financial instruments		17,130	70,604
Interest-bearing bank borrowings		10,815,643	11,041,149
Bank advances on factored trade receivables		2,215,181	3,175,432
Tax payable		358,139	489,141
Dividends payable		8,113	8,113
Bond payable		—	6,131,185
Total current liabilities		68,732,477	69,965,145
<b>NET CURRENT ASSETS</b>		<b>24,495,400</b>	<b>16,325,253</b>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<b>49,437,379</b>	<b>40,289,464</b>



# Consolidated Statement of Financial Position (continued)

(Prepared under HKAS 34)  
30 June 2015

Notes	30 June 2015 (unaudited) RMB'000	31 December 2014 (audited) RMB'000
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<b>49,437,379</b>	40,289,464
<b>NON-CURRENT LIABILITIES</b>		
Derivative financial instruments	399	881
Interest-bearing bank borrowings	9,550,012	10,039,687
Bank advances on factored long-term trade receivables	1,522,368	1,701,978
Financial guarantee contract	3,689	3,689
Deferred tax liabilities	173,176	159,340
Provision for retirement benefits	114,660	115,450
Other non-current liabilities	1,917,402	1,975,935
Total non-current liabilities	<b>13,281,706</b>	13,996,960
<b>Net assets</b>	<b>36,155,673</b>	26,292,504
<b>EQUITY</b>		
<b>Equity attributable to ordinary equity holders of the parent</b>		
Issued capital	3,437,541	3,437,541
Reserves	22,604,171	20,753,525
Proposed final dividends	687,508	687,508
	<b>26,729,220</b>	24,878,574
<b>Perpetual capital instruments</b>	13 <b>7,596,253</b>	—
<b>Non-controlling interests</b>	<b>1,830,200</b>	1,413,930
Total equity	<b>36,155,673</b>	26,292,504

Hou Weigui  
Director

Shi Lirong  
Director

# Consolidated Statement of Changes in Equity

(Prepared under HKAS 34)  
Six months ended 30 June 2015

	Attributable to ordinary equity holders of the parent																					
	Share											Total equity (unaudited) RMB'000										
	Issued capital (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Hedging reserve (unaudited) RMB'000	Share Incentive Scheme reserve (unaudited) RMB'000	Statutory reserves (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Retained profits (unaudited) RMB'000	Proposed final dividend (unaudited) RMB'000	Perpetual capital instruments (unaudited) RMB'000	Non-controlling interests (unaudited) RMB'000	Total (unaudited) RMB'000											
At 1 January 2015	3,437,541	9,426,382	(7,107)	201,097	1,769,012	(1,359,893)	10,724,034	687,508	—	—	—	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							
Issuance of perpetual capital instruments	—	—	—	—	—	—	—	—	—	—	—	—	7,415,500	—	7,415,500							
Acquisition of non-controlling interests	—	(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 expense	—	—	—	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)	12,339,619	687,508	—	—	—	26,729,220	7,596,253	1,830,200	36,155,673							

	Attributable to ordinary equity holders of the parent																					
	Share											Total equity (unaudited) RMB'000										
	Issued capital (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Hedging reserve (unaudited) RMB'000	Share Incentive Scheme reserve (unaudited) RMB'000	Statutory reserves (unaudited) RMB'000	Exchange fluctuation reserve (unaudited) RMB'000	Retained profits (unaudited) RMB'000	Proposed final dividend (unaudited) RMB'000	Perpetual capital instruments (unaudited) RMB'000	Non-controlling interests (unaudited) RMB'000	Total (unaudited) RMB'000											
At 1 January 2014	3,437,541	9,479,879	(11,072)	22,856	1,613,195	(1,046,665)	8,933,788	103,126	—	—	—	22,532,648	1,093,041	—	23,625,689							
Profit for the period	—	—	—	—	—	—	1,128,206	—	—	—	—	1,128,206	43,105	—	1,171,311							
Other comprehensive income for the period:																						
Cash flow hedges, net of tax	—	—	848	—	—	—	—	—	—	—	—	848	—	—	848							
Changes in fair value of available-for-sale investments	—	(134,447)	—	—	—	—	—	—	—	—	—	(134,447)	1,840	—	(132,607)							
Exchange differences on translation of foreign operations	—	—	—	—	—	132,748	—	—	—	—	—	132,748	(2,447)	—	130,301							
Total comprehensive income/(loss) for the period	—	(134,447)	848	—	—	132,748	1,128,206	—	—	—	—	1,127,355	42,498	—	1,169,853							
Capital withdrawal by non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—	(48,990)	(48,990)							
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	—	—	—	—	(9,148)	(9,148)							
Share Incentive Scheme:																						
— Equity-settled share option expense	—	—	—	89,120	—	—	—	—	—	—	—	89,120	—	—	89,120							
At 30 June 2014 (unaudited)	3,437,541	9,345,432	(10,224)	111,976	1,613,195	(913,917)	10,061,994	103,126	—	—	—	23,749,123	1,077,401	—	24,826,524							

# Consolidated Cash Flow Statement

(Prepared under HKAS 34)  
Six months ended 30 June 2015

Items	Six months ended 30 June 2015 (unaudited) RMB'000	Six months ended 30 June 2014 (unaudited) RMB'000
Net cash inflow from operating activities	873,596	1,038,263
Net cash outflow used in investing activities	(1,132,709)	(1,894,547)
Net cash inflow from/(outflow used in) financing activities	527,698	(3,276,674)
Net increase/(decrease) in cash and cash equivalents	268,585	(4,132,958)
Cash and cash equivalents at beginning of period	17,230,140	20,118,274
Effect of foreign exchange rate changes, net	(181,183)	65,864
Cash and cash equivalents at end of period	17,317,542	16,051,180
Analysis of balance of cash and cash equivalents		
Unrestricted bank balances and cash	17,097,784	15,750,556
Time deposits with original maturity of less than three months	219,758	300,624
	17,317,542	16,051,180

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 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 2015 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 2014.

### 2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2014, except for the adoption of new standards and interpretations effective as of 1 January 2015. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2015, they do not have a material impact on the annual consolidated 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 HKAS 19 Defined Benefit Plans: Employee Contributions*

HKAS 19 requires an entity to consider contributions from employees or third parties when accounting for defined benefit plans. Where the contributions are linked to service, they should be attributed to periods of service as a negative benefit. These amendments clarify that, if the amount of the contributions is independent of the number of years of service, an entity is permitted to recognise such contributions as a reduction in the service cost in the period in which the service is rendered, instead of allocating the contributions to the periods of service. This amendment is effective for annual periods beginning on or after 1 July 2014.

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### 2.2 New standards, interpretations and amendments adopted by the Group (continued)

#### *Annual Improvements 2010–2012 Cycle*

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

#### *HKFRS 2 Share-based Payment*

This improvement is applied prospectively and clarifies various issues relating to the definitions of performance and service conditions which are vesting conditions, including:

- A performance condition must contain a service condition
- A performance target must be met while the counterparty is rendering service
- A performance target may relate to the operations or activities of an entity, or to those of another entity in the same group
- A performance condition may be a market or non-market condition
- If the counterparty, regardless of the reason, ceases to provide service during the vesting period, the service condition is not satisfied

The above definitions are consistent with how the Group has identified any performance and service conditions which are vesting conditions in previous periods, and thus these amendments do not impact the Group's accounting policies.

#### *HKFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies that all contingent consideration arrangements classified as liabilities (or assets) arising from a business combination should be subsequently measured at fair value through profit or loss whether or not they fall within the scope of HKFRS 9 (or HKAS 39, as applicable). This is consistent with the Group's current accounting policy, and thus this amendment does not impact the Group's accounting policy.

#### *HKFRS 8 Operating Segments*

The amendments are applied retrospectively and clarify that:

- An entity must disclose the judgements made by management in applying the aggregation criteria in paragraph 12 of HKFRS 8, including a brief description of operating segments that have been aggregated and the economic characteristics (e.g., sales and gross margins) used to assess whether the segments are 'similar'
- The reconciliation of segment assets to total assets is only required to be disclosed if the reconciliation is reported to the chief operating decision maker, similar to the required disclosure for segment liabilities.

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### 2.2 New standards, interpretations and amendments adopted by the Group (continued)

#### *Annual Improvements 2010–2012 Cycle (continued)*

##### *HKFRS 8 Operating Segments (continued)*

The Group has not applied the aggregation criteria in HKFRS 8.12. The Group has presented the reconciliation of segment assets to total assets in previous periods and continues to disclose the same in Note 3 in these financial statements as the reconciliation is reported to the chief operating decision maker for the purpose of his decision making.

##### *HKAS 16 Property, Plant and Equipment and HKAS 38 Intangible Assets*

The amendment is applied retrospectively and clarifies in HKAS 16 and HKAS 38 that the asset may be revalued by reference to observable data by either adjusting the gross carrying amount of the asset to market value or by determining the market value of the carrying value and adjusting the gross carrying amount proportionately so that the resulting carrying amount equals the market value. In addition, the accumulated depreciation or amortisation is the difference between the gross and carrying amounts of the asset. The Group did not record any revaluation adjustments during the current interim period.

##### *HKAS 24 Related Party Disclosures*

The amendment is applied retrospectively and clarifies that a management entity (an entity that provides key management personnel services) is a related party subject to the related party disclosures. In addition, an entity that uses a management entity is required to disclose the expenses incurred for management services. This amendment is not relevant for the Group as it does not receive any management services from other entities.

#### *Annual Improvements 2011–2013 Cycle*

These improvements are effective from 1 July 2014 and the Group has applied these amendments for the first time in these interim condensed consolidated financial statements. They include:

##### *HKFRS 3 Business Combinations*

The amendment is applied prospectively and clarifies for the scope exceptions within HKFRS 3 that:

- Joint arrangements, not just joint ventures, are outside the scope of HKFRS 3
- This scope exception applies only to the accounting in the financial statements of the joint arrangement itself

The Company is not a joint arrangement, and thus this amendment is not relevant for the Group and its subsidiaries.

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### 2.2 New standards, interpretations and amendments adopted by the Group (continued)

#### *Annual Improvements 2011–2013 Cycle (continued)*

##### *HKFRS 13 Fair Value Measurement*

The amendment is applied prospectively and clarifies that the portfolio exception in HKFRS 13 can be applied not only to financial assets and financial liabilities, but also to other contracts within the scope of HKFRS 9 (or HKAS 39, as applicable). The Group does not apply the portfolio exception in HKFRS 13.

##### *HKAS 40 Investment Property*

The description of ancillary services in HKAS 40 differentiates between investment property and owner-occupied property (i.e., property, plant and equipment). The amendment is applied prospectively and clarifies that HKFRS 3, and not the description of ancillary services in HKAS 40, is used to determine if the transaction is the purchase of an asset or a business combination. In previous periods, the Group has relied on HKFRS 3, not HKAS 40, in determining whether an acquisition is of an asset or is a business acquisition. Thus, this amendment does not impact the accounting policy of the Group.

## 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 networks (communication systems) segment includes wireless communications, wireline switch and access and optical and data communications.
- (b) The handset terminals segment engages in the manufacture and sale of mobile phone handsets and data card products.
- (c) The telecommunications software systems, services and other products segment represents the provision of telecommunications software systems such as operation support systems and the provision of fee-based services.

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 bank and other interest income, finance costs, research and development costs, impairment losses, dividend income and unallocated gain, share of profits and losses of associates and joint ventures, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

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

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, tax payable, bonds 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.

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

	Networks (communication systems) RMB'000	Handset terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Six months ended 30 June 2015				
<b>Segment revenue:</b>				
Telecommunications system contracts	28,513,830	—	7,406,393	35,920,223
Sale of goods and services	—	9,959,487	19,078	9,978,565
	28,513,830	9,959,487	7,425,471	45,898,788
<b>Segment results</b>	7,392,534	231,082	1,669,430	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)
<b>Profit before tax</b>				2,142,388
As at 30 June 2015				
<b>Segment assets</b>	45,287,295	11,179,309	11,793,557	68,260,161
Investments in joint ventures				128,659
Investments in associates				358,171
Unallocated assets				49,422,865
Total assets				118,169,856
<b>Segment liabilities</b>	9,781,349	1,019,582	2,547,225	13,348,156
Unallocated liabilities				68,666,027
Total liabilities				82,014,183
Six months ended 30 June 2015				
<b>Other segment information:</b>				
Impairment losses recognized in profit or loss	1,169,226	408,394	304,486	1,882,106
Depreciation and amortisation	604,425	211,117	157,402	972,944
Capital expenditure	958,145	334,667	249,517	1,542,329



# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 3. OPERATING SEGMENT INFORMATION (CONTINUED)

	Networks (communication systems) RMB'000	Handset terminals RMB'000	Telecommunications software systems, services and other products RMB'000	Total RMB'000
Six months ended 30 June 2014				
<b>Segment revenue:</b>				
Telecommunications system contracts	21,835,700	—	5,436,938	27,272,638
Sale of goods and services	—	10,406,174	18,497	10,424,671
	<u>21,835,700</u>	<u>10,406,174</u>	<u>5,455,435</u>	<u>37,697,309</u>
<b>Segment results</b>	5,307,362	163,021	1,303,472	6,773,855
Band and other interest income				253,587
Dividend income and unallocated gains				2,190,697
Unallocated expenses				(6,779,956)
Finance costs				(753,749)
Share of profits and losses of:				
Joint ventures				(667)
Associates				(39,781)
<b>Profit before tax</b>				<u>1,643,986</u>
As at 31 December 2014				
<b>Segment assets</b>	36,161,825	17,874,444	8,958,415	62,994,684
Investments in joint ventures				67,607
Investments in associates				393,709
Unallocated assets				46,798,609
Total assets				<u>110,254,609</u>
<b>Segment liabilities</b>	8,866,579	938,004	2,203,453	12,008,036
Unallocated liabilities				71,954,069
Total liabilities				<u>83,962,105</u>
Six months ended 30 June 2014				
<b>Other segment information:</b>				
Impairment losses recognized in profit or loss	661,486	315,243	165,266	1,141,995
Depreciation and amortisation	517,946	246,836	129,404	894,186
Capital expenditure	895,104	426,577	223,633	1,545,314

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 3. OPERATING SEGMENT INFORMATION (CONTINUED)

### Geographical analysis

The three operating segments of the Group are mainly operated in the PRC, other Asian regions and Africa. An analysis of the Group's revenue by geographical segments for the six months ended 30 June 2015 and 2014 is set out in the following table:

	Six months ended 30 June 2015 RMB'000	Six months ended 30 June 2014 RMB'000
The PRC	24,360,835	19,259,606
Asia (excluding the PRC)	7,197,236	5,867,677
Africa	3,207,354	2,210,694
Europe, Americas and Oceania	11,133,363	10,359,332
<b>Total</b>	<b>45,898,788</b>	<b>37,697,309</b>

## 4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June 2015 RMB'000	Six months ended 30 June 2014 RMB'000
<b>Revenue</b>		
Telecommunications system contracts	35,920,223	27,272,638
Sale of goods and services	9,978,565	10,424,671
	<b>45,898,788</b>	<b>37,697,309</b>
<b>Other income</b>		
VAT refunds for software products <sup>#</sup>	1,454,782	1,313,580
Bank and other interest income	298,730	253,587
Exchange gains	—	198,949
Others <sup>##</sup>	676,430	599,084
	<b>2,429,942</b>	<b>2,365,200</b>
<b>Gains</b>		
Fair value gains on investment properties	64,681	77,475
Gains from disposal of available-for-sale investments	101,099	—
Gains from derivative financial instruments	220,530	—
Dividends received	24,024	1,609
	<b>410,334</b>	<b>79,084</b>
	<b>2,840,276</b>	<b>2,444,284</b>

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 4. REVENUE, OTHER INCOME AND GAINS (CONTINUED)

# 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.

## 5. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging:

	Six months ended 30 June 2015 RMB'000	Six months ended 30 June 2014 RMB'000
Cost of goods sold and services provided	30,952,339	25,295,240
Depreciation	484,269	498,601
Amortisation of land lease payments	11,650	10,289
Amortisation of intangible assets other than deferred development costs	30,579	28,537
Amortisation of development expenses	446,446	356,759
Provision for bad and doubtful debts*	1,137,297	819,172
Provision for warranties**	139,495	195,170
Write-down of inventories to net realisable value**	740,045	322,823
Provision for long-term equity investment*	4,764	—
Exchange loss	428,340	—
Loss on disposal of property, plant and equipment *	8,850	16,214
Equity-settled share option expense	89,121	89,120

\* Provision for bad and doubtful debts, provision for long-term equity investment and loss on disposal of property, plant and equipment are included in "Other expenses" on the face of the consolidated statement of 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 comprehensive income.

## 6. FINANCE COSTS

	Six months ended 30 June 2015 RMB'000	Six months ended 30 June 2014 RMB'000
Interest on bank loans wholly repayable within five years	371,061	373,885
Interest on bonds payable	120,815	131,797
Total interest expense on financial liabilities not at fair value through profit or loss	491,876	505,682
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	200,221	248,067
	692,097	753,749

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 7. INCOME TAX

	Six months ended 30 June 2015 RMB'000	Six months ended 30 June 2014 RMB'000
Group:		
Current — Mainland China	317,554	390,197
Current — Overseas	124,201	90,935
Deferred	(131,553)	(8,457)
Total tax charge for the period	<b>310,202</b>	472,675

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profits arising in Hong Kong during the 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 effective from 1 January 2008, the tax rate applicable to domestic invested enterprises and foreign-invested enterprises in the PRC has been standardised at 25%.

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

ZTE ICT Company Limited is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise from 2013 to 2015.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise from 2014 to 2016.

Nubia Technology Co., Ltd is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise from 2014 to 2016.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise from 2014 to 2016.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise from 2014 to 2016.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise from 2014 to 2016.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise from 2014 to 2016.

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 7. INCOME TAX (CONTINUED)

ZTE Soft Technology Company Limited is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise from 2014 to 2016.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% for the current year as being a national encouraged industry enterprise Programme from 2013 to 2020.

Nanjing ZTEsoft Software Technology Company Limited is subject to an enterprise income tax rate of 15% for the current year as a national-grade hi-tech enterprise from 2013 to 2015.

## 8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2015 (Same period in 2014: nil).

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

Basic earnings per share amount is computed by dividing the profit for the period attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares in issue.

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

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

	Six months ended 30 June 2015 RMB'000	Six months ended 30 June 2014 RMB'000
Earnings		
Profit attributable to ordinary equity holders of the parent for the period	1,615,585	1,128,206
	Six months ended 30 June 2015 Shares'000	Six months ended 30 June 2014 Shares'000
Shares		
Weighted average number of ordinary shares of the parent in issue	3,437,541	3,437,541
Diluting effect – Share options	44,768	–
Adjusted weighted average number of ordinary shares of the parent in issue	3,482,309	3,437,541

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 10. TELECOMMUNICATIONS SYSTEM CONTRACTS

	30 June 2015 RMB'000	31 December 2014 RMB'000
Amount due from customers for contract works	12,670,977	11,033,468
Amount due to customers for contract works	(4,911,812)	(3,825,106)
	<b>7,759,165</b>	7,208,362
Contract costs incurred plus recognised profits	73,433,345	64,203,987
Less: Recognised losses to date	257,252	340,199
Progress billings	65,416,928	56,655,426
	<b>7,759,165</b>	7,208,362

## 11. TRADE AND BILLS RECEIVABLES

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. 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 balance sheet date, based on the invoice date and net of provision, is set out as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Within 6 months	23,384,551	22,660,674
7 to 12 months	4,635,295	3,004,833
1 to 2 years	1,820,962	1,619,968
2 to 3 years	403,545	220,760
	<b>30,244,353</b>	27,506,235
Current portion of trade and bills receivables	(29,902,242)	(27,239,734)
Long-term portion	<b>342,111</b>	266,501

# Notes to Condensed Consolidated Interim Financial Statements

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## 11. TRADE AND BILLS RECEIVABLES (CONTINUED)

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
The controlling shareholder	1,220	1,096
Joint ventures	224,424	418,061
Associates	10,799	6,963
Other related companies	297,759	157,968
	<b>534,202</b>	<b>584,088</b>

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

## 12. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payables as at the balance sheet date, based on the invoice date, is set out as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Within 6 months	32,203,429	29,175,980
7 to 12 months	285,449	298,251
1 to 2 years	106,884	14,258
2 to 3 years	98,036	114,309
Over 3 years	52,827	23,290
Total	<b>32,746,625</b>	<b>29,626,088</b>

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
The controlling shareholder	54,826	53,879
Joint ventures	2,001	20,669
Associates	1,319	10,065
Other related companies	96,931	179,761
Total	<b>155,077</b>	<b>264,374</b>

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

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

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## 13. PERPETUAL CAPITAL INSTRUMENTS

### (I) General information on perpetual capital instruments issued and 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 (the initial interest spread is the difference between the coupon interest rate and the initial benchmark rate.) and a further 300 basis points, 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](http://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.

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.



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## 13. PERPETUAL CAPITAL INSTRUMENTS (CONTINUED)

### (II) Change in perpetual capital instruments issued and outstanding as at the end of the period

As at 1 January 2015		Additions		Deductions		As at 30 June 2015	
Amount	Book value	Amount	Book value	Amount	Book value	Amount	Book value
Shares'000	RMB'000	Shares'000	RMB'000	Shares'000	RMB'000	Shares'000	RMB'000
—	—	75,000	7,596,253	—	—	75,000	7,596,253

## 14. CONTINGENT LIABILITIES

- (a) At the balance sheet date, contingent liabilities not provided for in the Group's financial statements were as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Guarantees given to banks in connection with borrowings to customers	50,000	67,390
Guarantees given to banks in respect of performance bonds	8,329,196	7,458,959
	<b>8,379,196</b>	<b>7,526,349</b>

- (b) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.984 million (equivalent to approximately RMB46.618 million). 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 their award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB20.043 million) be paid by the Company. As at the balance sheet date, the Company had made provisions in respect of 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 made any payments of compensation pursuant to the aforesaid judgement.

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

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## 14. CONTINGENT LIABILITIES (CONTINUED)

- (c) In April 2008, China Construction Fifth Engineering Division Corp., Ltd. (“China Construction Fifth”), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased, in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Shenzhen Nanshan District People’s Court (“Nanshan Court”), pleading for the revocation of the contract and court order of the evacuation of the work sites by the defendant, as well as a penalty payment for work delay in the amount of RMB24.912 million and damages of RMB11.319 million payable to the Company. The Nanshan Court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth be revoked and a penalty payment for work delay in the amount of RMB12.817 million be payable by China Construction Fifth. China Construction Fifth 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”) handed down the final trial judgement for China Construction Fifth’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 was not required to pay the penalty payment of RMB12.817 million to the Company.

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 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 RMB0.953 million to China Construction Fifth, while China Construction Fifth should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth were rejected. China Construction Fifth 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 million to China Construction Fifth, while China Construction Fifth should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth amounted to RMB2.699 million, of which an amount of RMB0.654 million was borne by the Company.

In July 2014, China Construction Fifth 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.

The Company, based on the advice from the Group’s legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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## 14. CONTINGENT LIABILITIES (CONTINUED)

- (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 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 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.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

- (e) On 5 April 2011, a certain carrier of Ecuador filed an application for arbitration with the Business Arbitration Tribunal of Guayaquil, Ecuador, claiming quality problems in the construction work undertaken by the Company and demanding from the Company damages of USD23.35 million in aggregate, comprising USD22.25 million for network reconstruction and USD1.10 million for construction quality supervision and management in relation to the entire network. The attorney engaged by the Company has submitted a defense in a timely manner to deny all allegations of the carrier. Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company has a valid defense against the allegation.
- (f) 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 ZTE and ZTE USA, a wholly-owned subsidiary of ZTE. 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 upheld the ITC's final results.

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## 14. CONTINGENT LIABILITIES (CONTINUED)

(f) (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 jury of the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA have engaged a legal counsel to conduct active defense of the case and will consider whether to file an appeal based on the verdicts on the three patents involved in the litigation.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

(g) On 20 May 2013, ZTE Brazil received another notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interest and a penalty in the aggregate amount of approximately BRL96.4484 million (equivalent to approximately RMB191 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the primary administrative court under the tax bureau of Sao Paulo State, stating that (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced as a result, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil was notified of the ruling by the primary administrative court under the tax bureau of Sao Paulo State that supported the administrative penalty. On 18 October 2013, ZTE Brazil filed an appeal with the secondary administrative court of the tax bureau of Sao Paulo State. The case is awaiting judgement by the secondary administrative court of the tax bureau of Sao Paulo State. The Company had made a provision of BRL5.22 million (equivalent to approximately RMB10.33 million) in respect of the said litigation.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim can be reliably estimated. No additional provision in respect of the litigation was made.

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## 14. CONTINGENT LIABILITIES (CONTINUED)

- (h) In May 2012, the U.S. Flashpoint Technology Inc. filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patent rights in image processing. Defendants in the ITC case included other companies. In the ITC case, the said U.S. company demanded the issue of a limited exclusion and injunction order against the Company's product that had allegedly infringed its patent rights. 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 1 October 2013, ITC announced the preliminary decision on the case that the Company and ZTE USA did not infringe upon the patent rights as stipulated in Section 337. On 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

- (i) 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 ITC case included other companies in the industry. In the ITC case, the said U.S. company demanded the issue of a permanent exclusion and injunction order against the Company's product that had allegedly infringed its patent rights. In the case filed with the Federal District Court, damages for losses and payments of legal fees were demanded of the defendants, although no specific amount of compensation was named. The litigation procedure at the Federal District Court 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. Currently, the litigation procedure at the Federal District Court of California has been resumed. There has been no substantial progress in the litigation process.

The Company, based on the advice from the Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

- (j) In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31.3537 million (equivalent to approximately RMB62.02 million). 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.

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 BRL82.9745 million (equivalent to approximately RMB164 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 Group's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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## 14. CONTINGENT LIABILITIES (CONTINUED)

- (k) In February 2013, Vringo Germany GmbH (“Vringo Germany”) filed a patent litigation with the Court of Mannheim, Germany against the Company and ZTE Deutschland GmbH (“ZTE Deutschland”), a wholly-owned subsidiary of the Company, pleading for the UMTS products of the Company and ZTE Deutschland with TSTD (Time Switched Transmitter Diversity) functions to be ruled to have infringed upon the patent rights of Vringo Germany. In December 2013, the Court of Mannheim, Germany handed down the first trial judgement, ruling that the Company and ZTE Deutschland had infringed upon the patent rights and issuing an injunction order against the Company and ZTE Deutschland in respect of the UMTS products with TSTD functions. The Company and ZTE Deutschland filed an appeal to the aforesaid court in January 2014, pleading for the rejection of the patent infringement claims of Vringo Germany and revocation of the injunction order. Vringo Germany withdrew its litigation in October 2014. In December 2014, Vringo Germany filed a patent litigation with the Court of Dusseldorf, Germany in respect of the patents involved against the Company and ZTE Service GmbH (“ZTE Service”), a wholly-owned subsidiary of the Company. As the UMTS products of the Company, ZTE Deutschland and ZTE Service sold in Germany do not support TSTD functions, the injunction order will not have any impact on the business of the Company, ZTE Deutschland and ZTE Service in Germany.

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

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



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## 14. CONTINGENT LIABILITIES (CONTINUED)

(k) (continued)

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

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

The Company, based on the advice from the Group’s legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

(l) In August 2013, Dataquill Limited of the United States filed a claim with the Eastern District Court of Texas, alleging infringement upon five of its patent rights by smart phones sold in the United States by the Company, ZTE USA and ZTE Solutions, Inc., both wholly-owned subsidiaries of the Company. Defendants in this case included other companies in the industry. In March 2015, Dataquill Limited has withdrawn the Company and ZTE Solution, Inc. from defendants. In June 2015, the jury of the Eastern District Court of Texas issued its verdict in respect of the aforesaid case which ruled that the products of ZTE USA subject to the infringement allegations to have infringed upon two patent rights involved, and that ZTE USA was required to pay a compensation amount of approximately US\$31.50 million. The verdict is pending endorsement by the judge. ZTE USA has engaged a legal counsel to actively deal with the case.

The Company, based on the advice from the Group’s legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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## 15. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 16 years.

At 30 June 2015, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>30 June 2015</b>	31 December 2014
	<b>RMB'000</b>	RMB'000
Within one year	<b>218,354</b>	282,519
In the second to fifth years, inclusive	<b>205,036</b>	234,178
After five years	<b>33,328</b>	2,163
	<b>456,718</b>	518,860

## 16. COMMITMENTS

### Capital commitment

	<b>30 June 2015</b>	31 December 2014
	<b>RMB'000</b>	RMB'000
Contracted, but not provided for:		
Land and buildings	<b>902,924</b>	214,356
Investments in associates	<b>71,643</b>	5,223
	<b>974,567</b>	219,579
Authorised, but not contracted for:		
Land and buildings	<b>21,238,020</b>	21,897,474



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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 2015 RMB'000	Six months ended 30 June 2014 RMB'000
<b>The controlling shareholder:</b>			
Purchase of raw materials	(a)	129,248	125,166
Sales of finished goods	(b)	2,501	1,964
Rental expense	(c)	4,414	4,414
<b>Associates:</b>			
Purchase of raw materials	(a)	22,816	30,517
Sales of finished goods	(b)	25,709	28,443
Rental income	(e)	8,000	4,178
Interest expense	(f)	83	18
Interest income	(f)	—	110
<b>Joint ventures:</b>			
Purchase of raw materials	(a)	2,004	—
Sales of finished goods	(b)	125,465	340,834
Rental income	(e)	168	129
<b>Entities significantly influenced by key management personnel of the Group:</b>			
Purchase of raw materials	(a)	530,378	386,390
Sales of finished goods	(b)	5	44
Rental income	(e)	1,073	1,073
Rental expense	(d)	20,991	22,867
Interest income	(f)	1,815	—
<b>Entities controlled by the controlling shareholder</b>			
Purchase of raw materials	(a)	186,068	123,707
Sales of finished goods	(b)	2,385	1,122
Rental income	(e)	564	216

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

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## 17. RELATED PARTY TRANSACTIONS (CONTINUED)

### (I) Transactions with related parties (continued)

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.
- (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 RMB12.74 to RMB150 per square metre.
- (f) The interest rates for deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

### (II) Compensation of key management personnel of the Group

	<b>Six months ended 30 June 2015 RMB'000</b>	Six months ended 30 June 2014 RMB'000
Short-term employee benefits	30,212	10,836
Post-employment benefits	237	3
Equity-settled share option expense	4,333	4,630
<b>Total compensation paid to key management personnel</b>	<b>34,782</b>	<b>15,469</b>

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.

# Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)  
30 June 2015

## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's and the Company's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, an amount due to the ultimate holding company and loans from associates approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, trade and bills receivables, deposits and other receivables and interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2015 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair value of a listed equity investment is based on quoted market prices.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A- or above credit ratings. Derivative financial instruments, including forward currency contracts and interest rate swaps are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

# Notes to Condensed Consolidated Interim Financial Statements

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## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

#### Assets measured at fair value:

As at 30 June 2015

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments	810,995	—	—	810,995
Derivative financial instruments	—	79,640	—	79,640
	<b>810,995</b>	<b>79,640</b>	<b>—</b>	<b>890,635</b>

As at 31 December 2014

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Available-for-sale investments	319,470	—	—	319,470
Derivative financial instruments	—	240,973	—	240,973
	<b>319,470</b>	<b>240,973</b>	<b>—</b>	<b>560,443</b>

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 (2014: Nil).

# Notes to Condensed Consolidated Interim Financial Statements

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## 18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy (continued)

*Liabilities measured at fair value:*

As at 30 June 2015

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	—	(17,529)	—	(17,529)

As at 31 December 2014

	Fair value measurement using			Total RMB'000
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	
Derivative financial instruments	—	(71,485)	—	(71,485)

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 liabilities (2014: Nil).

## 19. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 August 2015.

## Documents Available for Inspection

- (I) Text of the 2015 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 2015 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  
**Hou Weigui**  
*Chairman*

27 August 2015

[www.zte.com.cn](http://www.zte.com.cn)

