ZTE

ZTE CORPORATION

中興通訊股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 763)

Overseas Regulatory Announcement
Announcement on Changes in Accounting Policies

This announcement is made pursuant to Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Company and all the members of the Board of Directors confirm that all the information contained in this announcement is true, accurate and complete and that there is no false and misleading statement or material omission in this announcement.

I. Overview of the changes in accounting policies

In 2017, the Ministry of Finance ("MOF") of the People's Republic of China ("PRC") announced a series of amendments to PRC Accounting Standards for Business Enterprises ("ASBEs"), including "ASBE No. 22 – Recognition and Measurement of Financial Instruments", "ASBE No. 23 – Transfer of Financial Assets", "ASBE No. 24 – Hedge Accounting", "ASBE No. 37 – Presentation of Financial Instruments" (the "New ASBEs on Financial Instruments") and "ASBE No. 14 - Revenue" (the "New ASBE on Revenue"), and required enterprises with dual domestic and overseas listings to implement such amended accounting standards with effect from 1 January 2018. In 2014, the Hong Kong Institute of Certified Public Accountants published Hong Kong Financial Reporting Standards ("HKFRS") No. 9 "*Financial Instruments*", HKFRS No. 7 "*Financial Instruments Disclosures*" (the "New HKFRSs on Financial Instruments") and HKFRS No. 15 "*Revenue from Contracts with Customers*" (the "New HKFRS on Revenue") for implementation with effect from 1 January 2018. ZTE Corporation (the "Company") has made changes to its accounting policies accordingly in compliance with the provisions of the aforesaid accounting standards. Such changes have been considered and approved at the Twenty-ninth Meeting of the Seventh Session of the Board of Directors and the Twenty-fourth Meeting of the Seventh Session of the Supervisory Committee held on 27 April 2018. The said changes in accounting policies are not subject to approval at the general meeting.

II. Impact of the changes in accounting policies on the Company

(I) Impact on financial statements prepared under PRC ASBEs (the "A Share Statements")

1. In accordance with the New ASBEs on Financial Instruments, the Company has changed the

rule on making provisions for the impairment of trade receivables and other financial assets measured at amortized cost and the method for the measurement of investments in available-for-sale equity instruments, the details of which are set out as follows:

(1) In accordance with the New ASBEs on Financial Instruments, the method of making provisions for the impairment of trade receivables has been adjusted from the "method of incurred losses" to the "method of expected credit losses", pursuant to which provisions for impairment will be made according to sub-divided asset groups and adjusted ratios of provision for such asset groups based on the evaluation of customers' credit risk profile, taking into account expectations for the collection of such receivables and the key financial indicators of customers.

In accordance with pertinent requirements under the convergence provisions of the New ASBEs on Financial Instruments, the Company will not make any retrospective adjustments to the comparative statements for the same period last year, but will only adjust the opening balances of retained earnings and other related items on the statements for 2018.

(2) Method for the measurement of investments in available-for-sale equity instruments: Under the original ASBEs on financial instruments, available-for-sale equity instruments quoted in an active market were measured at fair value by the Company, and any changes in fair value were recognized in other comprehensive income; available-for-sale equity instruments not quoted in an active market and whose fair value cannot be reliably measured were measured at cost. Under the New ASBEs on Financial Instruments, all available-for-sale equity instruments are measured at fair value (including previous available-for-sale equity instruments not quoted in an active market and measured at cost); changes in the fair value of equity instruments not designated as such shall be dealt with in current profit or loss, provided that the Company may elect, upon investment in individual non-trading equity instruments, to designate such equity instruments as financial assets at fair value through other comprehensive income (which designation cannot be revoked once made). In accordance with pertinent requirements under the convergence provisions of the New ASBEs on Financial Instruments, the Company has classified its outstanding available-for-sale equity instruments. As at 31 March 2018, all of the Company's investments in available-for-sale equity instruments were recognized as financial assets at fair value through profit or loss.

The Company will recognize the difference between the original book value and the fair value of equity instrument investments measured at cost and not quoted in an active market prior to 1 January 2018 and whose fair value cannot be reliably measured by adjusting the opening balances of retained earnings and other related items on the statements for 2018. No retrospective adjustments will be made to the comparative statements for the same period last year.

Cumulative fair-value changes of previous equity instruments quoted in an active market and measured at fair value recognized in other comprehensive income shall be adjusted to recognition in retained earnings at the beginning of the period. No retrospective adjustments will be made to the comparative statements for the same period last year. Changes in fair value for the period shall be recognized in current profit or loss.

2. In accordance with the New ASBE on Revenue, the Company has changed its former accounting policies on revenue from sales of goods, revenue from rendering of services and revenue from construction contracts (Lease income shall be accounted for in accordance with

"ASBE No. 21 - Leases" and shall not be affected by the New ASBE on Revenue).

The impact of the New ASBE on Revenue on the Company is primarily concerned with the change in the policy on revenue from telecommunication system contracts: In accordance with "ASBE No. 15 - Construction Contracts" published by MOF on 15 February 2006, revenue and cost of telecommunication system contracts, as construction contracts, are recognized using the percentage of completion method, where the progress of completion is determined as the cumulative contract cost incurred as a percentage of the estimated total contract cost; upon the adoption of the New ASBE on Revenue, the Group will identify the performance obligations in a contract, and revenue is recognized on the basis of the transaction price allocated to a distinct performance obligation upon the satisfaction of such performance obligation, namely, when control over related goods and services are transferred to the customer.

In accordance with pertinent requirements under the convergence provisions of the New ASBE on Revenue, the Company will not make any retrospective adjustments to the comparative statements for the same period last year, but will only adjust the opening balances of retained earnings and other related items on the statements for 2018.

(II) Impact on financial statements prepared under HKFRS (the "H Share Statements")

1. In accordance with the New HKFRSs on Financial Instruments, the Company has changed its former accounting policies on financial assets, including the policy on impairment provisions for trade receivables and the policy for the measurement of investments in available-for-sale equity instruments, the details and impact of which are identical as those in relation to the A Share Statements.

2. In accordance with the New HKFRS on Revenue, the Company has changed its former accounting policies on revenue from sales of goods, revenue from rendering of services and revenue from construction contracts, the details and impact of which are identical as those in relation to the A Share Statements.

The changes in accounting policies have had no material impact on the Company's consolidated financial statements.

III. Statement of the Board of Directors on the justification for changing the accounting policies

The Board of Directors is of the view that the changes in accounting policies represent corresponding adjustments by the Company in tandem with the relevant standards as amended the decision-making procedures in relation to which have been in compliance with the relevant provisions of pertinent laws and regulations and the Articles of Association.

IV. Opinion of the Independent Non-executive Directors

The Independent Non-executive Directors of the Company, being of the view that decision-making procedures in relation to the changes in accounting policies have been in compliance with the relevant provisions of pertinent laws and regulations and the Articles of Association without compromising the interests of the Company and the shareholders, concur with the change of accounting policies by the Company.

V. Opinion of the Supervisory Committee

The Supervisory Committee, being of the view that decision-making procedures in relation to the changes in accounting policies have been in compliance with the relevant provisions of pertinent laws and regulations and the Articles of Association without compromising the interests of the Company and the shareholders, concur with the change of accounting policies by the Company.

VI. Documents for inspection

1. Resolutions of the Twenty-ninth Meeting of the Seventh Session of the Board of Directors;
2. Resolutions of the Twenty-fourth Meeting of the Seventh Session of the Supervisory Committee;
3. Independent opinion signed and endorsed by the Independent Non-executive Directors.

By Order of the Board
Yin Yimin
Chairman

Shenzhen, the PRC
27 April 2018

As at the date of this announcement, the Board of Directors of the Company comprises two executive directors, Yin Yimin and Zhao Xianming; seven non-executive directors, Zhang Jianheng, Luan Jubao, Wang Yawen, Tian Dongfang, Zhan Yichao, Wei Zaisheng and Zhai Weidong; and five independent non-executive directors, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang.