

ZTE 中兴通讯股份有限公司

ZTE CORPORATION

stock code : 000063.SZ 763.HK

Interim Report 2018



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 Thirty-fifth Meeting of the Seventh Session of the Board of Directors of the Company.

The interim financial reports of the Group for the six months ended 30 June 2018 were unaudited.

Mr. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, 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 will be implemented in respect of the interim period of 2018.

This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. Investors should beware of investment risks. The attention of investors is drawn to the potential risks inherent in the operations of the Company described in the section headed “Report of the Board of Directors (VI) Business outlook for the second half of 2018 and risk exposures” in this report.

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

China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> are designated media for the Company’s information disclosure. 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, a specialised agency of the United Nations for information and communication technologies
MOF	PRC Ministry of Finance
NDRC	National Development Reform Commission of China
CSRC	China Securities Regulatory Commission
Shenzhen CSRC	The CSRC Shenzhen Bureau
Shenzhen Stock Exchange	The Shenzhen Stock Exchange
Shenzhen Listing Rules	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
PRC ASBEs	PRC Accounting Standards for Business Enterprise (Generally accepted accounting principles in China)
HKFRSs	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards (“HKASs”) and Interpretations)
ZTE HK	ZTE (H.K.) Limited
Zhongxing Software	Shenzhen Zhongxing Software Company Limited

Great Power	Guangzhou Great Power Energy & Technology Co., Ltd.
Eoptolink	Eoptolink Technology Inc., Ltd.
Giga Device	Giga Device Semiconductor (Beijing) Inc.
Laimu	Shanghai Laimu Electronics Co., Ltd.
Olympic Circuit Technology	Olympic Circuit Technology Co., Ltd.
Mentech Optical	Dongguan Mentech Optical & Magnetic Co., Ltd.
Lianchuang Electronic	Lianchuang Electronic Technology Co., Ltd.
Shijia Science & Technology	Suzhou Shijia Science & Technology Inc.
Enablence Technologies	Enablence Technologies Inc.
Union Optech	Union Optech Co., Ltd.
ZTE Capital	Shenzhen ZTE Capital Management Company Limited
Zhonghe Chunsheng Fund	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (Limited Partnership)
Jiaxing Fund	Jiaxing Xinghe Equity Investment Partnership (Limited Partnership)
Medium Term Note(s) or perpetual capital instruments	Perpetual Medium Term Notes
Zhongxingxin	Zhongxingxin Telecom Company Limited
Zhongxing Hetai	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
Zhongxing Development	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
Guoxing Ruike	Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership)
ZTE Group Finance	ZTE Group Finance Co., Ltd.
ZTE Microelectronics	ZTE Microelectronics Technology Company Limited
2017 Share Option Incentive Scheme	the share option incentive scheme considered and approved at the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 of the Company

Glossary

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

4G	Fourth-generation mobile networks operating according to IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, which support theoretical download rates of 1Gbit/s at fixed locations and 100Mbit/s in motion.
4K	A video device having a resolution of 3840*2160, which is 4 times the resolution of a 2K video.
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.
CDN	Content Delivery Network, a network structure capable of redirecting on a real-time basis a user's request to the closest service node available to such user based on network flow and information of various service nodes such as connection, load, distance from the user and response time.
IaaS	Infrastructure as a Service, the service that makes available the capacities of IT infrastructures (such as servers, storage and computation) to users through the Internet, the billing of which is based on the actual usage of such resources by the users.
ICT	New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).
IDC	Internet Data Center, the venue where server groups of hosting corporations, tenants or websites are managed; it is the infrastructure facility underpinning the secure operation of various types of e-commerce activities, as well as a platform that supports value chain management by a corporation and its business alliance (such as distributors, suppliers and customers). IDC provides ICPs, corporations, media and websites with large-scale specialised server management service, space leasing, network bandwidth wholesale, as well as ASP and EC services which are safe and reliable and of high quality.
IPTV	Internet Protocol Television is a new technology that utilises the broadband cable TV network and integrates Internet access, multimedia and communications in one device, providing a variety of interactive services, such as digital TV, to home users.

LoRa	A communication technology to create low-power WANs for IOT applications, which is an ultra-long distance wireless transmission solution based on frequency expansion adopted and promoted by Semtech of the United States. Featuring long-distance transmission, long battery life, large capacity and low cost, it is applicable mainly to license-free frequency bands.
LTE	Long Term Evolution, referring to fourth-generation mobile communication technologies with OFDM as its core technology, promoted by 3GPP and under continuous 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.
NB-IoT	Narrow Band Internet of Things, a 3GPP-defined LPWAN standard applicable to 3GPP licensed frequency bands specifically designed for IOT connection. It mainly features: 1) connection by massive number of users; 2) substantially stronger coverage compared to traditional cellular network; 3) low power consumption; 4) simplified and optimised radio frequency that reduces cost for end-users.
NFV	Network Function Virtualisation, a solution for the construction of telecommunication network units using common servers and storage and network equipment promoted by NFV ISG, a group set up by the European Telecommunications Standards Institute (ETSI) in November 2012. NFV is generally perceived as consisting of three stages: first, implementation of network units through virtualisation technologies; second, deployment on cloud to realise centralisation and cloud-based operation; third, the breakdown of NFV network units into components by function, so that flexible network unit functions are facilitated through different configurations of components.
OTN	Optical Transport Network, a transmission network formed at the optical layer based on the wavelength-division multiplexing technology. OTN is a “digital transmission system” and “optical transmission system” regulated by a range of ITU-T recommendations such as G.872, G.709 and G.798, purporting to solve the problems of traditional WDM networks, such as poor modulation in the no-wavelength/sub-wavelength services, weak network formation and weak protection.
PaaS	Platform as a Service, the provision of services relating to the deployment of and operating environment for software based on cloud computing infrastructure facilities. It is capable of supplying resources required for flexible execution of application procedures and billing is based on actual usage.
PON	Passive Optical Network, a network that provides optical access services to users through the use of passive optical network technology and facilitates conservation of optical fibre resources on the main line through the adoption of a point-to-multipoint topological structure. It also offers flow management and security control functions. PON can be distinguished into FTTH, FTTDp, FTTB and FTTC, etc based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON, etc based on different standards.

Glossary

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.
PTN	Packet Transport Network, a network commonly using the MPLS-TP technology, designed to cater to the sudden nature of packet flow and the requirement for statistical multiplexing transmission and support multiple services provision with packet services as core services. PTN offers the advantage of lower total cost of use, while inheriting the traditional strengths of optical transmission, such as availability and reliability, efficient bandwidth management and flow, convenient OAM and network management, scalability and higher security.
RCS	Rich Communication Suite, which helps carriers to develop the integrated ICT communications network business with the database of users' social connections, leveraging their strengths in network communications. By enabling manufacturers and corporations on the Internet to cooperate through integrated communication, RCS integrates existing VoIP and IM channels into an integrated communications network and accumulates assets relating to users' information, thereby adding value to data flow on the Mobile Internet.
SaaS	Software as a Service, an application model for the provision of Internet-based software services that offers commercial services to users at lower costs and eliminates problems of installation, management, support and license, etc relating to the use of software, enabling users to experience services similar to those provided through local operations.
SDN	Software Defined Network is a new network structure that 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.
WDM	Wavelength Division Multiplexing, a technology that transmits a number of laser signals with different wavelengths simultaneously on a single optical fiber using multiple lasers, resulting in the exponential increase of the transmission capacity of optical fiber.
Big bandwidth	Higher bandwidth requirements for networks to facilitate Big Video, such as 50M bandwidth required by standard 4K, such that carriers are required to provide greater bandwidth to video users as compared to traditional video services.
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.

Big Video	Ultra-high-definition videos such as 4K/8K/VR/AR, as opposed to standard-definition and high-definition videos, which feature richer contents and more exacting requirements for channels, signifying the big video era for the video business.
Distributed database	A logically coherent database formed by the interconnection of multiple data storage units located in different physical locations using a high-speed computer network, so as to enable larger storage capacity and higher volume of simultaneous visits.
Core network	Mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility.
AI	Artificial Intelligence, the use of machine to aid or replace human in doing certain tasks by simulating the sight, hearing, senses and thinking of human.
Data centre	An Internet-based infrastructure centre that operates and maintains equipment for centralised collection, storage, processing and dispatch of data, and provides related services.
IOT	Internet Of Things, a massive network connecting all sorts of information sensory devices, such as radio frequency identification units, ultra-red sensors, global positioning systems and laser scanners, to the Internet with the aim of connecting all things to the network for easy identification and management.
Virtual Reality or VR	A virtual 3D environment created with the aid of the computer system and sensor technologies, providing the visual experience of a highly simulated reality and immersive human-machine interaction by engaging all senses of users (sight, sound, touch and smell).
Cloud Computing	The concept underlining the fusion of traditional computing technologies such as grid computation and distributed computation with network technology development. The core idea is to centralise the management and modulation of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in business models such as SaaS, PaaS and IaaS.
Intelligent manufacturing	An integrated intelligent system comprising intelligent machines and human experts which is capable of intelligent activities such as analysing, inferring, making judgments, postulating and making decisions in the manufacturing process, such that manufacturing automation can reach a higher level in terms of flexibility, intelligence and intensification.
Augmented Reality or AR	A technology that superimposes virtual objects not existing in reality onto the real world through 3D registration and “aug-mediation”, facilitating a natural interaction between virtual objects and the reality to create faked reality with real-time images, which are further projected to end-to-end technologies and devices of other media via monitoring devices.

Corporate Information

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

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

H shares
Hong Kong Stock Exchange
Abbreviated name of stock: ZTE
Stock code: 763 |
| 8. | Change in other relevant information | ☐ Applicable ☒ N/A |

Highlights of Accounting Data and Financial Indicators

(I) STATEMENT ON RETROSPECTIVE ADJUSTMENTS TO OR RESTATEMENT OF ACCOUNTING DATA OF THE PREVIOUS YEAR BY THE COMPANY BECAUSE OF CHANGES IN ACCOUNTING POLICIES OR FOR THE RECTIFICATION OF ACCOUNTING ERRORS

PRC ASBEs

In 2017, the MOF announced a series of amendments to the PRC accounting standards, 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” (hereinafter referred to as the “New ASBEs on Financial Instruments”) and “ASBE No. 14 — Revenue” (hereinafter referred to as 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. The Company has made changes to its accounting policies accordingly in compliance with the provisions of the aforesaid accounting standards. In accordance with pertinent requirements under the convergence provisions of the New ASBEs on Financial Instruments and New ASBE on Revenue, the Company has not made any retrospective adjustments to the comparative statements for the same period last year, but has only adjusted the opening balances of retained earnings and other related items on the statements for 2018. For details of changes in the accounting policies relating to financial instruments and revenue, please refer to the “Announcement on Changes in Accounting Policies” published by the Company on 27 April 2018.

In June 2018, the MOF published the “Notice on the Revision and Publication of the 2018 General Corporate Financial Reporting Format” (the “New Reporting Format”). The Company has amended the financial reporting format in accordance with relevant provisions. Financial assets at fair value through profit or loss expected to be held for one year or less have been included under “trading financial assets”, while the previous “bills receivable” and “trade receivables” have been combined as “bills receivable and trade receivables”; the previous “dividends receivable” and “other receivables” have been combined as “other receivables”; the previous “amounts due from customers for contract works” has been included under “contract assets”; financial assets at fair value through profit or loss expected to be held for more than one year have been included under “other non-current financial assets”; the previous “bills payable” and “trade payables” have been combined as “bills payable and trade payables”; the previous “advanced from customers” and “amounts due to customers for contract works” have been combined as “contract liabilities”; the previous “dividends payable” and “other payables” have been combined as “other payables”; expected credit losses arising from provision for impairment in financial instruments have been included under “credit impairment losses”.

The implementation of the New ASBEs on Financial Instruments, New ASBE on Revenue and New Reporting Format has had no material impact on the Company’s consolidated financial statements.

HKFRSs

In 2014, the Hong Kong Institute of Certified Public Accountants published HKFRS No. 9 “Financial Instruments”, HKFRS No. 7 “Financial Instruments Disclosures” (hereinafter referred to as the “New HKFRSs on Financial Instruments”) and HKFRS No. 15 “Revenue from Contracts with Customers” (hereinafter referred to as the “New HKFRS on Revenue”) for implementation with effect from 1 January 2018.

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; 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

Highlights of Accounting Data and Financial Indicators

contracts, the details and impact of which are the same as those aforementioned under PRC ASBEs. The Company has also made corresponding adjustments to the presentation of the financial statements prepared under HKFRSs.

(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 2018)	End of last year (31 December 2017)	Changes as at the end of the reporting period compared with the end of last year
Total assets	120,709,368	143,962,215	(16.15%)
Owners' equity attributable to holders of ordinary shares of the listed company	22,044,634	31,646,875	(30.34%)
Share capital (thousand shares)	4,192,672	4,192,672	—
Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share)	5.26	7.55	(30.33%)
Gearing ratio (%)	72.07%	68.48%	Increased by 3.59 percentage points

Unit: RMB in thousands

Item	Reporting period (Six months ended 30 June 2018)	Same period of last year (Six months ended 30 June 2017)	Changes compared with the same period of last year
Operating revenue	39,433,777	54,010,596	(26.99%)
Operating profit	(1,775,911)	3,296,621	(153.87%)
Total profit	(8,425,843)	3,287,400	(356.31%)
Net profit attributable to holders of ordinary shares of the listed company	(7,824,190)	2,292,867	(441.24%)
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	(2,379,203)	1,951,508	(221.92%)
Basic earnings per share (RMB/share) ^{Note 1}	(1.87)	0.55	(440.00%)
Diluted earnings per share (RMB/share) ^{Note 2}	(1.87)	0.55	(440.00%)
Basic earnings per share after extraordinary items (RMB/share) ^{Note 1}	(0.57)	0.47	(221.28%)
Weighted average return on net assets	(29.71%)	8.28%	Decreased by 37.99 percentage points
Weighted average return on net assets after extraordinary items	(9.03%)	7.05%	Decreased by 16.08 percentage points
Net cash flows from operating activities	(5,046,386)	(4,206,552)	(19.96%)
Net cash flows from operating activities per share (RMB/share)	(1.20)	(1.00)	(20.00%)

Note 1: Basic earnings per share and basic earnings per share after extraordinary items for the reporting period and for the same period last year have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods;

Note 2: As the 2017 share options granted by the Company have given rise to 0 potentially dilutive ordinary share for the six months ended 30 June 2018 and the 2013 share options granted by the Company have given rise to 1,009,000 dilutive ordinary shares for the six months ended 30 June 2017, dilutive earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

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

Unit: RMB in thousands

Extraordinary item	Amount
Non-operating income, other income and others	410,910
Gains/(Losses) from fair value change	(377,439)
Investment income	174,254
Less: Other non-operating expenses	6,753,429
Less: Effect of income tax	(981,856)
Less: Effect of non-controlling interests (after tax)	(118,861)
Total	(5,444,987)

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

Item	Six months ended 30 June 2018	Six months ended 30 June 2017
Basic earnings per share (RMB/share) ^{Note}	(1.87)	0.55
Weighted average return on net assets	(29.71%)	8.28%
Weighted average return on net assets after extraordinary items	(9.03%)	7.05%

Item	30 June 2018	31 December 2017
Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share)	5.26	7.55

Note: Basic earnings per share for the reporting period and for the same period last year have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods.

(IV) THE AMOUNT OF NET PROFIT AND SHAREHOLDERS' EQUITY OF THE GROUP FOR THE SIX MONTHS ENDED AND AS AT 30 JUNE 2018 CALCULATED IN ACCORDANCE WITH PRC ASBES ARE FULLY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.

Summary of the Company's Business

I. PRINCIPAL BUSINESSES

The Group is dedicated to the provision of ICT products and solutions that satisfy the needs of customers, integrating design, development, production, sales and services with a special focus on carriers' networks, government and corporate business and consumer business. There was no significant change to the principal businesses of the Group during the reporting period.

The carriers' network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer networks, core networks, telecommunication software systems and services and other innovative technologies and product solutions.

The government and corporate business is focused on meeting requirements of government and corporate clients, providing informatization solutions for the government and corporations through the application of products such as communications networks, IOT, big data and cloud computing.

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

II. THE INDUSTRY IN WHICH WE OPERATE

The Company is a leading provider of integrated communication and information solutions in the world market, providing innovative technology and product solutions to customers in more than 160 countries and regions.

The Group owns complete, end-to-end products and integrated solutions in the telecommunications industry. Through a complete range of "wireless, wireline, cloud computing and terminal" products, we have the flexibility to fulfil differentiated requirements and demands for fast innovation on the part of different customers around the world.

In future, the Group will continue to focus on mainstream markets and products, enhancing customer's satisfaction as well as market share in an ongoing effort and constantly strengthening its product competitiveness through persistent endeavours in proprietary innovation of core technologies, while forging closer cooperation with partners with a more open-minded approach to build a mutually beneficial industrial chain and embrace together the brilliant and best new era of "mobile smart interconnection of all things".

III. MAJOR ASSETS

There was no significant change in the major assets of the Group during the reporting period. For an analysis of the Group's assets and liabilities, please refer to the section headed "Report of the Board of Directors — (II) 7. Analysis of the Group's assets and liabilities" in this report.

IV. TECHNOLOGICAL INNOVATION

During the first half of 2018, the Group persisted in vigorous investigations in new technologies with an innovation-driven approach, as it forged closer cooperation with its partners in a more open-minded manner while sustaining investments in core areas such as 5G wireless, core network, bearer, access and chips.

The Group's annual R&D expenditure is equivalent to more than 10% of its sales revenue. We have established 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 2018, the Group held patent assets of over 72,000 items, including granted global patents of over 33,000 items, as well as 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 42,000 research papers in aggregate to international standardisation organisations.

As a key contributor to the research of global communication standards, the Group was actively involved in international mainstream organisations and platforms for standardisation, such as ITU (The International Telecommunication Union), 3GPP (3rd Generation Partnership Project), IEEE (The Institute of Electrical and Electronics Engineers), NGMN (The Next Generation Mobile Networks), ETSI (The European Telecommunications Standards Institute), CCSA (The China Communications Standards Association), 5GAA (5G Automotive Association), to drive cooperation in the formulation and sound application of standards. As at the end of the first half of 2018, the Group had submitted 4,700 international proposals for 5G NR/NexGenCore and more than 2,000 applications for 5G patents, while acquiring chief editorships for three new 5G air-interface standards for 3GPP, namely, RAN2 (Radio Access Network), RAN3 and RAN4. Our privileged specialist was elected vice-chairman of 3GPP RAN3. The 5G chip enhancement R&D project led by the Group obtained successful listing at the 126th meeting of 3GPP system architecture group SA2 held in March 2018.

Report of the Board of Directors

The Board of Directors of the Company presents this unaudited interim report together with the financial statements of the Group for the six months ended 30 June 2018.

FINANCIAL RESULTS

Please refer to page 70 and page 206 of this report for the results of the Group for the six months ended 30 June 2018 prepared in accordance with PRC ASBES and HKFRSs.

(I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2018

1. Overview of the domestic telecommunications industry for the first half of 2018

According to statistical data published by the Ministry of Industry and Information Technology of the PRC, the domestic telecommunications sector reported revenue of RMB672.0 billion for the six months ended 30 June 2018, representing year-on-year growth of 4.1%. The voice and data businesses improve gradually with the ongoing upgrades for the quality of 4G network coverage as well as the further optimisation for the quality of 4G services. The construction of optical broadband networks continued in accelerating speed. In the meantime, the development of the 5G technology sector expedited with ongoing progress in 5G standardisation, R&D and application and the maturity of the industry chain, while the third stage of national 5G tests continued to roll out.

2. Overview of the global telecommunications industry for the first half of 2018

Driven by the mobile data business, the global telecommunications industry sustained consistent growth during the first half of 2018. Investments by the global telecommunications industry remained focused on 4G networks, digital communication, optical transmission and broadband access networks. While making intensive efforts in 4G network construction, global telecommunications carriers stepped up with the trial commercial deployment of 5G networks. Following the official confirmation of 5G standalone networking standards (SA) by 3GPP, the international communication industry's organisation for standardisation, in June 2018, the first stage of fully-functional 5G standardisation was completed, signifying the beginning of the crucial stage of commercial deployment for global 5G development. In the meantime, carriers of various countries stepped up with their effort to drive network virtualisation to gear up in their transformation towards digitalisation.

3. Operating results of the Group for the first half of 2018

For the first half of 2018, the Group reported operating revenue of RMB39.434 billion, representing year-on-year decrease of 26.99%, which reflected mainly year-on-year decline in the operating revenue from carriers' networks and consumer business as compared to the same period last year. For the six months ended 30 June 2018, the Group's net profit attributable to holders of ordinary shares of the listed company amounted to RMB-7.824 billion, representing year-on-year decline of 441.24%. Basic earnings per share amounted to RMB-1.87, which reflected mainly the Company's payment of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 and the operating losses and provision for losses resulting from the suspension of the major operating activities of the Company as described in the "INSIDE INFORMATION ANNOUNCEMENT" published on 9 May 2018.

(1) By market*The domestic market*

For the reporting period, the Group's operating revenue from the domestic market amounted to RMB25.746 billion, accounting for 65.29% of the Group's overall operating revenue. The Group persisted in a proactive and prudent business strategy while seeking to expand new niches for growth, as it actively participated in the network construction and technological evolution of carriers, seizing opportunities presented by technological revolutions on the back of its technological strengths and product competitiveness built over the years.

The international market

For the reporting period, the Group's operating revenue from the international market amounted to RMB13.688 billion, accounting for 34.71% of the Group's overall operating revenue. The Group remained firmly adhered to its strategy of globalisation with a strong focus on the telecommunication carriers' market and premium core customers, as it improved the overall efficiency of its overseas operations and fulfilled customers' requirements for their business development to achieve mutually beneficiary outcomes with customers.

(2) By business segment

For the reporting period, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB23.507 billion, RMB4.433 billion and RMB11.494 billion, respectively.

Carriers' networks

The Group persisted in a strategy underpinned by technological innovation, enhancement of product competitiveness, high efficiency in delivery and in-depth cooperation, as it focused on the carriers' market and sustained its competitiveness in customer base, market exploration and delivery. The Group continued to increase its investment in 5G, carrying out 5G cooperation and testing with more than 20 mainstream global carriers. At the same time, the Group was vigorously tracking broadband construction plans in the service of global carriers, taking advantage of opportunities in mobile bearer, big video service bearer and data centre virtualisation bearer to maintain selective investments in new technologies.

Government and corporate business

The Group provided specialised and efficient ICT solutions to customers of various industries, with a special focus on the "government, transportation, energy, finance, corporation and education" sectors. Building upon products and solutions for which the Company claimed technological superiority, such as bearer, wireless and video, as well as integrated solutions based on cloud platforms, we worked with our partners to provide customers with safe, efficient and customised solutions and services.

Consumer business

The Group's consumer business is focused on handsets business, home information terminals and fixed network broadband terminals.

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(II) DISCUSSION AND ANALYSIS OF OPERATIONS UNDER 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. Breakdown of indicators by industry, business segment and region and comparison with the same period last year

Unit: RMB in thousands

Revenue mix	Operating revenue	As a percentage of operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
I. By industry							
Manufacturing of communication equipment	39,433,777	100%	27,508,353	30.24%	(26.99%)	(24.53%)	(2.28)
Total	39,433,777	100%	27,508,353	30.24%	(26.99%)	(24.53%)	(2.28)
II. By business							
Carriers' networks	23,506,876	59.61%	13,812,696	41.24%	(27.34%)	(26.66%)	(0.55)
Government and corporate business	4,433,296	11.24%	3,164,682	28.62%	17.74%	29.44%	(6.45)
Consumer business	11,493,605	29.15%	10,530,975	8.38%	(35.77%)	(30.58%)	(6.84)
Total	39,433,777	100%	27,508,353	30.24%	(26.99%)	(24.53%)	(2.28)
III. By region							
The PRC	25,746,045	65.29%	15,479,997	39.87%	(20.34%)	(22.83%)	1.94
Asia (excluding the PRC)	4,262,810	10.81%	3,054,734	28.34%	(47.06%)	(43.75%)	(4.21)
Africa	1,283,203	3.25%	830,927	35.25%	(21.48%)	(39.66%)	19.51
Europe, Americas and Oceania	8,141,719	20.65%	8,142,695	(0.01%)	(32.18%)	(15.01%)	(20.21)
Total	39,433,777	100%	27,508,353	30.24%	(26.99%)	(24.53%)	(2.28)

(1) Analysis of change in revenue

The Group reported RMB39,433,777,000 in operating revenue for the first six months of 2018, a 26.99% decrease as compared to the same period last year, reflecting mainly the operating losses and provision for losses resulting from the suspension of the major operating activities of the Company as described in the "INSIDE INFORMATION ANNOUNCEMENT" published on 9 May 2018.

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

Unit: RMB in thousands

Six months ended 30 June 2018			Six months ended 30 June 2017 ^{Note}			Year-on-year increase/decrease in gross profit margin (percentage points)		
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	
39,433,777	27,508,353	30.24%	54,010,596	36,447,741	32.52%	(26.99%)	(24.53%)	(2.28)

Note: Figures of operating revenue and operating costs for the six months ended 30 June 2017 are stated after exclusion of operating revenue and operating costs of subsidiaries deconsolidated for the six months ended 30 June 2018.

Dalian Zhongwang Realty Company Limited, a subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 4 March 2018 and had been excluded from the consolidated financial statements of the Group as from 4 March 2018. Changchun ZTE New Energy Auto Sales Company Limited, a subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 14 May 2018 and had been excluded from the consolidated financial statements of the Group as from 14 May 2018. Henan ZTE Photovoltaics Technology Co., Ltd., a subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 21 May 2018 and had been excluded from the consolidated financial statements of the Group as from 21 May 2018. The operating revenue and operating cost of the aforesaid companies for the corresponding period of 2017 amounted to 0. The aforesaid changes in the scope of consolidation had no impact on the comparable operating revenue and operating cost for the same period last year.

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

Unit: RMB in thousands

Industry	Item	Six months ended 30 June 2018		Six months ended 30 June 2017		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	21,799,073	79.25%	28,651,849	78.61%	(23.92%)
	Engineering costs	4,813,474	17.50%	5,403,695	14.83%	(10.92%)
	Total	26,612,547	96.75%	34,055,544	93.44%	(21.86%)

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

Unit: RMB in thousands

Item	Six months ended 30 June 2018	Six months ended 30 June 2017	Year-on-year increase/ decrease
Selling and distribution expenses	4,729,622	5,676,552	(16.68%)
Administrative expenses	1,359,347	1,427,749	(4.79%)
Finance expenses	183,351	289,157	(36.59%) ^{Note 1}
Income tax	(565,033)	744,184	(175.93%) ^{Note 2}

Note 1: Reflecting mainly the decrease in interest expenses for the period following the Group's efforts to enhance control over financial expenses and reduce the size of interest-bearing liabilities;

Note 2: Attributable mainly to the recognition by the Company of deferred tax assets relating to deductible losses.

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4. Research and development expense of the Group

Unit: RMB in thousands

Item	Six months ended 30 June 2018	Six months ended 30 June 2017	Year-on-year increase/ decrease
Amount of R&D expense	5,060,624	6,676,679	(24.20%)
R&D expense as a percentage of operating revenue	12.83%	12.36%	Increased by 0.47 percentage point
Amount of capitalised R&D expense	969,809	664,552	45.93% ^{Note}
Capitalised R&D expense as a percentage of R&D expense	19.16%	9.95%	Increased by 9.21 percentage points

Note: Attributable mainly to ongoing investments in the R&D of technologies such as 5G wireless, core network, bearer, access and chips and extensive application of such products in the market during the period.

5. Breakdown of the Group's cash flow

Unit: RMB in thousands

Item	Six months ended 30 June 2018	Six months ended 30 June 2017	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	58,836,237	61,452,257	(4.26%)
Sub-total of cash outflows from operating activities	63,882,623	65,658,809	(2.71%)
Net cash flows from operating activities	(5,046,386)	(4,206,552)	(19.96%)
Sub-total of cash inflows from investing activities	1,935,449	510,169	279.37% ^{Note 1}
Sub-total of cash outflows from investing activities	3,086,793	2,873,296	7.43%
Net cash flows from investing activities	(1,151,344)	(2,363,127)	51.28% ^{Note 1}
Sub-total of cash inflows from financing activities	11,429,798	16,041,676	(28.75%)
Sub-total of cash outflows from financing activities	19,590,273	13,537,019	44.72% ^{Note 2}
Net cash flows from financing activities	(8,160,475)	2,504,657	(425.81%) ^{Note 3}
Net increase in cash and cash equivalents	(14,325,982)	(4,141,801)	(245.89%)

Note 1: Reflecting mainly the increase in cash received from the sale of investment for the period;

Note 2: Reflecting mainly the increase in cash paid for debt repayment for the period;

Note 3: Reflecting mainly the decrease in cash received from borrowings and the increase in cash paid for debt repayment 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 57. Supplemental Information for the Cash Flow Statement” to the financial report prepared under PRC ASBES.

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

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

For the first half of 2018, the Group reported operating profit of RMB-1,775,911,000, a year-on-year decrease by 153.87%, which reflected mainly the operating losses and provision for losses resulting from the suspension of the major operating activities of the Company as described in the "INSIDE INFORMATION ANNOUNCEMENT" published on 9 May 2018. Expenses for the period amounted to RMB11,332,944,000, a year-on-year decrease by 19.45%, which reflected mainly the decrease in staff expenses and advertising and promotion expenses for the period. Investment income amounted to RMB-18,702,000, a year-on-year decrease by 135.97%, reflecting mainly the combined effect of the increase in investment loss from investments in associates and joint ventures and gains from the settlement of derivatives for the period versus loss for the same period year. Net non-operating income and expenses amounted to RMB-6,649,932,000, representing a year-on-year decrease of 72,017.25%, which reflected mainly the Company's payment of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018.

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

The Group's gross profit margin for the first half of 2018 was 30.24%, which was 2.28 percentage points lower compared to the same period last year reflecting mainly lower gross profit margins for carriers' networks in the international market and government and corporate business and consumer business in the domestic and international markets.

7. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in thousands

Item	As at 30 June 2018		As at 31 December 2017		Year-on-year increase/decrease in percentage of total assets (percentage points)
	Amount	As a percentage of total assets	Amount	As a percentage of total assets	
Total assets	120,709,368	100%	143,962,215	100%	—
Cash	18,972,333	15.72%	33,407,879	23.21%	(7.49)
Bills receivable and trade receivables	22,181,067	18.38%	26,398,228	18.34%	0.04
Inventories	26,316,928	21.80%	26,234,139	18.22%	3.58
Investment properties	2,030,773	1.68%	2,023,809	1.41%	0.27
Long-term equity investments	3,734,766	3.09%	3,960,597	2.75%	0.34
Fixed assets	8,457,811	7.01%	8,694,456	6.04%	0.97
Construction in progress	1,846,885	1.53%	1,472,986	1.02%	0.51
Short-term loans	11,026,807	9.14%	14,719,023	10.22%	(1.08)
Long-term loans due within one year	3,977,951	3.30%	3,816,844	2.65%	0.65
Long-term loans	2,561,186	2.12%	3,002,146	2.09%	0.03

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(2) Assets and liabilities measured at fair value

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							
1. Financial assets at fair value through profit or loss							
Including: Derivative financial assets	116,794	38,110	—	—	—	—	154,904
Trading financial assets	2,416,137	(279,497)	—	—	500,000	1,081,063	1,555,577
Other non-current financial assets	1,607,364	(19,846)	—	—	—	—	1,587,518
2. Financial assets at fair value through other comprehensive income	—	—	—	—	—	—	1,092,690 ^{Note 1}
Sub-total of financial assets	4,140,295	(261,233)	—	—	500,000	1,081,063	4,390,689
Investment properties	2,023,809	6,964	—	—	—	—	2,030,773
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	6,164,104	(254,269)	—	—	500,000	1,081,063	6,421,462
Financial liabilities ^{Note 2}	49,830	114,301	—	—	—	—	164,131

Note 1: Such financial assets represented receivables subject to sale in the future and fall under the model of generating contract cash flow and being held for the sale of financial assets at the same time. In accordance with the New ASBES on Financial Instruments, such receivables should be included in financial assets at fair value through other comprehensive income.

Note 2: Financial liabilities included trading financial liabilities.

Assets of the Company are stated at historical costs, except for derivative financial instruments, equity investments and debt investments at fair value through profit and loss, and trade receivables at fair value through other comprehensive income, investment properties, which are measured at fair value.

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

(3) Impounded, seized, frozen or collateralised or pledged major assets of the Company which are not realisable barring the fulfilment of certain conditions or at all and which are not available for setting off debts, and restrictions on the rights to possess, use, benefit from and dispose of such assets and related arrangements as at the end of the reporting period.

☐ Applicable ☒ N/A

8. Analysis of investments

(1) Overview

The Group's long-term equity investments at the end of the reporting period amounted to approximately RMB3,734,766,000, representing an increase of 392.96% compared to approximately RMB757,613,000 as at 30 June 2017. Other third-party investments amounted to approximately RMB3,143,095,000, representing a decrease of 21.46% compared to approximately RMB4,001,671,000 as at 30 June 2017.

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

(3) Investment in financial assets

① Investment in securities

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

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gains/loss arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed during the period	Gain/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	300438	Great Power ^{Note 1}	169.41	Fair-value measurement	1,464.50	(367.84)	—	—	432.09	(374.61)	681.66	Trading financial assets	Issue proceeds
Stock	300502	Eoptolink ^{Note 1}	974.45	Fair-value measurement	15,980.16	(7,099.47)	—	—	1,973.73	(7,066.22)	6,969.49	Trading financial assets	Issue proceeds
Stock	603986	Giga Device ^{Note 1}	1,282.86	Fair-value measurement	73,281.66	201.87	—	—	38,500.45	534.44	37,465.45	Trading financial assets	Issue proceeds
Stock	603633	Laimu ^{Note 1}	2,000.00	Fair-value measurement	6,016.67	(498.76)	—	—	1,214.53	(491.24)	4,360.51	Trading financial assets	Issue proceeds
Stock	603920	Olympic Circuit Technology ^{Note 1}	2,562.00	Fair-value measurement	21,924.37	(5,704.75)	—	—	—	(5,704.75)	16,219.62	Trading financial assets	Issue proceeds
Stock	002902	Mentech Optical ^{Note 1}	1,655.50	Fair-value measurement	19,688.89	(5,121.34)	—	—	—	(5,044.16)	14,567.55	Trading financial assets	Issue proceeds
Stock	002036	Lianchuang Electronic ^{Note 2}	3,266.00	Fair-value measurement	10,060.65	(1,927.82)	—	—	—	(1,927.82)	8,132.83	Trading financial assets	Issue proceeds
Stock	300691	Union Optech ^{Note 2}	3,498.71	Fair-value measurement	20,599.32	(8,023.83)	—	—	—	(7,940.92)	12,575.49	Trading financial assets	Issue proceeds
Stock	002796	Shijia Science & Technology ^{Note 2}	1,575.00	Fair-value measurement	2,597.45	(338.84)	—	—	—	(318.33)	2,258.61	Trading financial assets	Issue proceeds
Stock	ENA: TSV	Enablance Technologies ^{Note 3}	3,583.26	Fair-value measurement	2,168.39	(217.42)	—	—	—	(217.42)	1,950.97	Other non-current financial assets	Internal funds
Other securities investments held at the end of the period			—	—	—	—	—	—	—	—	—	—	—
合計			20,567.19	—	173,782.06	(29,098.20)	—	—	42,120.80	(28,551.03)	105,182.18	—	—

Note 1: Figures corresponding to Great Power, Eoptolink, Giga Device, Laimu, Olympic Circuit Technology and Mentech Optical are provided with Zhonghe Chunsheng Fund as the accounting subject.

Note 2: Figures corresponding to Lianchuang Electronic, Union Optech and Shijia Science & Technology are provided with Jiaxing Fund as the accounting subject.

Note 3: The initial investment for the acquisition of Enablance Technologies shares by ZTE HK, a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1:RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablance Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company's foreign currency statement book exchange rate (CAD1:RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD23,118,400, equivalent to approximately RMB19,509,700 based on the Company's foreign currency statement book exchange rate (HKD1:RMB0.8439) on 30 June 2018.

B. Details in investment in securities during the reporting period

a. Shareholdings in Great Power

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund, a partnership reported in the consolidated financial statements of the Company. During the first half of 2018, Zhonghe Chunsheng Fund transferred 139,600 shares in Great Power (a company listed on the GEM Board of the Shenzhen Stock

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Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 353,000 shares in Great Power, accounting for 0.13% of the total share capital of Great Power.

b. Shareholdings in Eoptolink

During the first half of 2018, Zhonghe Chunsheng Fund transferred 800,000 shares in Eoptolink (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 4,712,300 shares in Eoptolink, accounting for 1.98% of the total share capital of Eoptolink.

c. Shareholdings in Giga Device

During the first half of 2018, Zhonghe Chunsheng Fund transferred 2,026,500 shares in Giga Device (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 3,452,400 shares in Giga Device (after the implementation of the 2017 equity distribution plan), accounting for 1.22% of the total share capital of Giga Device.

d. Shareholdings in Laimu

During the first half of 2018, Zhonghe Chunsheng Fund transferred 640,000 shares in Laimu (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 2,693,300 shares in Laimu, accounting for 2.24% of the total share capital of Laimu.

e. Shareholdings in Olympic Circuit Technology

As at the end of the reporting period, Zhonghe Chunsheng Fund held 12,390,900 shares in Olympic Circuit Technology, a company listed on the Shanghai Stock Exchange, accounting for 3.08% of the total share capital of Olympic Circuit Technology.

f. Shareholdings in Mentech Optical

As at the end of the reporting period, Zhonghe Chunsheng Fund held 5,145,000 shares in Mentech Optical, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 3.68% of the total share capital of Mentech Optical.

g. Shareholdings in Lianchuang Electronic

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaying Fund, which was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Jiaying Fund held 6,887,600 shares in Lianchuang Electronic, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 1.25% of the total share capital of Lianchuang Electronic.

h. Shareholdings in Union Optech

As at the end of the reporting period, Jiaxing Fund held 4,421,800 shares in Union Optech (after the implementation of the 2017 equity distribution plan), a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.16% of the total share capital of Union Optech.

i. Shareholdings in Shijia Science & Technology

During the reporting period, Suzhou Perfect Communication Technologies Co., Ltd. (now renamed “Suzhou Perfect Electronics Technology Co. Ltd.”, hereinafter “Perfect”) held by Jiaxing Fund was acquired by Shijia Science & Technology. Following the completion of the acquisition, the Perfect shares held by Jiaxing Fund were changed to shares in Shijia Science & Technology. As at the end of the reporting period, Jiaxing Fund held 1,025,500 shares in Shijia Science & Technology (a company listed on the GEM Board of the Shenzhen Stock Exchange), accounting for 1.00% of the total share capital of Shijia Science & Technology.

j. Shareholdings in Enablence Technologies

ZTE HK, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies on 4 December 2014. ZTE HK subscribed for 18 million shares issued by Enablence Technologies on 6 January 2015 for a total cash consideration of CAD2.70 million. ZTE HK entered into a Subscription Agreement with Enablence Technologies on 27 January 2016. On 2 February 2016, ZTE HK subscribed for 77 million shares issued by Enablence Technologies for a total cash consideration of CAD4.62 million. As at the end of the reporting period, ZTE HK held 95 million shares in Enablence Technologies, accounting for 15.28% of its total share capital.

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

② Derivative investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment Note 1	Initial investment amount in the derivative investment	Start date	End date	Opening balance of investment amount Note 2	Amount purchased during the period	Amount disposed of during the period	Impairment provision amount (if any)	Closing balance of investment amount	Company at the end of the period (%)	Actual profit or loss for the reporting period
Financial institution	N/A	No	Foreign exchange forwards	—	2017/12/22	2019/4/23	190,689.31	290,854.20	166,913.17	—	314,630.34	14.27%	2,137.39
Financial institution	N/A	No	Foreign exchange forwards	—	2017/12/6	2019/3/20	165,511.17	184,110.29	125,081.27	—	224,540.19	10.19%	1,525.38
Financial institution	N/A	No	Foreign exchange forwards	—	2017/11/8	2019/1/2	107,105.22	144,805.77	80,150.57	—	171,760.42	7.79%	1,166.83
Other financial institution	N/A	No	Foreign exchange forwards	—	2017/10/30	2019/3/21	476,355.68	465,333.88	411,170.89	—	530,518.67	24.07%	3,604.00
Total				—	—	—	939,661.38	1,085,104.14	783,315.90	—	1,241,449.62	56.32%	8,433.60

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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 Fifteenth Meeting of the Seventh Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2017,” both dated 23 March 2017, and “Overseas Regulatory Announcement Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2018,” both dated 15 March 2018.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	“Announcement on Resolutions of the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017 and the First H Shareholders’ Class Meeting of 2017” dated 20 June 2017 and “Announcement on Resolutions of the 2017 Annual General Meeting” dated 29 June 2018.
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	Value-protection derivative investments were conducted by the Company during the first half of 2018. The major risks and control measures are discussed as follows: 1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date; 2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company’s budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company’s actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company’s current assets was insignificant; 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks; 5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.

Changes in the market prices or fair values of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives

The Company has recognised gains/losses from investments in derivatives during the reporting period. Total gains recognised for the reporting period amounted to RMB84 million, comprising losses from fair-value change of RMB85 million and recognised investment gains of RMB169 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.

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

There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.

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

Independent Non-executive Directors' Opinion:

The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. The derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and the internal review procedures performed have been in compliance with the provisions of relevant laws and regulations and of the Articles of Association.

- Note 1: Derivative investments are classified according to the financial institutions involved and the types of such derivative investments;
- Note 2: The investment amount at the beginning of the period represented the amount denominated in the original currency translated at the exchange rate prevailing as at the end of the reporting period;
- Note 3: 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.

9. Material disposals of assets and equity interests by the Group during the reporting period.

For details of asset and equity transactions of the Group during the reporting period, please refer to the section headed "Material Matters (VI) ASSET TRANSACTIONS" in this report.

10. Analysis of principal subsidiaries and investee companies

Unit: RMB in thousands

Name of company	Corporate type	Principal business	Registered capital	Total assets	Net assets	Operating revenue	Operating profit/(loss)	Net profit/(loss)
Zhongxing Software	Subsidiary	Software development	RMB51.08 million	19,761,437	5,094,364	8,548,085	2,056,507	2,063,775
ZTE HK	Subsidiary	Sales of communication products and technical support	HKD995.00 million	22,668,784	1,324,318	7,634,418	(400,678)	(507,994)

For information of other subsidiaries and principal investee companies, please refer to Note XIV 6. Long-term equity investments and Note VII to the financial report prepared in accordance with PRC ASBEs.

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For the reporting period, 2 subsidiaries reported year-on-year difference of more than 30% in operating results with a material impact on the consolidated operating results of the Company. Zhongxing Software reported year-on-year growth in net profit of 206.00%, reflecting mainly the decrease in cost; ZTE HK reported year-on-year decrease in net profit of 357.13%, reflecting mainly the decrease in gross profit and increase in cost.

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

11. There was no structured entity under the control of the Company within the meaning of “ASBES No. 41 – Disclosure of Interests in Other Entities.”

(III) MANAGEMENT DISCUSSION AND ANALYSIS UNDER HKFRSs

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

Revenue

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

Unit: RMB in millions

Business segment	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers’ networks	23,506.9	59.6%	32,351.3	59.9%
Government and corporate business	4,433.3	11.2%	3,765.3	7.0%
Consumer business	11,493.6	29.2%	17,894.0	33.1%
Total	39,433.8	100.0%	54,010.6	100.0%

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

Unit: RMB in millions

Region	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	25,746.1	65.3%	32,319.0	59.9%
Asia (excluding the PRC)	4,262.8	10.8%	8,051.8	14.9%
Africa	1,283.2	3.3%	1,634.3	3.0%
Europe, the Americas and Oceania	8,141.7	20.6%	12,005.5	22.2%
Total	39,433.8	100.0%	54,010.6	100.0%

The Group reported RMB39,433.8 million in operating revenue for the first six months of 2018, a 27.0% decrease as compared to the same period last year, reflecting mainly the operating losses and provision for losses resulting from the suspension of the major operating activities of the Company as described in the “INSIDE INFORMATION ANNOUNCEMENT” published on 9 May 2018.

Cost of Sales and Gross Profit

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

Unit: RMB in millions

Business segment	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Cost of sales	As a percentage of business segment revenue	Cost of sales	As a percentage of business segment revenue
Carriers’ networks	14,877.8	63.3%	19,463.8	60.2%
Government and corporate business	3,390.3	76.5%	2,515.6	66.8%
Consumer business	10,868.5	94.6%	15,365.8	85.9%
Total	29,136.6	73.9%	37,345.2	69.1%

Unit: RMB in millions

Business segment	For the six months ended 30 June 2018		For the six months ended 30 June 2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers’ networks	8,629.1	36.7%	12,887.5	39.8%
Government and corporate business	1,043.0	23.5%	1,249.7	33.2%
Consumer business	625.1	5.4%	2,528.2	14.1%
Total	10,297.2	26.1%	16,665.4	30.9%

Cost of sales of the Group for the first six months of 2018 decreased 22.0% as compared to the same period last year to RMB29,136.6 million. The Group’s overall gross profit margin for the first half of 2018 of 26.1% was 4.8 percentage points lower as compared to the same period last year, reflecting the effect of the decline in gross profit margin for carriers’ networks, the government and corporate business and the consumer business.

Cost of sales of the Group’s carriers’ networks for the first six months of 2018 amounted to RMB14,877.8 million, a 23.6% decrease compared to the same period last year. The relevant gross profit margin was 36.7% versus 39.8% for the same period last year. The decrease in gross profit margin of carriers’ networks mainly reflected lower gross profit margin for 4G system products as well as optical transmission products in the international market.

Cost of sales of the Group’s government and corporate business for the first six months of 2018 amounted to RMB3,390.3 million, an increase of 34.8% compared to the same period last year. The relevant gross profit margin was 23.5% versus 33.2% for the same period last year. The decrease in the

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gross profit margin of government and corporate business reflected mainly the decrease in the gross profit margin of integrated transmission products and optical transmission products in the international market.

Cost of sales of the Group's consumer business for the first six months of 2018 amounted to RMB10,868.5 million, decreasing by 29.3% compared to the same period last year. The relevant gross profit margin was 5.4%, versus 14.1% for the same period last year. The lower gross profit margin of the consumer business reflected mainly the lower gross profit margin for handset products in the domestic and international markets as a result of the provision for losses.

Other Income and Gains

Other income and gains of the Group for the first six months of 2018 amounted to RMB2,091.3 million, representing a 0.3% increase compared to RMB2,085.5 million for the same period last year. The increase reflected mainly the combined effect of the reduction in the Group's gains from the disposal of subsidiaries for the period, gains arising from the settlement of derivative products for the period accounted for under other income and gains versus losses for the same period last year accounted for under other expenses.

Research and Development Costs

The Group's research and development costs for the first six months of 2018 decreased by 24.2% to RMB5,060.6 million from RMB6,676.7 million for the same period last year. The Group continued to invest in core technologies such as 5G wireless, core network, bearer, access and chips during the period. Research and development costs as a percentage of operating revenue increased by 0.4 percentage point to 12.8%, as compared to 12.4% for the same period last year.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the first six months of 2018 decreased by 16.7% to RMB4,795.6 million from RMB5,754.0 million for the same period last year, which was mainly attributable to the reduction in the Group's staff expenses and advertising and promotion expenses for the period. Selling and distribution expenses as a percentage of operating revenue was 12.2%, increasing by 1.5 percentage points compared to 10.7% for the same period last year.

Administrative Expenses

Administrative expenses of the Group for the first six months of 2018 decreased by 7.4% to RMB1,388.1 million, as compared to RMB1,498.7 million for the same period last year, which was mainly attributable to the decrease in the Group's staff expenses for the period. Administrative expenses as a percentage of operating revenue increased by 0.7 percentage point to 3.5% from 2.8% for the same period last year.

Other Expenses

Other expenses comprise mainly asset impairment losses, credit impairment losses, exchange losses and non-operating expenses. Other expenses of the Group for the first six months of 2018 increased by 819.6% to RMB8,866.9 million, as compared to RMB964.2 million for the same period last year. The increase reflected mainly the Company's payment of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018.

Profit from Operating Activities

The Group's profit from operating activities for the first six months of 2018 amounted to RMB-7,722.8 million, compared to RMB3,857.3 million for the same period last year, reflecting primarily the Company's payment of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND

RESUMPTION OF TRADING” published on 12 June 2018 and the operating losses and provision for losses resulting from the suspension of the major operating activities of the Company as described in the “INSIDE INFORMATION ANNOUNCEMENT” published on 9 May 2018.

Finance Costs

Finance costs of the Group for the first six months of 2018 decreased by 13.6% to RMB489.5 million as compared to RMB566.4 million for the same period last year, reflecting mainly the decrease in interest expenses for the period following the Group’s efforts to enhance control over financial expenses and reduce the size of interest-bearing liabilities.

Income Tax Expense

The Group’s income tax expense for the first six months of 2018 was RMB-565.0 million, compared to RMB744.2 million for the same period last year, which was mainly attributable to the Group’s recognition of deferred tax assets relating to deductible losses.

Profit Attributable to Non-Controlling Interests

The Group’s profit attributable to non-controlling interests for the first six months of 2018 amounted to RMB-251.5 million, compared to RMB0.4 million for the same period last year, reflecting mainly losses incurred by certain subsidiaries of the Group for the period.

Other Comprehensive Income

Other comprehensive income of the Group for the first six months of 2018 amounted to RMB-815.5 million, compared to RMB221.1 million for the same period last year, which was mainly attributable to the losses on translation of the Group’s statements denominated in foreign currencies owing to exchange rate volatility for the period versus gains on translation of statements denominated in foreign currencies owing to exchange rate volatility for the same period last year.

Debt-Equity Ratio and the Basis of Calculation

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

The Group’s debt-equity ratio for the first six months of 2018 was 36.1%, increasing by 0.1 percentage point as compared to 36.0% for 2017, reflecting mainly the combined effect of reduced interest-bearing liabilities and losses incurred by the Group for the period.

Cash Flow Data

Unit: RMB in millions

Item	For the six months ended 30 June 2018	For the six months ended 30 June 2017
Net cash outflow from operating activities	(7,472.5)	(6,321.2)
Net cash outflow from investing activities	(83.9)	(1,383.8)
Net cash inflow (outflow) from financing activities	(6,801.9)	3,640.0
Net decrease in cash and cash equivalents	(14,358.2)	(4,065.0)
Cash and cash equivalents at the end of the period	15,783.3	25,908.0

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As at 30 June 2018, the Group's cash and cash equivalents amounted to RMB15,783.3 million, which were mainly denominated in RMB, and to a lesser extent in USD, EUR, INR and other currencies.

Operating Activities

The Group reported net cash outflow from operating activities of RMB7,472.5 million for the first six months of 2018, compared to net cash outflow of RMB6,321.2 million for the same period last year, of which the Group reported year-on-year decrease in cash received from sales of goods and provision of services by RMB4,372.9 million, increase in tax rebates by RMB1,408.7 million; coupled with decrease in cash paid for the purchase of goods and services by RMB4,846.1 million, increase in cash payments to and on behalf of employees by RMB2,644.4 million, and increase in tax payments by RMB426.8 million, as compared to the same period last year.

Investing Activities

The Group's net cash outflow from investing activities was RMB83.9 million for the first six months of 2018 versus net cash outflow of RMB1,383.8 million for the same period last year, reflecting mainly the increase in cash received by the Group for the sale of investment for the period.

Financing Activities

The Group's net cash outflow from financing activities for the first six months of 2018 was RMB6,801.9 million versus net cash inflow of RMB3,640.0 million for the same period last year, reflecting mainly the decrease in cash received from borrowings and the increase in cash paid for the repayment of bank loans by the Group for the period.

Indebtedness

Unit: RMB in millions

Item	30 June 2018	31 December 2017
Secured bank loans	5.0	24.1
Unsecured bank loans	17,560.9	21,513.9

Unit: RMB in millions

Item	30 June 2018	31 December 2017
Short-term bank loans	15,004.7	18,535.9
Long-term bank loans	2,561.2	3,002.1

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. At 30 June 2018, the Group's short-term RMB bank loan with an amount of RMB5,721.9 million and long-term bank loan with an amount of RMB573.2 million were subject to fixed interest rates, while TRY and EUR short-term bank loans subject to fixed interest rates amounted to approximately RMB2,349.8 million. The remaining USD 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 2018 decreased by RMB3,972.1 million versus 31 December 2017, reflecting mainly the repayment of loans by the Group for the period.

Contractual obligations

Unit: RMB in millions

Item	30 June 2018			
	Total	Within 1 year	2 to 5 years	Over 5 years
Bank loans	17,565.9	15,004.7	2,504.2	57.0
Obligations under operating leases	546.6	350.6	175.8	20.2

Capital Commitments

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

Unit: RMB in millions

Item	30 June 2018	31 December 2017
Land and buildings:		
Contracted, but not provided for	3,220.1	2,854.5
Investment in associates:		
Contracted, but not provided for	63.5	110.3

Material acquisitions and disposals related to subsidiaries, associates and joint ventures

Details of acquisitions and disposals of subsidiaries, associates and joint ventures conducted by the Company in the first half of 2018 are set out in the section headed “Material Matters — (VI) Asset Transactions” in the Interim Report.

Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40(2) of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2017 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

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

✓ Applicable ☐ N/A

Preliminary results announcement	Loss		
	Beginning of year to end of next reporting period (January to September 2018)	Same period last year (January to September 2017)	Increase/decrease (%)
Net profit attributable to holders of ordinary shares of the listed company (RMB'000)	Loss: 6,800,000– 7,800,000	Profit: 3,904,652	Decreased by 274.15%–299.76%
Basic earnings per share (RMB/share)	Loss: 1.62–1.86	Profit: 0.93	Decreased by 274.19%–300.00%
Explanatory statement regarding the preliminary results announcement	The substantial decline in results for the period from January to September 2018 as compared to the same period last year reflected mainly: 1. The USD1 billion penalty described in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018; 2. The operating losses and provision for losses resulting from the suspension of the major operating activities of the Company as described in the “INSIDE INFORMATION ANNOUNCEMENT” published by the Company on 9 May 2018.		

Note: The aforesaid preliminary results announcement has not been pre-audited by a certified public accountant. For details, please refer to the “Preliminary Results Announcement for the Nine Months ended 30 September 2018” published by the Company on 30 August 2018.

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

During the first half of 2018, the Company hosted 5 receptions of investors for research purposes, receiving 17 institutional investors but no individual investor. For details, please refer to the following table.

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
External meetings	January 2018	Shenzhen	Everbright Securities investors' conference	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Shanghai	UBS investors' conference	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Beijing	Deutsche Bank investors' conference	Customers of Deutsche Bank	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Shanghai	BOCI investors' conference	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Hong Kong	Bank of America Merrill Lynch investors' conference	Customers of Bank of America Merrill Lynch	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Shanghai	CITIC Securities investors' conference	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Hong Kong	CICC investors' conference	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	March 2018	Guangzhou	Soochow Securities investors' conference	Customers of Soochow Securities	Day-to-day operations of the Company	Published announcements and regular reports
Company visits by investors				Investors		
	January to June 2018	Company	Verbal	CLSA Limited, RBC Investment Management (Asia) Limited, Okasan Securities Co. Ltd., Fukoku Mutual Life Insurance Company, First Shanghai Securities, New Thinking Investment, Everbright Assets Management, Oriental Harbor Investment, Infore Capital, Hony Capital, Qianhai Ankang Investment, Yingtai Investment, Nikko Asset Management, Invus Asia Limited, HSBC Qianhai Securities, China Re Asset Management (Hong Kong) Limited, Signature Global Asset Management.	Day-to-day operations of the Company	Published announcements and regular reports

Note: For details of the Company's reception of investors for research purposes, please refer to the "Record Investors' Relations Activities" published by the Company on <http://www.cninfo.com.cn>.

(VI) BUSINESS OUTLOOK FOR THE SECOND HALF OF 2018 AND RISK EXPOSURES

1. Business outlook for the second half of 2018

In the second half of 2018, the Group will bolster our principal businesses, persist in leadership in technology, strengthen cost control and increase investments in 5G in line with a low-profile, pragmatic, prudent and innovative philosophy with a strong focus on efficiency enhancement.

Looking to the second half of 2018, the Group will welcome new opportunities for development, given rapid growth in the volume of data flow over the network and the official announcement of the complete fully-functional 5G standards of the first stage. Specifically, such opportunities will be represented by: the acceleration of 5G commercialisation with the actual implementation of trial 5G deployment backed by ongoing upgrades of network infrastructure facilities; robust demand for smart terminals; as well as an onrush of new technologies and models with AI, IOT and smart home, among others, providing new growth niches. In view of the above, the Group will adopt the following strategies in the second half of 2018:

In connection with carriers' networks, the Group will continue to adopt an innovation-driven approach to ensure it stays atop in terms of the competitiveness of principal products with a strong focus on customer satisfaction and value enhancement for customers. 5G represents a key feature of the future carriers' network business. The Group's 5G products and solutions are in sync with the

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global timetable for 5G commercialisation and are ready for commercial system application as systems, having undergone 5G testing and verification conducted in association with customers. In the second half of 2018, the Group will make solid efforts to enhance its product competitiveness in order to provide competitive products and solutions to customers, helping them to build high-worth 5G networks in the process of 5G commercialisation in contribution to the mature commercial application of the 5G industry chain, so as to strengthen customer's confidence and seize opportunities presented by 5G.

In connection with the government and corporate business, the Group will persist in the strategy of "priority for partners and co-development of the cloud network", making further moves to seize opportunities for market development arising from the industry's transformation towards digitalisation across the board on the back of our strengths in core technological capabilities. We will focus on key sectors to provide industry customers with specialised and efficient ICT solutions.

In connection with the consumer business, the Group will emphasise the R&D of 5G handsets and develop 5G end-to-end solutions by synchronising 5G systems and equipment through 5G projects conducted in cooperation with domestic and international mainstream carriers. The Group will remain focused on innovation and technological superiority, while taking heed of and satisfying consumers' demands to ensure a stable consumer business on the back of prudent operations and sound risk control.

In the second half of 2018, the Group will step up with technological innovation and enhance cooperation with customers and partners in the industry with an ongoing focus on high-worth customers and core products. In the meantime time, we will improve our internal management by enhancing human resources, compliance and internal control to ensure our Group's prudent and sustainable development.

2. Risk exposures

(1) Country risks

Given the complex nature of international economic and political conditions and the presence of the Group's business and branch organisations in over 100 countries, as well as the differences in macro-economy, policy and regulation and political and social backgrounds among the countries where the Group's businesses are operated, the Group will continue to be exposed to risks relating to legal compliance, taxation, exchange rates and political developments (such as war and domestic unrest), which might affect the operations of the Group. The Group ensures compliance primarily through the establishment of a complete compliance management regime to identify and comply with trade and taxation policy requirements in these countries (including export control and GDPR (General Data Protection Regulation)); we also work with independent professional organisations to analyse and identify country risks. We take out necessary export insurance in respect of businesses in regions with higher evaluated risks, and we also resort to financing to avoid possible losses.

(2) Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the protection and management of intellectual property rights. Trademarks of the Group's products and services are all registered, and such products and services are all protected under relevant patent rights. While the Group has adopted highly stringent measures to protect its intellectual property rights, potential disputes over intellectual property rights between the Group and other telecommunications equipment manufacturers, franchisee companies and carriers under partnerships 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 risks

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates, which might affect the operations of the Group. The Group seeks to mitigate foreign exchange risks at source through ongoing efforts to strengthen exposure management, minimising exposures through the use of measures such as the business strategic guidance, internal settlement management, financing mix optimisation, internal exchange settlement and value-protected derivative financial instruments. The Group also actively explores foreign exchange sources in countries practicing exchange control, strengthens liquidity management and facilitates RMB pricing and settlement for overseas projects to lower its exchange risks in the long term.

(4) Interest rate risk

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

(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 identifying and managing credit risks through the adoption of internal credit management measures, such as customer credit search, customer credit rating, customer credit limit management, overall risk control and credit control against customers with faulty payment records, and by transferring credit risks through the purchase of credit insurance and appropriate financial instruments.

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.

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》), the Company focused its efforts on the following internal control work in the first half of 2018 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:

- (1) The conclusion and assessment of the internal control work for 2017 was completed, on which basis the internal control work plans for 2018 was formulated and the "2017 Summary Report and 2018 Work Plan for Internal Control and Audit of the Company" and the "Assessment Report on Internal Control of the Company in 2017" was published. Internal control assessment for 2018 was commenced with the adoption of optimised assessment rules to enhance process auditing for better efficiency and effectiveness of assessment.
- (2) The Company's derivative investments and investments in securities in 2017 were examined and specific internal control assessment of export control compliance management was completed.
- (3) Control of significant and material risks was reviewed and the process for identifying, analysing and addressing significant and material risks was enhanced for ongoing identification and analysis of risks in the Company's operations. Key internal control tasks for various segments were streamlined and launched, while the operating model of the internal control system was optimised to enhance the management duties of the internal control ability development modules, and the administrative measures for rectifying internal control deficiencies were further improved to clarify the responsibilities of relevant departments involved in the development of internal control abilities for greater accountability.
- (4) Activities to foster the culture of internal control among all employees, such as lectures on internal control, seminars on internal control in business operations, sharing of internal control cases and internal control quizzes, were organised on a continuous basis.

2. Information on the convening of general meeting

On 28 March 2018, the Company convened the First Extraordinary General Meeting of 2018 by way of a combination of on-site voting and online voting. For details, please refer to the "Announcement of Resolutions of the First Extraordinary General Meeting of 2018" published by the Company on 28 March 2018.

On 29 June 2018, the Company convened the 2017 Annual General Meeting by way of a combination of on-site voting and online voting. For details, please refer to the “Announcement of Resolutions of the 2017 Annual General Meeting” published by the Company on 29 June 2018.

On 28 August 2018, the Company convened the Second Extraordinary General Meeting of 2018 by way of a combination of on-site voting and online voting. For details, please refer to the “Announcement on Resolutions of the Second Extraordinary General Meeting of 2018” published by the Company on 28 August 2018.

3. **During the period from 1 January to 30 June 2018, the Company was in full compliance with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules.**

4. **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.

5. **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 2018.

(II) PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE

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

The “Proposal for Profit Distribution for 2017 of the Company” was considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors of the Company held on 15 March 2018, which proposal was vetoed at the 2017 Annual General Meeting of the Company held on 29 June 2018.

Aggregate profit distribution of the Company in the form of cash in 2015–2017 accounted for 181.40% of the annual average profit available for distribution in the past three years, which was in compliance with Article 234 of the Articles of Association which states that “Aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years.”

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Pursuant to the “Resolution on the amendment of relevant clauses in the Articles of Association” was considered and passed at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors held on 31 January 2018 and the First Extraordinary General Meeting of 2018 held on 28 March 2018 by the Company, the Company’s profit distribution policy was adjusted, with details as follows:

Article 234(1)

The original clause which reads: Reasonable investment returns for investors should be a key consideration in the profit distribution of the Company and continuity and stability should be maintained in its profit distribution policy;

Is now amended to read: Reasonable investment returns for investors should be a key consideration in the profit distribution of the Company and continuity and stability should be maintained in its profit distribution policy, which should be in compliance with laws and regulations and the relevant requirements of regulatory authorities such as the China Securities Regulatory Commission;

Article 234(3)

The original clause which reads: Dividends may be distributed by the Company by way of cash and/or shares. Interim cash dividend may be distributed. Accumulated distribution of profit by way of cash by the Company in the three preceding years shall be no less than 30% of the annual average profit available for distribution realized in the three preceding years;

Is now amended to read: Subject to the fulfillment of conditions for dividend distribution, the Company shall, in principle, distribute its profit on an annual basis by way of cash and/or shares, and may also carry out interim profit distribution. Accumulated distribution of profit by way of cash by the Company in the three preceding years shall be no less than 30% of the annual average profit available for distribution realized in the three preceding years;

The Company does not propose any profit distribution for the six months ended 30 June 2018.

(III) 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 occurring after the reporting period are set out as follows:

- (1) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB41,612,900). Meanwhile, the Company instituted a counter-claim against the customer’s breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB17,891,300) be paid by the Company. In accordance with local laws, the Company had filed with the local district court an objection against the arbitration award and a claim against the customer’s breach of contract. On 23 June 2018, the district court ruled to reject the Company’s objection to the arbitration award and uphold the original arbitration award. The Company will appeal to the higher court against the ruling of the district court in accordance with local laws.

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) Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court of Shenzhen ("Nanshan Court"), pleading for the revocation of the contract and court order of the evacuation of the work sites by China Construction Fifth Division, as well as a penalty payment for work delay in the amount of RMB24.912 million and damages of RMB11.319 million payable to the Company. Nanshan Court handed down the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth Division be revoked and a penalty payment in the amount of RMB12.817 million be payable by China Construction Fifth Division. China Construction Fifth Division filed an appeal against the aforesaid judgement with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth Division's case with Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth Division's case with Shenzhen Intermediate Court in May 2014, Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth Division was not required to pay the penalty payment of RMB12.817 million to the Company. In response to the aforesaid second trial judgement, the Company had applied to Guangdong Higher Court for retrial. In January 2016, Guangdong Higher Court accepted the application for retrial and decided to proceed with retrial of the case. After commencing the trial of the aforesaid case, Guangdong Higher Court ruled to suspend trial on the grounds that retrial on the second trial judgement of Shenzhen Intermediate Court on China Construction Fifth Division's case had commenced. On 11 December 2017, the Guangdong Higher Court handed down the retrial judgment for the China Construction Fifth Division case by Shenzhen Intermediate Court. Therefore, Guangdong Higher Court resumed the retrial of the aforesaid case in June 2018.

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

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

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Provincial People's Procuratorate, which admitted the Company's application and referred the case to the Supreme People's Procuratorate for protest. On 24 December 2015, the Supreme People's Procuratorate filed a protest with the Supreme People's Court. On 17 June 2016, the Company received through the Guangdong Higher Court the ruling of the Supreme People's Court, which ordered the Guangdong Higher Court to conduct a retrial in respect of the aforesaid second trial judgement. On 11 December 2017, the Guangdong Higher Court gave a final verdict that upheld its second trial judgement.

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

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

- (3) In November 2016, Maxell, Ltd. (formerly known as Hitachi Maxell, hereinafter referred to as "Maxell") filed a litigation against the Company and ZTE USA, Inc. ("ZTE USA") for the infringement of 8 patent rights at the Eastern District Court of Texas, United States. Maxell has withdrawn its litigation in relation to 1 of the patent rights involved, and the case currently involves 7 patent rights ("Case I"). In March 2018, Maxell filed a litigation against the Company and ZTE USA for other infringements of patent rights at the Eastern District Court of Texas, United States ("Case II"). In both cases, Maxell demanded payment of damages for losses and legal fees by the Company and ZTE USA, although no specific amount of compensation was named.

On 18 June 2018, a jury trial of Case I was held at the Eastern District Court of Texas, United States against ZTE USA only. On 29 June 2018, the jury reached a verdict that the 7 patent rights involved were valid, there had been infringement of rights, the amount of compensation shall be USD43.30 million, and ZTE USA had committed deliberate infringement of rights. The case is pending judgement of the first trial by the judge. The attorney appointed by ZTE USA is actively handling the case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company has made provision for the amount in the financial statements.

Note: The exchange rates are based on the book exchange rates of the Company as at 30 June 2018, where PKR amounts were translated at the exchange rate of PKR1:RMB0.05454.

(IV) THERE WAS NO NON-OPERATION CAPITAL OCCUPATION AND REPAYMENT BY THE CONTROLLING SHAREHOLDER AND OTHER RELATED PARTIES OF THE COMPANY DURING THE REPORTING PERIOD

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

(VI) ASSET TRANSACTIONS

1. Matters pertaining to the Shenzhen Bay Super Headquarters Base

Owing to the requirements of its operations and development, the Company won a bid for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District, Shenzhen on 27 June 2017. The Company has selected through competitive negotiations Shenzhen Vanke Real Estate Co., Ltd. (深圳市萬科房地產有限公司) (“Vanke”) to provide development, construction, sales and operational services in respect of land site No. T208-0049 for the Company and entered into a Letter of Intent and a Supplemental Agreement on the Letter of Intent with Vanke on 25 December 2017 and 25 January 2018. For details please refer to the “Overseas Regulatory Announcement Announcement on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd.” and the “Overseas Regulatory Announcement Announcement Updates on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd.” published by the Company on 26 December 2017 and 25 January 2018, respectively.

On 9 February 2018, the Company and Vanke signed transaction documents including the “Framework Agreement for Entrustment of Development, Construction, Sale and Operation”, pursuant to which Vanke agreed to provide to the Company the following services: (1) the development and construction of properties with a GFA of 189,890 square metres on land site No. T208-0049; (2) sales service in respect of available-for-sale commercial properties and hotel properties with GFA of 35,000 square metres and 20,000 square metres, respectively; and (3) operational service in respect of office properties and premises for cultural facilities with GFA of 44,200 square metres and 6,100 square metres, respectively. The aforesaid matter was considered and approved at the Twenty-seventh Meeting of the Seventh Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2018. For details, please refer to the “Overseas Regulatory Announcement Announcement Resolutions of the Twenty-seventh Meeting of the Seventh Session of the Board of Directors” and “DISCLOSEABLE TRANSACTION FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT CONSTRUCTION, SALES AND OPERATION” published on 9 February 2018 and the “Announcement on Resolutions of the First Extraordinary General Meeting of 2018” published on 28 March 2018 by the Company.

2. Transfer of 43.66% shares in ZTEsoft Technology Co., Ltd. (“ZTEsoft”) by the Company

Based on considerations for the Company’s strategic development, the Company, Nanjing Xiruan Corporate Management Limited Partnership (“Nanjing Xiruan”) and ZTEsoft entered into the Agreement for Share Transfer and New Share Subscription on 9 February 2018, pursuant to which the Company shall transfer 43.66% shares in ZTEsoft, its subsidiary, to Nanjing Xiruan for RMB1,223.3 million, while Nanjing Xiruan shall concurrently inject RMB100 million into ZTEsoft as capital. Following the completion of the transaction, the Company shall hold 35.19% shares in ZTEsoft, and ZTEsoft shall be excluded from the consolidated financial statements of the Company.

The aforesaid matter was considered and approved at the Twenty-seventh Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Overseas Regulatory Announcement Announcement Resolutions of the Twenty-seventh Meeting of the Seventh Session of the Board of Directors” and the “Overseas Regulatory Announcement Announcement on Matters pertaining to the Transfer of Certain Shares in ZTEsoft Technology Co., Ltd.” published by the Company on 9 February 2018.

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

The 2017 Share Option Incentive Scheme implemented by the Company has been approved by the Remuneration and Evaluation Committee, the Seventeenth Meeting of the Seventh Session of the Board of Directors, the Fourteenth Meeting of the Seventh Session of the Supervisory Committee and the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 of the Company. The source of shares under the 2017 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. Scheme participants of the 2017 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to the Company's overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses and immediate or close family members). Pursuant to the "Resolution on Matters pertaining to the grant of share options under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors on 6 July 2017, the date of grant was set for 6 July 2017 (Thursday). The Company granted 149,601,200 share options to 1,996 scheme participants. The exercise price of the share options granted shall be RMB17.06 per A share. The number of options granted is set out in the following table:

Name of participant	Position of participant	Number of unexercised options at the beginning of the reporting period	Number of options granted during the reporting period	Number of options exercisable during the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period	Number of outstanding options at the end of the reporting period
Xu Ziyang	Executive Director and President	252,000	0	0	0	0	252,000
Wang Xiyu	Executive Vice President	262,400	0	0	0	0	262,400
Li Ying	Executive Vice President and Chief Financial Officer	158,400	0	0	0	0	158,400
Cao Wei	Secretary to the Board	200,000	0	0	0	0	200,000
Other participants	—	148,728,400	0	0	0	0	148,728,400
Total	—	149,601,200	0	0	0	0	149,601,200

Note: Mr. Li Quancai, a participant under the 2017 Share Option Incentive Scheme of the Company, was elected Staff Representative Supervisor of the Company on 3 November 2017, and the 118,000 A share options previously granted to him were voided as a result of his appointment as Supervisor of the Company. Messrs. Zhang Jianheng, Luan Jubao, Zhao Xianming, Wang Yawen, Tian Dongfang and Zhan Yichao resigned as Directors of the Company on 29 June 2018, while Messrs. Zhao Xianming, Xu Huijun, Zhang Zhenhui, Pang Shengqing, Xiong Hui and Shao Weilin ceased to be senior management officers of the Company as from 5 July 2018. The 3,287,600 A share options previously granted to the aforesaid 11 persons as participants under the 2017 Share Option Incentive Scheme of the Company were voided. The Company will adjust the number of 2017 share options and participants following the performance of due review procedures.

For details of the 2017 Share Option Incentive Schemes of the Company, please refer to the section headed "Material Matters — (VII) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME" in the 2017 Annual Report of the Company.

(VIII) NON-PUBLIC ISSUANCE OF A SHARES BY THE COMPANY

The Company proposed to issue not more than 686,836,019 A shares to not more than 10 specific investors compliant with the provisions of the CSRC. Gross proceeds from the non-public issuance of A Shares will not exceed RMB13 billion. Net proceeds after deduction of issue expenses will be applied towards the “technology research and product development relating to 5G network evolution” and as “replenishment of working capital”. The aforesaid matter has been considered and passed at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2018. For details, please refer to the “Overseas Regulatory Announcement Resolutions of the Twenty-sixth Meeting of the Seventh Session of the Board of Directors” and “(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER THE GENERAL MANDATE AND (2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION” published on 31 January 2018 and the “Announcement on Resolutions of the First Extraordinary General Meeting of 2018” published on 28 March 2018 by the Company.

On 1 February 2018, the Company issued the “UPDATE ON THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER GENERAL MANDATE”, stating that the issue price of the non-public issuance of A shares shall be no less than RMB30/share.

On 10 April 2018, the Company received a “Form of Admission of Application for CSRC Administrative Approval” issued by the CSRC, stating that CSRC had made a decision to admit the application for administrative approval of the non-public issuance of new shares by a listed company submitted by the Company. The non-public issuance of A shares remains subject to the approval of CSRC. For details, please refer to the “Overseas Regulatory Announcement on Admission by CSRC of the Application for Non-public Issuance of A Shares” published by the Company on 10 April 2018.

(IX) COMPLETION OF PAYMENT FOR THE 2015 TRANCHE II MEDIUM TERM NOTES

To further advance Company’s business development and optimise its debt structure, the “Resolution on the Proposed Registration and Issue of Perpetual Medium Term Notes” was considered and passed at the Twentieth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2014 of the Company, granting approval to the Company’s application to the National Association of Financial Market Institutional Investors for the registration and issue of Perpetual Medium Term Notes with an amount of not more than RMB9,000 million. The National Association of Financial Market Institutional Investors has accepted the registration of the Company’s RMB9,000 million Medium Term Notes.

On 27 January 2015, the Company completed the issue of the 2015 Tranche I Medium Term Notes with an amount of RMB6,000 million for a term of 5+N years (maturity upon redemption by the Company pursuant to the terms of issue). On 6 February 2015, the Company completed the issue of the 2015 Tranche II Medium Term Notes with an amount of RMB1,500 million for a term of 3+N years (maturity upon redemption by the Company pursuant to the terms of issue). On 20 November 2015, the Company completed the issue of the 2015 Tranche III Medium Term Notes with an amount of RMB1,500 million for a term of 3+N years (maturity upon redemption by the Company pursuant to the terms of issue).

On 6 February 2018, the Company completed the payment of the principal cum interests of the 2015 Tranche II Medium Term Notes with a total amount of RMB1,585,350,000. For details, please refer to the “Overseas Regulatory Announcement Completion of Payment in respect of the 2015 Tranche II Medium Term Notes” published by the Company on 6 February 2018.

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- (X) The Company published announcements in relation to the order issued by the United States Department of Commerce Bureau of Industry and Security (“BIS”) and related effects and the actions taken by the Company and related parties on 17 April 2018, 18 April 2018, 20 April 2018, 22 April 2018, 25 April 2018, 1 May 2018, 6 May 2018, 9 May 2018, 16 May 2018, 23 May 2018, 30 May 2018 and 6 June 2018, respectively.

The Company and its wholly-owned subsidiary, Shenzhen ZTE Kangxun Telecom Company Limited (“ZTE Kangxun”) have reached a superseding settlement agreement with BIS. For details, please refer to the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018. Pursuant to an order issued on 13 July 2018 (U.S. time), BIS has terminated the 15 April 2018 Denial Order and removed the Company and ZTE Kangxun from the Denied Persons List, effective immediately. For details, please refer to the “INSIDE INFORMATION ANNOUNCEMENT” published by the Company on 15 July 2018.

(XI) 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 in ten thousands)	As a percentage of transactions in the same approved classification cap has been exceeded (%)	Whether settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin and its subsidiaries and investee companies	Controlling shareholder of the Company, its subsidiaries and companies in which it held equity interests of 30% or above	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 by the Company and its subsidiaries from connected parties were conducted at prices determined through arm's length negotiations and on the basis of normal commercial terms. The prices of properties leased to connected parties by the Group 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 quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1-RMB300,000 per unit, cases and related accessories: RMB1-RMB15,000 per unit, depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	11,767.30	0.64%	No	Commercial acceptance bill	2015-9-23 2017-1-20	Announcement No. 201548 “Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange” Announcement No. 201703 “Announcement on Execution of Supplemental Agreement for the 2016-2018 Purchase Framework Agreement with Zhongxingxin, a Connected Party”
Zhongxing Hetai and its subsidiaries	A company for which a natural person related to the Company acted as director and its subsidiaries	Purchase of hotel services	The purchase of hotel services by the Company from the connected party	relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	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.	1,509.32	0.08%	No	Tele-transfer	2016-4-29	Announcement No. 201635 “Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange”
Zhongxing Hetai and its subsidiaries	A company for which a natural person related to the Company acted as director and its subsidiaries	Lease of property and related equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		RMB74/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB53/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB116/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB53/sq.m./month for hotel and related equipment and facilities in Xi'an.	3,852.10	19.41%	No	Tele-transfer	2016-4-29	Announcement No. 201635 “Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange”
航天睿华	A company for which a natural person related to the Company acted as chairman	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.	11,035.01	0.28%	No	Tele-transfer or bank acceptance bill	2015-9-23	Announcement No. 201548 “Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange”
Total				-	-	28,162.73	N/A	-	-	-	-

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations.
Effect of the connected transaction on the independence of the listed company	The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2018 be capped at RMB1,000 million (before VAT); pursuant to the Supplemental Agreement for the Zhongxingxin Purchase Framework Agreement between the Company and Zhongxingxin considered and approved at the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, the scope of the Zhongxingxin Purchase Framework Agreement was extended to cover Zhongxingxin, its subsidiaries and investee companies (companies in which Zhongxingxin directly or indirectly held equity interests of 30% or above); At the Third Meeting of the Seventh Session of the Board of Directors of the Company held on 28 April 2016, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2017 and ending on 30 June 2018; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB85 million for the period commencing on 1 July 2017 and ending on 30 June 2018; At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated sales of digital communications products and communications products to 航天歐華, a connected party, by the Company in 2018 be capped at RMB1,100 million (before VAT); and Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

Note 1: For details of "Approved Cap", please refer to the section headed "Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)".

Note 2: Zhongxing Development had been a connected party of the Company since 29 June 2018, as Ms. Fang Rong, director and executive vice president of Zhongxing Development, was selected as Director of the Company with effect from 29 June 2018. For details of the execution of continuing connected transactions between the Group and Zhongxing Development together with its subsidiaries during the reporting period, please refer to Note X to the financial statements prepared under PRC ASBES.

(2) The Company did not conduct any connected transactions arising from acquisitions or disposals of assets and equity interests during the reporting period

(3) There were no material 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 connected transactions

The following connected transactions were considered and approved at the Thirty-first Meeting of the Seventh Session of the Board of Directors of the Company held on 29 June 2018. For relevant details, please refer to the "Overseas Regulatory Announcement Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" and "Overseas Regulatory Announcement Announcement of Resolutions of the Thirty-first Meeting of the Seventh Session of the Board of Directors" published by the Company on 29 June 2018:

1. The estimated cumulative amount of continuing connected transactions relating to the lease of properties and equipment by the Company to Zhongxing Hetai or its subsidiaries during the period from 1 July 2018 to 31 December 2018 was capped at RMB50 million.

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2. The estimated cumulative amount of continuing connected transactions relating to the purchase of hotel services by the Company from Zhongxing Hetai or its subsidiaries during the period from 1 July 2018 to 31 December 2018 was capped at RMB35 million.

(XII) 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 considered by the Company during the reporting period

A. Provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries by the Company

At the First Extraordinary Meeting of 2017 of the Company held on 14 December 2017, the Board of Directors was granted a mandate to deal with the provision of performance guarantee for 12 overseas wholly-owned subsidiaries by the Company within the limit of USD200 million. The mandate expired on the date of the 2017 Annual General Meeting and the unutilised USD200 million limit was cancelled.

To facilitate the Company's overseas business development on an ongoing basis, the Company has proposed to provide a guarantee amount for contract performance (including but not limited to the execution of guarantee agreements by the parent company and the provision of bank guarantees) of not exceeding USD200 million in aggregate for 9 overseas wholly-owned subsidiaries. The aforesaid guarantee amount will be applied on a revolving basis during an effective period commencing on the date on which the provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries by the Company is considered and approved at the 2017 General Meeting of the Company and ending on the date of the Company's 2018 Annual General Meeting. After the general meeting of the Company has considered and approved provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries, the Board of Directors of the Company shall be responsible for the approval of specific guarantees within the limit, and shall fulfill obligations in information disclosure.

The aforesaid matter has been considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors and the 2017 Annual General Meeting. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on the Provision of Guarantees for a Wholly-owned Subsidiary" published on 15 March 2018 and the "Announcement on Resolutions of the 2017 Annual General Meeting" published on 29 June 2018 by the Company.

B. Provision of guarantee by the Company in respect of the debt financing of ZTE HK

With a view to optimising the mix of long/short-term liabilities of the Company and the subsidiaries included in its consolidated financial statements, reduce exposures to assets and liabilities denominated in foreign currencies, and meet the additional working capital requirements of the Company's medium/long-term development at appropriate finance costs, the Company proposes to seek medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issuance of corporate bonds) with ZTE

HK, its wholly-owned subsidiary, as the principal. In view of the current financial conditions and credit rating of ZTE HK, the Company will provide guarantee by way of joint liability assurance for an amount of not more than USD600 million in relation to the aforesaid debt financing of ZTE HK, in order to secure debt financing at favourable costs.

The aforesaid matter has been considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors and the 2017 Annual General Meeting. For details, please refer to the “Overseas Regulatory Announcement Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors” and the “Overseas Regulatory Announcement Announcement on the Provision of Guarantees for a Wholly-owned Subsidiary” published on 15 March 2018 and the “Announcement on Resolutions of the 2017 Annual General Meeting” published on 29 June 2018 by the Company.

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

Third-party guarantees provided by the Company and subsidiaries (excluding guarantees on behalf of subsidiaries)

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Beijing Fuhua Yuqi Information Technology Co., Ltd. ^{Note 1}	1 December 2016 201678	RMB21,019,250	1 April 2017	RMB21,019,250	Joint liability assurance	From the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of obligations under the Technology Development (Entrustment) Contract.	No	No
Zhejiang Sunland Technology Company, Ltd. ^{Note 2}	N/A	RMB7,765,520	15 September 2016	RMB7,765,520	Joint liability	From the date on which the Ningbo Smart Transport Project Contract comes into effect upon execution and ending on the completion of Zhejiang Sunland's performance of obligations under the Ningbo Smart Transport Project Contract.	No	No
Total amount of third-party guarantee approved during the reporting period (A1)		—		Total amount of third-party guarantee actually incurred during the reporting period (A2)			—	
Total amount of third-party guarantee approved as at the end of the reporting period (A3)		RMB28,784,800		Total amount of third-party guarantee actually incurred as at the end of the reporting period (A4)			RMB28,784,800	

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 France SASU ^{Note 3}	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)	N/A	No
PT. ZTE Indonesia ^{Note 4}	13 September 2013 201362	USD40 million	23 October 2013	USD40 million	Joint liability	From maturity to the date on which performance of material obligations of PT. ZTE Indonesia under the “Equipment Purchase Contract” and “Technical Support Contract” is completed	No	No
PT. ZTE Indonesia ^{Note 4}	13 September 2013 201362	USD15 million	11 September 2013	USD15 million	Joint liability	From maturity to 5 March 2017 or the date on which performance of obligations of PT. ZTE Indonesia under the “Equipment Purchase Contract” and “Technical Support Contract” is completed (whichever is later)	No	No
ZTE (H.K.) Limited ^{Note 5}	27 March 2014 201413	Not more than USD600 million or RMB4,000 million	18 July 2014 12 January 2015	USD450 million EUR40 million	Joint liability assurance Joint liability assurance	Not more than 5 years (from the date on which the debt financing agreement comes into effect)	No	No
			20 March 2015	USD60 million	Joint liability assurance	From 12 January 2015 to (1) 6 months after 12 January 2018, or (2) the irrevocable settlement in Yes 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
ZTE (Malaysia) Corporation SDN. BHD ^{Note 6}	24 September 2014 201440 8 January 2016 201605	USD60 million	27 November 2014	USD41.20 million	Joint liability	Commencing on the date on which the “UM Wireless Capacity Expansion Contract” comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Malaysia under the “UM Wireless Capacity Expansion Contract” is completed.	No	No
ZTE (Malaysia) Corporation SDN. BHD ^{Note 6}	24 September 2014 201440 8 January 2016 201605	USD2 million	4 January 2015	USD2 million	Joint liability	Not more than 6 years from the date on which the bank letter of guarantee comes into effect upon issuance.	No	No
ZTE (H.K.) Limited or ZTE COOPERATIEF UA ^{Note 7}	26 March 2015 201511	EUR200 million	24 June 2015	EUR70 million	Joint liability assurance	From 24 June 2015 to 22 December 2018	Yes	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 COOPERATIEF 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	Yes	No
			8 September 2016	EUR50 million	Joint liability assurance	From 8 September 2016 to (1) 8 February 2021, or (2) the irrevocable settlement in full by ZTE COOPERATIEF 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
			10 April 2017	EUR30 million	Joint liability assurance	From 10 April 2017 to (1) 22 December 2020, or (2) the irrevocable settlement in full by ZTE COOPERATIEF 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

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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 (Heyuan) Company Limited ^{Note 8}	26 August 2016 201664	RMB500 million	1 November 2016	RMB400 million	Joint liability assurance	Not more than 3 years (from the date on which the debt financing agreement comes into effect)	No	No
ZTE (Wenzhou) Railway Communication Technology Limited ^{Note 9}	30 September 2017 201765	RMB0.80 million	18 October 2017	RMB0.80 million	Joint liability	Commencing on the closing date for the tender and ending on the date of execution of the "Wenzhou Public Security Communications Contract".	Yes	No
		RMB3.30 million	28 December 2017	RMB3,152,500	Joint liability	Commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfillment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate.	No	No
ZTE (H.K.) Limited ^{Note 10}	16 March 2018 201822	Not more than USD600 million	—	—	Joint liability assurance	Not more than 66 months (from the date on which an individual debt financing agreement comes into effect)	No	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)		RMB5,301,280,000 ^{Note 11}			Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)			—
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)		RMB12,164,853,200 ^{Note 11}			Total amount of guarantee on behalf of subsidiaries actually incurred as at the end of the reporting period (B4)		RMB5,046,098,600	

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
ZTE ICT Company Limited ^{Note 12}	N/A	RMB160 million	30 December 2014	RMB42,084,900	Joint liability	5 years (from the date of drawdown)	No	No
西安中興通訊終端科技有限公司 ^{Note 13}	N/A	RMB60,005,000	13 March 2015	RMB60,005,000	Joint liability	5 years	No	No
深圳市中興新源汽車服務有限公司 ^{Note 14}	N/A	RMB60 million	29 December 2015	RMB57.00 million	Joint liability assurance	Commencing on the date on which the "CDB Development Fund Investment Agreement" comes into effect and ending upon the conclusion of a period of 2 years from the date on which the amounts payable by 深圳市中興新源汽車服務有限公司 are settled in full	No	No
ZTEsoft Netherlands B.V. ^{Note 15}	N/A	EUR11,173,111	31 May 2016	EUR11,173,111	Joint liability	From 31 May 2016 to 31 January 2020	No	No
西安克瑞斯半導體技術有限公司 ^{Note 16}	N/A	USD30 million	26 January 2017	USD231,365	Joint liability	Commencing on the date on which the "Guarantee Contract" comes into effect and ending upon the conclusion of a 2-year period during which 克瑞斯 has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding.	No	No
ZTE (Australia) Pty Ltd. ^{Note 17}	N/A	USD40 million	N/A	—	Joint liability	Commencing on the date on which the "PTA-LTE-R Project Contract" comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Australia under the "PTA-LTE-R Project Contract" is completed.	N/A	No
		USD3 million	N/A	—	Joint liability	Commencing on the date on which the guarantee letter comes into effect and ending on the date on which performance of the obligations of ZTE Australia under the "PTA-LTE-R Project Contract" is completed.	N/A	No
		USD40 million	N/A	—	Joint liability	Commencing on the date on which the "PTA-LTE-R Project Contract" comes into effect and ending on the date on which performance of the obligations of ZTE Australia under the "Joint Entity Agreement" is completed.	N/A	No
Netas Bilişim Teknolojileri A.Ş. ^{Note 18}	N/A	USD2,153,300	14 November 2012	USD231,800	Joint liability	Commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which performance of the obligations of Probil under the "Systems Integration Agreement" is completed.	No	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ^{Note 18}	N/A	EUR10,753,800	5 May 2017	EUR10,753,800	Joint liability	Commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed	No	No
Total amount of guarantee for subsidiary approved during the reporting period (C1)		—			Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)		RMB1,536,000	
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)		RMB1,210,998,300			Total amount of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)		RMB330,077,600	

Total amount guaranteed by the Company (sum of the three categories aforesaid)

Total amount of guarantee approved during the reporting period (A1+B1+C1)	RMB5,301,280,000	Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)	RMB1,536,000
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)	RMB13,404,636,300	Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)	RMB5,404,961,000
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company			24.52%
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)			RMB4,700,682,300
Amount of total guarantee exceeding 50% of net assets (F)			0
Aggregate amount of the three guarantee amounts stated above (D+E+F)			RMB4,700,682,300
Statement on liability incurred during the reporting period or potential joint liability for debt settlement (if any) in respect of outstanding guarantees			N/A
Statement on provision of guarantee to third parties in violation of stipulated procedures (if any)			N/A

Note 1: It was considered and approved at the Tenth Meeting of the Seventh Session of the Board of Directors of the Company that guarantee be provided by the Company by way of joint liability assurance for the performance of obligations by Beijing Fuhua Yuqi Information Technology Co., Ltd. ("Fuhua Yuqi") under the Technology Development (Entrustment) Contract for a guarantee amount of not more than RMB21,019,250 for a term commencing on the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of

obligations under the Technology Development (Entrustment) Contract. The Technology Development (Entrustment) Contract came into effect on 1 April 2017 upon execution. Fuhua Yuqi has provided a third-party counter-guarantee to the Company in respect of the aforesaid guarantee.

- Note 2: Following consideration by the board of directors of ZTEsoft Technology Company Limited ("ZTEsoft"), a subsidiary of the Company, it was approved that joint liability guarantee be provided by the ZTEsoft for Zhejiang Sunland Technology Company, Ltd. ("Zhejiang Sunland") for its performance obligations under the Ningbo Smart Transport Project Contract to the extent of the project items undertaken by Zhejiang Sunland for an amount capped at RMB7,765,520, for a term from the date on which the Ningbo Smart Transport Project Contract comes into effect upon execution to the date on which the obligations of Zhejiang Sunland under Ningbo Smart Transport Project Contract are completed. The Ningbo Smart Transport Project Contract came into effect on 15 September 2016 upon execution. Zhejiang Sunland has provided a third-party counter-guarantee to ZTEsoft in respect of the aforesaid guarantee.
- Note 3: 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 PATES Contract was completed and the guarantee provided by the Company in respect of the performance obligations of ZTE France was undergoing registration procedures of the State Administration of Foreign Exchange and had yet to be performed.
- Note 4: It was considered and approved at the Ninth Meeting of the Sixth Session of the Board of Directors and the Third Extraordinary General Meeting of 2013 of the Company 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. As at the end of the reporting period, the aforesaid guarantee was under normal performance.
- Note 5: The Company sought 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 provided 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 and the 2013 Annual General Meeting of the Company. 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. ZTE HK completed a EUR40 million loan repayment to Banco Santander in January 2018, and the corresponding guarantee agreement was terminated in January 2018.
- Note 6: At the Twenty-first Meeting of the Sixth Session of the Board of Directors, it was considered and approved that the Company would provide a USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, and apply to relevant banks for the issuance of a USD2 million bank letter of guarantee. As the gearing ratio of ZTE Malaysia was above 70%, the aforesaid guarantee was considered and approved at the First Extraordinary General Meeting of 2014 of the Company. At the Thirty-ninth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2016 of the Company, it was considered and approved that the Company would increase the USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, by USD40 million (namely, a total of not more than USD60 million) and to extend the valid period of the USD2 million bank letter of guarantee to 6 years after the date of issuance. As at the end of the reporting period, USD41.20 million of the USD60 million performance guarantee provided by the Company for ZTE Malaysia and the USD2 million bank letter of guarantee issued by relevant banks and applied for by the Company on behalf of ZTE Malaysia had come into effect.
- Note 7: The Company conducted outside Mainland China medium/long-term debt financing (including but not limited to banks facilities and issue of bonds) with ZTE HK or ZTE COOPERATIEF UA ("ZTE COOPERATIEF"), each a wholly-owned subsidiary, as the principal. The Company provided guarantee for ZTE HK or ZTE COOPERATIEF by way of joint liability assurance for an amount of not more than EUR200 million (or the equivalent in other currencies, calculated according to the Company's foreign currency statement book exchange rate) in relation to the aforesaid debt financing for a term of not more than 5 years (from the date on which the debt financing agreement takes effect). The aforesaid matter was considered and approved at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors and the 2014 Annual

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General Meeting of the Company. ZTE COOPERATIEF entered into respective loan agreements with Bank of China Limited, Luxembourg Branch ("BOC Luxembourg") and Banco Santander, S.A., Hong Kong Branch ("Santander HK") for amounts of EUR70 million and EUR30 million, respectively, in June 2015. At the same time, the Company entered into guarantee agreements with BOC Luxembourg and Santander HK, respectively, to provide guarantee to BOC Luxembourg and Santander HK for amounts of not more than EUR70 million and EUR30 million, respectively, by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF. ZTE COOPERATIEF completed loan repayments of EUR70 million and EUR30 million to BOC Luxembourg and Santander HK, respectively, in June 2018, and the corresponding guarantee agreements were terminated in June 2018. ZTE COOPERATIEF entered into a loan agreement with Credit Agricole CIB ("Credit Agricole") for an amount of EUR50 million in February 2016. At the same time, the Company entered into a guarantee agreement with Credit Agricole to provide guarantee to Credit Agricole for an amount of not more than EUR50 million in September 2016 by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF. ZTE COOPERATIEF entered into a loan agreement with Banco Bilbao Vizcaya Argentaria, Hong Kong ("Banco Bilbao HK") for an amount of EUR30 million in April 2017. At the same time, the Company entered into a guarantee agreement with Banco Bilbao HK to provide guarantee to Banco Bilbao HK for an amount of not more than EUR30 million by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF.

- Note 8: At the Eighth Meeting of the Seventh Session of the Board of Directors, it was considered and approved that guarantee be provided by the Company by way of joint liability assurance in connection with the debt financing of ZTE Heyuan for an amount of not more than RMB500 million for a term of not more than 3 years (from the date on which the debt financing agreement comes into effect). ZTE Heyuan entered into a RMB400 million loan agreement with Bank of China Corporation, Shenzhen Branch ("BOC Shenzhen") in November 2016. At the same time, the Company entered into a guarantee agreement with BOC Shenzhen to provide joint liability assurance for an amount of not more than RMB400 million to guarantee the due performance of obligations under the loan agreements by ZTE Heyuan.
- Note 9: As considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors, the provision of the following guarantees for ZTE Wenzhou by the Company was approved: (1) Guarantee for tender deposit: the Company providing a guarantee for tender deposit amounting to RMB800,000 in respect of the tendering obligations of ZTE Wenzhou for the Wenzhou Public Security Communications Project for a period commencing on the closing date for the tender and ending on the date of execution of the "Wenzhou Public Security Communications Contract". The "Wenzhou Public Security Communications Contract" was executed in February 2018 and the guarantee for tender deposit was terminated; (2) Guarantee by way of performance bond: upon successful bidding, the Company will provide a guarantee by way of performance bond amounting to not more than RMB3.30 million in respect of the performance obligations of ZTE Wenzhou under the "Wenzhou Public Security Communications Contract" for a period commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate. The Company has applied to the relevant bank for the issuance of a bank guarantee letter providing guarantee by way of performance bond with a cumulative maximum amount of RMB3,152,500 in respect of the performance obligations of ZTE Wenzhou under the "Wenzhou Public Security Communications Contract". As at the end of the reporting period, the performance bond had come into effect. ZTE Wenzhou had provided counter-guarantees in equivalent amounts to the Company in respect of the aforesaid guarantees.
- Note 10: The Company sought 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 provided guarantee by way of joint liability assurance for an amount of not more than USD600 million. The aforesaid guarantee was considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors and the 2017 Annual General Meeting of the Company.
- Note 11: The computations of 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) include a USD200 million guarantee provided for overseas wholly-owned subsidiaries. As at the end of the reporting period, the aforesaid guarantee amount had yet to be utilised.
- Note 12: 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 Company Limited ("ZTE ICT"), a controlling subsidiary of the Company, for a term of 5 years (from the date of issuance of the loan). As at the end of the reporting period, the aforesaid guarantee documents had come into effect and guarantee for an amount of RMB42,084,900 had come into effect. The other shareholder of ZTE ICT (holding a 10% interest in ZTE ICT) had provided a counter-guarantee for RMB16 million in favour of ZTE Group Finance in respect of the aforesaid guarantee.

- Note 13: 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 14: It was considered and approved at the board meeting and general meeting of 中興新能源汽車有限責任公司, a subsidiary of the Company, that 中興新能源汽車有限責任公司 would provide guarantee by way of joint liability assurance for an amount of not more than RMB60 million in respect of a project financing for 深圳市中興新能源汽車服務有限公司 (renamed as “深圳市中興新能源汽車科技有限公司”), its wholly-owned subsidiary, for a term commencing on the date on which the “CDB Development Fund Investment Agreement” comes into effect and ending upon on the conclusion of a period of 2 years from the date on which the amounts payable by 深圳市中興新能源汽車科技有限公司 are settled in full. As at the end of the reporting period, the aforesaid guarantee documents had come into effect.
- Note 15: It was considered and approved at the board meeting of ZTEsoft, a subsidiary of the Company, that ZTEsoft would provide joint liability guarantee for an amount of EUR11,173,111 for ZTEsoft Netherlands B.V. (“ZTEsoft Netherlands”), its wholly-owned subsidiary, in connection with its performance obligations under the “Moebius Project Performance Service Contract” for a term from 31 May 2016 to 31 January 2020.
- Note 16: It was considered and approved at the board meeting of ZTE Micro-electronics, a subsidiary of the Company, that ZTE Micro-electronics would provide joint liability guarantee for an amount of not more than USD30 million in connection with the procurement orders between 西安克瑞斯半導體技術有限公司 (“克瑞斯”), its wholly-owned subsidiary, and Taiwan Semiconductor Manufacturing Company Limited (“TSMC”) for a term commencing on the date on which the “Guarantee Contract” comes into effect and ending upon on the conclusion of a 2-year period during which 克瑞斯 has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding. As at the end of the reporting period, the guarantee documents had come into effect and guarantee for an amount of USD231,365 had come into effect.
- Note 17: As considered and passed by the board of directors and general meeting of ZTE HK, a wholly-owned subsidiary of the Company, it was approved that ZTE HK will provide the following guarantees for ZTE Australia Corporation Limited (“ZTE Australia”), a wholly-owned subsidiary of ZTE HK, after the successful bidding of the “PTA LTE-R Project Contract” by the joint entity formed by ZTE Australia and John Holland Pty Ltd.: (1) provision of guarantee by ZTE HK in favour of PTA in respect of the performance obligations of ZTE Australia under the “PTA LTE-R Project Contract” for an amount of not more than USD40 million for a term commencing on the date on which the “PTA LTE-R Project Contract” comes into effect upon execution and ending on the date on which the performance of the obligations of ZTE Australia under the “PTA LTE-R Project Contract” are completed; (2) the application by ZTE HK to the relevant bank for the issuance of a bank guarantee letter providing guarantee with a cumulative maximum amount of USD3 million in respect of the performance obligations of ZTE Australia under the “PTA LTE-R Project Contract”, with a valid term commencing on the date of issuance and ending on the date on which the performance of the obligations of ZTE Australia under the “PTA LTE-R Project Contract” are completed; (3) provision of guarantee by ZTE HK in favour of John Holland Pty Ltd. in respect of the performance obligations of ZTE Australia under the “Joint Entity Agreement” for an amount of not more than USD40 million for a term commencing on the date on which the “PTA LTE-R Project Contract” comes into effect upon execution and ending on the date on which the performance of the obligations of ZTE Australia under the “Joint Entity Agreement” is completed. As the Joint Entity has not won the bid for the PTA LTE-R Project, the relevant guarantee documents have not been executed, and neither will they be executed in future. The bank guarantee letter has not been issued, and neither will it be issued in future.
- Note 18: The Company completed the acquisition of Netaş, a listed Turkish company, on 28 July 2017. Prior to the acquisition of Netaş by the Company, Netaş had provided the following guarantee for its subsidiaries Probil Bilgi İşlem Destek ve Danışmanlık San.ve Tic.A.Ş. (renamed as “Netas Bilişim Teknolojileri A.Ş” and hereinafter as “Netas Bilişim”) and BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. (“BDH”): (1) guarantee in respect of the performance obligations of Netas Bilişim under the “Systems Integration Agreement” for an amount of approximately USD2,153,300 for a term commencing on the date on which the “Systems Integration Agreement” comes into effect upon execution and ending on the date on which the performance of the obligations of Probil under the “Systems Integration Agreement” are completed; (2) guarantee in respect of the performance obligations of BDH under the “Procurement and Installation Agreement” for an amount of EUR10,753,800 for a term commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the “Procurement and Installation Agreement” is completed. As at the end of the reporting period, the aforesaid guarantees were under normal performance.
- Note 19: The guaranteed amounts are translated at the following book exchange rates of the Company as at 30 June 2018: USD1:RMB6.6266, EUR1:RMB7.6581, INR1:RMB0.0968

Material Matters

3. A special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company has been furnished by Independent Non-Executive Directors of the Company. For details, please refer to the “Overseas Regulatory Announcement Independent Opinion of the Independent Non-executive Directors on Relevant Matters” published by the Company on 30 August 2018.
4. Progress of material contracts entered into during or prior to the reporting period
☐ Applicable ☒ N/A

(XIII) UNDERTAKING

1. Undertakings by relevant undertaking parties, including the de facto controller, shareholders, connected parties, acquirers of the Company and the Company overdue and not completed during the reporting period

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

- a. Zhongxingxin, the controlling shareholder of the Company, entered into “Non-Competition Agreement” with the Company on 19 November 2004, pursuant to which Zhongxingxin has undertaken to the Company that: Zhongxingxin will not, and will prevent and preclude any of its other subsidiaries from carrying on or participating in any activities in any businesses deemed to be competing with existing and future businesses of the Company in any form (including but not limited to sole ownership, equity joint venture or co-operative joint venture and direct or indirect ownership of equity or other interests in other companies or enterprises, other than 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.
- b. Zhongxingxin, the controlling shareholder of the Company, provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the non-public issuance of A shares in 2018: (1) that it will not, for so long as it remains the controlling shareholder of the Company, act beyond its powers to interfere with the Company’s operating and management activities or infringe upon the Company’s interests; (2) that it will willingly assume the liability for compensating the Company or other shareholders in accordance with the law in the event of losses incurred by the Company or other shareholders as a result of its violation of or refusal to honour its undertaking.

(2) Other undertaking given to minority shareholders of the Company

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

2. Undertaking by the Directors and senior management of the Company in relation to the implementation of remedial measures to address the dilution of return for the current period due to the non-public issuance of A shares of the Company in 2018

The Directors and senior management of the Company provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the non-public issuance of A shares in 2018: (1) that they will not be engaged in tunneling in favour of other units or individuals on a no-payment basis or upon unfair terms, or otherwise compromise the interests of the Company in any other manner; (2) that they will exercise restraint in spending when performing duties of their office; (3) that they will not misappropriate Company assets for investing activities or expenses not related to the performance of their duties; (4) that they will procure the linking of the remuneration regime formulated by the Board of Directors or the Remuneration Committee of the Board of Directors with the implementation of the Company's measures relating to compensation for return; (5) that they will procure the linking of the exercise conditions under the Company's share option incentives to be announced with the implementation of the Company's measures relating to compensation for return; (6) that they will willingly assume the liability for compensating the Company or shareholders in accordance with the law in the event of losses incurred by the Company or shareholders as a result of their violation of or refusal to honour their undertaking.

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

(XIV) EXPLANATORY STATEMENT BY THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE ON THE ACCOUNTANT'S "QUALIFIED OPINION" FOR THE REPORTING PERIOD

☐ Applicable ☒ N/A

(XV) EXPLANATORY STATEMENT BY THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE ON THE CHANGES IN MATTERS IN RESPECT WHICH A "QUALIFIED OPINION" WAS ISSUED BY THE ACCOUNTANT FOR THE PREVIOUS YEAR AND ACTIONS TAKEN TO ADDRESS THE ISSUE

☐ Applicable ☒ N/A

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

☒ Applicable ☐ N/A

For details of changes in the Company's accounting policies for the reporting period, please refer to the section headed "Highlights of Accounting Data and Financial Indicators (I)" in this report.

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

☐ Applicable ☒ N/A

Material Matters

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

New subsidiaries established during the period included: tier-one subsidiaries ZTE Smart Terminal Company Limited, Nanjing Xingtong Future Realty Company Limited and Xi'an Guoxing Smart Technology Industry Park Company Limited; tier-two subsidiaries ZTE HONGKONG (LAO) SOLE COMPANY LIMITED, ZXRC PAKISTAN (PRIVATE) LIMITED, Kela IOT (Quzhou) Company Limited, Heilongjiang ZTE ICT Technology Company Limited, Nanjing Xingtong Zhiyuan Realty Company Limited, Beijing ZTE Guangtai Software Company Limited, ZTEsoft (Nanjing) Information Technology Company Limited; and tier-three subsidiaries ZTE HAITI S.A., Wuzhou Digital City Development Company Limited, Fuzhou ZTE Ruanzhi Technology Development Company Limited and Zsmart Myanmar Company Limited.

Dalian Zhongwang Realty Company Limited, a tier-three subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 4 March 2018 and had been excluded from the consolidated financial statements of the Group as from 4 March 2018. Changchun ZTE New Energy Auto Sales Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 14 May 2018 and had been excluded from the consolidated financial statements of the Group as from 14 May 2018. Henan ZTE Photovoltaics Technology Co., Ltd., a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 21 May 2018 and had been excluded from the consolidated financial statements of the Group as from 21 May 2018.

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

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

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

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

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

(XXIV) 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.

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

(XXVI) STATUS IN RELATION TO ENVIRONMENTAL PROTECTION

Whether the listed company and its key subsidiaries are major pollution discharging units announced by environmental protection authorities

☒ Applicable ☐ N/A

Name of company or subsidiary	Name of main pollutants and typical pollutants	Means of discharge	Number of discharge outlet	Distribution of discharge outlet	Concentration of discharge	Pollutant discharge standards implemented	Total discharge volume in the first half of 2018	Approved total discharge volume	Excessive discharge
ZTE Corporation	Used batteries, tin slag, spent fluorescent tubes	Transfer to professional hazardous waste handling agencies	1	55 Keji Road South, Nanshan District, Shenzhen	N/A	N/A	52.27 tons	N/A	N/A

1. Construction and operation of facilities for the prevention of pollution

The Company has set up warehouse for the temporary storage of wastes. Hazardous wastes have been labelled and separately stored by category in accordance with environmental laws and regulations, while administrative rules and contingency plans have been formulated. Emergency facilities such as anti-seepage troughs and sand extinguishers have been put in place, while safety inspection of the storage zones have been carried out on a regular basis.

As a member of the UN Global Compact, ZTE has persisted in efforts in line with the idea of sustainable development on a global basis to realise harmony and co-growth of the community, environment and stakeholders.

ZTE has set up the Energy Conservation and Discharge Reduction Committee to oversee and drive energy conservation and the reduction of discharge and consumption at the corporate level: in terms of products, energy-saving measures have been adopted to procure clean production and energy conservation by improving efficiency in utilisation; in terms of operation, equipment upgrades have been carried out to enhance day-to-day management of energy conservation. Initiatives in these two aspects have combined to make our work in energy conservation and discharge reduction more target-specific and operable. The Company has also formulated measures for the administration of energy conservation and discharge reduction. Relevant regulations have been promulgated among the staff from time to time, while energy conservation and discharge reduction has been implemented by way of self-inspection and self-rectification by the business departments and regular inspection and reporting by the departments in-charge.

Material Matters

2. Environmental impact assessment for construction projects and other administrative approvals relating to environmental protection

The Company has conducted environmental impact assessment for construction projects and obtained environmental assessment approvals from the environmental authorities in accordance with environmental laws and regulations.

3. Emergency plans for contingent environmental incidents

In order to establish a comprehensive emergency unit with unified command, quick response and efficient operation, enhance the Company's ability to deal with various contingent events, prevent and mitigate the damage caused by contingent events, protect the lives of staff and the safety of the environment, and safeguard the stable and healthy development of the Company, we have formulated emergency plans for contingent events and established an emergency response team with established procedures for response to emergencies.

4. Environmental self-monitoring plan

The Company has obtained ISO14001 accreditation for its environmental management system and conducts annual environmental inspection and testing as well as internal and external audit in accordance with the standards.

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE REPORTING PERIOD

Unit: share

	31 December 2017		Increase/decrease as a result of the change during the reporting period (+, -)					30 June 2018	
	Number of shares	Percentage	New issue	Bonus issue	Transfer from capital reserve	Others ^{Note 1}	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	3,184,710	0.08%	—	—	—	-139,744	-139,744	3,044,966	0.07%
1. State-owned shares	—	—	—	—	—	—	—	—	—
2. State-owned corporate shares	—	—	—	—	—	—	—	—	—
3. Other domestic shares	—	—	—	—	—	—	—	—	—
Comprising: domestic non-state-owned corporate shares	—	—	—	—	—	—	—	—	—
Domestic natural person shares	—	—	—	—	—	—	—	—	—
4. Foreign shares	—	—	—	—	—	—	—	—	—
Comprising: Foreign corporate shares	—	—	—	—	—	—	—	—	—
Foreign natural person shares	—	—	—	—	—	—	—	—	—
5. Senior management shares	3,184,710	0.08%	—	—	—	-139,744	-139,744	3,044,966	0.07%
II. Shares not subject to lock-up	4,189,487,133	99.92%	—	—	—	139,744	139,744	4,189,626,877	99.93%
1. RMB ordinary shares	3,433,984,599	81.90%	—	—	—	139,744	139,744	3,434,124,343	81.91%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	755,502,534	18.02%	—	—	—	—	—	755,502,534	18.02%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	4,192,671,843	100.00%	—	—	—	—	—	4,192,671,843	100.00%

Note 1: In accordance with relevant domestic regulations, shares held by the Directors, Supervisors or senior management shall be subject to lock-up or unlocking on a pro-rata basis.

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

Unit: share

No.	Name of shareholders subject to lock-up	Number of A shares subject to lock-up as at 31 December 2017	Number of A shares released from lock-up during the reporting period ^{Note}	Increase in the number of A shares subject to lock-up during the reporting period	Number of A shares subject to lock-up as at 30 June 2018	Reason for lock-up	Date of unlocking
1	Yin Yimin	569,550	—	—	569,550	Restricted senior management shares	—
2	Xu Huijun	567,638	—	—	567,638	Restricted senior management shares	—
3	Pang Shengqing	550,261	—	—	550,261	Restricted senior management shares	—
4	Xie Daxiong	371,852	—	—	371,852	Restricted senior management shares	—
5	Zhao Xianming	488,636	122,159	—	366,477	Restricted senior management shares	—
6	Wei Zaisheng	329,758	—	—	329,758	Restricted senior management shares	—
7	Zhang Zhenhui	163,800	—	—	163,800	Restricted senior management shares	—
8	Xia Xiaoyue	38,195	—	—	38,195	Restricted senior management shares	—
9	Cao Wei	18,900	—	—	18,900	Restricted senior management shares	—
10	Xu Weiyan	8,279	—	—	8,279	Restricted senior management shares	—
11	Others	77,841	17,585	—	60,256	Restricted senior management shares	—
Total		3,184,710	139,744	—	3,044,966	—	—

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

Changes in Shareholdings and Information of Shareholders

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

1. The Company granted 149,601,200 A share options to 1,996 participants on 6 July 2017. The registration of the grant of such A share options has been completed on 20 July 2017. The code of the options is “037050” and the abbreviated name is “中興JLC2”.
2. The Company had no employees' shares.

(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 as at the end of the reporting period

Total number of shareholders						
As at 30 June 2018		There were 437,799 shareholders (comprising 437,470 holders of A shares and 329 holders of H shares)				
Shareholdings of top 10 shareholders or shareholders holding 5% or above of the shares						
Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1. Zhongxingxin	State-owned corporation	30.34%	1,271,868,333	—	—	Nil
2. HKSCC Nominees Limited ^{Note 1}	Foreign shareholders	17.99%	754,280,856	-10,654	—	Unknown
3. Central Huijin Asset Management Co. Ltd.	State-owned corporation	1.25%	52,519,600	—	—	Nil
4. NSSF Portfolio #104	Others	1.07%	44,988,881	+3,000,100	—	Nil
5. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	0.99%	41,516,065	—	—	Nil
6. China Mobile No. 7 Research Institute	State-owned corporation	0.45%	19,073,940	—	—	Nil
7. Ping An Life Insurance Company of China, Ltd. — Wanneng — Personal Insurance Wanneng	Others	0.42%	17,613,096	+4,777,424	—	Nil
8. Ping An Life Insurance Company of China, Ltd. — Touliau — Personal Insurance Touliau	Others	0.33%	13,962,929	+5,999,943	—	Nil
9. Hong Kong Securities Clearing Company Limited ^{Note 2}	Overseas corporation	0.33%	13,828,384	-929,270	—	Nil
10. Haitong Securities Co., Ltd.	State-owned corporation	0.29%	12,266,637	+566,520	—	Nil

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

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,269,830,333	A share
2. HKSCC Nominees Limited	2,038,000	H share
3. Central Huijin Asset Management Co. Ltd.	754,280,856	H share
4. NSSF Portfolio #104	52,519,600	A share
5. Hunan Nantian (Group) Co., Ltd.	44,988,881	A share
6. China Mobile No. 7 Research Institute	41,516,065	A share
7. Ping An Life Insurance Company of China, Ltd. — Wanneng — Personal Insurance Wanneng	19,073,940	A share
8. Ping An Life Insurance Company of China, Ltd. — Touliau — Personal Insurance Touliau	17,613,096	A share
9. Hong Kong Securities Clearing Company Limited	13,962,929	A share
10. Haitong Securities Co., Ltd.	13,828,384	A share
	12,266,637	A share

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

1. Zhongxingxin was neither a connected party nor a concerted party of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above.
2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.

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

N/A

- Note 1: Shares held by HKSCC Nominees Limited represented the sum of shares held in the accounts of the H shareholders of the Company traded on the trading platform of HKSCC Nominees Limited.
- Note 2: Shares held by Hong Kong Securities Clearing Company Limited represented the sum of A shares in the Company purchased through Shenzhen Hong Kong Stock Connect (Northbound).
- Note 3: 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 4: Shareholders holding 5% or above of the Company's shares — As at the end of the reporting period, Zhongxingxin, controlling shareholder of the Company, held 1,271,868,333 shares in the Company, representing 30.34% of the total share capital of the Company. Changes in the shareholdings of the Zhongxingxin during the reporting period are as follows:

Name of shareholder	Increase/decrease of number of shares held during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Class of shares held	Number of shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	0	1,269,830,333	A shares	0	1,269,830,333	Nil
	0	2,038,000	H shares	0	2,038,000	Nil

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

☐ Yes ☒ No

The Company had no preferential shares.

2. Controlling shareholder 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:	Wei Zaisheng
Date of incorporation:	29 April 1993
Uniform social credit code:	91440300192224518G
Registered capital:	RMB100 million
Scope of business:	Design and production of cabinets and cases; R&D of machine vision systems integration, R&D of robotic vision systems integration, design and production of optical instruments, industrial cameras and instruments, design and production of high-end mechanical equipment, computer systems integration, and technology development, technology transfer, technical services, technical consultation and import and export of technologies in relation to software and hardware of computer vision data processing systems; leasing of owned housing properties; industrial investment; import and export business.

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 three shareholders, Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT. In April 2017, Aerospace Guangyu transferred 2.5% equity interests in Zhongxingxin to Guoxing Ruike. Upon closing of the transfer, Xi'an Microelectronics, Aerospace Guangyu, Zhongxing WXT and Guoxing Ruike held a 34%, 14.5%, 49% and 2.5% 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

Changes in Shareholdings and Information of Shareholders

Zhongxingxin respectively. Therefore, no shareholder of Zhongxingxin has the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. Details of the four shareholders of Zhongxingxin are set out as follows:

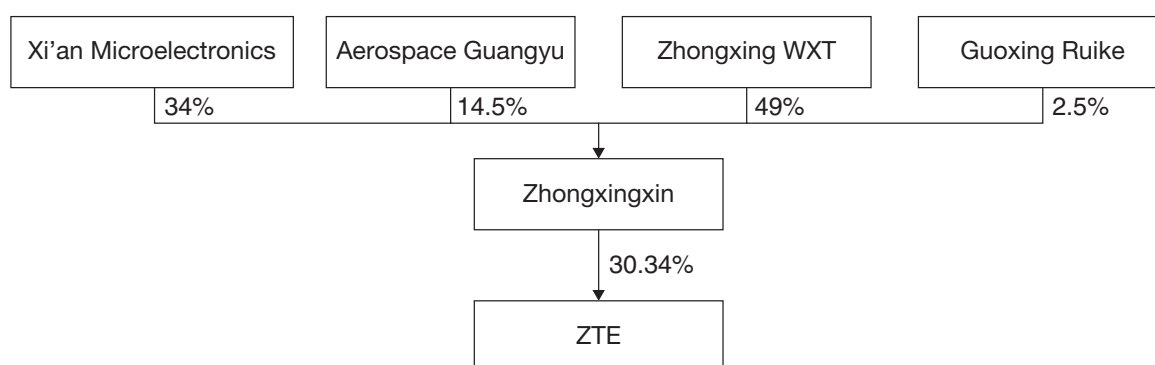
Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large state-owned research institute established in 1965 with Tian Dongfang as legal representative and a start-up capital of RMB198,530,000. Its organisation number is H0420141-X. It is the only specialised research institute in China which features the complementary integration of the research, development and production of semi-conductor integrated circuits, hybrid integrated circuits and computers.

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a wholly state-owned enterprise established on 17 August 1989 with Cui Yuping as legal representative and a registered capital of RMB17,950,000. Its uniform social credit code is 91440300192175031U. The scope of business includes sales of aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile, and automobile. Domestic trade and import and export operations; trade brokerage and agency; lease of owned properties; wholesale of aqua-products; sales of mining products (other than mining products required to be centrally purchased by entities designated by the State) and timber; sales of goldware and silverware (other than items prohibited under laws, administrative regulations or State Council decisions and subject to the obtaining of relevant permits for restricted items); wholesale of pre-packaged food products; wholesale of agricultural by-products; sales of coal products; sales of pre-packaged food (including refrigerated food), sales of bulk food (including refrigerated food); sales of medical equipment; sales of categories II and III ray devices.

Zhongxing WXT is a private enterprise incorporated on 23 October 1992 with Hou Weigui as legal representative and a registered capital of RMB10 million. Its uniform social credit code is 9144030027941498XF. The scope of business includes the development and production of telecommunications and transmission equipment, ancillary equipment, computer and peripheral equipment (excluding restricted projects); investment in industrial operations (subject to separate applications for specific projects).

Guoxing Ruike is a limited partnership established on 2 December 2016 with Guoxing Ruike Capital Management Company Limited as executive partner and a registered capital of RMB500 million. Its uniform social credit code is 91440400MA4W1GHE5H and its scope of operation includes capital management, investment with owned funds and project investment (subject to approval of relevant authorities if such approval is required under the law).

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 30 June 2018:



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

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

As at 30 June 2018, 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 ^{Note1}	
			Total share capital	Relevant class of shares
Zhongxingxin ^{Note 2}	Beneficial owner	1,269,830,333	30.29% (L)	36.94% (L)
		A shares (L)		
Zhongxing WXT	Interests of corporation controlled by the substantial shareholder	1,269,830,333	30.29% (L)	36.94% (L)
		A shares (L)		
Xi'an Microelectronics	Interests of corporation controlled by the substantial shareholder	1,269,830,333	30.29% (L)	36.94% (L)
		A shares (L)		
China Aerospace Electronics Technology Research Institute	Interests of corporation controlled by the substantial shareholder	1,269,830,333	30.29% (L)	36.94% (L)
		A shares (L)		
China Aerospace Science and Technology Corporation	Interests of corporation controlled by the substantial shareholder	1,269,830,333	30.29% (L)	36.94% (L)
		A shares (L)		
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.92% (L)	5.08%(L)
BlackRock, Inc.	Interests of corporation controlled by you	48,775,584 H shares (L)	1.16% (L)	6.46% (L)
		29,480 H shares (S)	0.00% (S)	0.00% (S)

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

Note 1: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital of 4,192,671,843 shares, comprising 3,437,169,309 A shares and 755,502,534 H shares, as at 30 June 2018.

Note 2: Zhongxingxin, controlling shareholder of the Company, held 2,038,000 H shares in the Company, accounting for 0.27% of the H shares of the Company.

Save as disclosed above, as at 30 June 2018, so far as the Directors, Supervisors and senior management of the Company are aware, save for the Directors, Supervisors and chief executive of the Company, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

6. Repurchase, sale and redemption of securities

During the reporting period, the Company and its subsidiaries did not repurchase, sell or redeem any listed securities of the Company.

Directors, Supervisors and Senior Management

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

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on	Term of office ending on	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of A shares held during the period (shares)	Decrease in the number of A shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reasons for changes	Whether remuneration is received from connected parties
Directors of the Company													
1	Li Zixue ^{Note 3}	Male	54	Chairman	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
2	Xu Ziyang ^{Note 4, Note 5}	Male	46	Director	Incumbent	8/2018	3/2019	—	—	—	—	—	No
				President		7/2018	3/2019						
3	Li Buqing ^{Note 3}	Male	46	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
4	Gu Junying ^{Note 3}	Male	51	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
				Executive Vice President		7/2018	3/2019						
5	Zhu Weimin ^{Note 3}	Male	52	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
6	Fang Rong ^{Note 3}	Female	54	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
7	Cai Manli ^{Note 3}	Female	45	Independent Non-executive Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
8	Yuming Bao ^{Note 3}	Male	46	Independent Non-executive Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
9	Gordon Ng ^{Note 3}	Male	54	Independent Non-executive Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
10	Yin Yimin ^{Note 6}	Male	55	Chairman	Resigned	3/2017	6/2018	759,400	—	—	759,400	—	No
				Director		3/2016	6/2018						
11	Zhang Jianheng ^{Note 4}	Male	57	Vice Chairman	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
12	Luan Jubao ^{Note 6}	Male	56	Vice Chairman	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
13	Zhao Xianming ^{Note 4, Note 6}	Male	52	Director	Resigned	3/2016	6/2018	488,636	—	—	488,636	—	No
				President		4/2016	7/2018						
14	Wang Yawen ^{Note 6}	Male	55	Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
15	Tian Dongfang ^{Note 6}	Male	58	Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
16	Zhan Yichao ^{Note 6}	Male	55	Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
17	Wei Zaisheng ^{Note 6}	Male	56	Director	Resigned	3/2016	6/2018	439,677	—	—	439,677	—	Yes
18	Zhai Weidong ^{Note 6}	Male	51	Director	Resigned	6/2017	6/2018	—	—	—	—	—	Yes
19	Richard Xike Zhang ^{Note 6}	Male	48	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
20	Chen Shaohua ^{Note 6}	Male	57	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
21	Li Hongbing ^{Note 6}	Male	52	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
22	Bingsheng Teng ^{Note 6}	Male	48	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
23	Zhu Wuxiang ^{Note 6}	Male	53	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
Supervisors of the Company													
24	Xie Daxiong	Male	55	Chairman of Supervisory Committee	Incumbent	3/2016	3/2019	495,803	—	—	495,803	—	No
25	Wang Junfeng	Male	52	Supervisor	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
26	Xia Xiaoyue	Female	43	Supervisor	Incumbent	3/2016	3/2019	50,927	—	—	50,927	—	No
27	Li Quancai	Male	57	Supervisor	Incumbent	11/2017	3/2019	—	—	—	—	—	No
28	Xu Weiyuan ^{Note 7}	Female	56	Supervisor	Resigned	3/2016	7/2018	11,039	—	—	11,039	—	Yes
Senior Management of the Company													
29	Wang Xiyu ^{Note 4}	Male	44	Executive Vice President	Incumbent	7/2018	3/2019	—	—	—	—	—	No
30	Li Ying ^{Note 4}	Female	40	Executive Vice President and Chief Financial Officer	Incumbent	7/2018	3/2019	1,800	—	—	1,800	—	No
31	Cao Wei	Female	42	Secretary to the Board	Incumbent	4/2016	3/2019	25,200	—	—	25,200	—	No
32	Xu Huijun ^{Note 4}	Male	45	Executive Vice President	Resigned	4/2016	7/2018	756,851	—	—	756,851	—	No
33	Zhang Zhenhui ^{Note 4}	Male	45	Executive Vice President	Resigned	4/2016	7/2018	218,400	—	—	218,400	—	No
34	Pang Shengqing ^{Note 4}	Male	50	Executive Vice President	Resigned	4/2016	7/2018	733,682	—	—	733,682	—	No
35	Xiong Hui ^{Note 4}	Male	49	Executive Vice President	Resigned	1/2017	7/2018	10,000	—	—	10,000	—	No
36	Shao Weilin ^{Note 4}	Male	45	Executive Vice President and Chief Financial Officer	Resigned	9/2017	7/2018	—	—	—	—	—	No
Total													
								3,991,415	—	—	3,991,415	—	—

Note 1: The starting and ending dates of the term of office set out in this table are the starting and ending dates of the term of office of the Directors of the Seventh Session of the Board of Directors, Supervisors of the Seventh Session of the Supervisory Committee and senior management of the Company appointed by the Seventh Session of the Board of Directors.

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

- Note 3: At the 2017 Annual General Meeting of the Company held on 29 June 2018, Mr. Li Zixue, Mr. Li Buqing, Mr. Gu Junying, Mr. Zhu Weimin and Ms. Fang Rong were elected as non-independent Directors of the Seventh Session of the Board of Directors of the Company, and Ms. Cai Manli, Mr. Yuming Bao and Mr. Gordon Ng were elected as Independent Non-executive Directors of the Seventh Session of the Board of Directors of the Company. At the Thirty-first Meeting of the Seventh Session of the Board of Directors of the Company held on 29 June 2018, Mr. Li Zixue was elected as Chairman of the Board of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-executive Directors of the Seventh Session of the Board of Directors of the Company, and Mr. Li Zixue and Mr. Gu Junying were elected as Executive Directors of the Seventh Session of the Board of Directors of the Company.
- Note 4: At the Thirty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 5 July 2018, it was approved that the appointment of Mr. Zhao Xianming as President of the Company, each of Mr. Xu Huijun, Mr. Zhang Zhenhui, Mr. Pang Shengqing, Mr. Xiong Hui and Mr. Shao Weilin as Executive Vice President of the Company and Mr. Shao Weilin as Chief Financial Officer of the Company be discontinued; and that Mr. Xu Ziyang be appointed President of the Company and each of Mr. Wang Xiyu, Mr. Gu Junying and Ms. Li Ying be appointed Executive Vice President of the Company; that Ms. Li Ying be concurrently appointed Chief Financial Officer of the Company.
- Note 5: At the Second Extraordinary General Meeting of 2018 of the Company held on 28 August 2018, Mr. Xu Ziyang was elected as Executive Director of the Seventh Session of the Board of Directors of the Company.
- Note 6: Messrs. Yin Yimin, Zhang Jianheng, Luan Jubao, Zhao Xianming, Wang Yawen, Tian Dongfang, Zhan Yichao, Wei Zaisheng, Zhai Weidong, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang resigned as Directors and members of the specialist committees under the Board of the Company on 29 June 2018.
- Note 7: Ms. Xu Weiyan resigned as Shareholders' Representative Supervisor of the Company in July 2018.
- Note 8: As at the end of the reporting period, Mr. Wei Zaisheng held 30,000 H shares of the Company. Save as that, no other Directors, Supervisors or senior management of the Company held any H shares in the issued share capital of the Company.

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

For details of the share options of A shares of the Company held by Directors and senior management of the Company during the reporting period, please refer to the section headed "Material Matters – (VII) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME" in this report.

(II) INFORMATION CONCERNING INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING POSITIONS IN CORPORATE SHAREHOLDERS OF THE COMPANY AS AT THE DATE OF THIS REPORT

Name	Name of shareholder	Position with the shareholder	Commencement of term of office	Conclusion of term of office	Whether receiving remuneration from Zhongxingxin
Zhu Weimin ^{Note 1}	Zhongxingxin	Director	August 2018	August 2021	Yes

Note 1: Mr. Zhu Weimin was appointed director of Zhongxingxin in August 2018.

Directors, Supervisors and Senior Management

(III) INFORMATION CONCERNING INCUMBENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING MAJOR POSITIONS IN OTHER ENTITIES AS AT THE DATE OF THIS REPORT

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Li Zixue	Xi'an Microelectronics	Deputy head of institute	Yes
Xu Ziyang	ZTE Microelectronics	Chairman	No
Li Buqing	CASIC Shenzhen (Group) Company Limited	Deputy chief economist and director	No
	Shenzhen Aerospace Industrial Technology Research Institute Limited	Deputy chief economist and chief accountant	Yes
	Aerospace Guangyu	Director	No
	Shenzhen Aerospace Property Management Co., Ltd.	Director	No
	航天海鷹安全技術工程有限公司	Director	No
	深圳市航天立業實業發展有限公司	Chairman	No
	Nanjing Areospace Yinshan Electric Co., Ltd.	Chairman	No
Gu Junying	China Aerospace Electronics Technology Research Institute	Assistant to head of institute	Yes
	China Aerospace Times Electronics Co., Ltd.	Vice president	No
	航天物聯網技術有限公司	Chairman	No
	中國時代遠望科技有限公司	Director	No
Zhu Weimin	Shenzhen ZTE International Investment Limited	Chairman	Yes
	Held positions in 7 subsidiaries of Shenzhen Zhongxing International Investment Limited including Beijing United Zhongxing International Investment Limited	Chairman/Director	No
	Zhongxing WXT	Director	No
	Shenzhen Decang Technology Company Limited	Director	No
	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	Director	No
Fang Rong	Zhongxing Development	Director and executive vice president	Yes
	Shenzhen Zhongxing International Investment Limited	Director	No
	Held positions in 18 subsidiaries or investees of Zhongxing Development including 北京和立健信科技有限公司	Director	No
	Beijing United Zhongxing International Investment Limited	Director	No
Cai Manli	HEYI Rising Assets Management Co., Ltd.	General manager	Yes
	King & Wood Mallesons	Senior consultant	No
	Sichuan Xinwang Bank Co., Ltd.	External supervisor	Yes
Yuming Bao	Yantai Jereh Oilfield Services Group Co., Ltd.	Group vice president/chief legal officer	Yes
	Southwest University of Political Science and Law	Adjunct research fellow	No
	China Behavior Law Association	Visiting professor	No
Gordon Ng	Dentons Hong Kong LLP	Partner	Yes
	China Engine International (Holdings) Limited	Independent Non-executive Director	Yes
	Mainland Headwear Holdings Limited	Independent Non-executive Director	Yes
Xie Daxiong	Held positions in 2 subsidiaries including Guangdong New Pivot Technology & Service Company Limited	Chairman	No
Wang Junfeng ^{Note 1}	Shenzhen Aerospace Industrial Technology Research Institute Limited	Director	Yes
Li Quancai	Held positions in 2 subsidiaries including Xi'an Zhongxing New Software Company Limited	General manager	No
	深圳市中興宜和投資發展有限公司	Director	No
	深圳市益和天成投資發展有限公司	Supervisor	No
	深圳市小禾科技有限公司	Director	No
	深圳市中興益禾天美投資發展有限公司	Supervisor	No
	深圳市益和天成餐飲管理有限公司	Director	No
Wang Xiyu	Held positions in 18 subsidiaries including Guangdong New Pivot Technology & Service Company Limited	Chairman/director/general manager	No
	Zhuhai Guoxing Ruike Capital Management Limited	Director	No
Li Ying ^{Note 2}	Held positions in 5 subsidiaries including ZTE Group Finance	Chairman/director	No
Cao Wei	ZTE Capital	Director	No

Note 1: Mr. Wang Junfeng has ceased to be chairman of 航天亮麗電氣有限責任公司 as from March 2018 and director of 航天歐華 as from April 2018.

Note 2: Ms. Li Ying has been appointed director of ZTE HK and has ceased to be supervisor of Nanjing Xingtong Future Real Estate Co., Ltd. and Shenzhen Zoom Rel Testing Technology Co., Ltd., respectively, as from July 2018.

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

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

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

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

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

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

At the 2017 General Meeting of the Company held on 29 June 2018, Mr. Li Zixue, Mr. Li Buqing, Mr. Gu Junying, Mr. Zhu Weimin and Ms. Fang Rong were elected as non-independent Directors of the Seventh Session of the Board of Directors of the Company, and Ms. Cai Manli, Mr. Yuming Bao and Mr. Gordon Ng were elected as Independent Non-executive Directors of the Seventh Session of the Board of Directors of the Company for a term commencing on the date on which this resolution is considered and approved at the general meeting and ending upon the conclusion of the term of the Seventh Session of the Board of Directors of the Company (i.e., 29 March 2019). For details, please refer to the “Announcement on Resolutions of the 2017 Annual General Meeting” published by the Company on 29 June 2018.

At the Thirty-first Meeting of the Seventh Session of the Board of Directors of the Company held on 29 June 2018, Mr. Li Zixue was elected as Chairman of the Board of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-executive Directors of the Seventh Session of the Board of Directors of the Company, and Mr. Li Zixue and Mr. Gu Junying were elected as Executive Directors of the Seventh Session of the Board of Directors of the Company; Ms. Cai Manli, Mr. Li Buqing, Mr. Zhu Weimin, Mr. Yuming Bao and Mr. Gordon Ng were elected as members of Audit Committee of the Seventh Session of the Board of Directors of the Company with Ms. Cai Manli as convener; Mr. Gordon Ng, Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli, and Mr. Yuming Bao were elected as members of Nomination Committee of the Seventh Session of the Board of Directors of the Company with Mr. Gordon Ng as convener; Ms. Cai Manli, Mr. Gu Junying, Mr. Zhu Weimin, Mr. Yuming Bao and Mr. Gordon Ng were elected as members of Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors of the Company with Ms. Cai Manli as convener; For details, please refer to the “Overseas Regulatory Announcement of Resolutions of the Thirty-first Meeting of the Seventh Session of the Board of Directors of the Company” published by the Company on 29 June 2018.

On 29 June 2018, 14 Directors, namely, Messrs. Yin Yimin, Zhang Jianheng, Luan Jubao, Zhao Xianming, Wang Yawen, Tian Dongfang, Zhan Yichao, Wei Zaisheng, Zhai Weidong, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang, tendered their Resignation Reports in writing to resign from the position of Directors and the duties of each specialist committees under the Board of Directors of the Company. For details, please refer to the “Announcement of Resignation of Directors” published by the Company on 29 June 2018.

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.

Directors, Supervisors and Senior Management

(VI) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY AFTER THE END OF THE REPORTING PERIOD

On 3 July 2018, the Supervisory Committee of the Company received a Resignation Report of Shareholders' Representative Supervisor in writing from Ms. Xu Weiyan, Shareholders' Representative Supervisor. Due to her other personal commitments, Ms. Xu Weiyan had tendered her resignation from the position of Shareholders' Representative Supervisor of the Company. The resignation of Ms. Xu Weiyan came into effect upon delivery of the Resignation Report of Shareholders' Representative Supervisor at the Supervisory Committee. For details, please refer to the "Announcement Resignation of Shareholders' Representative Supervisor" published by the Company on 3 July 2018.

Pursuant to the "Resolution on the appointment and removal of senior management personnel" considered and approved at the Thirty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 5 July 2018, it was approved that the appointment of Mr. Zhao Xianming as President of the Company, each of Mr. Xu Huijun, Mr. Zhang Zhenhui, Mr. Pang Shengqing, Mr. Xiong Hui and Mr. Shao Weilin as Executive Vice President of the Company and Mr. Shao Weilin as Chief Financial Officer of the Company be discontinued; that Mr. Xu Ziyang be appointed President of the Company and each of Mr. Wang Xiyu, Mr. Gu Junying and Ms. Li Ying be appointed Executive Vice President of the Company; that Ms. Li Ying be concurrently appointed Chief Financial Officer of the Company; and that such newly appointed senior management shall be appointed for a term commencing on the date on which this resolution is considered and approved at the said meeting of the Board of Directors and ending upon the conclusion of the term of the Seventh Session of the Board of Directors of the Company (i.e., 29 March 2019). For details, please refer to the "Announcement of Resolutions of the Thirty-second Meeting of the Seventh Session of the Board of Directors of the Company" published by the Company on 5 July 2018.

Pursuant to the "Resolution on the election of members of the Export Compliance Committee of the Seventh Session of the Board of Directors" considered and approved at the Thirty-fourth Meeting of the Seventh Session of the Board of Directors of the Company held on 27 July 2018, Mr. Yuming Bao, Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Gordon Ng be elected as members of the Export Compliance Committee of the Seventh Session of the Board of Directors of the Company, with Mr. Yuming Bao as chair. For details, please refer to the "Announcement of Resolutions of the Thirty-fourth Meeting of the Seventh Session of the Board of Directors of the Company" published by the Company on 27 July 2018.

At the Second Extraordinary General Meeting of 2018 of the Company held on 28 August 2018, Mr. Xu Ziyang was elected as Executive Director of the Seventh Session of the Board of Directors of the Company for a term commencing on the date on which this resolution is considered and approved at the general meeting and ending upon the conclusion of the term of the Seventh Session of the Board of Directors of the Company (i.e., 29 March 2019). For details, please refer to the "Announcement on Resolutions of the Second Extraordinary General Meeting of 2018" published by the Company on 28 August 2018.

(VII) 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 2018 are set out in the section of this chapter headed "(I) CHANGES IN THE SHAREHOLDINGS AND SHARE OPTIONS OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT".

Save as disclosed above, as at 30 June 2018, 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 2018, 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 unless otherwise stated)
(English translations for reference only)

Assets	Note V	30 June 2018 (unaudited)	31 December 2017 (audited)
Current Assets			
Cash	1	18,972,333	33,407,879
Derivative financial assets	2	154,904	116,794
Trading financial assets	3	1,555,577	—
Bills receivable and trade receivables	4	22,181,067	26,398,228
Factored trade receivables	4	890,232	1,080,449
Other receivables	5	2,096,601	3,629,933
Prepayments	6	701,008	591,664
Inventories	7	26,316,928	26,234,139
Amount due from customers for contract works	9	—	9,012,909
Contract assets	8	5,856,243	—
Other current assets	22	9,278,848	7,758,594
Total current Assets		88,003,741	108,230,589
Non-current Assets			
Available-for-sale financial assets	10	—	3,181,668
Other non-current financial assets	13	1,587,518	—
Long-term trade receivables	11	978,737	1,244,760
Factored long-term trade receivables	11	554,429	2,608,006
Long-term equity investments	12	3,734,766	3,960,597
Investment properties	14	2,030,773	2,023,809
Fixed assets	15	8,457,811	8,694,456
Construction in progress	16	1,846,885	1,472,986
Intangible assets	17	4,683,850	4,741,615
Development costs	18	2,542,008	1,902,077
Goodwill	19	311,059	308,806
Deferred tax assets	20	2,681,410	1,464,250
Other non-current assets	23	3,296,381	4,128,596
Total non-current assets		32,705,627	35,731,626
TOTAL ASSETS		120,709,368	143,962,215

The notes to the financial statements appended hereto form part of these financial statements.

Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

Liabilities	Note V	30 June 2018 (unaudited)	31 December 2017 (audited)
Current liabilities			
Short-term loans	24	11,026,807	14,719,023
Bank advances on factored trade receivables	4	890,477	1,080,472
Derivative financial liabilities	25	164,131	49,830
Bills payable and trade payables	26	22,410,383	34,463,067
Amount due to customers for contract works	9	—	8,050,655
Advances from customers	28	—	8,702,351
Contract liabilities	27	23,566,149	—
Salary and welfare payables	29	5,104,249	7,389,544
Taxes payable	30	1,295,106	1,263,723
Other payables	31	7,268,303	7,071,421
Deferred income		1,761,898	454,891
Provisions	32	1,525,591	533,126
Non-current liabilities due within one year	33	3,977,951	3,816,844
Total current liabilities		78,991,045	87,594,947
Non-current liabilities			
Long-term loans	34	2,561,186	3,002,146
Bank advances on factored long-term trade receivables	11	555,251	2,948,006
Provision for retirement benefits		131,995	133,191
Deferred tax liabilities	20	354,577	338,131
Deferred income		1,100,348	1,224,978
Other non-current liabilities	35	3,306,778	3,340,669
Total non-current liabilities		8,010,135	10,987,121
Total liabilities		87,001,180	98,582,068

The notes to the financial statements appended hereto form part of these financial statements.

Consolidated Balance Sheet (continued)

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

		30 June 2018 (unaudited)	31 December 2017 (audited)
Shareholder's equity	Note V		
Shareholder's equity			
Share capital	36	4,192,672	4,192,672
Capital reserves	38	11,340,777	11,304,854
Other comprehensive income	39	(1,956,296)	(723,770)
Surplus reserve	40	2,142,354	2,205,436
Retained profits	41	6,325,127	14,667,683
Total equity attributable to holders of ordinary shares of the parent		22,044,634	31,646,875
Other equity instruments			
Including: perpetual capital instruments	37	7,606,796	9,321,327
Non-controlling interests		4,056,758	4,411,945
Total shareholders' equity		33,708,188	45,380,147
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		120,709,368	143,962,215

The notes to the financial statements appended hereto form part of these financial statements.

The financial statements set out on pages 67 to 205 have been signed by:

Legal Representative:
Li Zixue

Chief Financial Officer:
Li Ying

Head of Finance Division:
Xu Jianrui

Consolidated Income Statement

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

	Note V	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Operating revenue	42	39,433,777	54,010,596
Less: Operating costs	42	27,508,353	36,447,741
Taxes and surcharges	43	377,117	533,300
Selling and distribution costs	44	4,729,622	5,676,552
Administrative expenses	45	1,359,347	1,427,749
Research and development costs	46	5,060,624	6,676,679
Finance costs	49	183,351	289,157
Including: Interest expense		489,549	566,430
Interest income		(483,485)	(529,632)
Impairment losses	50	1,229,851	1,025,756
Credit impairment losses	50	1,656,845	—
Add: Other income	51	1,291,563	1,369,018
Investment (loss)/income		(18,702)	51,996
Including: Share of losses of associates and joint ventures		(213,534)	(3,507)
Loss from changes in fair values	47	(377,439)	(58,055)
Operating (loss)/profit		(1,775,911)	3,296,621
Add: Non-operating income	52	103,497	69,403
Less: Non-operating expenses	52	6,753,429	78,624
Total (loss)/profit		(8,425,843)	3,287,400
Less: Income tax	54	(565,033)	744,184
Net (loss)/profit		(7,860,810)	2,543,216
Attributable to:			
Holders of ordinary shares of the parent		(7,824,190)	2,292,867
Holders of perpetual capital instruments		214,918	249,963
Non-controlling interests		(251,538)	386
Other comprehensive income, net of tax		(815,502)	221,114
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	39	(794,391)	236,867
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		—	(7,781)
Effective portion of hedging instruments		—	(10,655)
Exchange differences on translation of foreign operations		(794,391)	255,303
		(794,391)	236,867
Other comprehensive income attributable to non-controlling interests, net of tax		(21,111)	(15,753)
Total comprehensive (loss)/income		(8,676,312)	2,764,330
Attributable to:			
Holders of ordinary shares of the parent		(8,618,581)	2,529,734
Holders of perpetual capital instruments		214,918	249,963
Non-controlling interests		(272,649)	(15,367)
Earnings per share (RMB/share)			
Basic	55	RMB(1.87)	RMB0.55
Diluted	55	RMB(1.87)	RMB0.55

The notes to the financial statements appended hereto form part of these financial statements.

Consolidated Statement of Changes in Equity

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

Six months ended 30 June 2018 (unaudited)									
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments		
I. Previous period's closing balance									
balance	4,192,672	11,304,854	(723,770)	2,205,436	14,667,683	31,646,875	9,321,327	4,411,945	45,380,147
Others	—	—	(438,135)	(63,082)	(518,366)	(1,019,583)	—	27,565	(992,018)
Adjusted current period's opening balance	4,192,672	11,304,854	(1,161,905)	2,142,354	14,149,317	30,627,292	9,321,327	4,439,510	44,388,129
II. Changes during the period									
(I) Total comprehensive loss	—	—	(794,391)	—	(7,824,190)	(8,618,581)	214,918	(272,649)	(8,676,312)
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	—	(6,680)	—	—	—	(6,680)	—	187,280	180,600
2. Share-based payment included in shareholders' equity	—	78,709	—	—	—	78,709	—	—	78,709
3. Acquisition of non-controlling shareholders	—	(31,606)	—	—	—	(31,606)	—	15,866	(15,740)
4. Redemption of perpetual capital instruments	—	(4,500)	—	—	—	(4,500)	(1,495,500)	—	(1,500,000)
(III) Profit appropriation									
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(313,249)	(747,198)
III. Current period's closing balance	4,192,672	11,340,777	(1,956,296)	2,142,354	6,325,127	22,044,634	7,606,796	4,056,758	33,708,188

Six months ended 30 June 2017 (unaudited)									
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments		
I. Current period's opening balance	4,184,628	10,734,300	(822,724)	2,022,709	10,282,238	26,401,151	9,321,327	5,162,612	40,885,090
II. Changes during the period									
(I) Total comprehensive income	—	—	236,867	—	2,292,867	2,529,734	249,963	(15,367)	2,764,330
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	5,387	53,702	—	—	—	59,089	—	9,700	68,789
2. Capital reduction by shareholders	—	—	—	—	—	—	—	(97,646)	(97,646)
(III) Profit appropriation									
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(8,550)	(442,499)
III. Current period's closing balance	4,190,015	10,788,002	(585,857)	2,022,709	12,575,105	28,989,974	9,137,341	5,050,749	43,178,064

The notes to the financial statements appended hereto form part of these financial statements.

Consolidated Cash Flow Statement

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

	Note V	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		52,509,269	56,882,180
Refunds of taxes		4,410,278	3,001,619
Cash received relating to other operating activities	56	1,916,690	1,568,458
Sub-total of cash inflows		58,836,237	61,452,257
Cash paid for goods and services		36,166,294	41,012,409
Cash paid to and on behalf of employees		13,362,104	10,717,716
Cash paid for various types of taxes		4,329,621	3,902,844
Cash paid relating to other operating activities	56	10,024,604	10,025,840
Sub-total of cash outflows		63,882,623	65,658,809
Net cash flows from operating activities	57	(5,046,386)	(4,206,552)
II. Cash flows from investing activities			
Cash received from sale of investments		1,502,078	462,375
Cash received from return on investment		431,435	31,808
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		1,936	15,986
Sub-total of cash inflows		1,935,449	510,169
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		2,036,418	1,956,715
Cash paid for acquisition of investments		1,050,375	916,581
Sub-total of cash outflows		3,086,793	2,873,296
Net cash flows from investing activities		(1,151,344)	(2,363,127)
III. Cash flows from financing activities			
Cash received from capital injection		180,600	68,789
Including: Capital injection into subsidiaries by minority shareholders		180,600	9,700
Cash received from borrowings		11,249,198	15,972,887
Sub-total of cash inflows		11,429,798	16,041,676
Cash repayment of borrowings		16,733,687	12,401,660
Cash payment for redemption of perpetual capital instruments		1,500,000	—
Cash payments for distribution of dividends and profits or for interest expenses		1,356,586	1,135,359
Including: Distribution of dividends and profits by subsidiaries to minority shareholders		213,422	57,671
Sub-total of cash outflows		19,590,273	13,537,019
Net cash flows from financing activities		(8,160,475)	2,504,657
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		32,223	(76,779)
V. Net decrease in cash and cash equivalents		(14,325,982)	(4,141,801)
Add: cash and cash equivalents at the beginning of period		30,109,268	30,049,791
VI. Net balance of cash and cash equivalents at the end of period	57	15,783,286	25,907,990

The notes to the financial statements appended hereto form part of these financial statements.

Balance Sheet

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

Assets	Note XIV	30 June 2018 (unaudited)	31 December 2017 (audited)
Current assets			
Cash		10,497,222	18,665,112
Derivative financial assets		44,322	1,679
Bills receivable and trade receivables	1	27,526,949	29,072,067
Factored trade receivables		717,754	704,593
Other receivables	2	28,650,149	25,387,464
Prepayments		28,724	56,680
Inventories		13,807,054	16,484,640
Amount due from customers for contract works		—	4,291,058
Contract assets		1,989,158	—
Other current assets		4,880,765	4,313,873
Total current assets		88,142,097	98,977,166
Non-current assets			
Available-for-sale financial assets	4	—	461,091
Other non-current financial assets	3	614,152	—
Long-term trade receivables	5	5,320,406	5,752,524
Factored long-term trade receivables		443,744	2,491,751
Long-term equity investments	6	13,658,636	13,685,375
Investment properties		1,622,208	1,615,458
Fixed assets		4,753,415	4,887,175
Construction in progress		1,025,474	905,876
Intangible assets		1,539,878	1,235,751
Development costs		217,142	404,145
Deferred tax assets		1,439,123	566,364
Other non-current assets		2,559,366	3,452,454
Total non-current assets		33,193,544	35,457,964
Total assets		121,335,641	134,435,130

The notes to the financial statements appended hereto form part of these financial statements.

Balance Sheet (continued)

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

	30 June 2018 (unaudited)	31 December 2017 (audited)
Liabilities and shareholders' equity		
Current liabilities		
Short-term loans	8,556,579	7,158,482
Bank advances on factored trade receivables	717,998	704,617
Derivative financial liabilities	5,526	30,078
Bills payable and trade payables	48,289,962	52,386,859
Amount due to customers for contract works	—	5,584,395
Advances from customers	—	6,424,220
Contract liabilities	16,064,041	—
Salary and welfare payables	2,716,822	4,118,982
Taxes payable	279,400	155,820
Other payables	17,796,349	20,730,300
Deferred income	1,007,996	329,251
Provisions	1,294,975	301,785
Non-current liabilities due within one year	352,000	74,000
Total current liabilities	97,081,648	97,998,789
Non-current liabilities		
Long-term loans	2,186,980	2,121,125
Bank advances on factored long-term trade receivables	444,566	2,831,751
Provision for retirement benefits	131,995	133,191
Deferred income	130,513	149,260
Other non-current liabilities	2,769,826	2,781,120
Total non-current liabilities	5,663,880	8,016,447
Total liabilities	102,745,528	106,015,236
Shareholders' equity		
Share capital	4,192,672	4,192,672
Capital reserves	9,141,305	9,067,096
Other comprehensive income	705,885	706,538
Surplus reserve	1,608,094	1,543,680
Retained profits	(4,664,639)	3,588,581
Total equity attributable to holders of ordinary shares	10,983,317	19,098,567
Other equity instruments		
Including: perpetual capital instruments	7,606,796	9,321,327
Total shareholders' equity	18,590,113	28,419,894
Total liabilities and shareholders' equity	121,335,641	134,435,130

The notes to the financial statements appended hereto form part of these financial statements.

Income Statement

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

	Note XIV	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Operating revenue	7	39,579,488	51,076,488
Less: Operating costs	7	33,113,845	42,138,643
Taxes and surcharges		93,760	225,932
Selling and distribution costs		2,708,843	3,268,005
Administrative expenses		923,524	858,396
Research and development costs		1,624,777	1,663,401
Finance costs		34,170	531,896
Including: Interest expense		239,967	365,416
Interest income		(75,667)	(229,486)
Impairment losses		952,830	710,462
Credit impairment losses		1,701,758	—
Add: Other income		99,337	50,000
Investment income	8	6,054	10,835
Including: Share of losses of associates and joint ventures		(180,228)	(5,163)
Gains/(losses) from changes in fair values		74,544	(43,618)
Operating (loss)/profit		(1,394,084)	1,696,970
Add: Non-operating income		63,024	63,054
Less: Non-operating expenses		6,721,519	33,758
Total (loss)/profit		(8,052,579)	1,726,266
Less: Income tax		(709,515)	254,351
Net profit/(loss)		(7,343,064)	1,471,915
Attributable to:			
Holders of ordinary shares		(7,557,982)	1,221,952
Holders of perpetual capital instruments		214,918	249,963
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods		(653)	(217)
Exchange differences on translation of foreign operations		(653)	(217)
Other comprehensive income, net of income tax effect on respective items		(653)	(217)
Total comprehensive (loss)/income		(7,343,717)	1,471,698
Attributable to holders of ordinary shares		(7,558,635)	1,221,735
Attributable to holders of perpetual capital instruments		214,918	249,963

The notes to the financial statements appended hereto form part of these financial statements.

Statement of Changes in Equity

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

Six months ended 30 June 2018 (unaudited)								
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Other equity instruments including: Perpetual capital instruments	Total shareholders' equity
I. Previous period's closing balance	4,192,672	9,067,096	706,538	1,543,680	3,588,581	19,098,567	9,321,327	28,419,894
Other	—	—	—	64,414	(695,238)	(630,824)	—	(630,824)
Adjusted current period's opening balance	4,192,672	9,067,096	706,538	1,608,094	2,893,343	18,467,743	9,321,327	27,789,070
II. Changes during the period								
(I) Total comprehensive income	—	—	(653)	—	(7,557,982)	(7,558,635)	214,918	(7,343,717)
(II) Shareholder's capital injection and capital reduction								
1. Share-based payment included in shareholders' equity	—	78,709	—	—	—	78,709	—	78,709
2. Redemption of perpetual capital instruments	—	(4,500)	—	—	—	(4,500)	(1,495,500)	(1,500,000)
(III) Profit appropriation								
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(433,949)
III. Current period's closing balance	4,192,672	9,141,305	705,885	1,608,094	(4,664,639)	10,983,317	7,606,796	18,590,113

Six months ended 30 June 2017 (unaudited)								
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Other equity instruments including: Perpetual capital instruments	Total shareholders' equity
I. Current period's opening balance	4,184,628	8,723,945	691,947	1,360,953	(3,053,766)	11,907,707	9,321,327	21,229,034
II. Changes during the period								
(I) Total comprehensive income	—	—	(217)	—	1,221,952	1,221,735	249,963	1,471,698
(II) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	5,387	53,702	—	—	—	59,089	—	59,089
(III) Profit appropriation								
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(433,949)
III. Current period's closing balance	4,190,015	8,777,647	691,730	1,360,953	(1,831,814)	13,188,531	9,137,341	22,325,872

The notes to the financial statements appended hereto form part of these financial statements.

Cash Flow Statement

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	48,816,197	55,190,277
Refund of taxes	3,187,537	1,710,252
Cash received relating to other operating activities	1,039,560	978,445
Sub-total of cash inflows	53,043,294	57,878,974
Cash paid for goods and services	43,633,667	50,139,071
Cash paid to and on behalf of employees	5,940,747	3,851,574
Cash paid for various types of taxes	1,025,163	265,031
Cash paid relating to other operating activities	8,612,274	8,898,081
Sub-total of cash outflows	59,211,851	63,153,757
Net cash flows from operating activities	(6,168,557)	(5,274,783)
II. Cash flows from investing activities		
Cash received from sale of investments	—	19,800
Cash received from return on investment	106,975	124,481
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	1,292	148,928
Net cash received from the disposal of subsidiaries and other business units	—	236,650
Sub-total of cash inflow	108,267	529,859
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	602,389	1,173,198
Cash paid for acquisition of investments	306,551	1,074,871
Sub-total of cash outflows	908,940	2,248,069
Net cash flows from investing activities	(800,673)	(1,718,210)
III. Cash flows from financing activities		
Cash received from capital injection	—	59,089
Cash received from borrowings	7,043,693	12,340,875
Sub-total of cash inflows	7,043,693	12,399,964
Cash repayment of borrowings	6,605,215	7,872,829
Cash payment for redemption of perpetual capital instruments	1,500,000	—
Cash payments for distribution of dividends, profits and for interest expenses	673,917	902,054
Sub-total of cash outflows	8,779,132	8,774,883
Net cash flows from financing activities	(1,735,439)	3,625,081
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	8,673	(55,776)
V. Net decrease in cash and cash equivalents	(8,695,996)	(3,423,688)
Add: cash and cash equivalents at the beginning of period	17,006,734	15,752,732
VI. Net balance of cash and cash equivalents at the end of period	8,310,738	12,329,044

The notes to the financial statements appended hereto form part of these financial statements.

Notes to Financial Statements

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

I. CORPORATE BACKGROUND

ZTE Corporation (the “Company”) was a limited liability company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (now renamed “Zhongxingxin Telecom 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”) are 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; 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 (commencement of operations subject to the obtaining of certificate of qualifications), lease of owned properties.

The controlling shareholder of the Group is Zhongxingxin Telecom 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 30 August 2018.

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Statement of compliance

The financial statements are in compliance with the requirement of the Accounting standards for Business Enterprises, truly and completely reflect the financial position of the Group and the Company as at 30 June 2018 and the results of their operations and their cash flows for the six months ended 30 June 2018.

2. Financial year

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

3. Reporting currency

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

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

4. Business combination

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

Business combinations involving entities under common control

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

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

Notes to Financial Statements

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combination (continued)

Business combinations not involving entities under common control (continued)

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

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

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

5. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on the concept of control, including the Company and all subsidiaries' financial statements for the six months ended 30 June 2018. 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.

Notes to Financial Statements

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

5. Consolidated financial statements (continued)

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

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

6. Classification of joint venture arrangements and joint operation

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

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

7. Cash and cash equivalents

Cash comprises cash on hand and deposits readily available for payments. Cash equivalents represent short-term highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

8. Foreign currency translation

For foreign currency transactions, the Group translates the foreign currency into its functional currency.

Upon initial recognition, foreign currency transactions are translated into the functional currency using the median exchange rate published by the PBOC at the beginning of the month in which transactions occur. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The translation differences arising from the settlement and foreign currency monetary items, except those relating to foreign currency monetary items eligible for the capitalisation shall be dealt with according to the principle of capitalisation of borrowing costs, are recognised in profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in functional currency. Foreign currency nonmonetary items measured at fair value are translated using the spot exchange rate. The differences arising from the above translations are recognised in current profit or loss or other comprehensive income according to the nature of foreign currency non-monetary items.

Notes to Financial Statements

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign currency translation (continued)

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained profits, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the periods when transactions occur. Translation differences arising from the aforesaid translation of financial statements denominated in foreign currency shall be recognised as other comprehensive income. When foreign operations are disposed, other comprehensive income relating to the foreign operation is transferred to current profit or loss. Partial disposal shall be recognised on a pro-rata basis.

Cash flows denominated in foreign currencies and foreign subsidiaries' cash flows are translated using the average exchange rate for the period when cash flows occur. The impact on cash by the fluctuation of exchange rates is presented as a separate line item of reconciliation in the cash flow statement.

9. Financial instruments

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

A financial asset (or part of it, or a part of a group of similar financial asset) is derecognised when one of the following criteria is met, that is, when a financial asset is written off from its account and balance sheet:

- (1) The right of receiving the cash flow generated from the financial asset has expired;
- (2) The right of receiving cash flow generated by the financial assets is transferred, or an obligation of paying the full amount of cash flow received to third parties in a timely manner has been undertaken under "pass-through" agreements, where (a) substantially all risks and rewards of the ownership of such financial assets have been transferred, or (b) control over such financial assets has not been retained even though substantially all risks and rewards of the ownership of such financial assets have been neither transferred nor retained.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognised. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability with any arising differences recognised in profit or loss.

Conventional dealings in financial assets are recognised or derecognised under the trade day accounting method. Conventional dealings refer to the receipt or delivery of financial assets within periods stipulated by the law and according to usual practices. The trade day is the date on which the Group undertakes to buy or sell a financial asset.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial assets

At initial recognition, the Group classifies its financial assets into: financial assets at fair value through profit or loss, financial assets at amortised cost, financial assets at fair value through other comprehensive income, and derivatives designated as effective hedging instruments, according to the Group's business model for managing financial assets and the contract cash flow characteristics of the financial assets. Financial assets are measured at fair value at initial recognition.

For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss; for other financial assets, the relevant transaction costs are recognised in their initial recognition amount.

The subsequent measurement of financial assets is dependent on its classification:

Debt instruments at amortised cost

Financial assets fulfilling all of the following conditions are classified as financial assets at amortised cost: the objective of the Group's business management model in respect of such financial assets is to generate contract cash flow; the contract terms of such financial assets provide that that cash flow generated on specific dates represents interest payment in relation to principal amounts based on outstanding principal amounts only. Such financial assets are subsequently measured at amortised cost using the effective interest rate method, and profit or loss arising from the amortisation or impairment is credited or charged to current profit or loss.

Debt instrument at fair value through other comprehensive income

Financial assets fulfilling all of the following conditions are classified as financial assets at fair value through other comprehensive income: the objective of the Group's business management model in respect of such financial assets is both to generate contract cash flow and to sell such financial assets; the contract terms of such financial assets provide that that cash flow generated on specific dates represents interest payment in relation to principal amounts based on outstanding principal amounts only. Such financial assets are subsequently measured at fair value. Any discount or premium is amortised using the effective interest rate method and recognised for interest income or expense. Other than impairment loss and exchange difference relating to foreign currencies in financial assets which are recognised current profit or loss, changes in the fair value of this type of financial assets are recognised in other comprehensive income until the derecognition of such financial assets, whereupon the cumulative profit or loss is transferred current profit or loss. Interest income relating to such financial assets are dealt with in current profit or loss.

Financial assets at fair value through profit or loss

Other than financial assets measured at amortised cost and financial assets at fair value through other comprehensive income as aforementioned, all financial assets are classified as financial assets at fair value through current profit or loss, which are subsequently measured at fair value, any changes of which are recognised in current profit or loss.

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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 include mainly derivative financial liabilities (comprising derivatives classified as financial liabilities) and financial liabilities designated at initial recognition to be measured at fair value through current profit or loss.

Financial liabilities are classified as trading financial assets or trading financial liabilities if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of disposal 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, and derivatives complying with financial guarantee contracts. These trading financial liabilities (comprising derivatives classified as financial liabilities) are subsequently measured at fair value and all changes, other than those relating to hedge accounting, are recognised in current period's profit or loss.

Other financial liabilities

Subsequent to initial recognition, these financial liabilities 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 issuer shall indemnify the contract holder suffering losses with a specified amount in the event that the debtor fails to repay its debt in accordance with the initial or revised terms of the debt instrument. 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 the amount of provision for losses determined at the balance sheet date and the initial amount less accumulated amortisation determined in accordance with the income recognition principle.

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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.

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 instruments

The Group performs impairment treatment on financial assets at amortised cost, debt instruments at fair value through other comprehensive income and contract assets based on expected credit losses and recognises provision for losses.

Credit loss refers to the difference between all contract cash flow receivable from the contract and all cash flow expected to be received discounted at the original effective, namely, the present value of the full amount of cash shortfall. Financial assets purchased by or originated from the Group to which credit impairment has occurred should be discounted at the credit-adjusted effective interest rate of the financial assets.

For receivables and contract assets that do not contain significant financing components, the Group adopts a simplified measurement method to measure provision for losses based on an amount equivalent to expected credit losses for the entire period.

For lease receivables and receivables and contract assets with significant financing components, the Group adopts a simplified measurement method selectively to measure provision for losses based on the amount of expected credit losses equivalent to the entire period.

In addition to the measurement of financial assets using a simplified measurement method as described above, the Group also assesses at each balance sheet date whether its credit risk has increased significantly since the initial recognition. If the credit risk has increased significantly since the initial recognition, the Group measures provision for losses based on the amount of expected credit losses equivalent to the entire period. If the credit risk has not increased significantly since the initial recognition, the Group measures provision for losses based on the amount of expected credit loss over the next 12 months.

Other than individually significant financial assets at amortised cost which are individually assessed for expected credit loss, the Group assesses the expected credit loss of financial assets at amortised cost and debt instruments at fair value through other comprehensive income in groups classified according to aging status.

The Group considers all reasonable and evidenced information, including forward-looking information, when assessing expected credit losses.

When the Group no longer reasonably expects to be able to fully or partially recover the contract cash flow of financial assets, the Group directly writes down the carrying balance of such financial assets.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Modification of financial assets

When the Group modifies or renegotiates a contract with the counterparty resulting in changes in the contract cash flow but not the derecognition of a financial asset, the Group recalculates the carrying balance of such financial asset according to its discounted present value at the original effective interest rate (or credit-adjusted effective interest rate) based the renegotiated or modified contract cash flow, and the resulting profit or loss is dealt with in current profit or loss. The modified carrying value of financial assets is adjusted for the cost or expense for the modification of financial assets, which cost or expense is amortised throughout the remaining term of the modified financial assets.

Transfer of financial assets

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be 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. 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 as at the balance sheet date 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)

11. 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 other equity instruments shall be transferred in full to retained profit 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)

11. 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.

Notes to Financial Statements

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. 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.

12. 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.

13. Fixed Assets

A fixed asset is recognised when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognised in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of the replaced part is derecognised; otherwise, those expenditures are recognised in profit or loss as incurred.

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Fixed Assets (continued)

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rates are as follows:

	Useful life	Estimated residual value	Annual depreciation ratio	depreciation rate
Freehold land	Indefinite	—		N/A
Buildings	30–50 years	5%		1.9%–3.17%
Electronic equipment	5–10 years	5%		9.5%–19%
Machinery equipment	5–10 years	5%		9.5%–19%
Motor vehicles	5–10 years	5%		9.5%–19%
Other equipment	5 years	5%		19%

The Group reviews, at least at each year end, useful lives, estimated residual values and depreciation methods of fixed assets and makes adjustments if necessary.

14. Construction in progress

Construction-in-progress is measured at the actual construction expenditures, including requisite construction expenditures incurred during the construction period, borrowing costs subject to capitalisation before they can be put into use and other related fees.

Construction-in-progress is transferred into fixed assets when it is ready for its intended use.

15. Assets relating to contract cost

The Group's assets relating to contract costs include the contract acquisition costs and contract performance costs, presented respectively under inventories, other current assets and other non-current assets.

Where the Group expects the incremental costs for acquiring a contract to be recoverable, such contract acquisition costs are recognised as an asset (unless the amortisation period of the asset is not more than 1 year).

Costs incurred by the Group for the performance of a contract are recognised as an asset as contract performance costs if they do not fall under the scope of the relevant standards for inventories, fixed assets or intangible assets but meet all the following conditions:

- (1) they are directly related to a current or anticipated contract, including direct labour, direct materials, manufacturing expenses (or similar expenses), to be borne by customers as specifically stipulated, and otherwise incurred solely in connection with the contract;
- (2) they will increase the resources to be utilised in the Company's future performance of its contractual obligations;

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Assets relating to contract cost (continued)

- (3) they are expected to be recoverable.

The Group amortises assets relating contract costs on the same basis as that for the recognition of revenue relating to such assets and recognises the amortised assets in current profit or loss.

For assets relating to contract costs whose carrying value is higher than the difference between the following two items, the Group makes provision for impairment for the excess to be recognised as asset impairment losses:

- (1) The remaining consideration expected to be obtained as a result of the transfer of goods relating to such assets;
- (2) Estimated costs to be incurred in connection with the transfer of relevant goods.

In the event that the difference between (1) and (2) becomes higher than the carrying value of such assets as a result of changes in the factors of impairment for previous periods, previous provisions for asset impairment losses should be written back and included in current profit or loss, provided that the carrying asset value following the write-back shall not exceed the carrying value such assets would have on the date of write-back were there no provision for impairment.

16. Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowings of funds, which include borrowing interest, amortisation of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowings in foreign currencies.

Borrowing costs directly attributable to the acquisition, construction or production of assets qualified for capitalisation, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

Capitalisation of borrowing costs begins where:

- (1) Capital expenditure has already happened;
- (2) Borrowing expenses has already incurred;
- (3) Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Borrowing costs (continued)

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

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

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

17. Intangible assets

Intangible assets are recognised only when it is probable that economic benefits relating to such intangible assets would flow into the Group and that their cost can be reliably measured. Intangible assets are initially measured at cost, provided that intangible assets which are acquired in a business combination and whose fair value can be reliably measured shall be separately recognised as intangible assets at fair value.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

Useful life of respective intangible assets is as follows:

	Estimated useful life
Software	2-5 years
Technology know-how	2-10 years
Land use rights	50-70 years
Franchise	3-10 years
Development costs	3-5 years

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and fixed assets, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be apportioned.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Intangible assets (continued)

Straight line amortisation method is used during the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, useful lives and amortisation method for intangible assets with definite lives and makes adjustment when necessary.

The Group classifies the expenses for internal research and development as research costs and development costs. All research costs are charged to current profit and loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the asset for use or sale, how the asset will generate future economic benefits (including demonstration that the product derived from the intangible asset or the intangible asset itself will be marketable or, in the case of internal use, the usefulness of the intangible asset as such), the availability of technical, financial and other resources to complete the project and procure the use or sale of the intangible asset, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed and charged to current profit and loss when incurred.

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

18. Provisions

Other than contingent consideration and assumed contingent liabilities in a business combination involving parties not under common control, the Group recognises as provision an obligation that is related to contingent matters when all of the following criteria are fulfilled:

- (1) the obligation is a present obligation of the Group;
- (2) the obligation would probably result in an outflow of economic resources from the Group;
- (3) the obligation could be reliably measured.

Provisions are initially valued according to the best estimate of expenses on fulfilling the current liabilities, in connection with the risk, uncertainty and timing value of the currency. The book value of the provisions would be reassessed on every balance sheet date. The book value will be adjusted to the best estimated value if there is certain evidence that the current book value is not the best estimate.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Share-based payments (continued)

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. For details see Note XI. Share-based payment.

The cost of equity-settled transactions is recognised, together with a corresponding increase in capital reserve, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest due to non-fulfillment of non-market conditions and/or conditions relating to the duration of service. For the market or non-vesting conditions under the share-based payments agreement, it should be treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that other performance condition and/or conditions relating to the duration of service are satisfied.

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

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they were a modification of the original award.

20. Other equity instruments — perpetual capital instruments

Perpetual capital instruments and other financial instruments issued by the Group are accounted for as equity instruments if they fulfill all of the following conditions:

- (1) Such financial instruments do not carry 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) Where such financial instruments involve settlement using the issuer's underlying equity instruments in the future, whether mandatory or optional, they do not carry a contractual obligation to deliver a variable amount of underlying equity instruments for settlement in the case of non-derivative instruments, or they can only be settled by the Group through the exchange of a fixed amount of underlying equity instruments in exchange for a fixed amount of cash or other financial assets in the case of derivative instruments.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Other equity instruments — perpetual capital instruments (continued)

Except for other financial instruments classified as equity instruments under the conditions set out above, all other financial instruments issued by the Group are classified as financial liabilities.

Interest expenses or dividend distribution relating to perpetual capital instruments classified as equity instruments are accounted for as profit distribution of the Group. The repurchase or cancellation of such perpetual capital instruments is accounted for as change in equity, and related transaction costs are charged to equity.

21. Revenue

Revenue generated from contracts with customers

Revenue generated from contracts with refers to revenue from contracts with customers other than interest and lease income.

Such revenue is recognised upon the Group's performance of its contractual obligations, namely, when the customer obtains control of the relevant goods and the contract between the Group and the customer meets all the following conditions:

- (1) Parties to the contract have approved the contract and undertaken to perform their respective obligations;
- (2) Such contract has specified the respective rights and obligations of the parties in connection with the transfer of goods or rendering of services (hereinafter the "Transfer");
- (3) Such contract contains specific payment terms in relation to the Transfer;
- (4) Such contract has a commercial nature, namely, it will change the risk, time distribution or amount of the Group's future cash flow;
- (5) The Group is likely to recover the consideration it is entitled to for the Transfer to customers.

To obtain control over relevant goods is to dominate the use of such goods and to receive substantially all economic interests resulting therefrom.

Contract changes

Contract changes herein refer to changes made to the scope of or prices under the original contract as approved by the Group and other parties to the contract. The Group distinguishes three scenarios as follows in its accounting treatment for contract changes:

- (1) Where contract changes have increased distinctly separable goods and contract amounts with the additional contract amounts representing the standalone selling prices of newly added goods, such contract changes are accounted for as a separate contract.
- (2) Where contract changes do not fall under the description in (1) and goods transferred or services rendered ("Transferred Goods") are clearly separable from goods not transferred or services not rendered ("Untransferred Goods") as at the date on which contract changes occur, such changes should be deemed as the termination of the original contract. The unfulfilled portion of the original contract and the changed portion of the contract shall be combined as a new contract for accounting treatment.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Revenue (continued)

Revenue generated from contracts with customers (continued)

Contract changes (continued)

- (3) Where contract changes do not fall under the description in (1) and Transferred Goods and Untransferred Goods are not clearly separable as at the date on which contract changes occur, the changed portion of the contract shall be accounted for as an integral part of the original contract, and the impact on recognised revenue shall be reflected by adjusting current revenue as at the date of contract changes.

Standalone performance obligation

Upon inception, the Group assesses a contract to identify individual performance obligations included in such contract and determine whether such individual performance obligations are to be fulfilled within a designated period or at a designated point of time. Revenue is subsequently recognised upon the respective performance of each contractual obligation.

Performance of contractual obligations

The performance of obligations meeting one of the following conditions is deemed as the performance of obligations within a certain period of time; otherwise it is deemed as the performance of obligation at a certain point of time:

- (1) customers acquire and consume the economic interests generated by the Group's performance upon such performance.
- (2) customers are capable of controlling the goods in progress in the process of performance.
- (3) Products generated in the process of performance have irreplaceable uses and the Group has the right to receive payments in respect of performances completed to-date throughout the entire contract period.

In respect of the performance of obligations within a specific period of time, the Group recognises revenue according to the progress of performance within such period, save as performances of which progress cannot be reasonably ascertained. The Group determine an appropriate progress of performance with the output or input method, taking into account the nature of the product.

In respect of performance of obligations at a specific point of time, the Group recognises revenue when a customer acquires control of the relevant product.

Determination of transaction prices

The Group measures revenue according to the transaction price allocated to each individual performance of obligations.

The transaction price means the amount of consideration that the Group expects to be entitled to for transferring goods to a customer. Amounts received by the Group on behalf of third parties and amounts expected to be returned to customers by the Group shall be accounted for as liabilities and shall not be included in transaction prices. The Group determines transaction prices according to contract terms taking into account past practices. When determining transaction prices, consideration is given to the effect of factors such as variable consideration amount, significant financing component in contracts, non-cash consideration, and consideration payable to customers.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Revenue (continued)

Revenue generated from contracts with customers (continued)

Determination of transaction prices (continued)

Where a contract contains variable consideration, the Group determines the best estimates on the variable consideration based on expected values or the most probable amount, provided that transaction prices including variable consideration shall not exceed the cumulative amount of recognised revenue upon the removal of relevant uncertainties in connection with which a significant reversal is highly unlikely. When the Group assesses whether a significant reversal in the cumulative amount of recognised revenue upon the removal of relevant uncertainties is highly unlikely, it should consider the possibility and weighting of the reversal of revenue. The Group reassesses the variable consideration amount to be included in transaction prices at each balance sheet date.

Where a contract contains a significant financing component, the Group determines transaction prices based on amounts payable assumed to be settled in cash by customers immediately upon the acquisition of control over the products. The difference between such transaction price and contract consideration is amortised over the contract period using the effective interest rate method.

Where a customer makes a payment by way of a non-cash consideration, the Group determines the transaction price according to the fair value of the non-cash consideration. Where the fair value of the non-cash consideration cannot be reasonably estimated, the Group determines the transaction price indirectly by reference to the standalone selling price for the Transfer committed to the customer transaction prices. Changes in the fair value of non-cash consideration attributable to reasons other than in relation to the form of consideration are accounted for as variable consideration.

Where consideration is payable by the Group to a customer (or to third parties buying the Group's products from the customer), such consideration payable shall be deducted against the transaction price, and against current revenue upon the recognition of revenue or the payment of (or the commitment to pay) the consideration to the customer (whichever is later), save for consideration payable to the customer for the purpose of acquiring from the customer other clearly separable products. Where a consideration is payable by the Group to the customer for the purpose of acquiring from the customer other clearly separable products, all products purchased are recognized in a manner consistent with the recognition of the Group's other purchases. Where the consideration payable by the Group to the customers exceeds the fair value of the clearly separable products obtained from the customer, the amount in excess should be deducted against the transaction price. If the fair value of the clearly separable products obtained from the customer cannot be reasonably estimated, the consideration payable by the Group to the customers shall be deducted in full against the transaction price.

Allocation of transaction prices

If the contract contains two or more performance obligations, the Group allocates the transaction price to the individual performance obligation according to the proportion of standalone selling prices of goods committed under each individual performance obligation.

The price at which the Group sells a product individually to similar customers under similar circumstances shall be the best evidence for ascertaining the standalone selling price of such product. Where the standalone selling price cannot be directly observed, the Group shall arrive at a reasonable estimation of the standalone selling price using the market adjustment, cost-plus or remaining value methods, taking into consideration all relevant information that can be reasonably obtained.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Revenue (continued)

Revenue generated from contracts with customers (continued)

Sales with return clauses

In connection with sales with a return clause, revenue is recognised according to the amount of consideration it expects to be entitled to for the Transfer to a customer when the customer acquires control of the relevant product (namely, excluding amounts expected to be refunded for the return of sales). Amounts expected to be refunded for the return of sales) are recognised as liabilities. At the same time, the balance of the carrying value of the product expected to be returned upon transfer less expected costs for the recall of such product (including impairment loss of the recalled product) shall be recognised as an asset, and the net amount of the carrying value of the transferred product upon the transfer less the aforesaid asset cost shall be transferred to cost. At each balance sheet date, the Group reassess the future return of sales and any changes are accounted for as changes in accounting estimates.

Sales with warranty clauses

In connection with sales with a warranty clause, the Group will assess whether such warranty is rendering a standalone service in addition to providing guarantee to customers that all sold goods are in compliance with required standards. Where the Group provides an additional service, such service will be subject to accounting treatment as a standalone performance obligation. When assessing whether a warranty is rendering a standalone service in addition to providing guarantee to customers that all sold goods are in compliance with required standards, the Group will consider whether or not such warranty is a statutory requirement, the term of the warranty and the nature of the Group's undertaking to perform its obligations. Where a customer can elect to purchase the warranty separately, such warranty will constitute a standalone performance obligation.

Principal/agent

Where the Group can control a product prior to transferring it the customer, the Group is considered a principal and the total amount of consideration received or receivable is recognised as revenue; otherwise the Group is considered an agent and revenue is recognised on the basis of expected entitlements to commission or handling fees. Such amount is the total amount of consideration received or receivable net of amounts payable to other related parties, or determined according to an agreed amount of percentage of commission.

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.

Rental income

Rental income generated under operating leases is recognized over the respective periods during the lease term using the straight line method. Finance leasing is recognized as income on a one-off basis based on the present value of the minimum lease amount received at the inception of the lease term.

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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 or set off against related costs 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 or set off against related costs. 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.

Depending on the nature of the business concerned, government grants relating to day-to-day activities were either included in other gains or set off against costs and expenses. Government grants not relating to day-to-day activities were accounted for as non-operating income.

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 carry-forward 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 as at balance sheet date 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 as at balance sheet date 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 of the Group are classified as:

- (1) Cash flow hedges are hedges against exposures to the variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or a highly probable anticipated transaction, or an exchange rate risk in an unrecognised firm commitment;
- (2) Net investment hedging for overseas operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship, as well as related risk management objectives and strategies. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness, namely, the extend to which the changes in the fair value or cash flow of the hedging instrument can offset the exposure of the hedged item's fair value or cash flows to the hedged risk. Such hedges are assessed at the inception and in subsequent periods on an ongoing basis to determine that they meet the requirement for hedging effectiveness.

If, as a result of the maturity, disposal, contract termination or exercise of the hedging instrument (provided that a rollover or replacement as part of the hedging strategy shall not be treated as maturity or contract termination) or changes in the risk management objective, the hedge relationship no longer meets the risk management objective or such hedge no longer meets the other conditions for hedge accounting, the Group will terminate the use of hedge accounting.

If the hedge relationship no longer meets the requirement of hedging effectiveness because of the hedge ratio, but the risk management objective designating such hedge relationship remains unchanged, the Group will rebalance the hedge relationship.

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 current profit or loss.

Amounts recognised in other comprehensive income are transferred to current 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 an anticipated transaction under hedge is subsequently recognised as non-financial assets or non-financial liabilities, or an anticipated transaction of non-financial assets or non-financial liabilities forms a definitive undertaking in fair-value hedging, cash flow hedging reserve previously recognised in other comprehensive income shall be transferred out and included in the amount of initial recognition of such assets or liabilities. In respect of the remaining cash flow hedge, if an anticipated sale occurs in the same period when the expected cash flow under hedge affects profit or loss, cash flow hedging reserve recognised in other comprehensive income shall be transferred out and included in current profit or loss.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Hedge accounting (continued)

Cash flow hedges (continued)

When the Group terminates the use of hedge accounting in respect of cash flow hedge but the future cash flow under hedge is still expected to occur, the amount previously included in other comprehensive income shall not be transferred out, until the anticipated transaction actually takes place or the definitive undertaking is honoured. If the hedged future cash flow is not expected to occur, the cumulative cash flow hedge reserve shall be transferred out of other comprehensive income and included in current profit or loss.

Net investment hedging for overseas operations

Net investment hedging for overseas operations includes currency hedging as a part of net investment and is dealt with in a similar way as cash flow hedging. The portion of gain or loss of hedging instrument designated as effective hedging shall be credited or charged to other comprehensive income, while ineffective hedging shall be dealt with in current profit or loss. Upon disposal of the overseas operations, the accumulated gains or losses previously accounted for in other comprehensive income shall be transferred to current profit or loss.

26. Impairment

The Group assesses impairment of assets other than inventories, investment properties measured at fair value, deferred tax assets and financial assets, using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed at least annually regardless of whether there are indications of impairment. Intangible assets which are not yet ready for use are also tested annually for impairment.

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised in the current period's profit or loss and provision for impairment is made accordingly.

In connection with impairment tests for goodwill, the carrying value of goodwill arising from business combination is allocated to relevant cash generating units ("CGU") from the date of acquisition on a reasonable basis. If it is difficult to allocate such goodwill to a relevant CGU, it should be allocated to a relevant CGU group. A relevant CGU or CGU group is defined as one which can benefit from the synergies of the business combination and is not larger than the reporting segments determined by the Group.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Impairment (continued)

In connection with impairment tests for CGUs or CGU groups that comprise goodwill, where indications of impairment exists in a CGU or CGU group related to goodwill, impairment tests should be performed first on CGUs or CGU groups that do not comprise goodwill and 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.

Retirement benefit (defined deposit scheme)

Employees of the Group participated in pension insurance and unemployment insurance schemes managed by the local government. The contribution costs are charged as asset cost or to current profit or loss when incurred.

Retirement benefit (defined benefit scheme)

The Group operates a defined benefit pension scheme. No funds have been injected into the scheme. The cost of benefits provided under the defined benefit scheme is calculated using the expected benefit accrual unit approach.

Remeasurement arising from defined benefit pension schemes, including actuarial gains or losses, changes in the asset cap effect (deducting amounts included in net interest) and return on scheme assets (deducting amounts included in net interest) are instantly recognised in the balance sheet and charged to shareholders' equity through Other Comprehensive Income for the period during which it is incurred. It will not be reversed to profit and loss in subsequent periods.

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Employee remuneration (continued)

Retirement benefit (defined benefit scheme) (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Fair value measurement (continued)

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.

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 customers and activities. The Group provides networking solutions and products involving different types of technologies offered on a global basis. As a result, judgements are made based on contractual terms with customers and the characteristics of contract performance in respect of products and services under our revenue recognition policy.

Based on the payment and delivery terms under the contract between the Group and a customer and the ability of the customer to receive gains solely from such product or service or to receive gains by combining such product or service with other readily available resources, the performance obligations under contracts between the Group and its customers are identified as performance obligations in respect of standalone sales of communication systems and terminals, performance obligations in respect of sales of communication systems equipment bundled with work installation, performance obligations in respect of standalone sales of project work, performance obligations in respect of services, and certain communication networks with a high level of customisation or capable or control by customers in the process. The Group also distinguishes its standalone performance obligations into performance over a specific period of time or performance at a specific point of time.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgements (continued)

Performance of obligations over a specific period of time

The Group is of the view that its performance of obligations in respect of standalone sales of project work and performance obligations in respect of warranty services, training services, software customisation, maintenance services, network optimisation and software development should be regarded as performance of obligations over a specific period of time and revenue is to be recognised based on the progress of performance, as customers acquire and consume the economic interests generated by the Group's performance upon such performance.

The Group is of the view that its performance of obligations in respect of certain communication networks with a high level of customisation or capable of control by customers in the process should be regarded as performance of obligations over a specific period of time and revenue is recognised based on the progress of performance, as the products generated in the process of performance have irreplaceable uses and the Group has the right to receive payments in respect of completed performances, or customers are capable of controlling the goods in progress in the process of performance.

Performance of obligations at a specific point of time

The Group is of the view that its performance of obligations in respect of standalone sales of communication systems and terminals and of sales of communication systems equipment bundled with work installation should be regarded as performance of obligations at a specific point of time. The Group typically recognises revenue when a customer acquires control of a relevant equipment, taking into account the following factors: the existing right to receive payment for obtaining the equipment, the transfer of major risks and rewards of equipment ownership, the transfer of statutory ownership of the equipment, the transfer of physical assets of the equipment, and the customer's acceptance of such equipment.

Estimation of standalone selling prices

A standalone selling price refers to a price at which the Group can independently sell promised goods or services, and observable prices for the standalone sale of products or services to similar customers under similar circumstances represent the best evidence for standalone prices. Estimations have to be made if a standalone selling price cannot be directly obtained. The Group selects from the following valuation methods based on the characteristics of contract performance in respect of the goods and services, as well as the level of difficulty for obtaining relevant prices and costs:

- (1) Market adjustment: the standalone selling price of a product is determined based on the market selling price of such product or similar products with appropriate adjustments for the Group's costs and gross profit. Such method is primarily concerned with external market conditions and is more suitable if there have been sales of such product or service by the Group during recent periods or if there are competitors in the market providing competing products or services which can be used as the basis for analysis.
- (2) Cost-plus: the standalone selling price of a product is determined based on its estimated cost plus reasonable gross profit. Such method is primarily concerned with internal factors and requires adjustments to profit according to differences in products, customers and other factors. This method is more suitable for the performance of obligations with determinable direct costs.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgements (continued)

Estimation of standalone selling prices (continued)

- (3) Remaining value: the standalone selling price of a product is determined as the remaining value of the contract transaction price less the observable standalone prices of other products under the contract. This method is more suitable if the selling prices of a product or service is unknown as the Group has not sold such product or service before or historical selling prices are highly variable.

Business model

The classification of financial assets at initial recognition is dependent on the business model adopted by the Group in the management of its financial assets. In determining whether the business model is still aimed at collecting contract cash flow, the Group is required to conduct analysis of the disposal of such financial assets prior to maturity. Judgement is required to determine whether such disposal is incidental or whether the value of disposal is minimal.

Characteristics of contract cash flow

The classification of financial assets at initial recognition is dependent on the characteristics of the contract cash flow of such financial assets. Judgement is required to determine whether the contract cash flow represents interest payment in relation to principal amounts based on outstanding principal amounts only, including judgement of whether it is significantly different from the benchmark cash flow when assessing modifications to the time value of currencies, and judgement of whether the fair value of early repayment features is minimal where the financial assets include such early repayment features.

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 fixed assets, construction in progress and intangible assets

The Group assesses at each balance sheet date whether there is an indication that fixed assets, construction in progress and intangible assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. The recoverable amount is measured at the net amount of the fair value of the asset less disposal costs or the present value of the estimated future cash flow of the asset, whichever is higher. This requires an estimate of the expected future cash flows from the asset or the cash-generating unit to which the asset was allocated and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is recognised when the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount. The carrying amount is written down to the recoverable amount and the write-down is charged to current profit or loss, while corresponding provision for asset impairment is also made.

Impairment of financial instruments

The Group adopts the model of expected credit loss in its assessment of the impairment of financial instruments. The application of the model of expected credit loss requires significant judgement and estimation and the consideration of all reasonable and evidenced information, including forward-looking information. When making such judgment and estimation, the Group hypothesises expected changes in the credit risk associated with debtors based on historical repayment records in light of factors such as economic policies, macro-economic indicators and industry risks.

Depreciation and amortisation

The Group depreciates items of fixed assets and amortises items of intangible assets on the straight-line basis over their estimated useful lives, and after taking into account their estimated residual value, commencing from the date the items of fixed assets are placed into productive use. The estimated useful lives and dates that the Group places the items of fixed assets into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's fixed assets and intangible assets.

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 recognized.

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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 and returns

Provision for warranties and returns is recognised on a best-estimate basis according to the warranty and return period, supply volume of the product concerned and past data and experience on the performance of warranty and return 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 2018 was RMB2,030,773,000 (31 December 2017: RMB2,023,809,000).

31. Change in accounting policies

In 2017, the MOF announced amendments to ASBE No. 14 — Revenue” (the “New ASBE on Revenue”), “ASBE No. 22 — Recognition and Measurement of Financial Instruments”, “ASBE No. 23 — Transfer of Financial Assets”, “ASBE No. 24 — Hedge Accounting” and “ASBE No. 37 — Presentation of Financial Instruments” (the “New ASBEs on Financial Instruments”). The Group has adopted the aforesaid revised accounting standards with effect from 1 January 2018. In accordance with the convergence provisions, no adjustments were made to the information of comparative periods. The difference arising from the first day of implementation of the new ASBE versus the implementation of the existing ASBE is recognised by adjusting the opening balance of retained earnings or other comprehensive income for the reporting period.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Change in accounting policies (continued)

New ASBE on Revenue

The New ASBE on Revenue has built a new model for revenue recognition to provide for the accounting treatment of revenue generated from contracts with customers. In accordance with the New ASBE on Revenue, the method of revenue recognition should reflect the model of the company's transfer of goods or rendering of services to customers, and the amount of revenue should reflect the amount of consideration expected to be entitled to as a result of the company's transfer of such goods and services to customers. At the same time, the New ASBE on Revenue has also provided for judgements and estimates required by each step in revenue recognition.

The major impact of the New ASBE on Revenue on the Group is the resulting change in the policy for revenue from telecommunication system contracts: in accordance with "ASBE No.15 — Construction Contracts" published by the MOF, revenues and costs in relation to telecommunication system contracts, as a construction contract, should be recognised using the percentage completion method, under which the percentage of contract completion is represented by contract costs incurred to-date as a percentage of estimated total contract costs. Following the adoption of the New ASBE on Revenue, the Group will identify individual performance obligations under the contract, and revenue is recognised as the transaction price allocated to an individual obligation upon the performance of such obligation, namely, when the customer acquires control over the relevant commodity or service. The New ASBE on Revenue has also made detailed provisions in respect of certain specific matters or transactions. For example: the treatment of contract costs, warranty, distinction between the principal and the agent, sales with return clauses, options for further purchases, intellectual property franchises, repurchase arrangements, advanced receipts and non-refundable upfront fees, etc.

The Group has only adjusted the cumulative effect of outstanding contracts at 1 January 2018. In respect of contract changes occurring prior to 1 January 2018, the Group has adopted a simplified approach: identifying fulfilled and unfulfilled performance obligations in connection with all contracts based on the finalised arrangements in contract changes, determining the transaction price, and allocating the transaction price between fulfilled obligations and unfulfilled obligations.

The effect of adopting the New ASBE on Revenue is set out as follows:

Consolidated income statement

	On the face of statement RMB'000	Hypothetically in accordance with previous ASBE RMB'000	Effect RMB'000
Operating revenue	39,433,777	39,287,685	146,092
Operating cost	27,508,353	27,291,995	216,358
Tax expenses	(565,033)	(564,741)	(292)
	12,490,457	12,560,431	(69,974)

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Change in accounting policies (continued)

New ASBE on Revenue (continued)

Consolidated balance sheet

	On the face of statement RMB'000	Hypothetically in accordance with previous ASBE RMB'000	Effect RMB'000
Inventories	26,316,928	26,533,286	(216,358)
Contract assets/Amounts due from customers for contract works	5,856,243	5,710,151	146,092
Deferred tax assets	2,681,410	2,681,118	292
	34,854,581	34,924,555	(69,974)

New ASBEs on Financial Instruments

The New ASBEs on Financial Instruments has changed the classification and measurement of financial assets and determined three major measurement types: amortised cost; at fair value through other comprehensive income; at fair value through current profit or loss. A company is required to consider its own business model and the characteristics of contract cash flow of its financial assets in the aforesaid classification. Equity investments are required to be measured at fair value through current profit or loss, although a company may elect at initial recognition to measure at fair value through other comprehensive income (provided that gains or losses from disposal cannot be reversed to profit or loss, except that bonus distribution should be included in profit or loss). Once made, such election cannot be revoked.

The New ASBEs on Financial Instruments provides that the model for measuring financial assets impairment shall be changed from the “model of incurred losses” to the “model of expected credit losses”, which is applicable to financial assets at amortised cost, financial assets at fair value through other comprehensive income, loan commitment, and financial guarantee contracts.

The new hedge accounting model has enhanced connection between corporate risk management and the financial statement, expanded the scope of hedging instruments and hedged items, cancelled the test for reviewing effectiveness, and introduced the concepts of rebalancing mechanisms and hedging costs.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

The result of classification and measurement of financial assets on the day of first implementation date in accordance with standards for the classification and measurement of financial instruments before and after the revision is set out in the following:

The Group

	ASBE for recognition and measurement of financial instruments prior to amendment		Revised ASBE for recognition and measurement of financial instruments	
	Measurement type	Carrying value	Measurement type	Carrying value
Bills receivable/trade receivables	Amortised cost (Loans and receivables)	26,398,228	Amortised cost	26,398,228
			At fair value through other comprehensive income	—
Equity investment	At fair value through other comprehensive income (available-for-sale assets)	1,711,846	At fair value through current profit or loss (ASBE requirements)	3,314,776
	Cost	1,469,822	At fair value through other comprehensive income (designated)	—

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Reconciliation table relating to the adjustment of the original carrying value of financial assets to the new carrying value of financial assets following classification and measurement in accordance with the revised ASBE for recognition and measurement of financial instruments on the first date of implementation:

	Note	Carrying value presented under previous ASBE on financial instruments 31 December 2017	Reclassified	Re-measured	Carrying value presented under New ASBEs on Financial Instruments 1 January 2018
Financial assets measured at amortised cost					
<i>Trade receivables</i>	4				
Balance presented under previous ASBE on financial instruments		24,345,283	(24,345,283)	—	—
Less: transfer to fair value through other comprehensive income (New ASBEs on Financial Instruments)		—	—	—	—
Re-measured: provision for expected credit losses		—	—	(23,139)	(23,139)
Balance presented under New ASBEs on Financial Instruments		—	24,345,283	(23,139)	24,322,144
Financial assets at amortised cost		—	24,345,283	(23,139)	24,322,144
Financial assets at fair value through other comprehensive income					
<i>Equity investment — available-for- sale financial assets</i>	10				
Balance presented under previous ASBE on financial instruments		3,181,668	(3,181,668)	—	—
Less: transfer to fair value through other comprehensive income — equity instruments (New ASBEs on Financial Instruments)		—	—	—	—
Less: transfer to fair value through current profit or loss (New ASBEs on Financial Instruments)		—	—	133,108	133,108
Balance presented under New ASBEs on Financial Instruments		—	3,181,668	133,108	3,314,776
Financial assets at fair value through current profit or loss		—	3,181,668	133,108	3,314,776

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

31. Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Reconciliation table relating to the adjustment of the original amount of financial asset impairment provision as at 31 December 2017 to the new loss provision amount following classification and measurement in accordance with the revised ASBE on financial instruments on the first date of implementation:

Measurement type	Loss provision under previous ASBE on financial instruments/ provisions recognised under ASBE on contingent events	Reclassified	Re-measured	Loss provision under New ASBEs on Financial Instruments
Loans and receivables (previous ASBE on financial instruments)/financial assets at amortised cost (New ASBEs on Financial Instruments)				
Trade receivables	9,143,050	—	23,139	9,166,189
Sub-total	9,143,050	—	23,139	9,166,189
Available-for-sale financial instruments (previously financial instruments)	97,913	—	—	97,913
Total	9,240,963	—	23,139	9,264,102

Financial reporting format

In addition to the presentation changes arising from the adoption of the aforesaid New ASBEs on Financial Instruments and New ASBE on Revenue, “bills receivable” and “trade receivables” have been combined to form a new item “bills receivable and trade receivables”, “dividend receivable” and “interest receivable” have been consolidated under “other receivables”, “bills payable” and “trade payables” have been combined to form a new item “bills payable and trade payables”, “specific payables” has been consolidated under “long-term payables”, breakdown of “interest expenses” and “interest income” has been made under “finance costs”, and a new entry of “changes in defined benefit scheme credited to retained profit” has been added under changes to owners’ equity in accordance with the “Notice on the Revision and Publication of the 2018 General Corporate Financial Reporting Format” (Cai Kuai [2018] No. 15). Such changes in accounting policies have had no impact on the consolidated and company net profit and shareholder’s equity.

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IV. TAXATION

1. Principal tax items and tax rates

Value-added tax ("VAT")	— Output tax payable on income generated from domestic sales of products and equipment repair services at a tax rate 16% (being the tax rate for general taxpayers); regarding service income for which the charge of business tax has been changed to the charge of VAT, output tax is calculated at tax rates of 5%, 6% and 10%, and VAT is payable on the difference after deduction of tax credit available for offsetting for the current period. Prior to 1 May 2018, output tax was calculated at tax rates of 17% and 11% of the taxable income, and VAT is payable on the difference after deduction of tax credit available for offsetting for the current period. Effective from 1 May 2018, output tax was calculated at tax rates of 16% and 10% of the taxable income, and VAT is payable on the difference after deduction of tax credit available for offsetting for the current period.
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.

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IV. TAXATION (CONTINUED)

2. Tax concession

The Company was subject to an enterprise income tax rate of 15% for the years 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen. Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% for years 2016 to 2018 as a national-grade hi-tech enterprise.

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% in 2018 as a national-grade key software enterprise.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2018 as a national-grade key software enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 10% in 2018 as an IC design enterprise under national planning.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

ZTEsoft Technology Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2018 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2018 as a national-grade key software enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% in 2018 as a certified national-encouraged industry enterprise.

Shenzhen ZTE ICT Company Limited is subject to an enterprise income tax rate of 15% for years 2016 to 2018 as a national-grade hi-tech enterprise.

深圳市興意達通訊技術有限公司 is subject to an enterprise income tax rate of 15% for years 2016 to 2018 as a national-grade hi-tech enterprise.

中興國通通訊裝備技術(北京)有限公司 is subject to an enterprise income tax rate of 15% for years 2016 to 2018 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 2018	31 December 2017
Cash	2,336	12,065
Bank deposit	15,913,422	30,329,615
Other cash	3,056,575	3,066,199
	18,972,333	33,407,879

As at 30 June 2018, the Group had no bank borrowings pledged against time deposits with banks (31 December 2017: RMB16,450,000).

As at 30 June 2018, the Group's overseas currency deposits amounted to RMB4,489,856,000 (31 December 2017: RMB6,601,643,000). Funds placed overseas and subject to remittance restrictions amounted to RMB24,683,000 (31 December 2017: RMB26,012,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for time deposits varies from 7 days to over 3 months. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB132,472,000 (31 December 2017: RMB232,411,000) were not included in cash and cash equivalents.

2. Derivative financial assets

	30 June 2018	31 December 2017
Forward exchange contracts	154,904	116,794
	154,904	116,794

Forward exchange contracts were entered into with reputable banks in the PRC and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, but were included in trading financial assets. For the period, loss arising from fair value changes of non-hedging derivative financial instruments amounting to RMB85,059,000 (Six months ended 30 June 2017: loss of RMB61,772,000) was dealt with in current profit or loss.

3. Trading financial assets

	30 June 2018	31 December 2017
Financial assets at fair value through current profit or loss		
Investment in debt instruments	523,265	—
Investment in equity instruments	1,032,312	—
	1,555,577	—

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

4. Bills receivable and trade receivables

		30 June 2018	31 December 2017
Bills receivable	(1)	1,389,766	2,052,945
Trade receivables	(2)	31,518,729	33,488,333
Less: bad-debt provision		10,727,428	9,143,050
		22,181,067	26,398,228

(1) Bills receivable

	30 June 2018	31 December 2017
Commercial acceptance bills	1,258,759	1,457,144
Bank acceptance bills	131,007	595,801
	1,389,766	2,052,945

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

	30 June 2018		31 December 2017	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Commercial acceptance bills	—	—	263,861	—
Bank acceptance bills	162,650	84,531	215,071	—
	162,650	84,531	478,932	—

As at 30 June 2018, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2017: Nil).

As at 30 June 2018, no bills were pledged for obtaining short-term borrowing (31 December 2017: Nil).

As at 30 June 2018, there were no outstanding bills receivable endorsed on behalf of third parties (31 December 2017: Nil).

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

4. Bills receivable and trade receivables (continued)

(2) 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 2018	31 December 2017
Within 1 year	21,626,759	23,443,645
1 to 2 years	3,222,970	3,556,881
2 to 3 years	2,079,749	2,346,647
Over 3 years	4,589,251	4,141,160
Less: bad debt provision for trade receivables	10,727,428	9,143,050
	20,791,301	24,345,283

Please refer to Note V.21 for details of movements in bad debt provision for trade receivables for the period.

	30 June 2018				31 December 2017			
	Book balance relating to projected default		Expected credit loss for the entire period		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Ratio of expected credit loss (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	3,889,792	12	3,232,068	83	2,135,018	6	1,764,122	83
For which bad debt provision has been collectively made based on credit risks								
0-12 months	18,561,056	59	275,964	1	21,983,679	66	282,186	1
13-18 months	1,483,826	5	561,835	38	2,055,647	6	885,360	43
19-24 months	1,554,389	5	1,039,694	67	1,435,643	4	889,138	62
2-3 years	1,983,894	6	1,572,095	79	2,258,706	7	1,702,604	75
Over 3 years	4,045,772	13	4,045,772	100	3,619,640	11	3,619,640	100
	27,628,937	88	7,495,360	27	31,353,315	94	7,378,928	24
	31,518,729	100	10,727,428	34	33,488,333	100	9,143,050	27

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

4. Bills receivable and trade receivables (continued)

(2) Trade receivables (continued)

As at 30 June 2018, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge
Overseas carrier 1*	108,181	108,181	100%
Overseas carrier 2*	99,813	99,813	100%
Overseas carrier 3*	72,278	72,278	100%
Overseas carrier 4*	46,898	46,898	100%
Overseas carrier 5*	44,115	44,115	100%
Overseas carrier 6*	31,688	31,688	100%
Others (Customers 7-33) *	3,486,819	2,829,095	81%
	3,889,792	3,232,068	

* Debtor running into serious financial difficulties

As at 31 December 2017, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge
Overseas carrier 1*	306,000	306,000	100%
Overseas carrier 2*	106,645	106,645	100%
Overseas carrier 3*	73,024	73,024	100%
Overseas carrier 4*	69,696	69,696	100%
Overseas carrier 5*	46,312	46,312	100%
Overseas carrier 6*	43,489	43,489	100%
Others (Customers 7-33) *	1,489,852	1,118,956	75%
	2,135,018	1,764,122	

* Debtor running into serious financial difficulties

As at 30 June 2018, there was no write-back (31 December 2017: RMB12,553,000) or write-off (31 December 2017: RMB396,272,000) of bad-debt provision in respect of individually significant trade receivables for which bad-debt provision had been made separately.

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

4. Bills receivable and trade receivables (continued)

(2) Trade receivables (continued)

Top 5 accounts of trade receivables as at 30 June 2018 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	2,444,769	7.76%	16,293
Customer 2	1,876,885	5.95%	445,482
Customer 3	1,360,276	4.32%	33,086
Customer 4	1,116,931	3.54%	17,648
Customer 5	456,669	1.45%	—
Total	7,255,530	23.02%	512,509

Transfer of trade receivables that did not qualify for derecognition was separately classified as “Factored trade receivables” and “Bank advances on factored trade receivables”. For details of the transfer of receivables, please refer to Note VIII.2.

5. Other receivables

Aging analysis of other receivables was as follows:

	30 June 2018	31 December 2017
Within 1 year	1,185,602	2,551,582
1 to 2 years	622,031	834,303
2 to 3 years	202,101	172,727
Over 3 years	86,867	71,321
	2,096,601	3,629,933

Other receivables analysed by nature was as follows:

	30 June 2018	31 December 2017
Interest receivable	958	897
Staff loans	302,995	336,963
Transactions with third parties	1,771,039	2,208,110
Release of loans and advances	21,609	383,963
Others	—	700,000
	2,096,601	3,629,933

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

5. Other receivables (continued)

Top 5 accounts of other receivables as at 30 June 2018 were as follows:

Due from	Closing balance	As a percentage of total amounts of other receivables	Nature
Third-party entity 1	674,978	32.19%	Transactions with third parties
Third-party entity 2	69,091	3.30%	Transactions with third parties
Third-party entity 3	39,063	1.86%	Transactions with third parties
Third-party entity 4	31,297	1.49%	Transactions with third parties
Third-party entity 5	23,922	1.14%	Transactions with third parties
Total	838,351	39.99%	

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

6. Prepayments

Aging analysis of prepayments was as follows:

	30 June 2018		31 December 2017	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	701,008	100%	591,664	100%

Top 5 accounts of prepayments as at 30 June 2018 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	42,050	6.00%
Supplier 2	35,033	5.00%
Supplier 3	28,171	4.02%
Supplier 4	25,200	3.59%
Supplier 5	22,382	3.19%
Total	152,836	21.80%

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

7. Inventories

	Book balance	30 June 2018 Provision for impairment	Book value	Book balance	31 December 2017 Provision for impairment	Book value
Raw materials	6,357,886	664,438	5,693,448	5,569,928	521,828	5,048,100
Materials under subcontract processing	13,348	460	12,888	11,214	460	10,754
Work-in-progress	2,040,857	141,261	1,899,596	1,189,452	34,721	1,154,731
Finished goods	3,705,992	786,960	2,919,032	4,151,274	564,391	3,586,883
Contract performance cost	12,963,335	1,494,214	11,469,121	—	—	—
Dispatch of goods and others	4,943,807	620,964	4,322,843	17,801,819	1,368,148	16,433,671
	30,025,225	3,708,297	26,316,928	28,723,687	2,489,548	26,234,139

Please refer to Note V.21 for details of movements in the provision for impairment of inventory during the period.

8. Contract assets

	Book balance	30 June 2018 Impairment provision	Book value
Contract assets	5,953,876	97,633	5,856,243
Total	5,953,876	97,633	5,856,243

Information on completed but not settled assets comprising construction contracts included in the balance of contractual assets is summarised as follows:

	Cost incurred to date	Recognised gross profit/(loss) to date	Estimated loss	Settled amount
30 June 2018	60,263,570	40,492,150	(962,412)	93,839,432

Change in bad-debt provision for contractual assets is as follows:

	Opening balance	Charge for the period	Write-back for the period	Charge/write-off for the period	Exchange rate change	Closing balance
Six months ended 30 June 2018	119,011	—	(20,996)	—	(382)	97,633

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

9. Amount due from/to customers for contract works

	31 December 2017
Amount due from customers for contract works	9,012,909
Amount due to customers for contract works	(8,050,655)
	<u>962,254</u>
Contract costs incurred plus recognized profits to date	152,136,153
Less: Estimated loss	581,244
Progress billings	<u>150,592,655</u>
	<u>962,254</u>

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.

10. Available-for-sale financial assets

	31 December 2017		
	Book balance	Provision for impairment	Book value
Available-for-sale equity instruments			
At fair value	1,711,846	—	1,711,846
At cost	1,567,735	97,913	1,469,822
	<u>3,279,581</u>	<u>97,913</u>	<u>3,181,668</u>

Available-for-sale financial assets at fair value:

	31 December 2017 Available-for- sale equity instruments
Equity instrument cost	189,922
Fair value	1,711,846
Accumulated fair value change included in other comprehensive income	<u>1,521,924</u>

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

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

Available-for-sale financial assets at cost:

2017

	Opening balance	Book balance Increase during the year	Decrease during the year	Closing balance	Opening balance	Impairment provision Increase during the year	Decrease during the year	Closing balance	Shareholding percentage	Cash dividend for the year
航天科技投資控股有限公司	201,734	—	—	201,734	—	—	—	—	2.6936%	17,276
中國教育出版傳媒股份 有限公司	196,000	—	—	196,000	—	—	—	—	0.9850%	—
Others	946,848	343,589	(218,349)	1,072,088	—	97,913	—	97,913		15,042
	1,344,582	343,589	(218,349)	1,469,822	—	97,913	—	97,913		32,318

11. Long-term receivables

	30 June 2018	31 December 2017
Installment payments for the provision of system construction projects telecommunication	1,008,321	1,277,055
Less: Bad debt provision for long-term receivables	29,584	32,295
	978,737	1,244,760

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.21 for details of movements in bad debt provision for long-term receivables during the period.

12. Long-term equity investments

	30 June 2018	31 December 2017
Equity method		
Joint ventures (1)	92,457	92,344
Associates (2)	3,647,073	3,873,017
Less: Provision for impairment in long-term equity Investments	4,764	4,764
	3,734,766	3,960,597

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

12. Long-term equity investments (continued)

30 June 2018

(1) Joint ventures

	Balance as at the beginning of the period	Movements during the period							Carrying values 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	—
Puxing Mobile Tech Company Limited	56,687	—	—	2,146	—	—	—	—	58,833	—
Pengzhong Xingsheng 重慶前治城市大數據管理有限公司	564	—	—	—	—	—	—	—	564	—
德特賽維技術有限公司	3,443	—	—	(1,382)	—	—	—	—	2,061	—
	29,395	—	—	(651)	—	—	—	—	28,744	—
	92,344	—	—	113	—	—	—	—	92,457	—

(2) Associates

	Balance as at the beginning of the period	Movements during the period							Carrying values 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)科技發展有限公司	21,248	—	—	—	—	—	—	—	21,248	—
ZTE Energy Limited	421,510	—	—	—	—	—	—	—	421,510	—
ZTE Software Technology (Nanchang) Company Limited	3,799	—	—	—	—	—	—	—	3,799	—
Nanjing Paoxun Network Technology Company Limited	23	—	—	—	—	—	—	—	23	—
Telecom Innovations	10,698	—	—	—	—	119	—	—	10,817	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	3,155	—	—	(40)	—	—	—	—	3,115	—
北京億科三友科技發展有限公司	—	—	—	—	—	—	—	—	—	(4,764)
上海中興思裕通訊有限公司	4,179	—	—	(1,215)	—	—	—	—	2,964	—
中興智慧成都有限公司	9,677	—	—	(1,059)	—	—	—	—	8,618	—
中興羅維科技江蘇有限公司	3,834	—	—	(229)	—	—	—	—	3,605	—
廈門智慧小區網絡科技有限公司	4,991	—	—	(853)	—	—	—	—	4,138	—
中山優順置業有限公司	2,000	—	—	—	—	—	—	—	2,000	—
羅維聯和(北京)科技有限公司	1,836	—	—	(250)	—	—	—	—	1,586	—
INTLIVE TECHNOLOGIES(PRIVATE) LIMITED	6,776	—	—	—	98	—	—	—	6,874	—
西安城投智慧充電股份有限公司	7,290	—	—	—	—	—	—	—	7,290	—
紹興市智慧城市集團有限公司	3,665	—	—	—	—	—	—	—	3,665	—
廣東福能大數據產業園建設有限公司	13,143	—	—	(249)	—	—	—	—	12,894	—
廣東中興城智信息技術有限公司	4,392	—	—	(296)	—	—	—	—	4,096	—
New Idea Investment Pte. Ltd.	13,214	—	—	—	—	146	—	—	13,360	—
中興智能科技產業有限公司	37,248	—	—	—	—	—	—	—	37,248	—
前海融資租賃股份有限公司	66,232	—	—	2,517	703	—	—	—	69,452	—
上海博色信息科技股份有限公司	20,909	—	—	—	—	—	—	—	20,909	—
南京華網科技有限公司	3,460	—	—	(1,011)	—	—	—	—	2,449	—
Hengyang ICT Real Estate Co., Ltd.	56,083	—	(3,637)	(155)	—	—	—	—	52,291	—
貴州中安雲網科技有限公司	2,663	—	—	—	—	—	—	—	2,663	—
陝西高能裝備與智慧製造產業研究院有限公司	2,002	—	—	—	—	—	—	—	2,002	—
Laxense, Inc.	14,431	—	—	(333)	208	—	—	—	14,306	—
中教雲通(北京)科技有限公司	2,800	—	—	(307)	—	—	—	—	2,493	—
Kron Telekomunikasyon Hizmetleri A.S.	11,414	—	(1,638)	(330)	167	—	—	—	9,613	—
山東興濟置業有限公司	1,069	—	—	(71)	—	—	—	—	998	—
ZTE 9 (Wuxi) Co., Ltd.	15,944	—	—	(1,446)	—	—	—	—	14,496	—
Nubia Technology Limited	3,083,500	—	—	(213,301)	—	—	—	—	2,870,199	—
Huanggang Education Valley Investment Holdings Co., Ltd.	12,591	—	—	(3,480)	—	—	—	—	9,111	—
	3,868,253	—	(5,275)	(222,110)	1,441	—	—	—	3,642,309	(4,764)

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

13. Other non-current financial assets

	30 June 2018 RMB'000
Financial assets at fair value through current profit or loss	1,587,518
	1,587,518

14. Investment Properties

Fair value measurement

30 June 2018

	Buildings RMB'000
Opening balance	2,023,809
Fair value change (Note V.47)	6,964
Closing balance	2,030,773

31 December 2017

	Buildings RMB'000
Opening balance	2,016,470
Fair value change	7,339
Closing balance	2,023,809

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

As at 30 June 2018, investment properties with a carrying value of RMB1,435,410,000 (31 December 2017: RMB1,432,307,000) had yet to obtain title registration certificates.

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

15. Fixed Assets

	Buildings	Freehold land	Electronic equipments	Machinery equipments	Vehicles	Other equipments	Total
Cost							
Opening balance	6,411,930	46,098	4,916,218	3,455,337	305,020	563,834	15,698,437
Acquisitions	95,589	—	219,921	112,261	12,220	177	440,168
Transfer from construction in progress	—	—	—	—	—	—	—
Disposal or retirement	(9,766)	—	(111,959)	(137,714)	(9,976)	(678)	(270,093)
Exchange rate adjustments	(12,554)	(5,980)	84	1,231	(1,668)	(755)	(19,642)
Closing balance	6,485,199	40,118	5,024,264	3,431,115	305,596	562,578	15,848,870
Accumulated depreciation							
Opening balance	1,496,406	—	3,232,567	1,747,564	166,476	300,568	6,943,581
Provision	126,305	—	263,447	153,827	12,864	30,029	586,472
Disposal or retirement	(6,548)	—	(100,576)	(76,807)	(6,291)	(501)	(190,723)
Exchange rate adjustments	(7,230)	—	1,062	1,600	(907)	(1,313)	(6,788)
Closing balance	1,608,933	—	3,396,500	1,826,184	172,142	328,783	7,332,542
Provision for impairment							
Opening balance	21,270	—	20,345	12,369	4,094	2,322	60,400
Provision	—	—	—	—	—	—	—
Disposal or retirement	—	—	(15)	(552)	(1,569)	(27)	(2,163)
Exchange rate adjustments	—	—	292	(43)	—	31	280
Closing balance	21,270	—	20,622	11,774	2,525	2,326	58,517
Net book value							
At the end of the period	4,854,996	40,118	1,607,142	1,593,157	130,929	231,469	8,457,811
At the beginning of the period	4,894,254	46,098	1,663,306	1,695,404	134,450	260,944	8,694,456

As at 30 June 2018, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing and Heyuan in China with a net book value of approximately RMB2,760,615,000 (31 December 2017: RMB2,977,326,000).

16. Construction in progress

	Budget	Opening Balance	Increase during the period	Transfer to fixed assets during the period	Other reduction	Closing balance	Source of funds	Construction contribution as a percentage of the budget (%)	Work progress
Staff quarters	1,017,932	763,671	49,936	—	—	813,607	Internal funds	79.93%	In progress
Sanya R&D Base Project	119,100	105,368	2,734	—	—	108,102	Internal funds	90.77%	In progress
Nanjing Project	978,070	133,346	47,171	—	—	180,517	Internal funds	18.46%	In progress
Changsha production R&D Base Phase 1	230,020	160,867	18,166	—	—	179,033	Internal funds	77.83%	In progress
New energy commercial vehicle manufacturing base	892,530	90,412	45,546	—	—	135,958	Internal funds	15.23%	In progress
Shanghai R&D centre Phase III	478,000	5,091	59,748	—	—	64,839	Internal funds	13.56%	In progress
ZTE high-energy lithium battery Phase I	577,460	—	110,589	—	—	110,589	Internal funds	19.15%	In progress
Other projects		214,231	40,009	—	—	254,240	Internal funds		In progress
Total		1,472,986	373,899	—	—	1,846,885			

As at 30 June 2018, there was no capitalized interest in the balance of the construction in progress (31 December 2017: Nil).

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

17. Intangible assets

	Software	Technology know-how	Land use right	Franchise	Development costs	Total
Cost						
Opening balance	621,106	186,631	1,462,058	950,815	7,844,813	11,065,423
Acquisition	150,146	—	61,920	66	—	212,132
In-house R&D	13,503	—	—	—	329,878	343,381
Disposal or retirement	(53,265)	—	—	—	—	(53,265)
Exchange rate adjustment	608	—	—	(6,815)	—	(6,207)
Closing balance	732,098	186,631	1,523,978	944,066	8,174,691	11,561,464
Accumulated amortization						
Opening balance	194,254	73,698	175,086	469,485	5,392,953	6,305,476
Provision	92,841	22,916	15,059	61,665	390,485	582,966
Disposal or retirement	(26,268)	—	—	—	—	(26,268)
Exchange rate adjustment	881	166	—	(421)	—	626
Closing balance	261,708	96,780	190,145	530,729	5,783,438	6,862,800
Provision for impairment						
Opening balance	12,010	—	6,322	—	—	18,332
Provision	—	—	—	—	—	—
Disposal or retirement	(3,443)	—	—	—	—	(3,443)
Exchange rate adjustment	(75)	—	—	—	—	(75)
Closing balance	8,492	—	6,322	—	—	14,814
Book value						
At the end of the period	461,898	89,851	1,327,511	413,337	2,391,253	4,683,850
At the beginning of the period	414,842	112,933	1,280,650	481,330	2,451,860	4,741,615

As at 30 June 2018, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Nanjing and Wuzhou in the PRC, with a net carrying value of approximately RMB281,604,000 (31 December 2017: RMB284,638,000).

As at 30 June 2018, intangible assets formed through in-house research and development accounted for 51% of the book value of intangible assets as at year-end (31 December 2017: 52%).

18. Development costs

	Opening balance	Increase during the period	Decrease during the period		Closing balance
		Internal development	Recognition of intangible assets	Charged to current profit or loss	
Handsets	29,482	31,080	(20,448)	(25)	40,089
System products	1,872,595	942,806	(309,430)	(4,052)	2,501,919
	1,902,077	973,886	(329,878)	(4,077)	2,542,008

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)

19. Goodwill

30 June 2018

	Opening balance	Increase during the period Exchange rate movements	Decrease during the period Disposal	Closing balance
Zhuhai Guangtong Bus Co., Ltd.	186,206	—	—	186,206
Suzhou Laxense Technology Co., Ltd.	33,500	—	—	33,500
NETAS TELEKOMUNIKASYON A.S.	89,100	2,253	—	91,353
	308,806	2,253	—	311,059

31 December 2017

	Opening balance	Increase during the year Combination not involving entities under common control	Decrease during the year Disposal	Closing balance
Zhuhai Guangtong Bus Co., Ltd.	186,206	—	—	186,206
Suzhou Laxense Technology Co., Ltd.	—	33,500	—	33,500
NETAS TELEKOMUNIKASYON A.S.	—	89,100	—	89,100
Total	186,206	122,600	—	308,806

The Group recorded goodwill amounting to RMB33,500,000 following the acquisition of Suzhou Laxense Technology Co., Ltd. in June 2017 and goodwill amounting to RMB89,100,000 following the acquisition of NETAS TELEKOMUNIKASYON A.S. ("Netas") by ZTE COOPERATIEF UA, a wholly-owned subsidiary of ZTE, in July 2017.

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

19. Goodwill (continued)

In determining the present value of estimated future cash flow, the projected cash flow based on the 5-year financial budget approved by the management is adopted. The discount rates applied to the cash flow projections for Zhuhai Guangtong Bus Co., Ltd. and Suzhou Laxense Technology Co., Ltd. are 14% and 17%, respectively, and the growth rates after five years are both 3%, which is lower than the average long-term growth rate of the industry.

The impairment test for Netas was based on its share price at the end of the period, as Netas is a listing company in Turkey.

Assumptions were used in the calculation of the present value of estimated future cash flow of the asset group as at 30 June 2018. The key assumptions adopted by the management in determining cash flow projections to undertake impairment testing of goodwill are described in the following:

Budgeted gross margins	The basis of determination is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.
Discount rates	The discount rates used are pretax discount rates reflecting specific risks relating to the relevant units.

The values assigned to the key assumptions on market development and discount rates for the relevant products are consistent with external information sources.

20. Deferred tax assets/liabilities

	30 June 2018		31 December 2017	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealised profits arising on consolidation	1,705,100	392,429	1,080,146	229,328
Provision for impairment in inventory	1,056,146	211,530	841,085	157,667
Foreseeable construction contract losses	837,194	125,579	458,712	68,807
Amortization of deferred development costs	2,043,086	229,639	2,061,240	233,972
Provision for warranties and returned goods	257,656	40,569	365,016	56,660
Provision for retirement benefits	159,908	25,174	142,707	22,358
Deductible tax losses	8,006,816	1,207,584	1,978,195	300,540
Accruals	2,980,199	417,868	2,958,511	414,825
Overseas taxes pending deduction	884,861	132,729	966,051	144,908
Share option scheme expenses	303,083	45,462	203,901	30,585
	18,234,049	2,828,563	11,055,564	1,659,650

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

20. Deferred tax assets/liabilities (continued)

	30 June 2018		31 December 2017	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain/loss of investment properties	1,088,571	163,696	1,081,607	162,662
Income from changes in fair values	418,045	80,229	689,671	135,763
Adjustments to fair value as a result of combination of entities not under common control	363,084	72,617	391,265	78,253
Adjustments to fair value as a result of disposal remaining equity interests in subsidiaries	853,942	128,091	869,420	130,413
Others	296,531	57,097	176,269	26,440
	3,020,173	501,730	3,208,232	533,531

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

	30 June 2018		31 December 2017	
	Amount of set-off	Amount after set-off	Amount of set-off	Amount after set-off
Deferred tax assets	147,153	2,681,410	195,400	1,464,250
Deferred tax liabilities	147,153	354,577	195,400	338,131

Deductible temporary differences and deductible tax losses of unrecognized deferred tax assets:

	30 June 2018	31 December 2017
Deductible temporary differences	520,655	474,283
Deductible tax losses	3,919,422	3,634,930
	4,440,077	4,109,213

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

20. Deferred tax assets/liabilities (continued)

Deductible temporary differences and deductible tax losses of unrecognized deferred tax assets expiring in the following years:

	30 June 2018	31 December 2017
2018	89,245	100,239
2019	145,608	145,954
2020	357,499	369,664
2021	521,677	640,071
2022	338,466	407,169
After 2022	2,466,927	1,971,833
	3,919,422	3,634,930

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

21. Provision for impairment of assets/provision for credit impairment

	Opening balance	Opening adjustment	Provision for the period	Decrease during the period		Effect of exchange rates	Closing balance
				Write-back	Charge/ Write-off		
Bad debt provision	9,175,345	23,139	2,103,356	(446,511)	(146,351)	48,034	10,757,012
Including: Trade receivables	9,143,050	23,139	2,103,356	(446,511)	(146,351)	50,745	10,727,428
Long-term receivables	32,295	—	—	—	—	(2,711)	29,584
Provision for impairment of inventories	2,489,548	—	1,388,505	(137,658)	(2,215)	(29,883)	3,708,297
Provision for impairment of contract assets	119,011	—	—	(20,996)	—	(382)	97,633
Provision for impairment of fixed assets	60,400	—	—	—	(2,163)	280	58,517
Provision for impairment of intangible assets	18,332	—	—	—	(3,443)	(75)	14,814
Provision for impairment of long-term equity investment	4,764	—	—	—	—	—	4,764
Provision for impairment of equity instruments	97,913	—	—	—	—	—	97,913
	11,965,313	23,139	3,491,861	(605,165)	(154,172)	17,974	14,738,950

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)

22. Other current assets

	30 June 2018	31 December 2017
Credit tax available for deduction	7,977,553	7,566,610
Trade receivables at fair value through other comprehensive income	1,092,690	—
Others	208,605	191,984
	9,278,848	7,758,594

23. Other non-current assets

	30 June 2018	31 December 2017
Prepayments for project and equipment and land fees	2,451,538	2,325,831
Risk compensation fund	504,356	1,462,286
Others	340,487	340,479
	3,296,381	4,128,596

24. Short-term loans

		30 June 2018		31 December 2017		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	5,079,000	5,079,000	4,368,200	4,368,200	
	USD	447,000	2,962,090	1,091,567	7,130,661	
	EUR	208,000	1,592,885	253,000	1,971,528	
	TRY	636,896	925,396	207,390	359,177	
Bill discounting loans	RMB	84,531	84,531	—	—	Note 1
Pledged loans	USD	—	—	2,000	13,065	
Guaranteed loans	USD	—	—	2,940	19,206	Note 2
	EUR	50,000	382,905	110,000	857,186	Note 2
			11,026,807		14,719,023	

As at 30 June 2018, the annual interest rate of the above loans ranged from 1.00%-18.25% (31 December 2017: 1.00%-15.70%).

Note 1: The bill discounting loans represented borrowings obtained by ZTE Group Finance Co., Ltd. ("ZTE Group Finance") by rediscounting bank acceptance.

Note 2: The loans represented short-term loans extended to ZTE COOPERATIEF UA ("ZTE COOPERATIEF") and guaranteed by ZTE.

As at 30 June 2018, there were no overdue loans (31 December 2017: Nil).

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

25. Derivative financial liabilities

	30 June 2018	31 December 2017
Forward exchange contract	164,131	49,830
	164,131	49,830

26. Bills payable and trade payables

	30 June 2018	31 December 2017
Bills payable		
Bank acceptance bills	3,329,931	4,518,323
Commercial acceptance bills	4,777,692	6,330,188
	8,107,623	10,848,511
Trade payables (1)	14,302,760	23,614,556
	22,410,383	34,463,067

As at 30 June 2018, there was no due and outstanding bills payable (31 December 2017: Nil).

(1) Trade payables

An aging analysis of the trade payables are as follows:

	30 June 2018	31 December 2017
0 to 6 months	13,537,970	22,991,445
7 to 12 months	477,506	272,723
1 to 2 years	195,274	252,918
2 to 3 years	64,948	66,953
Over 3 years	27,062	30,517
	14,302,760	23,614,556

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

As at 30 June 2018, there were no material trade payables aged over 1 year (31 December 2017: Nil).

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

27. Contract liabilities

	30 June 2018
Amounts due to customers for contract work	9,684,256
Advanced receipt of system work amounts	12,851,612
Advanced receipt of terminal product amounts	1,030,281
	23,566,149

Information on completed but not settled projects comprising construction contracts included in the balance of contractual liabilities is summarised as follows:

	Cost incurred to date	Recognised gross profit/ (loss) to date	Estimated loss	Settled amount
30 June 2018	12,000,788	4,895,218	—	26,580,262

28. Advances from customers

	31 December 2017
Advanced payments for system project work	7,675,492
Advanced payments for terminals	1,026,859
	8,702,351

29. Salary and welfare payables

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	7,178,679	11,095,280	13,443,706	4,830,253
Post-employment benefits (defined contribution plan)	200,638	710,129	645,212	265,555
Termination benefits	10,227	85,556	87,342	8,441
	7,389,544	11,890,965	14,176,260	5,104,249

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

29. Salary and welfare payables (continued)

Short-term remuneration is analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus and allowance	6,075,445	9,898,144	12,444,446	3,529,143
Staff welfare	12,066	41,614	37,884	15,796
Social insurance	88,745	422,805	392,795	118,755
Including: Medical Insurance	78,961	388,223	361,504	105,680
Work Injuries Insurance	3,738	11,599	10,505	4,832
Maternity Insurance	6,046	22,983	20,786	8,243
Housing funds	61,678	274,835	278,448	58,065
Labour union fund and employee education fund	940,745	457,882	290,133	1,108,494
	7,178,679	11,095,280	13,443,706	4,830,253

The defined contribution plan was as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic pension insurance	191,817	691,045	627,895	254,967
Unemployment insurance	8,821	19,084	17,317	10,588
	200,638	710,129	645,212	265,555

30. Tax payable

	30 June 2018	31 December 2017
Value-added tax	229,914	314,818
Enterprise income tax	426,769	583,091
Including: PRC tax	377,989	499,345
Overseas tax	48,780	83,746
Individual income tax	501,869	172,682
City maintenance and construction tax	43,539	80,441
Education surcharge	35,882	63,717
Other taxes	57,133	48,974
	1,295,106	1,263,723

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

31. Other payables

	30 June 2018	31 December 2017
Accruals	980,224	826,380
Deferred income from staff housing due within 1 year	36,330	39,651
Payables to third parties	5,679,244	5,356,366
Including: Payable to Relevant U.S. Authorities	340,090	433,075
Deposits	27,761	27,887
Factored interests payable	48,619	28,460
Dividend	21,222	1,322
Others	474,903	791,355
	7,268,303	7,071,421

32. Provisions

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Outstanding litigation	106,293	287,186	(6,741)	386,738
Provision for returned handsets	176,028	824,693	(100,580)	900,141
Provision for warranties	250,805	216,490	(228,583)	238,712
	533,126	1,328,369	(335,904)	1,525,591

33. Non-current liabilities due within one year

	30 June 2018	31 December 2017
Long-term loans due within one year	3,977,951	3,816,844

34. Long-term loans

		30 June 2018		31 December 2017		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	399,000	399,000	751,123	751,123	
	USD	300,000	1,987,980	250,000	1,633,125	
	TRY	—	—	24,044	41,642	
Guaranteed loans	RMB	173,606	173,606	183,306	183,306	Note 1
	USD	—	—	60,000	391,950	Note 1
Secured loans	RMB	600	600	1,000	1,000	Note 2
			2,561,186		3,002,146	

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

34. Long-term loans (continued)

Note 1: The guaranteed loans comprised mainly guaranteed loans provided by the Company for its subsidiaries ZTE (H.K.) Limited and ZTE (Heyuan) Company Limited; and guaranteed loans provided by 中興新能源汽車有限責任公司 for 深圳市中興新能源汽車科技有限公司.

Note 2: The secured loans extended to 衡陽網信數字城市建設有限公司 were secured by land use rights with a book value of RMB26,054,000 and housing properties with a book value of RMB52,328,000.

As at 30 June 2018, the annual interest rate for the aforesaid loans was 1.20%–4.75% (31 December 2017: 1.20%–16.75%).

35. Other non-current liabilities

	30 June 2018	31 December 2017
Factored interests payable	79,479	98,187
Deferred income relating to staff housing	1,078,132	1,077,256
Long-term payable	378,167	394,226
Amounts payable to external parties	1,771,000	1,771,000
	3,306,778	3,340,669

36. Share capital

	Opening balance	Increase/decrease during the period			Closing balance
		Issue of new shares	Others	Sub-total	
Restricted shares					
Senior management shares	3,185	—	(140)	(140)	3,045
Total number of restricted shares	3,185	—	(140)	(140)	3,045
Unrestricted shares					
RMB Ordinary shares	3,433,985	—	140	140	3,434,125
Overseas listed foreign shares	755,502	—	—	—	755,502
Total number of unrestricted shares	4,189,487	—	140	140	4,189,627
Total number of shares	4,192,672	—	—	—	4,192,672

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

37. Other Equity Instruments

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

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

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

The Company issued the 2015 Tranche III Medium Term Notes with a total principal amount of RMB1,500 million on 20 November 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests). The coupon interest rate for the first 3 years for which interest is accruable is 4.49% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

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

37. Other Equity Instruments (continued)

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

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

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

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

(2) Change of issued as at the end of the period

Book value	Issue date	Volume (10,000)	Amount of issue	Opening balance	Interest charge for the period	Reduction for the period	Interest payment during the period	Closing balance
6,000,000	2015.1.27	6,000	6,000,000	6,252,364	172,868	—	348,599	6,076,633
1,500,000	2015.2.6	1,500	1,500,000	1,572,198	8,652	1,495,500*	85,350	—
1,500,000	2015.11.20	1,500	1,500,000	1,496,765	33,398	—	—	1,530,163
9,000,000		9,000	9,000,000	9,321,327	214,918	1,495,500	433,949	7,606,796

* During the period, the Company repurchased Tranche II Medium Term Notes issued on 6 February 2015.

38. Capital reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	10,979,251	—	(42,786)	10,936,465
Share-based payment	245,603	78,709	—	324,312
Capital investment by government	80,000	—	—	80,000
	11,304,854	78,709	(42,786)	11,340,777

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

39. Other comprehensive income

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

	1 January 2017	Increase/ decrease	31 December 2017	Adjustments to the opening balance	Increase/ decrease	30 June 2018
Changes in net liabilities arising from the re-measurement of defined benefit plans	(80,773)	15,572	(65,201)	—	—	(65,201)
Share of investee results in other comprehensive income under equity method that cannot be reclassified to profit and loss in subsequent periods upon fulfillment of certain conditions	44,350	—	44,350	—	—	44,350
Change in fair value of available-for-sale financial assets	343,560	94,575	438,135	(438,135)	—	—
Effective portion of hedging instruments	(55,655)	(12,327)	(67,982)	—	—	(67,982)
Differences arising from foreign currency translation	(1,866,975)	1,134	(1,865,841)	—	(794,391)	(2,660,232)
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
	(822,724)	98,954	(723,770)	(438,135)	(794,391)	(1,956,296)

Other comprehensive income on the income statement attributable to holders of ordinary shares of the parent company incurred during the current period:

Six months ended 30 June 2018

	Amount before taxation	Less: amount included in other comprehensive income for the previous period and profit or loss for the current period	Less: income tax	Attributable to the parent company	Attributable to non controlling interests
Differences arising from foreign currency translation	(815,502)	—	—	(794,391)	(21,111)
	(815,502)	—	—	(794,391)	(21,111)

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

39. Other comprehensive income (continued)

Six months ended 30 June 2017

	Amount before taxation	Less: amount included in other comprehensive income for the previous period and profit or loss for the current period	Less: income tax	Attributable to the parent company	Attributable to non controlling interests
Changes in fair value of available-for-sale financial assets	(26,696)	—	547	(7,781)	(19,462)
Effective portion of hedging instruments	(10,655)	—	—	(10,655)	—
Differences arising from foreign currency translation	259,012	—	—	255,303	3,709
	221,661	—	547	236,867	(15,753)

40. Surplus reserves

	Opening balance	Opening adjustment	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	2,205,436	(63,082)	—	—	2,142,354

41. Retained profits

	30 June 2018
Retained profits from the previous period	14,667,683
Others	(518,366)
Net profit attributable to shareholders of the parent	(7,824,190)
Retained profits at the end of the period	6,325,127

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.

42. Operating revenue and costs

	Six months ended 30 June 2018		Six months ended 30 June 2017	
	Revenue	Cost	Revenue	Cost
Principal business	38,245,309	26,549,156	52,285,515	35,059,142
Other business	1,188,468	959,197	1,725,081	1,388,599
	39,433,777	27,508,353	54,010,596	36,447,741

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

42. Operating revenue and costs (continued)

Operating revenue is analysed as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Telecommunications systems contracts	26,767,918	34,873,534
Sales of goods and rendering of services	12,599,480	19,071,637
Rental income	66,379	65,425
	39,433,777	54,010,596

43. Taxes and surcharges

	Six months ended 30 June 2018	Six months ended 30 June 2017
City maintenance and construction tax	142,018	201,643
Education surcharge	114,692	156,795
Property tax	25,929	32,233
Land use tax	9,003	10,761
Vehicle and vessel tax	130	114
Stamp duty	36,751	42,399
Others	48,594	89,355
	377,117	533,300

44. Selling and distribution costs

	Six months ended 30 June 2018	Six months ended 30 June 2017
Wages, welfare and bonuses	2,274,072	2,944,592
Consulting and services charges	358,900	203,866
Travelling expenses	514,354	588,755
Transportation and fuel charges	314,631	273,409
Business expenses	267,027	283,431
Office expenses	128,326	140,802
Advertising and promotion expenses	326,312	650,452
Rental fees	238,004	248,203
Communication expenses	46,326	51,977
Others	261,670	291,065
	4,729,622	5,676,552

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

45. Administrative expenses

	Six months ended 30 June 2018	Six months ended 30 June 2017
Wages, welfare and bonuses	671,795	919,978
Office expenses	64,429	56,842
Amortisation and depreciation charges	159,914	151,329
Rental fees	89,210	59,342
Travelling expenses	47,229	50,614
Legal fees	186,459	19,041
Others	140,311	170,603
	1,359,347	1,427,749

46. Research and development costs

	Six months ended 30 June 2018	Six months ended 30 June 2017
Wages, benefits and bonus	3,542,145	4,831,119
Direct materials	114,692	246,002
Amortisation and depreciation cost	564,118	631,150
Office expenses	142,496	121,908
Technological cooperation fees	395,917	267,815
Others	301,256	578,685
	5,060,624	6,676,679

47. Loss from changes in fair values

	Six months ended 30 June 2018	Six months ended 30 June 2017
Trading financial assets		
Including: Financial assets at fair value through profit or loss	(265,544)	—
Other non-current financial assets		
Including: Financial assets at fair value through profit or loss	(33,800)	—
Derivative financial instruments	(85,059)	(61,542)
Investment properties at fair value	6,964	3,487
	(377,439)	(58,055)

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

48. Investment income

	Six months ended 30 June 2018	Six months ended 30 June 2017
Investment loss from long-term equity investment under equity method	(213,534)	(3,507)
Investment income earned during the period of holding financial assets at fair value through profit or loss	14,460	—
Investment income earned during the period of holding available-for-sale financial assets	—	6,473
Investment income/(loss) arising from the disposal of derivative financial assets at fair value through profit or loss	169,395	(58,476)
Investment income arising from the disposal of financial assets at fair value through profit or loss	14,726	—
Investment income from the disposal of available-for-sale financial assets	—	2,609
Investment (loss)/income from the disposal of long-term equity investment	(3,749)	104,897
	(18,702)	51,996

49. Finance costs

	Six months ended 30 June 2018	Six months ended 30 June 2017
Interest expenses	489,549	566,430
Less: Interest income	483,485	529,632
Loss on foreign currency exchange	82,575	56,738
Cash discounts and interest subsidy	—	82,135
Bank charges	94,712	113,486
	183,351	289,157

For the current period of 2018, interest income from ZTE Group Finance Company Limited ("Finance Company") amounted to RMB248,305,000 (2017: RMB207,090,000).

50. Asset impairment losses/credit impairment losses

	Six months ended 30 June 2018	Six months ended 30 June 2017
Bad debt provisions	—	725,020
Inventories provisions	1,250,847	316,940
Amount due from customers for contract works	(20,996)	(16,204)
Asset impairment loss	1,229,851	1,025,756
Credit impairment loss	1,656,845	—

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

51. Other income

	Six months ended 30 June 2018	Six months ended 30 June 2017
Refund of VAT on software products (Note 1)	1,172,345	1,219,018
Others	119,218	150,000
	1,291,563	1,369,018

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.

52. Non-operating income/Non-operating expenses

Non-operating income

	Six months ended 30 June 2018	Six months ended 30 June 2017	Amount of extraordinary gain/loss recognized for the period
Income from contract penalty and reward	22,370	27,674	22,370
Others	81,127	41,729	50,693
	103,497	69,403	73,063

Non-operating expenses

	Six months ended 30 June 2018	Six months ended 30 June 2017	Amount of extraordinary gain/loss recognized for the period
Compensation	6,728,798	29,711	6,728,798
Loss arising from the disposal of non-current assets	9,552	26,356	9,552
Others	15,079	22,557	15,079
	6,753,429	78,624	6,753,429

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

53. Expenses by nature

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

	Six months ended 30 June 2018	Six months ended 30 June 2017
Cost of goods and services	23,631,946	32,597,687
Staff remuneration (including share-based payment)	9,969,545	12,126,704
Depreciation and amortisation	1,169,438	1,092,324
Rent	327,214	380,915
Others	3,559,803	4,031,091
	38,657,946	50,228,721

54. Income tax

	Six months ended 30 June 2018	Six months ended 30 June 2017
Current income tax	453,686	421,530
Deferred income tax	(1,018,719)	322,654
	(565,033)	744,184

Reconciliation between income tax and total profit was as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Total (loss)/profit	(8,425,843)	3,287,400
Tax at statutory tax rate (Note 1)	(2,106,461)	821,850
Effect of different tax rates applicable to certain subsidiaries	871,596	(291,453)
Adjustment to current tax in previous period	(11,830)	(27,087)
Profits and losses attributable to joint ventures and associates	32,391	908
Income not subject to tax	(6,750)	(1,618)
Expenses not deductible for tax	167,411	247,340
Deductible temporary differences not recognised	104,131	88,098
Deductible losses available from unrecognised deferred tax assets in previous years and deductible temporary differences	(37,179)	(485,149)
Unrecognized tax losses	421,658	391,295
Tax charge at the Group's effective rate	(565,033)	744,184

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

55. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to equity holders of the Company for the year by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to holders of ordinary shares of the Company for the year is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the year; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous years are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current year are assumed to have been converted on the date of issue.

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

	Six months ended 30 June 2018	Six months ended 30 June 2017
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	(7,824,190)	2,292,867
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	4,192,672	4,187,322
Diluting effect — weighted average number of ordinary shares Stock option	—	1,009
Adjusted weighted average number of ordinary shares of the company	4,192,672	4,188,331

The share options granted by the Company have given rise to 0 potentially dilutive ordinary shares for the reporting period.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares. The aforesaid issue of ordinary shares at nil consideration had an anti-dilution effect, hence such effect was not taken into account in the calculation of diluted loss per share for the period ended 30 June 2018.

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

56. Notes to major items in cash flow statement

	Six months ended 30 June 2018	Six months ended 30 June 2017
Cash received in connection with other operating activities:		
Interest income	483,485	529,632
Cash paid in connection with other operating activities:		
Selling and distribution costs	2,096,650	2,528,094
Administrative expenses and research and development costs	799,927	1,107,772
Decrease in other payables — decrease in amounts payable to relevant U.S. authorities	6,524,962	5,552,091

57. Supplemental information on cash flow statement

Supplemental information on cash flow statement

(1) Reconciliation of net profit to cash flows from operating activities:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Net (loss)/profit	(7,860,810)	2,543,216
Add: Asset impairment loss	1,229,851	1,025,756
Credit impairment loss	1,656,845	—
Depreciation of fixed assets	586,472	523,235
Amortization of intangible assets and deferred development costs	582,966	556,985
Amortization of long-term deferred assets	—	12,104
Loss on disposal of fixed assets, intangible assets and other long-term assets	9,552	26,356
Loss from changes in fair value	377,439	58,055
Finance costs	440,902	961,646
Investment income	18,702	(51,996)
(Increase)/decrease in deferred tax assets	(1,217,160)	312,335
Increase in deferred tax liabilities	16,446	7,519
(Increase)/decrease in inventories	(1,269,440)	613,672
Decrease/(increase) in operating receivables	5,320,522	(5,457,196)
(Decrease) in operating payables	(6,084,874)	(6,317,519)
Cost of share-based payment	78,709	—
Increase in cash not immediately available for payments	1,067,492	979,280
Net cash flow from operating activities	(5,046,386)	(4,206,552)

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

57. Supplemental information on cash flow statement (continued)

Supplemental information on cash flow statement (continued)

(2) Change in cash and cash equivalents:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Cash		
Including: Cash on hand	2,336	15,110
Bank deposit readily available	15,780,950	25,892,880
Cash and cash equivalents at end of period	15,783,286	25,907,990

58. Assets under restrictions on ownership or right of use

	30 June 2018	31 December 2017	
Cash	3,056,575	3,066,199	Note 1
Fixed assets	52,328	53,294	Note 2
Bills receivable	84,531	—	Note 3
Intangible assets	26,054	26,393	Note 4
	3,219,488	3,145,886	

Note 1: As at 30 June 2018, the Group's cash subject to ownership restriction amounted to RMB3,056,575,000 (31 December 2017: RMB3,066,199,000). There were no time deposits pledged to secure bank borrowings (31 December 2017: RMB16,450,000). Acceptance bill deposits amounted to RMB20,089,000 (31 December 2017: RMB48,155,000). Letter of credit deposits amounted to RMB634,398,000 (31 December 2017: RMB36,325,000). Deposit for guarantee letter amounted to RMB339,517,000 (31 December 2017: RMB389,398,000). Amounts due from the People's Bank of China amounted to RMB624,082,000 (31 December 2017: RMB852,644,000), technology grant amounted to RMB1,331,664,000 (31 December 2017: RMB1,506,213,000) and risk compensation fund to be released within one year amounted to RMB106,825,000 (31 December 2017: RMB217,014,000).

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 2018, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB611,181,000 (31 December 2017: RMB1,679,300,000). Risk compensation fund to be released within one year amounting to RMB106,825,000 (31 December 2017: RMB217,014,000) was accounted for as restricted cash. Risk compensation fund to be released after one year amounting to RMB504,356,000 (31 December 2017: RMB1,462,286,000) was accounted for as other non-current assets.

Note 2: As at 30 June 2018, fixed assets with a carrying value of RMB52,328,000 (31 December 2017: RMB53,294,000) were pledged to secure bank borrowings.

Note 3: As at 30 June 2018, bank acceptances with an amount of RMB84,531,000 (31 December 2017: Nil) were discounted to secure bank borrowings.

Note 4: As at 30 June 2018, intangible assets with a carrying value of RMB26,054,000 (31 December 2017: RMB26,393,000) were pledged to secure bank borrowings.

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

59. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		30 June 2018			31 December 2017		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash	USD	247	6.6266	1,638	1,331	6.5325	8,697
	SAR	—	1.7671	—	10	1.7420	18
	DZD	1,530	0.0562	86	1,986	0.0569	113
	EGP	51	0.3705	19	90	0.3671	33
Bank deposit	USD	859,449	6.6266	5,695,226	833,555	6.9310	5,777,370
	HKD	49,062	0.8439	41,403	155,167	0.8957	138,983
	BRL	23,823	1.7187	40,946	39,964	2.1269	84,999
	PKR	1,697,582	0.0545	92,586	1,972,163	0.0661	130,360
	EGP	83,272	0.3705	30,854	10,823	0.3803	4,116
	IDR	409,633,449	0.00046	188,453	320,140,000	0.0005	160,070
	EUR	108,191	7.6581	828,540	111,425	7.3230	815,965
	DZD	778,413	0.0562	43,768	429,616	0.0625	26,851
	MYR	50,959	1.6553	84,352	108,757	1.5450	168,030
	ETB	253,532	0.2431	61,630	436,797	0.3094	135,145
	CAD	4,542	5.0324	22,856	9,928	5.1620	51,248
	GBP	745	8.6582	6,447	2,579	8.5326	22,006
	THB	324,908	0.1998	64,917	550,186	0.1935	106,461
	RUB	423,961	0.1056	44,767	1,124,821	0.1143	128,567
	JPY	3,111,636	0.0599	186,499	1,915,920	0.0598	114,572
	VEF	347,690	0.0001	24	178,447	0.0103	1,838
	COP	1,681,541	0.0023	3,802	10,942,174	0.0023	25,167
	NPR	539,716	0.0605	32,647	216,505	0.0638	13,813
	CLP	1,706,850	0.0102	17,456	2,504,757	0.0103	25,799
Other cash	USD	21,574	6.5325	140,932	21,041	6.9310	145,835
Trade receivables	USD	1,242,466	6.5325	8,116,409	1,240,600	6.9310	8,598,599
	EUR	326,339	7.7926	2,543,029	356,864	7.3230	2,613,315
	BRL	55,389	1.9749	109,388	155,690	2.1269	331,137
	THB	1,106,740	0.2000	221,348	462,956	0.1935	89,582
	INR	17,758,358	0.1023	1,816,680	28,014,824	0.1020	2,857,512

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.

VI. CHANGES IN THE SCOPE OF CONSOLIDATION

New subsidiaries established during the period included: tier-one subsidiaries ZTE Smart Terminal Company Limited, Nanjing Xingtong Future Realty Company Limited and Xi'an Guoxing Smart Technology Industry Park Company Limited; tier-two subsidiaries ZTE HONGKONG (LAO) SOLE COMPANY LIMITED, ZXRC PAKISTAN (PRIVATE) LIMITED, Kela IOT (Quzhou) Company Limited, Heilongjiang ZTE ICT Technology Company Limited, Nanjing Xintong Zhiyuan Realty Company Limited, Beijing ZTE Guangtai Software Company Limited, ZTEsoft (Nanjing) Information Technology Company Limited; and tier-three subsidiaries ZTE HAITI S.A., Wuzhou Digital City Development Company Limited, Fuzhou ZTE Ruanzhi Technology Development Company Limited and Zsmart Myanmar Company Limited.

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VI. CHANGES IN THE SCOPE OF CONSOLIDATION (CONTINUED)

Dalian Zhongwang Realty Company Limited, a tier-three subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 4 March 2018 and had been excluded from the consolidated financial statements of the Group as from 4 March 2018. Changchun ZTE New Energy Auto Sales Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 14 May 2018 and had been excluded from the consolidated financial statements of the Group as from 14 May 2018. Henan ZTE Photovoltaics Technology Co., Ltd., a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 21 May 2018 and had been excluded from the consolidated financial statements of the Group as from 21 May 2018.

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of major subsidiaries of the Company are as below:

				Percentage of shareholding	
Type of subsidiary	Place of registration/ principal place of business	Business nature	Registered capital	Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen ZTE Kangxun Telecom Company Limited	Shenzhen	Manufacturing	RMB1,755 million	100%	—
ZTE (H.K) Limited	Hong Kong	Information technology	HKD995 million	100%	—
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB51.08 million	100%	—
西安中興通訊終端科技有限公司	Xi'an	Manufacturing	RMB300 million	100%	—
ZTE (USA) Inc.	USA	Communications	USD30 million	100%	—
Xi'an Zhongxing New Software Company Limited	Xi'an	Telecommunications and related equipment manufacturing	RMB600 million	100%	—
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB200 million	90%	10%

2. Equity investments in joint ventures and associates

				Percentage of shareholding		Accounting method
	Place of registration/ principal place of business	Business nature	Registered capital	Direct	Indirect	
Joint ventures						
Bestel Communications Ltd.	Republic of Cyprus	Information technology	EUR446,915	50%	—	Equity method
Puxing Mobile Tech Company Limited	PRC	R&D, production and sale of telecommunications equipment	RMB128,500,000	50%	—	Equity method
Pengzhong Xingsheng	Uzbekistan	Mobile terminals and smart phones etc	USD3,160,000	50%	—	Equity method
重慶前沿城市大數據管理有限公司*	PRC	R&D, production and sale of telecommunications equipment	RMB200,000,000	51%	—	Equity method
德特賽維技術有限公司	PRC	Software development, IT consultation and IT systems integration	RMB60,000,000	49%	—	Equity method

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates (continued)

- * 重慶前沿城市大數據管理有限公司 in which the Group had 51% shareholdings was not included in the consolidated statements mainly because the Group did not have control over its decision-making in production operations and finances, as the board of directors of the said company comprised 5 members, 3 of which were appointed by ZTE Soft Technology Company Limited and 2 by 重慶有線電視網絡有限公司, while board resolutions can only be passed with the approval of two thirds of the directors, as stipulated under its articles of association.

During the period, the Group had no subsidiaries that were subject to significant minority interest, nor key joint ventures and associates which had a significant impact on the Group.

				Percentage of shareholding		
	Place of registration/ principal place of business	Business nature	Registered capital	Direct	Indirect	Accounting method
Associate						
KAZNURTEL Limited Liability Company	Kazakhstan	Manufacturing of computers and relate equipment	USD3,000,000	49%	—	Equity method
思卓中興(杭州)科技有限公司	PRC	Sales and R&D of communications equipment	USD7,000,000	49%	—	Equity method
ZTE Energy Limited	PRC	Energy	RMB1,290,000,000	23.26%	—	Equity method
ZTE Software Technology (Nanchang) Company Limited	PRC	Computer application services	RMB15,000,000	30%	—	Equity method
Nanjing Piaoxun Network Technology Company Limited	PRC	Computer application services	RMB870,000	20%	—	Equity method
Telecom Innovations	Uzbekistan	Sales and production of communications equipment	USD1,653,294	33.91%	—	Equity method
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited*	PRC	Hotel management service	RMB30,000,000	18%	—	Equity method
北京億科三友科技發展有限公司	PRC	Computer application services	RMB34,221,649	20%	—	Equity method
ZTE 9 (Wuxi) Co., Ltd.	PRC	Computer application services	RMB17,909,380	26.21%	—	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
中興耀維科技江蘇有限公司	PRC	Energy	RMB20,000,000	23%	—	Equity method
中興智慧成都有限公司	PRC	R&D of smart city application service system; R&D, and manufacturing of communications equipment	RMB40,000,000	40%	—	Equity method
廈門智慧小區網絡科技有限公司	PRC	Engineering and technology research; Internet business	RMB50,000,000	35%	—	Equity method
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Zimbabwe	Colour ring and other telecommunications VAS	USD500	49%	—	Equity method
前海融資租賃股份有限公司	PRC	Finance leasing	RMB200,000,000	30%	—	Equity method
中山優順置業有限公司	PRC	Real estate property	RMB10,000,000	20%	—	Equity method

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates (continued)

				Percentage of shareholding		
	Place of registration/ principal place of business	Business nature	Registered capital	Direct	Indirect	Accounting method
Associate						
鐵建聯合(北京)科技有限公司	PRC	Technological promotion and application services	RMB20,000,000	30%	—	Equity method
西安城投智能充電股份有限公司	PRC	Technological promotion and application services	RMB50,000,000	24%	—	Equity method
紹興市智慧城市集團有限公司	PRC	Commercial services	RMB2000,000,000	24.50%	—	Equity method
廣東福能大數據產業園建設有限公司	PRC	Technological promotion and application services	RMB10,000,000	30%	—	Equity method
廣東中興城智信息技術有限公司	PRC	Software and information technology services	RMB30,000,000	39%	—	Equity method
上海博色信息科技有限公司	PRC	Specialised technical services	RMB71,379,000	29%	—	Equity method
南京寧網科技有限公司	PRC	Manufacturing of computer, communications and other electronic equipment	RMB25,487,370	21.26%	—	Equity method
New Idea Investment Pte. Ltd.	Singapore	Investment company	USD10,200,000+SGD1	20.00%	—	Equity method
中興智能科技產業有限公司*	PRC	Manufacturing of computers and related equipment	RMB200,000,000	19.00%	—	Equity method
Hengyang ICT Real Estate Co., Ltd.	PRC	Real estate property	RMB20,000,000	30.00%	—	Equity method
貴州中安雲網科技有限公司*	PRC	Technological innovation-driven IOT operations and services	RMB 30,000,000	19%	—	Equity method
陝西高端裝備與智能製造產業研究院有限公司*	PRC	Manufacturing of high-end equipment and smart devices, industry research, consultation and technology development	RMB16,000,000	12.5%	—	Equity method
Laxense,Inc.*	USA	Manufacturing of communication and other electronic equipment	USD2,460,318	18.7%	—	Equity method
中教雲通(北京)科技有限公司	PRC	Education	RMB15,000,000	28%	—	Equity method
Kron Telekomunikasyon Hizmetleri A.S.*	Turkey	Communication and Internet services	TRY14,268.513	10%	—	Equity method
山東興濟置業有限公司*	PRC	Real estate	RMB10,000,000	10%	—	Equity method
Nubia Technology Limited	PRC	Manufacturing of communication equipment and Internet information services	RMB118,748,300	49.9%	—	Equity method
Huanggang Education Valley Investment Holdings Co., Ltd.	PRC	Education	RMB50,000,000	25%	—	Equity method

* The Group classified enterprises in which the Group had a shareholding of less than 20% as associates primarily for the reason that: in accordance with the Articles of Association, the Group has significant influence over the investee unit by virtue of the right to appoint directors to the board of the investee unit and the right to take part in decision-making relating to the financial and operational policies of the investee unit.

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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 2018	31 December 2017
Joint ventures		
Aggregate carrying value of investments	92,457	92,344
	Six months ended 30 June 2018	Six months ended 30 June 2017
Aggregate amounts of the following attributable to shareholdings:		
Net profit/(loss)	113	(1,935)
Other comprehensive income	—	—
Total comprehensive income	113	(1,935)
	30 June 2018	31 December 2017
Associates		
Aggregate carrying value of investments	3,642,306	3,868,253
	Six months ended 30 June 2018	Six months ended 30 June 2017
Aggregate amounts of the following attributable to shareholdings:		
Net loss	(221,110)	(1,572)
Other comprehensive income	1,441	—
Total comprehensive income	(219,669)	(1,572)

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

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

30 June 2018

Financial assets

	Financial assets at fair value through current profit or loss ASBE requirement	Measured at amortised cost	Financial assets at fair value through other comprehensive income ASBE requirement	Total
Cash	—	18,972,333	—	18,972,333
Derivative financial assets	154,904	—	—	154,904
Trading financial assets	1,555,577	—	—	1,555,577
Other current assets	—	—	1,092,690	1,092,690
Other non-current financial assets	1,587,518	—	—	1,587,518
Bills receivable and trade receivables	—	22,181,067	—	22,181,067
Long-term receivables	—	978,737	—	978,737
Factored trade receivables and long-term factored trade receivables	—	1,444,661	—	1,444,661
Other receivables	—	2,096,601	—	2,096,601
Other non-current assets	—	809,852	—	809,852
	3,297,999	46,483,251	1,092,690	50,873,940

Financial liabilities

	Financial liabilities at fair value through current profit and loss ASBE requirement	Financial liabilities measured at amortised cost	Total
Derivative financial liabilities	164,131	—	164,131
Bank loans	—	17,565,944	17,565,944
Bills payable and trade payables	—	22,410,383	22,410,383
Trade receivables and bank advances on long-term factored trade receivables	—	1,445,728	1,445,728
Other payables (excluding accruals and staff housing fund contributions)	—	6,230,527	6,230,527
Other non-current liabilities	—	457,646	457,646
	164,131	48,110,228	48,274,359

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (continued)

31 December 2017

Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available for-sale financial assets	Total
Cash	—	33,407,879	—	33,407,879
Derivative financial assets	116,794	—	—	116,794
Available-for-sale financial assets	—	—	3,181,668	3,181,668
Bills receivable	—	2,052,945	—	2,052,945
Trade receivables and long-term receivables	—	25,590,043	—	25,590,043
Factored trade receivables and factored long-term receivables	—	3,688,455	—	3,688,455
Other receivables	—	2,701,831	—	2,701,831
Other non-current assets	—	1,767,782	—	1,767,782
	116,794	69,208,935	3,181,668	72,507,397

Financial liabilities

	Financial liabilities at fair value through current profit or loss Trading	Other financial liabilities	Total
Derivative financial liabilities	49,830	—	49,830
Bank loans	—	21,538,013	21,538,013
Bills payable	—	10,848,511	10,848,511
Trade payables	—	23,614,556	23,614,556
Trade receivables and bank advances on long-term factored trade receivables	—	4,028,478	4,028,478
Other payables (excluding accruals and staff housing fund contributions)	—	6,204,068	6,204,068
Other non-current liabilities	—	492,413	492,413
	49,830	66,726,039	66,775,869

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety

During the period, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that not substantially all risks and rewards associated with bills receivable with a book amount of RMB84,531,000 (31 December 2017: Nil) were transferred upon discounting and hence such amount of bills receivable did not qualify for derecognition of financial assets.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 30 June 2018, trade receivables that have been transferred but not settled by the debtors amounted to RMB200,821,000 (31 December 2017: RMB334,872,000).

According to some trade receivables factoring agreements, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognized to the extent of trade receivables transferred under continuous involvement. As at 30 June 2018, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB21,985,825,000 (31 December 2017: RMB31,610,558,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortized cost) Trade receivables/ long-term receivables	
	30 June 2018 RMB'000	31 December 2017 RMB'000
Carrying value of assets under continuous involvement	1,243,840	3,353,583
Carrying value of liabilities under continuous involvement	1,256,081	3,693,606

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 2018, the amount of factored trade receivables was RMB1,444,661,000 (31 December 2017: RMB3,688,455,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables". As at 30 June 2018, the amount of bank advances on factored trade receivables was RMB1,445,728,000 (31 December 2017: RMB4,028,478,000).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfers of financial assets (continued)

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

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

In prior year, the Company entered into a telecommunications system project with an African telecommunications operator with a total contract amount of USD1.5 billion. The related accounts receivable is to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. Two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to factored trade receivables agreements. During the financing period, the banks will charge interest at 6-month USD LIBOR+1.5% or LIBOR+1.8% which will be shared by the Company and the telecommunications operator at a predetermined portion. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 30 June 2018, under the above arrangement, trade receivable due from the customer amounted to RMB4,269,287,000 (31 December 2017: RMB4,638,120,000) among which RMB3,040,721,000 (31 December 2017: RMB3,074,756,000) 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 RMB1,228,566,000 (31 December 2017: RMB1,563,364,000) 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 2018 amounted to RMB128,098,000 (31 December 2017: RMB126,647,000), comprising RMB48,619,000 (31 December 2017: RMB28,460,000) due within one year and classified as other payables (see Note V.31) and RMB79,479,000 (31 December 2017: RMB98,187,000) due after one year and classified as other non-current liabilities (see Note V.35).

Transferred financial assets derecognized in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the year. The Group was of the view that, for the period, substantially all risks and rewards of bills receivable with a carrying value of RMB162,650,000 (31 December 2017: RMB478,932,000) were transferred upon discounting and such bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognized in full at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognized bills receivable and the undiscounted cash flow for the repurchase of such bills equal to the carrying amounts of the bills receivable. The Group was of the view that the fair value of continuous involvement in the derecognized bills receivable is not significant. For the relevant period, the Group recognised discounted interests in respect of the derecognized bills receivable amounting to RMB6,231,000 (31 December 2017: RMB6,341,000) as at the date of transfer.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments

The main financial instruments of the Group, except for derivatives, include bank loans, cash, etc. The main purpose of these financial instruments is to finance for the Group's operation. The Group has many other financial assets and liabilities arising directly from operation, such as trade receivables and trade payables and etc.

The Group entered into forward currency contracts and interest rate swap contracts with the aim of managing the foreign exchange risk and interest rate risk in the Group's operation. The major risks which come from the Group's financial instruments are the credit risk, liquidity risk and market risk. The Group's policies for managing each of these risks are summarized as follows.

Credit risk

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

The Group's other financial assets, which comprise cash, available-for-sale financial assets, other receivables and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The Group is also subject to credit risks associated with the provision of financial guarantees. For detailed disclosures, please refer to Note XII.2.9.

Although the top five accounts accounted for 23.02% (2017: 20.91%) 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 recognized and creditworthy third parties, there is no requirement for collateral. The Group did not hold any collateral or other credit enhancements over the balances of the trade receivables. For further quantitative disclosures on the Group's credit risk arising from trade receivables, other receivables and long-term trade receivables, please refer to Notes V.4, 5 and 11.

The maturity profile of trade receivables, long-term receivables and other receivables as at 30 June 2018 is analysed as follows:

30 June 2018

	Total	Not overdue/ not impaired	Overdue for			
			Less than 1 year	1-2 years	2-3 years	Over 3 years
Trade receivables	17,495,444	3,536,029	13,959,415	—	—	—
Long-term receivables	978,737	978,737	—	—	—	—
Other receivables	2,096,601	—	1,185,602	622,031	202,101	86,867

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

31 December 2017

	Total	Not overdue/ not impaired	Less than 1 year	Overdue for 1-2 years	2-3 years	Over 3 years
Trade receivables	24,345,283	5,005,100	17,067,289	1,716,792	556,102	—
Long-term receivables	1,244,760	1,244,760	—	—	—	—
Other receivables	2,701,831	—	1,623,480	834,303	172,727	71,321

Liquidity risk

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

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans and other interest-bearing loans. Apart from the non-current portion of bank borrowings, all borrowings were due within 1 year.

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

30 June 2018

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	15,211,939	337,697	2,399,464	63,501	18,012,601
Derivative financial liabilities	—	164,131	—	—	—	164,131
Bills payable and trade payables	14,302,760	8,107,623	—	—	—	22,410,383
Bank advances on factored trade receivables and factored long-term trade receivable	—	457,394	248,982	264,563	362,656	1,333,595
Other payables (excluding accruals and staff housing fund contributions)	6,230,527	—	—	—	—	6,230,527
Other non-current liabilities	—	—	105,009	85,538	330,928	521,475
	20,533,287	23,941,087	691,688	2,749,565	757,085	48,672,712

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

31 December 2017

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	18,100,280	1,442,418	2,369,581	96,682	22,008,961
Derivative financial liabilities	—	49,830	—	—	—	49,830
Bills payable	—	10,848,511	—	—	—	10,848,511
Trade payables	23,614,556	—	—	—	—	23,614,556
Bank advances on factored trade receivables and factored long-term trade receivable	—	1,113,708	470,923	765,887	1,858,955	4,209,473
Other payables (excluding accruals and staff housing fund contributions)	6,204,068	—	—	—	—	6,204,068
Other non-current liabilities	—	—	108,909	98,608	335,266	542,783
	29,818,624	30,112,329	2,022,250	3,234,076	2,290,903	67,478,182

Market risk

Interest rate risk

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

As at 30 June 2018, 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 1.00% and 18.25%. In addition, the Group borrowed a USD300 million loan at floating interest rates. As at 30 June 2018, the Group had no interest rate swaps (31 December 2017: nil) and approximately 49% of the interest-bearing borrowings of the Group were at fixed interest rates (31 December 2017: 47%).

Interest-bearing borrowings with floating interest rate were mainly denominated in USD and EUR. The sensitivity analysis of interest rate risks set out in the following table reflects the impact of reasonable and probable change in interest rates on the net amount after tax of net profit or loss (through the impact on floating rate loans) and other comprehensive income assuming that other variables remain constant, having taken into account the impact of interest rate swaps.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2018	25 (25)	(18,957) 18,957	— —	(18,957) 18,957
Six months ended 30 June 2017	25 (25)	(30,747) 30,747	— —	(30,747) 30,747

Foreign currency risk

The Group is exposed to trading exchange rate risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures.

The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

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

	Increase/ (decrease) in USD exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2018				
Weaker RMB against USD	3%	237,635	—	237,635
Stronger RMB against USD	(3%)	(237,635)	—	(237,635)
Six months ended 30 June 2017				
Weaker RMB against USD	3%	129,900	—	129,900
Stronger RMB against USD	(3%)	(129,900)	—	(129,900)

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in EUR exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2018				
Weaker RMB against EUR	5%	59,575	—	59,575
Stronger RMB against EUR	(5%)	(59,575)	—	(59,575)
Six months ended 30 June 2017				
Weaker RMB against EUR	5%	50,769	—	50,769
Stronger RMB against EUR	(5%)	(50,769)	—	(50,769)

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 2018.

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 2018	31 December 2017
Interest-bearing bank borrowings	17,565,944	21,538,013
Bank advances on factored trade receivables and long-term receivables	1,445,728	4,028,478
Total interest-bearing liabilities	19,011,672	25,566,491
Owner's equity	33,708,188	45,380,147
Total owner's equity and interest-bearing net liabilities	52,719,860	70,946,638
Financial gearing ratio	36.1%	36.0%

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IX. DISCLOSURES OF FAIR VALUES

1. Assets and liabilities measured at fair value

30 June 2018

	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				
Derivative financial assets	—	154,904	—	154,904
Trading financial assets				
Financial assets at fair value through current profit or loss	—	—	523,265	523,265
Creditor instruments	656,967	—	375,345	1,032,312
Equity instruments				
Other current assets				
Financial assets at fair value through other comprehensive income	—	1,092,690	—	1,092,690
Creditor instruments				
Other non-current financial assets				
Financial assets at fair value through current profit or loss	—	19,510	1,568,008	1,587,518
Debt instruments				
Investment properties	—	—	2,030,773	2,030,773
Leased properties				
	656,967	1,267,104	4,497,391	6,421,462
Derivative financial liabilities	—	(164,131)	—	(164,131)
	—	(164,131)	—	(164,131)

31 December 2017

	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				
Derivative financial assets	—	116,794	—	116,794
Available-for-sale financial assets				
Investment in equity instruments	1,711,846	—	—	1,711,846
Investment properties	—	—	2,023,809	2,023,809
Leased properties				
	1,711,846	116,794	2,023,809	3,852,449
Derivative financial liabilities	—	(49,830)	—	(49,830)
	—	(49,830)	—	(49,830)

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IX. DISCLOSURES OF FAIR VALUES (CONTINUED)

2. Estimation of fair value

Fair value of financial assets

The management has conducted evaluations of our cash, bills receivable, trade receivables, bills payable and trade payables. The fair values approximates the book values as the remaining terms are not long.

Fair value of financial assets and financial liabilities refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows.

The fair values of long-term receivables and long/short-term loans 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 2018, 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 fair value of listed equity instruments is determined as their quoted market price. The fair value of investments in non-listed equity instruments is estimated using the market approach, where assumptions adopted are not supported by observable market prices or interest rates. The Group is required to make estimations in respect of projected future cash flow (including projected future dividend and income from disposal). The Group believes that fair values and the changes thereof estimated with the use of valuation techniques are reasonable and represent the most appropriate value as at the balance sheet date.

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 2018, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default. Changes in the credit risk profile of counterparties did not have any material impact on the evaluation of the hedging effectiveness of designated derivative instruments in the hedge and other financial instruments measured at fair value.

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IX. DISCLOSURES OF FAIR VALUES (CONTINUED)

2. Estimation of fair value (continued)

Fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties as at 30 June 2018 was RMB2,030,773,000 (31 December 2017: RMB2,023,809,000).

3. Unobservable inputs

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

30 June 2018

	Fair value at period-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Equity instruments	RMB1,943,353,000	Comparison with listed companies	Liquidity discount	60%–90%
Creditor instruments	RMB523,265,000	Discounted cash flow method	Estimated return rate	4%–7%
Commercial properties	RMB2,030,773,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB46–RMB547
			Rent growth (p.a.)	1%–3%
			Long-term vacancy rate	5%
			Discount rate	6%–7%

31 December 2017

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,023,809,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB45.5–RMB594
			Rent growth (p.a.)	1%–3%
			Long-term vacancy rate	5%
			Discount rate	6%–7%

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IX. DISCLOSURES OF FAIR VALUES (CONTINUED)

4. Fair value measurement adjustment

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

30 June 2018

	Opening Balance	Transfer into Level 3	Transfer out of Level 3	Total profit for the period Included in profit and loss	Acquisition	Issue	Disposal	Settlement	Closing balance	Change in unrealised profit for the period of assets held at the end of the period included in profit and loss
Trading financial assets										
Financial assets at fair value through other comprehensive income										
Debt instruments	—	—	—	23,265	—	500,000	—	—	523,265	23,265
Equity instruments	529,463	—	—	(152,312)	—	—	—	—	375,345	(154,118)
Other non-current financial assets										
Financial assets at fair value through current profit or loss										
Equity instruments	1,598,640	—	—	(6,420)	—	65,578	—	42,900	1,587,518	(33,800)
Investment property	2,023,809	—	—	6,964	—	—	—	—	2,030,773	6,964
	4,151,912	—	—	(128,503)	—	565,578	—	42,900	4,516,901	(157,689)

31 December 2017

	Opening Balance	Transfer into Level 3	Transfer out of Level 3	Total profit or loss for the period Included in other comprehensive profit and loss	Acquisition	Closing Balance	Change in unrealised profit or loss for the period of assets held at the end of the period included in profit and loss
Investment properties	2,016,470	—	—	7,339	—	2,023,809	7,339

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IX. DISCLOSURES OF FAIR VALUES (CONTINUED)

4. Fair value measurement adjustment (continued)

Information on information on profit or loss included in current profit or loss relating to financial assets and non-financial assets in the continuous fair value measurement at level 3 is set out as follows:

	Six months ended 30 June 2018 Profit or loss relating to financial assets	Six months ended 30 June 2018 Profit and loss relating to non- financial assets
Total profit for the period included in profit or loss	(135,467)	6,964
Change in unrealised profit or loss for the period of assets held at the end of the period included in profit or loss	(164,653)	6,964

	Six months ended 30 June 2017 Profit or loss relating to financial assets	Six months ended 30 June 2017 Profit and loss relating to non- financial assets
Total profit for the period included in profit or loss	—	7,339
Change in unrealised profit or loss for the period of assets held at the end of the period included in profit or loss	—	7,339

5. Transfers between levels of fair value measurement

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	Shenzhen, Guangdong	Manufacturing	RMB100 million	30.34%	30.34%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

2. Subsidiaries

Details of the subsidiaries are set out in Note VI and Note VII.1.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

4. Other related parties

	Relationship
Sindi Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	Subsidiary of the Company's controlling shareholder
ZTE Quantum Co., Ltd.	Subsidiary of the Company's controlling shareholder
中興儀器(深圳)有限公司 ^{*1}	Former subsidiary of the Company's controlling shareholder
深圳市中興環境儀器有限公司 ^{*1}	Former subsidiary of the Company's controlling shareholder
深圳中興新材技術股份有限公司 (previous known as 深圳中興創新材料技術有限公司)	Subsidiary of the Company's controlling shareholder
Pylon Technologies Co., Ltd.	Investee of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd.	Investee of the Company's controlling shareholder
惠州中興新通訊設備有限公司 ^{*2}	Former subsidiary of the Company's controlling shareholder
深圳市中興新力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
深圳市中興新雲服務有限公司	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing WXT Equipment Company Limited	Company for which a connected natural person of the Company acted as director
北京中興協力科技有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder
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
Mobi Antenna Technologies (Shenzhen) Co., Ltd. ^{*3}	Company for which a former supervisor of the controlling shareholder of the Company acted as director
上海共進新媒體技術有限公司 ^{*4}	Company for which a former connected natural person of the Company had previously acted as director
CASIC Shenzhen (Group) Limited	Company for which a connected natural person of the Company acted as director

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

	Relationship
深圳市航天歐華科技發展有限責任公司	Company for which a connected natural person of the Company acted as chairman
廣東歐科空調製冷有限公司	Company for which a connected natural person of the Company acted as director
深圳中興環保集團股份有限公司 ⁵	Company for which a former 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 vice 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
上海中興科源實業有限公司	Subsidiary of a company for which a connected natural person of the Company acted as chairman
Shenzhen Zhongxing Information Company Limited	Company for which a connected natural person of the Company acted as chairman
興天通訊技術有限公司 ⁶	Company for which a former connected natural person of the Company had previously acted as chairman
天津中興國際投資有限公司	Company for which a connected natural person of the Company acted as chairman
Zhongxing Development Company Limited ⁷	Company for which a connected natural person of the Company acted as director and executive vice president
Chongqing Zhongxing Development Company Limited ⁷	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Huatong Technology Co., Ltd. ⁷	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
華通軟件科技南京有限公司 ⁷	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
中興軟件技術(瀋陽)有限公司 ⁷	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興發展有限公司 ⁷	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興物業服務有限公司 ⁷	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
杭州中興發展有限公司 ⁷	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

	Relationship
杭州中興中投物業管理有限公司 ^{*7}	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Tianma Microelectronics Co., Ltd. ^{*8}	Company for which a connected natural person of the Company had previously acted as independent director
紹興市智慧城市集團有限公司	Company for which a connected natural person of the Company acted as director
深圳市中興國際投資有限公司	Company for which a connected natural person of the Company acted as director
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
深圳市中興宜和投資發展有限公司	Company for which a connected natural person of the Company acted as director

*1 Such company has ceased to be a subsidiary of the controlling shareholder of the Company as from 14 December 2017 and has ceased to be a connected party of the Company as from 14 December 2018.

*2 Such company has ceased to be a subsidiary of the controlling shareholder of the Company as from 10 January 2018 and will cease to be a connected party of the Company as from 10 January 2019.

*3 The director of such company has ceased to be a supervisor of the controlling shareholder of the Company as from 23 June 2016 and such company has ceased to be a connected party of the Company as from 23 June 2017.

*4 The natural connected person of the Company has ceased to be a director of such company as from 28 January 2016 and such company has ceased to be a connected party of the Company as from 28 January 2017.

*5 The chairman of such company has ceased to be a natural connected person of the Company as from 30 March 2017 and such company has ceased to be a connected party of the Company as from 30 March 2017.

*6 The former chairman of such company has ceased to be a natural connected person of the Company as from 21 February 2018 and such company has ceased to be a connected party of the Company as from 21 February 2018.

*7 Ms. Fang Rong, director and executive vice president of Zhongxing Development, has been appointed Director of the Company as from 29 June 2018 and Zhongxing Development and its subsidiaries have become connected parties of the Company as from 29 June 2018.

*8 The natural connected person of the Company had ceased to be an independent director of such company as from 30 June 2016 and such company has ceased to be a connected party of the Company as from 30 June 2017.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties

(1) The transaction of goods with related parties

Sales of goods to related parties

	Six months ended 30 June 2018 Amount	Six months ended 30 June 2017 Amount
Zhongxingxin Telecom Company Limited	6	4
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	—	430
Puxing Mobile Tech Company Limited	8,229	101,272
ZTE Quantum Co., Ltd.	3	5
Zhongxing Development Company Limited	—	62
上海共進新媒體技術有限公司	—	21
深圳市航天歐華科技發展有限責任公司	110,350	35,626
Telecom Innovations	—	1,966
興天通訊技術有限公司	5	23
深圳中興新材技術股份有限公司	—	176
中興軟件技術(瀋陽)有限公司	—	8
南京仄普托信息科技有限公司	—	3
上海市和而泰酒店投資管理有限公司	858	815
上海中興思桔通訊有限公司	1	188
三河中興發展有限公司	—	6
中興儀器(深圳)有限公司	5,306	10,469
深圳中興節能環保股份有限公司	393	1,560
Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	27
Shenzhen Xinyu Tengyue Electronics Co., Ltd.	133	1,699
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	7	11
南京中興和泰酒店管理有限公司	—	18
中興智慧成都有限公司	11,801	1,308
重慶前沿城市大數據管理有限公司	24,300	—
Zhongxing Energy (Tianjin) Company Limited	—	1
Zhongxing Energy (Shenzhen) Company Limited	1	3
惠州中興新通訊設備有限公司	18	—
Nubia Technology Limited	405,419	—
Pylon Technologies Co., Ltd.	78	—
深圳市中興新力精密機電技術有限公司	56	—
Huanggang Education Valley Investment Holdings Co., Ltd.	7	—
Kron Telekomunikasyon Hizmetleri A.S.	26	—
	566,997	155,701

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

(1) The transaction of goods with related parties (continued)

Purchases of goods and services from related parties

	Six months ended 30 June 2018 Amount	Six months ended 30 June 2017 Amount
Zhongxingxin Telecom Company Limited	46,179	94,037
Sindi Technologies Co., Ltd.	23,932	25,038
Shenzhen Xinyu Tengyue Electronics Co., Ltd.	25,536	36,447
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	—	318,791
Huatong Technology Company Limited	—	27,156
ZTE Software Technology (Nanchang) Company Limited	5,389	17,867
Shenzhen Zhongxing Information Company Limited	—	1,758
深圳市航天歐華科技發展有限責任公司	—	2,050
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	9,128	10,144
南京中興和泰酒店管理有限公司	1,746	2,680
上海市和而泰酒店投資管理有限公司	2,937	3,032
西安中興和泰酒店管理有限公司	1,283	1,191
Zhongxing Energy (Shenzhen) Company Limited	—	810
Zhongxing Energy (Tianjin) Company Limited	—	492
上海中興思秸通訊有限公司	—	87
北京中興協力科技有限公司	1,490	1,359
中興儀器(深圳)有限公司	288	621
Pylon Technologies Co., Ltd.	21,703	1,139
Zhongxing Development Company Limited	—	242
石家莊市善理通益科技有限公司	—	90
Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	151
Tianma Microelectronics Co., Ltd.	—	131,670
Shenzhen Zhongxing WXT Equipment Company Limited	—	6,738
Laxense, Inc.	2,533	—
Nubia Technology Limited	573,100	—
Puxing Mobile Tech Company Limited	3,231	—
深圳市中興新雲服務有限公司	34	—
	718,509	683,590

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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 2018 Lease income	Six months ended 30 June 2017 Lease income
Puxing Mobile Tech Company Limited	Office	318	243
中興儀器(深圳)有限公司	Office	834	470
華通軟件科技南京有限公司	Office	2	177
上海中興思枯通訊有限公司	Office	213	177
Hengyang ICT Real Estate Co., Ltd.	Office	105	53
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	8,245	8,245
南京中興和泰酒店管理有限公司	Property and equipment and facilities	3,555	3,555
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	13,702	13,702
西安中興和泰酒店管理有限公司	Property and equipment and facilities	13,019	13,019
上海中興科源實業有限公司	Office	95	—
Zhongxingxin Telecom Company Limited	Office	6	—
深圳市中興新雲服務有限公司	Office	280	—
深圳市中興國際投資有限公司	Office	—	—
Zhongxing Development Company Limited	Office	—	117
深圳中興科揚節能環保股份有限公司	Office	—	40
深圳中興環保集團股份有限公司	Office	—	40
		40,374	39,838

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

(2) Leasing with related parties (continued)

As lessee

Property leased		Six months ended 30 June 2018 Lease expense	Six months ended 30 June 2017 Lease expense
Zhongxingxin Telecom Company Limited	Office	4,414	4,414
Zhongxing Development Company Limited	Office	11	24,382
Chongqing Zhongxing Development Company Limited	Office	53	4,455
三河中興發展有限公司	Office	67	5,022
三河中興物業服務有限公司	Office	19	1,673
杭州中興發展有限公司	Quarters and plants	1	—
天津中興國際投資有限公司	Office	30	—
		4,595	39,946

(3) Guarantees for related parties

For the first six months of 2018 and the first six months of 2017, no guarantee was provided by/to related parties to/by the Group.

(4) Transfer of equity interests to related parties

For the first six months of 2018 and the first six months of 2017, the Group did not transfer any equity interests to related parties.

(5) Transfer of assets to related parties

For the first six months of 2018 and the first six months of 2017, the Group did not transfer any assets to related parties.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

(6) Other major related transactions

	Six months ended 30 June 2018 Amount	Six months ended 30 June 2017 Amount
Remuneration of key management personnel	6,178	26,295

Notes:

- (i) Commercial transactions with related parties: Commercial transactions with related parties was conducted by the Group at market price for the first six months of the year ended 30 June 2018.
- (ii) Leasing property from/to related parties: Office space, equipment and facilities were leased to the aforesaid related parties by the Group for the first six months of the year ended 30 June 2018 and lease income of RMB40,374,000 (Six months ended 30 June 2017: RMB39,838,000) was recognized in accordance with relevant lease contracts.
- Office space was leased to the Group by the aforesaid related parties for the first six months of the year ended 30 June 2018 and lease expenses of RMB4,595,000 (Six months ended 30 June 2017: RMB39,946,000) was recognized in accordance with relevant lease contracts.
- (iii) Other major related transactions: The total amount of remuneration (in the form of monetary amounts, physical rewards or otherwise) for the key management personnel of the Company incurred the Group for the first six months of the year ended 30 June 2018 was RMB6,178,000 (for six months ended 30 June 2017: RMB26,295,000). Certain of the key management personnel referred to above were concurrently entitled to defined benefit plans provided by the Group, which were not included in the remuneration set out above.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Balances of amounts due from/to related parties

Item	Name of related parties	30 June 2018	31 December 2017
Bills receivable and trade receivables	Puxing Mobile Tech Company Limited	96,088	96,609
	Xi'an Microelectronics Technology Research Institute	9	9
	ZTE Quantum Co., Ltd.	318	319
	深圳市航天歐華科技發展有限責任公司	18,849	220,872
	鄂爾多斯市雲端科技有限公司	1	1
	興天通訊技術有限公司	—	4,043
	ZTE Software Technology (Nanchang) Company Limited	2,150	3,074
	中興儀器(深圳)有限公司	15,578	14,673
	中興智慧成都有限公司	10,061	2,701
	深圳中興節能環保股份有限公司	—	37
	重慶前沿城市大數據管理有限公司	47,385	18,954
	廈門智慧小區網絡科技有限公司	1	143
	Huanggang Education Valley Investment Holdings Co., Ltd.	1,732	96
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	—	264
	Hengyang ICT Real Estate Co., Ltd.	148	59
	Nubia Technology Limited	91,373	316,930
	深圳市中興新雲服務有限公司	238	—
	Kron Telekomunikasyon Hizmetleri A.S.	26	—
		283,957	678,784
Prepayment	Zhongxingxin Telecom Company Limited	242	242
	Zhongxing Development Company Limited	70	—
		312	242
Other receivables	南京中興和泰酒店管理有限公司	1,780	2
	ZTE 9 (Wuxi) Co., Ltd.	90	121
	Shenzhen Zhongxing Information Company Limited	14	14
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	27,287	31,292
	Sindi Technologies Co., Ltd.	445	445
	西安中興和泰酒店管理有限公司	8,680	226
	Nubia Technology Limited	17	17
	山東興濟置業有限公司	21,761	21,761
	北京中興協力科技有限公司	15	15
	上海市和而泰酒店投資管理有限公司	6,851	—
		66,940	53,893

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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 parties	30 June 2018	31 December 2017
Bills payable and trade payables	Zhongxingxin Telecom Company Limited	3,993	41,437
	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	307	9,415
	Sindi Technologies Co., Ltd.	400	5,996
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	183	183
	Shenzhen Zhongxing WXT Equipment Company Limited	327	327
	Shenzhen Zhongxing Information Company Limited	2,847	3,325
	Puxing Mobile Tech Company Limited	3,231	9,231
	深圳市航天歐華科技發展有限責任公司	—	1,987
	興天通訊技術有限公司	—	397
	上海中興思秸通訊有限公司	—	1
	Xi'an Microelectronics Technology Research Institute	192	192
	北京中興協力科技有限公司	11	3
	ZTE Software Technology (Nanchang) Company Limited	—	128
	CASIC Shenzhen (Group) Limited	3	3
	中興儀器(深圳)有限公司	17,998	16,210
	ZTE 9 (Wuxi) Co., Ltd.	83	83
	Nubia Technology Limited	229,481	1,057,463
	Laxense, Inc.	—	799
	Kron Telekomunikasyon Hizmetleri A.S.	2,687	2,962
	廣東歐科空調製冷有限公司	280	863
	鄭州中興綠色產業有限公司	—	623
	Huanggang Education Valley Investment Holdings Co., Ltd.	5,360	8,040
	深圳市中興新雲服務有限公司	34	—
		267,417	1,159,668

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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 parties	30 June 2018	31 December 2017
Contract liabilities	ZTE Software Technology (Nanchang) Company Limited	5,327	5,327
	Puxing Mobile Tech Company Limited	99,035	33,261
	Xi'an Microelectronics Technology Research Institute	1,628	1,628
	北京中興協力科技有限公司	155	155
	深圳市航天歐華科技發展有限責任公司	15,173	36,627
	ZTE Energy Limited	1	1
	中興儀器(深圳)有限公司	18	1,800
	Zhongxingxin Telecom Company Limited	3	1
	中興智慧成都有限公司	—	4,909
	ZTE 9 (Wuxi) Co., Ltd.	1	1
	中興軟件技術(瀋陽)有限公司	13	—
	Zhongxing Development Company Limited	30	—
	紹興市智慧城市集團有限公司	237	—
	Huanggang Education Valley Investment Holdings Co., Ltd.	27	—
		121,648	83,710
Other payables	Shenzhen Zhongxing WXT Equipment Company Limited	12	12
	上海中興思秸通訊有限公司	—	70
	深圳中興新源環保股份有限公司	4	4
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	5,036	4,977
	中山優順置業有限公司	2,000	2,000
	Huanggang Education Valley Investment Holdings Co., Ltd.	1,816	2,106
	Hengyang ICT Real Estate Co., Ltd.	434	434
	Nubia Technology Limited	2,439	2,439
	山東興濟置業有限公司	272	272
	Zhongxingxin Telecom Company Limited	310	—
	Zhongxing Development Company Limited	215	—
	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	31	—
	Huatong Technology Company Limited	10	—
	中興軟件技術(瀋陽)有限公司	100	—
	ZTE Quantum Co., Ltd.	1	—
	廈門智慧小區網絡科技有限公司	184	—
		12,864	12,314

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivable from related parties were interest-free and unsecured with a usual credit term of 0–90 days, which may be extended to up to 1 year depending on the reputation of the customer.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

(1) Customer deposits

	30 June 2018	31 December 2017
深圳市中興宜和投資發展有限公司	108,019	—
前海融資租賃股份有限公司	—	4
Nubia Technology Limited	—	369
Huanggang Education Valley Investment Holdings Co., Ltd.	—	2,161
	108,019	2,534

(2) Interest expenses

	Six months ended 30 June 2018	Six months ended 30 June 2017
南京中興和泰酒店管理有限公司	—	25
上海市和而泰酒店投資管理有限公司	—	28
西安中興和泰酒店管理有限公司	—	52
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	—	42
Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	3
南京仄普托信息科技有限公司	—	50
Huanggang Education Valley Investment Holdings Co., Ltd.	3	—
深圳市中興宜和投資發展有限公司	548	—
	551	200

(3) Loans and advances — bills discounting

	30 June 2018	31 December 2017
Pylon Technologies Co., Ltd.	—	3,098
	—	3,098

(4) Interest income from loans and bills discounting

	Six months ended 30 June 2018	Six months ended 30 June 2017
Pylon Technologies Co., Ltd.	78	—
	78	—

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XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
Accumulated balance of equity-settled share-based payments credited to capital reserves	344,785	11,928
Total costs of equity-settled share-based payments in the period	78,709	—

All share options held by former Directors and senior management have been excluded in the estimation of the number of share options exercisable in the future for the purpose of making provision of expenses in share-based payment for the period. The remaining key business personnel have been taken into account based on a 5% staff turnover rate.

2. Share option incentive scheme

Pursuant to the “Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme” considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, the date of grant was set for 6 July 2017. Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company’s business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company’s shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of 5 years. 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, during which 1/3 of the options shall become exercisable in the first, second and third exercise periods, respectively, subject to the Company’s performance as the conditions of exercise. The exercise price shall be RMB17.06/share. The share options not exercisable due to failure to fulfill the Company’s performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall forthwith 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).

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

The calculation of the net profit used by the above indicators under the Scheme is based on the net profit attributable to holders of ordinary shares of the listed company. Net assets refer to the net assets attributable to holders of ordinary shares of the listed company.

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	1/3	2019.7.7–2020.7.6	ROE for the year 2017 not less than 10%; growth rate of net profit for the year 2017 not less than 10% over the base amount of RMB3,825 million
Second exercise period	1/3	2020.7.7–2021.7.6	ROE for the year 2018 not less than 10%; growth rate of net profit for the year 2018 not less than 20% over the base amount of RMB3,825 million
Third exercise period	1/3	2021.7.7–2022.7.6	ROE for the year 2019 not less than 10%; growth rate of net profit for the year 2019 not less than 30% over the base amount of RMB3,825 million

The fair value of share options granted was RMB1,477,496,000, including share option expenses of RMB78,709,000 recognised by the Company for the six months ended 30 June 2018.

No ordinary shares have been issued as a result of exercise under the 2017 Share Option Scheme.

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 (%)	43.35	42.2	42.9
Risk-free interest rate (%)	3.498	3.506	3.517
Demotion rate	Incumbent 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.

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XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	30 June 2018	31 December 2017
Contracted but not provided for		
Capital commitments	3,220,137	2,854,506
Investment commitments	95,952	113,178
	3,316,089	2,967,684

2. Contingent events

- 2.1 In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762,984,000 (equivalent to approximately RMB41,610,000). 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 authority issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB17,890,000) should be paid by the Company. The Company had made provisions for the payment. In accordance with local laws, the Company had filed with the local district court an objection against the arbitration award and a claim against the customer's breach of contract. On 23 June 2018, the district court ruled to reject the objection of the Company against the arbitration award and uphold the original arbitration award. Currently, the Company intends to appeal to the higher court against the ruling of the district court in accordance with local laws.

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

- 2.2 Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court of Shenzhen (the "Nanshan Court"), pleading for the revocation of the contract and court order of the evacuation of the work sites by China Construction Fifth Division, as well as a penalty payment for work delay in the amount of RMB24.912 million and damages of RMB11.319 million payable to the Company. The Nanshan Court handed down the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth Division should be revoked and a penalty payment in the amount of RMB12.817 million be payable by China Construction Fifth Division. China Construction Fifth Division filed an appeal against the aforesaid judgement with the Shenzhen Intermediate People's Court (the "Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, the Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth Division's case with the Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court (the "Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth Division's case with the Shenzhen Intermediate Court in May 2014, the Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth Division was not required to pay the penalty payment of RMB12.817 million to the Company. In response to the aforesaid second trial judgement, the Company had applied to the Guangdong Higher Court for retrial. In January 2016, Guangdong Higher Court accepted the application for retrial and decided to proceed with retrial of the case. After commencing the trial of the aforesaid case, Guangdong Higher Court ruled to suspend trial on the grounds that retrial on the second trial judgement of Shenzhen Intermediate Court on China Construction Fifth Division's case had commenced. The Guangdong Higher Court issue a verdict for the retrial of China Construction Fifth Division's case on 11 December 2017 and resumed the retrial procedures for the aforesaid case in June 2018.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.2 (Continued)

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

In July 2009, China Construction Fifth Division instituted a lawsuit with the Shenzhen Intermediate Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75.563 million for raw materials and staff deployment. The Shenzhen Intermediate Court handed down a first trial judgement in November 2012, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest, damages for work suspension of approximately RMB953,000 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division has filed an appeal with Guangdong Higher Court against the said judgement, and Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth Division amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company. In response to the aforesaid second trial judgement, the Company had applied to the Supreme People's Court for retrial, which application was rejected by the Supreme People's Court. Subsequently, the Company filed a protest against such second trial judgement with Guangdong Provincial People's Procuratorate, which admitted the Company's application and referred the case to the Supreme People's Procuratorate for protest. On 24 December 2015, the Supreme People's Procuratorate filed a protest with the Supreme People's Court. On 17 June 2016, the Company received through the Guangdong Higher Court the ruling of the Supreme People's Court, which ordered the Guangdong Higher Court to conduct a retrial in respect of the aforesaid second trial judgement. On 11 December 2017, the Guangdong Higher Court gave a final verdict that upheld its second trial judgement.

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

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

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

- 2.3 On 11 June 2010, a lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company and subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration ruling. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the district court of Dallas, Texas in respect of the aforesaid ruling.

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

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

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.4 (Continued)

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with the ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, the ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA have engaged a legal counsel to conduct active defence of the case and file an appeal to the United States Court of Appeals for the Federal Circuit based on the verdicts on the three patents involved in the litigation ruled by the Federal District Court of Delaware to have been subject to infringement. In November 2017, the United States Court of Appeals for the Federal Circuit ruled that the Company and ZTE USA had infringed upon two out of three patents involved in the aforesaid case. No ruling has yet been made in respect of the one remaining patent involved in the case. Currently, the Federal District Court of Delaware is scheduling a trial to determine compensation in respect of the infringement of the two patents as aforesaid.

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

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.5 In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. In November 2015, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. The company filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again in respect of the said verdict of the Federal District Court of California. Currently, the United States Court of Appeals for the Federal Circuit has yet to make a ruling.

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

2.6 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 RMB53,890,000). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB53,670,000), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB53,670,000) together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB53.67 million) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.6 (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 RMB143 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

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

- 2.7 On 12 July 2017, the Company received a notice of arbitration filed with the London Court for International Arbitration (LCIA) against the Company by a Sudanese carrier and its Mauritanian subsidiary. On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by the said Mauritanian subsidiary. The Sudanese carrier and its Mauritanian subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31.80 million in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

On 10 August 2017, the Company submitted its written defences to LCIA and DIFC-LCIA, respectively, for the aforementioned arbitrations. In the meantime, the Company filed counter-arbitration petitions against the said Mauritanian subsidiary for an aggregate amount of approximately USD22.71 million.

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

- 2.8 In November 2016, Maxell, Ltd. (formerly known as Hitachi Maxell, hereinafter referred to as "Maxell") filed a litigation against the Company and ZTE USA, Inc. ("ZTE USA") for the infringement of 8 patent rights at the Eastern District Court of Texas, United States. Maxell has withdrawn its litigation in relation to 1 of the patent rights involved, and the case currently involves 7 patent rights ("Case I"). In March 2018, Maxell filed a litigation against the Company and ZTE USA for other infringements of patent rights at the Eastern District Court of Texas, United States ("Case II"). In both cases, Maxell demanded payment of damages for losses and legal fees by the Company and ZTE USA, although no specific amount of compensation was named.

On 18 June 2018, a jury trial of Case I was held at the Eastern District Court of Texas, United States against ZTE USA only. On 29 June 2018, the jury reached a verdict that the 7 patent rights involved were valid, there had been infringement of rights, the amount of compensation shall be USD43.30 million, and ZTE USA had committed deliberate infringement of rights. The case is pending judgement of the first trial by the judge. The attorney appointed by ZTE USA is actively handling the case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company has made provision for the amount in the financial statements.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

- 2.9 The Company and its wholly-owned subsidiary, Shenzhen ZTE Kangxun Telecom Company Limited ("ZTE Kangxun", and collectively with the Company, "ZTE") have reached a superseding settlement agreement (the "Agreement") with BIS to supersede the settlement agreement signed between ZTE and BIS in March 2017. The Agreement has been approved by BIS via a superseding order relating to ZTE on 8 June 2018 (U.S. time), which was effective immediately. For details, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

The Company has been fully committed to the fulfilment of obligations stipulated under the settlement agreement reached with the U.S. government. The Company has committed and will continue to commit significant resources to the improvement and implementation of the compliance projects of the Company and its subsidiaries, the training and recruitment of new export compliance personnel and the adoption of other measures. For example, ZTE appointed additional export compliance personnel last year and currently has 19 dedicated staff at its PRC headquarters, including the chief export compliance officer, 4 controllers working in China and 3 regional controllers. The recruitment is ongoing and ZTE hopes to employ at least another 33 dedicated export compliance officers.

Apart from the implementation of the SAP global trade service (SAP GTS) system at the Company, SAP GTS is also being implemented at certain subsidiaries, and plans are being drawn up to deploy innovative scanning solutions such as automated scanners made. In 2017, the Company provided export compliance training to over 60,000 employees. In the future, the Company will further enhance online and other training courses for its employees worldwide. The Company has also worked closely with the compliance monitor and the U.S. government, offering full support to fulfill its obligations. Such measures have provided strong support for the Company's determination and ability to become a trusted business partner of global suppliers and customers.

- 2.10 As at 30 June 2018, an amount of RMB10,359,983,000 (31 December 2017: RMB8,419,135,000) was outstanding under the bank guarantee letters issued by the Group.

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 2018	31 December 2017
Within one year (including first year)	350,659	556,766
In the first to second years (including second year)	97,865	250,781
In the second to third years (including third year)	39,598	71,896
After the third year	58,525	84,041
	546,647	963,484

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XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

1. Leases (continued)

As lessor:

The Group entered into operating property leasing contracts with terms ranging from 1 to 15 years with certain lessees and the leased properties were accounted for as investment properties. According to the lease contract signed with the lessees, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018	31 December 2017
Within one year (including first year)	107,013	97,220
In the first to second years (including second year)	62,127	60,889
In the second to third years (including third year)	61,555	63,209
After the third year	382,857	430,941
	613,552	652,259

2. Segment reporting

Operating segments

The Group's business operations are organised and managed in three operating segments as follows based on customers and products:

- (1) The carriers' network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer networks, core networks, telecommunication software systems and services and other innovative technologies and product solutions.
- (2) The consumer business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry clients through the development, production and sales of products such as smart phones, mobile data terminals, home information terminals and innovative fusion terminals, as well as the provision of related software application and value-added services.
- (3) The government and corporate business is focused on meeting requirements of government and corporate clients, providing informatization solutions for the government and corporations through the application of products such as communications networks, IOT, big data and cloud computing.

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 costs, research and development costs, impairment losses, gains from changes in fair value of financial instruments, investment income as well as head office and corporate expenses are excluded from such measurement.

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XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

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, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

	Carriers' network	Consumer business	Government and corporate business	Total
Six months ended 30 June 2018				
Segment revenue				
Revenue from external transactions	23,506,876	11,493,605	4,433,296	39,433,777
Sub-total	23,506,876	11,493,605	4,433,296	39,433,777
Segment results	6,650,002	(525,812)	694,495	6,818,685
Unallocated revenue				103,497
Unallocated cost				(14,573,701)
Finance costs				(183,351)
Loss from changes in fair values				(377,439)
Investment loss from associates and joint ventures				(213,534)
Total profit				(8,425,843)
30 June 2018				
Total assets				
Segment assets	34,838,176	15,369,129	6,570,331	56,777,636
Unallocated assets				63,931,732
Sub-total				120,709,368
Total liabilities				
Segment liabilities	16,243,943	5,704,396	3,063,538	25,011,877
Unallocated liabilities				61,989,303
Sub-total				87,001,180
Supplemental information				
Six months ended 30 June 2018				
Depreciation and amortization expenses	697,163	340,876	131,482	1,169,521
Capital expenditure	1,189,841	581,768	224,399	1,996,008
Asset impairment losses	733,126	358,460	138,265	1,229,851
Credit impairment losses	987,662	482,914	186,269	1,656,845

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XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Six months ended 30 June 2017				
Segment revenue				
Revenue from external transactions	32,351,248	17,894,014	3,765,334	54,010,596
Sub-total	32,351,248	17,894,014	3,765,334	54,010,596
Segment results	9,798,872	666,621	887,510	11,353,003
Unallocated revenue				69,403
Unallocated cost				(7,784,287)
Finance costs				(289,157)
Loss from changes in fair values				(58,055)
Investment loss from associates and joint ventures				(3,507)
Total profit				3,287,400
31 December 2017				
Total assets				
Segment assets	41,211,138	18,963,182	6,404,171	66,578,491
Unallocated assets				77,383,724
Sub-total				143,962,215
Total liabilities				
Segment liabilities	14,148,392	4,452,436	2,180,656	20,781,484
Unallocated liabilities				77,800,584
Sub-total				98,582,068
Supplemental information				
Six months ended 30 June 2017				
Depreciation and amortization expenses	654,280	361,893	76,151	1,092,324
Capital expenditure	1,104,415	610,870	128,542	1,843,827
Asset impairment losses	614,407	339,839	71,510	1,025,756

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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 2018	Six months ended 30 June 2017
The PRC	25,746,045	32,318,969
Asia (excluding the PRC)	4,262,810	8,051,823
Africa	1,283,203	1,634,316
Europe, America and Oceania	8,141,719	12,005,488
	39,433,777	54,010,596

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

Total non-current assets

	30 June 2018	31 December 2017
The PRC	17,366,933	15,940,669
Asia (excluding the PRC)	986,043	1,217,751
Africa	271,431	263,883
Europe, America and Oceania	971,911	1,447,623
	19,596,318	18,869,926

Non-current assets are analysed by geographic locations where the assets excluding other non-current assets, financial assets, deferred tax assets, goodwill and other non-current assets are located.

Information of major customers

Operating revenue of RMB9,482,827,000 represented revenue for carriers' network and consumer business from one major customer (Six months ended 30 June 2017: RMB11,645,473,000 from one major customer).

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Bills receivable and trade receivables

		30 June 2018	31 December 2017
Bills receivable	(1)	1,298,865	1,888,992
Trade receivables	(2)	34,552,982	33,813,869
Less: bad-debt provision		8,324,898	6,630,794
		27,526,949	29,072,067

(1) Bills receivable

	30 June 2018	31 December 2017
Commercial acceptance	1,190,807	1,287,912
Bank acceptance	108,058	601,080
	1,298,865	1,888,992

As at 30 June 2018, there were no bills receivable discounted and outstanding as at the balance sheet date (31 December 2017: Nil).

As at 30 June 2018, there were no bills which had been transferred to trade receivables as a result of issuers' default (31 December 2017: Nil).

As at 30 June 2018, there were no short-term borrowings obtained with the pledge of bills (31 December 2017: Nil).

As at 30 June 2018, there were no bills receivable endorsed in favour of third parties and outstanding (31 December 2017: Nil).

(2) Trade receivables

Trade receivables incurred in communication system construction work and service provision are recognised according to the time of payment collection stipulated in the contract or agreement. Trade receivables incurred in the sales of products are usually given a credit period of 0-90 day, which may be extended to not more than 1 year depending on the reputation of the customer. Trade receivables are not interest-bearing.

The aging analysis of trade receivables is set out as follows:

	30 June 2018	31 December 2017
Within 1 year	18,672,337	18,664,476
1-2 years	5,357,753	5,441,076
2-3 years	2,553,126	2,288,341
Over 3 years	7,969,766	7,419,976
	34,552,982	33,813,869
Less: bad debt provision for trade receivables	8,324,898	6,630,794
	26,228,084	27,183,075

Notes to Financial Statements

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

1. Bills receivable and trade receivables (continued)

(2) Trade receivables (continued)

	30 June 2018				31 December 2017			
	Book balance relating to projected default		Expected credit loss for the entire period		Book balance		Bad debt provision	
	Percentage		Ratio of expected credit loss		Percentage		Percentage	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Individually significant and for which bad debt provision has been separately made	3,719,541	11	3,061,817	82	2,061,404	6	1,690,508	82
For which bad debt provision has been collectively made								
0-12 months	15,373,541	45	146,779	1	16,918,954	50	155,322	1
13-18 months	3,062,702	9	398,156	13	3,280,812	10	647,590	20
19-24 months	2,183,736	6	784,450	36	2,097,208	6	718,032	34
2-3 years	2,466,110	7	1,289,210	52	2,200,400	7	1,297,505	59
Over 3 years	7,747,352	22	2,644,486	34	7,255,091	21	2,121,837	29
	30,833,441	89	5,263,081	17	31,752,465	94	4,940,286	16
	34,552,982	100	8,324,898		33,813,869	100	6,630,794	

Movements in bad-debt provisions for trade receivables:

Opening balance	Opening adjustments	Provision for the period	Decrease during the period		Closing balance
			Write back	Write off	
6,630,794	10,783	1,782,466	—	(99,145)	8,324,898

As at 30 June 2018, there was no write-back (31 December 2017: Nil) and no write-off of bad-debt provision (31 December 2017: RMB164,281,000) in respect of individually significant trade receivables for which bad-debt provision had been made separately. Transfer of trade receivables that did not qualify for derecognition was separately classified as “Factored trade receivables” and “Bank advances on factored trade receivables”.

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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 2018	31 December 2017
Within 1 year	21,620,500	19,094,579
1-2 years	3,803,968	3,376,106
2-3 years	712,132	594,274
Over 3 years	2,513,549	2,322,505
	28,650,149	25,387,464

Other receivables are analysed as follows:

	30 June 2018	31 December 2017
Dividend receivable	103,852	23,753
Staff loans	166,550	136,480
Transactions with third parties	28,379,747	25,227,231
	28,650,149	25,387,464

3. Other non-current financial assets

	30 June 2018
Financial assets at fair value through current profit or loss	614,152

4. Available-for-sale financial assets

	31 December 2017
Available-for-sale equity instruments at cost	461,091

Available-for-sale financial assets at cost:

31 December 2017

	Book balance			Shareholding percentage (%)	Cash dividend for the period
	Opening balance	Increase during the year	Decrease during the year		
航天科技投資 控股有限公司	201,734	—	—	2.6936%	17,276
Others	256,357	3,000	—		6,412
	458,091	3,000	—		23,688

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

5. Long-term trade receivables

	30 June 2018	31 December 2017
Loans granted to subsidiaries (Note 1)	5,231,746	5,642,311
Installment payments for the provision of telecommunication system construction projects	88,660	110,213
	5,320,406	5,752,524

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.

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".

6. Long-term equity investments

		30 June 2018	31 December 2017
Equity method			
Joint ventures	(1)	87,576	86,082
Associates	(2)	1,712,521	1,894,245
Less: Provision for impairment in long-term equity investments		4,764	4,764
		1,795,333	1,975,563
Cost method			
Subsidiaries	(3)	11,924,495	11,771,004
Less: Provision for impairment in long-term equity investments	(4)	61,192	61,192
		11,863,303	11,709,812
		13,658,636	13,685,375

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

6. Long-term equity investments (continued)

(1) Joint ventures

	Balance as at the beginning	Movements during the period							Carrying values 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		
Puxing Mobile Tech Company Limited	56,687	—	—	2,145	—	—	—	—	58,832	—
德特賽維技術有限公司	29,395	—	—	(651)	—	—	—	—	28,744	—
	86,082	—	—	1,494	—	—	—	—	87,576	—

(2) Associates

	Balance as at the beginning	Movements during the period							Carrying values 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		
ZTE Software Technology (Nanchang) Company Limited	3,799	—	—	—	—	—	—	—	3,799	—
ZTE Energy Limited	421,510	—	—	—	—	—	—	—	421,510	—
KAZNURTEL Limited Liability Company	2,477	—	—	—	—	—	—	—	2,477	—
思卓中興(杭州)科技有限公司	21,248	—	—	—	—	—	—	—	21,248	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	3,155	—	—	(40)	—	—	—	—	3,115	—
北京億科三友科技發展有限公司	—	—	—	—	—	—	—	—	—	(4,764)
上海中興思粘通訊有限公司	4,179	—	—	(1,215)	—	—	—	—	2,964	—
中興耀維科技江蘇有限公司	3,834	—	—	(229)	—	—	—	—	3,605	—
廣東中興城智信息技術有限公司	4,392	—	—	(296)	—	—	—	—	4,096	—
上海博色信息科技有限公司	20,909	—	—	—	—	—	—	—	20,909	—
南京寧網科技有限公司	3,460	—	—	(1,011)	—	—	—	—	2,449	—
Nubia Technology Limited	1,400,518	—	—	(178,933)	—	—	—	—	1,221,585	—
	1,889,481	—	—	(181,724)	—	—	—	—	1,707,757	(4,764)

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

6. 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	100.0%	100.0%	—
ZTEsoft Technology Company Limited	250,441	250,441	—	250,441	89.0%	89.0%	—
上海中興易聯通訊股份有限公司	37,382	37,382	—	37,382	90.0%	90.0%	—
ZTE Kangxun Telecom Company Limited	580,000	580,000	—	580,000	100.0%	100.0%	—
ZTE Microelectronics Technology Company Limited	91,957	91,957	—	91,957	68.0%	68.0%	—
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	—	179,767	90.0%	90.0%	—
ZTE Integration Telecom Limited	41,250	41,250	—	41,250	80.0%	80.0%	—
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	—	45,000	100.0%	100.0%	—
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	—	40,500	83.0%	83.0%	—
Guangdong New Pivot Technology & Service Company Limited	13,110	13,110	—	13,110	90.0%	90.0%	—
深圳市興意達通訊技術有限公司	5,000	5,000	—	5,000	100.0%	100.0%	—
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	—	2,100	100.0%	100.0%	—
Xi'an Zhongxing New Software Company Limited	600,000	600,000	—	600,000	100.0%	100.0%	—
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	—	157,019	90.0%	90.0%	—
ZTE (Hangzhou) Company Limited	100,000	100,000	—	100,000	100.0%	100.0%	—
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	—	15,200	76.0%	76.0%	—
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	—	29,700	100.0%	100.0%	—
PT. ZTE Indonesia	15,275	15,275	—	15,275	100.0%	100.0%	—
Wistron Telecom AB	2,137	2,137	—	2,137	100.0%	100.0%	—
ZTE Holdings (Thailand) Co., Ltd.	10	10	—	10	100.0%	100.0%	—
ZTE (Thailand) Co., Ltd.	5,253	5,253	—	5,253	100.0%	100.0%	—
ZTE (USA) Inc.	190,133	190,133	—	190,133	100.0%	100.0%	—
ZTE Corporation Mexico S. DER.LDE C.V.	42	42	—	42	100.0%	100.0%	—
ZTE Do Brasil LTDA	18,573	18,573	—	18,573	100.0%	100.0%	—
ZTE Romania S.R.L	827	827	—	827	100.0%	100.0%	—
ZTE Telecom India Private Ltd.	335,759	335,759	—	335,759	100.0%	100.0%	—
ZTE Communication Technologies, Ltd. (Russia)	6,582	6,582	—	6,582	100.0%	100.0%	—
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	—	5,279	93.0%	93.0%	—
Closed Joint Stock Company TK Mobile	16,871	16,871	—	16,871	51.0%	51.0%	—
ZTE(H.K.) Limited	853,800	853,800	—	853,800	100.0%	100.0%	—
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	—	16,500	55.0%	55.0%	10,450
ZTE (Heyuan) Company Limited	500,000	500,000	—	500,000	100.0%	100.0%	—
ZTE Group Finance Co., Ltd.	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
深圳市百維技術有限公司	16,000	16,000	—	16,000	100.0%	100.0%	—
北京中興網捷科技有限公司	289,341	289,341	—	289,341	100.0%	100.0%	—
北京中興高達通信技術有限公司	47,500	47,500	—	47,500	100.0%	100.0%	—
深圳市中興雲服務有限公司	50,000	50,000	—	50,000	100.0%	100.0%	—
深圳市中興系統集成技術有限公司	30,000	30,000	—	30,000	100.0%	100.0%	—
福建海絲路科技有限公司	47,500	47,500	—	47,500	95.0%	95.0%	—
中興新能源汽車有限責任公司	218,240	112,500	105,741	218,241	85.0%	85.0%	—
西安中興通訊終端科技有限公司	300,000	300,000	—	300,000	100.0%	100.0%	—
中興健康科技有限公司	15,000	15,000	—	15,000	50.0%	50.0%	—
深圳市中興智谷科技有限公司	15,000	15,000	—	15,000	100.0%	100.0%	—
Jiaxing Xinghe Equity Investment Partnership	92,800	92,800	—	92,800	30.0%	*	—
中興捷維通訊技術有限責任公司	46,530	46,530	—	46,530	100.0%	100.0%	—
深圳市興聯達科技有限公司	30,000	30,000	—	30,000	100.0%	100.0%	—

Notes to Financial Statements

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

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

6. 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
西安中興精誠科技有限公司	9,393	9,393	—	9,393	100.0%	100.0%	—
深圳市中興視通科技有限公司	35,400	35,400	—	35,400	100.0%	100.0%	—
中興(溫州)軌道通訊技術有限公司	25,500	25,500	—	25,500	51.0%	51.0%	—
長沙中興智能技術有限公司	350,000	350,000	—	350,000	100.0%	100.0%	—
河南中興光伏科技有限責任公司	—	3,000	(3,000)	—	100.0%	100.0%	—
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	—	19,500	65.0%	65.0%	—
Zhongxing (Shenyang) Financial Technology Company Limited	36,500	26,500	10,000	36,500	100.0%	100.0%	—
ZTE (Huai'an) Smart Industries Company Limited	31,620	31,620	—	31,620	51.0%	51.0%	—
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	—	50,000	100.0%	100.0%	—
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	—	2,000	100.0%	100.0%	—
中興飛流信息科技有限公司	48,960	48,960	—	48,960	51.0%	51.0%	—
ZTE Gaoneng Technology Company Limited	400,000	400,000	—	400,000	80.0%	80.0%	—
Jiyuan ZTE Smart Technology Industries Company Limited	2,550	2,550	—	2,550	51.0%	51.0%	—
Shenyang (ZTE) Big Data Research Company Limited	2,000	2,000	—	2,000	100.0%	100.0%	—
ZTE Smart Auto Company Limited	790,500	790,500	—	790,500	100.0%	100.0%	—
Shijiazhuang Smart City Research Institute Company Limited	2,000	2,000	—	2,000	80.0%	80.0%	—
ZTE Group Finance Holdings (Hangzhou) Limited	500,000	500,000	—	500,000	100.0%	100.0%	—
ZTE (Yiwu) Research Institute Company Limited	2,800	2,800	—	2,800	70.0%	70.0%	—
中興光電子技術有限公司	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)*	300,000	300,000	—	300,000	25.0%	*	—
深圳市中瑞檢測科技有限公司	10,000	10,000	—	10,000	100.0%	100.0%	—
ZTE Kela Technology (Suzhou) Co., Ltd.	44,100	44,100	—	44,100	90.0%	90.0%	—
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	49,000	—	49,000	100.0%	100.0%	—
ZTE (Xi'an) Company Limited	500,000	500,000	—	500,000	100.0%	100.0%	—
ZTE NetArtist Technologies (Shanghai) Co., Ltd.	36,000	36,000	—	36,000	75.0%	75.0%	—
西安中興電子科技有限公司	45,000	11,250	33,750	45,000	100.0%	100.0%	—
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	3,000	—	3,000	100.0%	100.0%	—
ZTE (Kunming) Smart City Industry Research Institute Co., Ltd.	2,000	—	2,000	2,000	100.0%	100.0%	—
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	10,000	5,000	5,000	10,000	100.0%	100.0%	—
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	—	1,000,000	100.0%	100.0%	—
ZTE Smart Terminal Company Limited	—	—	—	—	100.0%	100.0%	—
Nanjing Xingtong Future Realty Company Limited	—	—	—	—	100.0%	100.0%	—
Xi'an Guoxing Smart Technology Industry Park Company Limited	—	—	—	—	100.0%	100.0%	—
		11,771,004	153,491	11,924,495			10,450

* 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 unless otherwise stated)
(English translations for reference only)

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

6. Long-term equity investments (continued)

(4) Provision for impairment of long-term equity investments

	Opening balance	Increase/decrease during the period	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
ZTE DoBrasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd.	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L	827	—	827
	61,192	—	61,192

7. Operating revenue and costs

	Six months ended 30 June 2018		Six months ended 30 June 2017	
	Revenue	Cost	Revenue	Cost
Major business	32,005,732	33,112,899	41,554,130	41,936,707
Other business	7,573,756	946	9,522,358	201,936
	39,579,488	33,113,845	51,076,488	42,138,643

8. Investment income

	Six months ended 30 June 2018	Six months ended 30 June 2017
Investment loss from long-term equity investment under equity method	(180,228)	(5,160)
Investment income from long-term equity investment under cost method	209,099	10,450
Investment gain from financial assets at fair value through profit and loss for the period of holding	10,460	—
Investment loss from the disposal of derivative investments	(30,162)	(18,604)
Gain from disposal of financial assets at fair value through profit and loss	—	—
Investment income from the disposal of long-term equity investment	(3,115)	24,149
	6,054	10,835

Supplementary Information to Financial Statements

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

1. BREAKDOWN OF EXTRAORDINARY GAINS/(LOSSES)

	Six months ended 30 June 2018
Loss from the disposal of non-current assets	(9,552)
Investment gain from the disposal of long-term equity investments	(3,749)
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	(206,401)
Gain from change in fair value of investment properties	6,964
Net amount of other non-operating income and expenses and others	(6,332,966)
	(6,545,704)
Effect of income tax	981,856
Effect of non-controlling interests (net of tax)	118,861
	(5,444,987)

Note 1: The Group recognizes extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items" (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	Amount for six months ended 30 June 2018	Reason
Refund of VAT on software products	1,172,345	In line with national policies and received on an ongoing basis
Return of tax refund fee	30,434	In line with national policies and received on an ongoing basis
Special financial subsidies	410,000	In line with national policies and received on an ongoing basis
Venture capital firm investment income	6,119	Within the scope of business

Supplementary Information to Financial Statements (continued)

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translations for reference only)

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

30 June 2018

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	(29.71%)	RMB(1.87)	RMB(1.87)
Net profit after extraordinary items attributable to ordinary shareholders of the Company	(9.03%)	RMB(0.57)	RMB(0.57)

30 June 2017

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	8.28%	RMB0.55	RMB0.55
Net profit after extraordinary items attributable to ordinary shareholders of the Company	7.05%	RMB0.47	RMB0.47

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 2018

	Notes	Six months ended 30 June 2018 (Unaudited) RMB'000	Six months ended 30 June 2017 (Unaudited) RMB'000
REVENUE	4	39,433,777	54,010,596
Cost of sales		(29,136,633)	(37,345,221)
Gross profit		10,297,144	16,665,375
Other income and gains	4	2,091,251	2,085,519
Research and development costs		(5,060,624)	(6,676,679)
Selling and distribution expenses		(4,795,563)	(5,754,014)
Administrative expenses		(1,388,118)	(1,498,668)
Other expenses		(8,866,850)	(964,196)
Finance costs	6	(489,549)	(566,430)
Share of profits and losses of:			
Joint ventures		113	(1,935)
Associates		(213,647)	(1,572)
PROFIT BEFORE TAX	5	(8,425,843)	3,287,400
Income tax	7	565,033	(744,184)
Profit for the period		(7,860,810)	2,543,216
Attributable to:			
Ordinary equity holders of the parent		(7,824,190)	2,292,867
Perpetual capital instruments		214,918	249,963
Non-controlling interests		(251,538)	386
		(7,860,810)	2,543,216
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Hedges-effective portion of changes in fair value of hedging instruments		—	(10,655)
Changes in fair value of available-for-sale investments, net of tax		—	(27,243)
Exchange differences on translation of foreign operations		(815,502)	259,012
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		(815,502)	221,114
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE PERIOD, NET OF TAX		(815,502)	221,114
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		(8,676,312)	2,764,330
Attributable to:			
Ordinary equity holders of the parent		(8,618,581)	2,529,734
Perpetual capital instruments		214,918	249,963
Non-controlling interests		(272,649)	(15,367)
		(8,676,312)	2,764,330
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	9		
Basic		RMB(1.87)	RMB0.55
Diluted		RMB(1.87)	RMB0.55

Consolidated Statement of Financial Position

(Prepared under HKAS 34)
As at 30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		10,339,687	10,202,425
Investment properties		2,030,773	2,023,809
Prepaid land lease payments		1,297,158	1,251,535
Goodwill		311,059	308,806
Other intangible assets		5,898,347	5,363,042
Investments in joint ventures		92,457	92,344
Investments in associates		3,642,309	3,868,253
Available-for-sale investments		—	3,181,668
Other non-current financial assets		1,587,518	—
Long-term trade receivables	11	978,737	1,244,760
Factored long-term trade receivables		554,429	2,608,006
Deferred tax assets		2,681,410	1,464,250
Pledged deposits		504,356	1,462,286
Long-term prepayments, deposits and other receivables		2,757,034	2,631,327
Total non-current assets		32,675,274	35,702,511
CURRENT ASSETS			
Prepaid land lease payments		30,353	29,115
Inventories		26,316,928	26,234,139
Amount due from customers for contract works		—	9,012,909
Contract assets	10	5,856,243	—
Trade and bills receivables	11	22,181,067	26,398,228
Factored trade receivables		890,232	1,080,449
Prepayments, deposits and other receivables		12,076,457	11,980,191
Derivative financial instruments		154,904	116,794
Trading financial assets		1,555,577	—
Pledged deposits		3,056,574	3,066,199
Time deposits with original maturity of over three months		132,473	232,411
Cash and cash equivalents		15,783,286	30,109,269
Total current assets		88,034,094	108,259,704

Consolidated Statement of Financial Position (continued)

(Prepared under HKAS 34)
As at 30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
CURRENT LIABILITIES			
Trade and bills payables	12	22,410,383	34,463,067
Amount due to customers for contract works		—	8,050,655
Contract liabilities	10	23,566,149	—
Other payables and accruals		15,002,787	24,298,839
Provision		1,525,591	533,126
Derivative financial instruments		164,131	49,830
Interest-bearing bank borrowings		15,004,758	18,535,867
Bank advances on factored trade receivables		890,477	1,080,472
Tax payable		426,769	583,091
Total current liabilities		78,991,045	87,594,947
NET CURRENT ASSETS		9,043,049	20,664,757
TOTAL ASSETS LESS CURRENT LIABILITIES		41,718,323	56,367,268
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings		2,561,186	3,002,146
Bank advances on factored long-term trade receivables		555,251	2,948,006
Deferred tax liabilities		354,577	338,131
Provision for retirement benefits		131,995	133,191
Other non-current liabilities		4,407,126	4,565,647
Total non-current liabilities		8,010,135	10,987,121
Net assets		33,708,188	45,380,147
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Issued capital		4,192,672	4,192,672
Reserves		17,851,962	27,454,203
		22,044,634	31,646,875
Perpetual capital instruments	13	7,606,796	9,321,327
Non-controlling interests		4,056,758	4,411,945
Total equity		33,708,188	45,380,147

Li Zixue
Director

Xu Ziyang
Director

Consolidated Statement of Changes in Equity

(Prepared under HKAS 34)
Six months ended 30 June 2018

	Attributable to ordinary equity holders of the parent (Unaudited)							Perpetual capital instruments (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
	Issued capital (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Hedging reserve (Unaudited) RMB'000	Share Incentive Scheme (Unaudited) RMB'000	Statutory reserves (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000			
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
At 1 January 2018	4,192,672	12,269,304	(67,982)	245,603	2,205,436	(1,865,841)	14,667,683	31,646,875	9,321,327	45,380,147
Others	—	(438,135)	—	—	(63,082)	—	(518,366)	(1,019,583)	—	(992,018)
Opening balance after adjustments	4,192,672	11,831,169	(67,982)	245,603	2,142,354	(1,865,841)	14,149,317	30,627,292	9,321,327	44,388,129
Profit for the period	—	—	—	—	—	—	(7,824,190)	(7,824,190)	214,918	(7,886,791)
Other comprehensive income										
Exchange differences on translation of foreign operations	—	—	—	—	—	(794,391)	—	(794,391)	—	(789,521)
Total comprehensive income for the period	—	—	—	—	—	(794,391)	(7,824,190)	(8,618,581)	214,918	(8,676,312)
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(313,249)
Capital contributions by non-controlling shareholders	—	(6,680)	—	—	—	—	—	(6,680)	—	187,280
Acquisition of non-controlling shareholders	—	(31,606)	—	—	—	—	—	(31,606)	—	15,866
Repayment of interests of perpetual capital instruments	—	—	—	—	—	—	—	—	(433,949)	(433,949)
Share Incentive Scheme:										
— Equity-settled share option expense	—	—	—	78,709	—	—	—	78,709	—	78,709
Repurchase the Medium Term Note	—	—	—	—	—	—	—	(4,500)	(1,495,500)	(1,500,000)
At 30 June 2018	4,192,672	11,788,383	(67,982)	324,312	2,142,354	(2,660,232)	6,325,127	22,044,634	7,606,796	33,708,188

	Attributable to ordinary equity holders of the parent (Unaudited)							Perpetual capital instruments (Unaudited) RMB'000	Non-controlling interests (Unaudited) RMB'000	Total equity (Unaudited) RMB'000
	Issued capital (Unaudited) RMB'000	Capital reserve (Unaudited) RMB'000	Hedging reserve (Unaudited) RMB'000	Share Incentive Scheme (Unaudited) RMB'000	Statutory reserves (Unaudited) RMB'000	Exchange fluctuation reserve (Unaudited) RMB'000	Retained profits (Unaudited) RMB'000			
	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000	(Unaudited) RMB'000
At 1 January 2017	4,184,628	11,808,812	(55,655)	25,394	2,022,709	(1,866,975)	10,282,238	26,401,151	9,321,327	40,885,090
Profit for the period	—	—	—	—	—	—	2,292,867	2,292,867	249,963	2,543,216
Other comprehensive income										
Hedges, net of tax	—	—	(10,655)	—	—	—	—	(10,655)	—	(10,655)
Changes in fair value of available-for-sale investments, net of tax	—	(7,781)	—	—	—	—	—	(7,781)	—	(27,243)
Exchange differences on translation of foreign operations	—	—	—	—	—	255,303	—	255,303	—	259,012
Total comprehensive income for the period	—	(7,781)	(10,655)	—	—	255,303	2,292,867	2,529,734	249,963	2,764,330
Issue of ordinary shares	5,387	67,168	—	(13,466)	—	—	—	59,089	—	59,089
Capital withdrawal by non-controlling shareholders	—	—	—	—	—	—	—	—	—	(97,646)
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(8,550)
Capital contributions by non-controlling shareholders	—	—	—	—	—	—	—	—	—	9,700
Repayment of interests of perpetual capital instruments	—	—	—	—	—	—	—	—	(433,949)	(433,949)
At 30 June 2017	4,190,015	11,868,199	(66,310)	11,928	2,022,709	(1,611,672)	12,575,105	28,989,974	9,137,341	43,178,064

Consolidated Cash Flow Statement

(Prepared under HKAS 34)
Six months ended 30 June 2018

Item	Six months ended 30 June 2018 (Unaudited) RMB'000	Six months ended 30 June 2017 (Unaudited) RMB'000
Net cash outflows from operating activities	(7,472,465)	(6,321,191)
Net cash outflows from investing activities	(83,851)	(1,383,847)
Net cash (outflows)/inflows from financing activities	(6,801,889)	3,640,016
Net decrease in cash and cash equivalents	(14,358,205)	(4,065,022)
Cash and cash equivalents at the beginning of the period	30,109,268	30,049,791
Effect of changes in foreign exchange rate	32,223	(76,779)
Cash and cash equivalents at the end of the period	15,783,286	25,907,990
Analysis of balances of cash and cash equivalents		
Cash and unrestricted bank balances	14,529,545	24,420,924
Non-pledged time deposits with maturity of less than three months	1,253,741	1,487,066
	15,783,286	25,907,990

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)
As at 30 June 2018

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 year, the Company and its subsidiaries (collectively referred to as the “Group”) were principally involved in the design, development, manufacture and sale of telecommunications system equipment and solutions.

In the opinion of the directors, in accordance with Chapter 8 “Qualifications For Listing” of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), the controlling shareholder of the Group is Zhongxingxin Telecom 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 2018 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 2017.

2.2 Changes in accounting policies and disclosures

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 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments that require restatement of previous financial statements. As required by HKAS 34, the nature and effect of these changes are disclosed below.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The effect of adopting HKFRS 15 is, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2018:

	As reported at 31.12.2017 RMB'000	HKFRS 15 adjustment RMB'000
Assets		
Inventories	26,234,139	2,224,871
Amount due from customers for contract works	9,012,909	(9,012,909)
Contract assets	—	5,520,172
Amount due to customers for contract works	8,050,655	(8,050,655)
Other payables and accruals	24,298,839	(8,702,351)
Contract liabilities	—	16,753,006
Deferred tax assets	1,464,250	188,959
	69,060,792	(1,078,907)
Equity		
Reserves	27,454,203	(1,078,907)

The Group's principal activities consist of telecommunications system contracts and sales of goods and services. The impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

a) Telecommunications system contracts

Revenue from telecommunications system contracts was recognized under HKAS 11 *Construction Contracts* and HKAS 18 *Revenue*, 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. Upon the adoption of HKFRS 15, performance obligations in those contracts are identified and transaction price allocated each performance obligation will be recognized as revenue when that performance obligation is satisfied by transferring a promised good or service to a customer (which is the point in time when the customer obtains control of that good or service). HKFRS 15 also specify specific matters or transactions. For example: contract cost, warranty, principal versus agent considerations, sale of products with a right of return, customer options for additional goods or services, license, repurchase arrangements, advance receipts, non-refundable upfront fees, etc.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

b) Presentation and disclosure

Under HKFRS 15, the Group should present contract assets or liabilities based on the relationship between the performance obligations satisfied and the payment term reached. Besides, HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements, such as relevant accounting policies, significant judgments (including variable consideration, method of allocating transaction prices to each performance obligations, assumptions used to estimate the stand-alone selling price allocated to the performance obligations, etc), information related to the contracts with customers (including revenue recognized in current period, contract balance and performance obligations, etc.), and information about the contract costs recognized as an asset etc.

HKFRS 9 Financial Instruments

HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied HKFRS 9 with the initial application date of 1 January 2018 and will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

The effect of adopting HKFRS 9 is, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2017:

	As reported at 31 December 2017 RMB'000	Adjustments RMB'000
Assets		
Trade and bills receivables	26,398,228	(23,139)
Available-for-sale investments	3,181,668	133,108
Liabilities		
Deferred tax liabilities	338,131	(23,080)
Equity		
Reserves	27,454,203	59,324
Non-controlling interests	4,411,945	27,565

There is no material impact on the statement of cash flows and the basic and diluted EPS.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

HKFRS 9 Financial Instruments (continued)

(a) Classification and measurement

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under HKAS 39, the Group's debt instruments were classified as trade receivables.

Other financial assets are classified and subsequently measured, as follows:

- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under HKAS 39, the Group's quoted equity securities were classified as AFS financial assets. Upon transition the AFS reserve relating to quoted equity securities, which had been previously recognised under accumulated OCI, was reclassified to Retained earnings.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.2 Changes in accounting policies and disclosures (continued)

HKFRS 9 Financial Instruments (continued)

(a) Classification and measurement (continued)

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Contract assets and Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to Retained earnings.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

3. OPERATING SEGMENT INFORMATION

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

- (a) Carriers' network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer systems, core networks, telecommunication software systems and services and other innovative technologies and product solutions.
- (b) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry and corporate clients through the development, production and sale of products such as smart phones, mobile data terminals, home information family terminals and innovative fusion terminals, as well as the provision of related software application and value-added services.
- (c) The Government and Corporate Business is focused on meeting requirements of government and corporate clients, providing informatization solutions for the government and corporations through the application of products such as communications networks, IOT, Big Data and cloud computing.

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

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

3. OPERATING SEGMENT INFORMATION (CONTINUED)

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

	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Six months ended 30 June 2018				
Segment revenue:				
Revenue from external customers	23,506,876	11,493,605	4,433,296	39,433,777
	23,506,876	11,493,605	4,433,296	39,433,777
Segment results	6,650,002	(525,812)	694,495	6,818,685
Bank and other interest income				483,485
Dividend income and unallocated gains				1,607,766
Unallocated expenses				(16,632,696)
Finance costs				(489,549)
Share of profits and losses of:				
Joint ventures				113
Associates				(213,647)
Profit before tax				(8,425,843)
30 June 2018				
Segment assets	34,838,176	15,369,129	6,570,331	56,777,636
Investment in joint ventures				92,457
Investment in associates				3,642,309
Unallocated assets				60,196,966
Total assets				120,709,368
Segment liabilities	16,243,943	5,704,396	3,063,538	25,011,877
Unallocated liabilities				61,989,303
Total liabilities				87,001,180
Six months ended 30 June 2018				
Other segment information:				
Asset impairment losses	733,126	358,460	138,265	1,229,851
Credit impairment loss	987,662	482,914	186,269	1,656,845
Depreciation and amortisation	697,163	340,876	131,482	1,169,521
Capital expenditure*	1,189,841	581,768	224,399	1,996,008

* Capital expenditure included the increase in property, plant and equipment, intangible assets, prepaid land lease payments and investment properties.

	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Six months ended 30 June 2017				
Segment revenue:				
Revenue from external customers	32,351,248	17,894,014	3,765,334	54,010,596
	32,351,248	17,894,014	3,765,334	54,010,596
Segment results	9,798,872	666,621	887,510	11,353,003
Bank and other interest income				529,632
Dividend income and unallocated gains				1,555,887
Unallocated expenses				(9,581,185)
Finance costs				(566,430)
Share of profits and losses of:				
Joint ventures				(1,935)
Associates				(1,572)
Profit before tax				3,287,400
31 December 2017				
Segment assets	41,211,138	18,963,182	6,404,171	66,578,491
Investment in joint ventures				92,344
Investment in associates				3,868,253
Unallocated assets				73,423,127
Total assets				143,962,215
Segment liabilities	14,148,392	4,452,436	2,180,656	20,781,484
Unallocated liabilities				77,800,584
Total liabilities				98,582,068
Six months ended 30 June 2017				
Other segment information:				
Asset impairment losses	614,407	339,839	71,510	1,025,756
Depreciation and amortisation	654,280	361,893	76,151	1,092,324
Capital expenditure*	1,104,415	610,870	128,542	1,843,827

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external customers

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
The PRC	25,746,045	32,318,969
Asia (excluding the PRC)	4,262,810	8,051,823
Africa	1,283,203	1,634,316
Europe, Americas and Oceania	8,141,719	12,005,488
Total	39,433,777	54,010,596

Information on revenue set out above is analysed by geographical locations where the customers are located.

(b) Non-current assets

	30 June 2018 RMB'000	31 December 2017 RMB'000
The PRC	17,336,580	15,911,554
Asia (excluding the PRC)	986,043	1,217,751
Africa	271,431	263,883
Europe, Americas and Oceania	971,911	1,447,623
Total	19,565,965	18,840,811

Figures for non-current assets set out above is based on the locations of the assets and excludes financial instruments, deferred tax assets, goodwill, investments in joint ventures, investments in associates and other non-current assets.

Information of major customers

Operating revenue of RMB9,482,827,000 represented revenue for carriers' network and consumer business from one major customer for the six months ended 30 June 2018 (Six months ended 30 June 2017: RMB11,645,473,000 from one major customer).

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

4. REVENUE, OTHER INCOME AND GAINS

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

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

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Revenue		
Telecommunications system contracts	26,767,918	34,873,534
Sale of goods and services	12,599,480	19,071,637
Rental income	66,379	65,425
	39,433,777	54,010,596
	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Other income		
Refund of VAT on software products [#]	1,172,345	1,219,018
Bank and other interest income	483,485	529,632
Dividend income	14,460	6,473
Others ^{##}	223,220	219,403
	1,893,510	1,974,526
Gains		
Revaluation gains on investment properties	6,964	3,487
Gain on disposal of derivative financial instruments	169,395	—
Gain on disposal of non-current financial assets	14,726	2,609
Gain on disposal of long-term equity investment	—	104,897
Gain on disposal of finance products	6,656	—
	197,741	110,993
	2,091,251	2,085,519

[#] 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 included government grants, contract penalty gains and other miscellaneous gains.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

5. PROFIT BEFORE TAX

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

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Cost of goods and services	23,631,946	32,597,687
Depreciation	586,472	535,339
Amortisation of land lease payments	15,059	14,098
Amortisation of intangible assets other than deferred development costs	177,422	96,086
Research and development costs:		
Deferred development costs amortised	390,485	446,801
Current period expenditure	5,639,948	6,894,430
Less: deferred development costs	(969,809)	(664,552)
	5,060,624	6,676,679
Fair value (gain)/loss, net*		
Derivative instruments	85,059	61,542
Investment properties	(6,964)	(3,487)
Impairment of trade receivables*	1,656,845	725,020
Impairment of contract assets*	(20,996)	(16,204)
Provision for warranties**	1,041,183	399,613
Provision for legal obligation*	287,186	6,896
Write-down of inventories to net realisable value**	1,250,847	316,940
Costs related to the comprehensive settlement with US authorities	6,416,700	—
Minimum lease payments under operating leases on land and buildings	327,214	380,915
Contingent rental income in respect of operating leases	(3,402)	(16,333)
Auditors' remuneration	650	670
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	9,199,791	11,588,263
Equity-settled share option expense	78,709	—
Retirement benefit scheme contributions:		
Defined contribution pension schemes	691,045	538,441
	9,969,545	12,126,704
Foreign exchange loss*	82,575	56,738
Loss on disposal of items of property, plant and equipment*	9,552	26,356
Loss/(gain) on disposal of subsidiaries*	3,749	(56,187)
Gain on disposal of interest in an associate	—	(48,710)
(Gain)/loss on disposal of derivative financial instruments*	(169,395)	58,476
Gain on disposal of other non-current financial assets	(14,726)	(2,609)

* The fair value losses, impairment of trade receivables, impairment of contract assets, provision for legal obligation, foreign exchange loss, loss on disposal of items of property, plant and equipment, loss on disposal of subsidiaries and loss on disposal of derivative financial instruments 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.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

6. FINANCE COSTS

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Interest on bank loans wholly repayable within five years	351,655	345,490
Total interest expense on financial liabilities not at fair value through profit or loss	351,655	345,490
Other finance costs:		
Finance costs on trade receivables factors and bills discounted	137,894	220,940
	489,549	566,430

7. INCOME TAX

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
The Group:		
Current — Hong Kong	5,660	4,435
Current — Mainland China	261,187	250,243
Current — Overseas	186,839	166,852
Deferred	(1,018,719)	322,654
Total tax charge for the period	(565,033)	744,184

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

The Company was subject to an enterprise income tax rate of 15% for the years 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% for years 2016 to 2018 as a national-grade hi-tech enterprise.

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% in 2018 as a national-grade key software enterprise.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

7. INCOME TAX (CONTINUED)

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2018 as a national-grade key software enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 10% in 2018 as an IC design enterprise under national planning.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

ZTEsoft Technology Company Limited was subjected to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2018 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2018 as a national-grade key software enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% in 2018 as a national-encouraged industry enterprise.

ZTE ICT Company Limited is subject to an enterprise income tax rate of 15% for years 2016 to 2018 as a national-grade hi-tech enterprise.

深圳市興意達通訊技術有限公司 is subject to an enterprise income tax rate of 15% for years 2016 to 2018 as a national-grade hi-tech enterprise.

中興國通通訊裝備技術(北京)有限公司 is subject to an enterprise income tax rate of 15% for years 2016 to 2018 as a national-grade hi-tech enterprise.

8. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2018 (Same period in 2017: nil).

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

The basic earnings per share amount is computed by dividing the profit for the period attributable to holders of ordinary shares of the Company by the weighted average number of ordinary shares in issue.

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
As at 30 June 2018

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

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

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Earnings		
Profit for the period attributable to ordinary equity holders of the parent	(7,824,190)	2,292,867
	Six months ended 30 June 2018 '000 shares	Six months ended 30 June 2017 '000 shares
Shares		
Weighted average number of ordinary shares in issue	4,192,672	4,187,322
Effect of dilution — share options:	—	1,009
Adjusted weighted average number of ordinary shares in issue	4,192,672	4,188,331

The 2017 share options granted by the Company gave rise to no potential dilutive ordinary shares during the reporting period.

10. CONTRACT ASSETS/CONTRACT LIABILITIES

(a) Contract assets

	Book value RMB'000	30 June 2018 Provision RMB'000	Net Book value RMB'000
Contract assets	5,953,876	97,633	5,856,243
Total	5,953,876	97,633	5,856,243

The closing balance of contract assets includes those construction contracts that are finished but not yet reached payment term.

	Accumulated incurred costs RMB'000	Accumulated recognised profits/losses RMB'000	Onerous loss RMB'000	Amount reached payment term RMB'000
As at 30 June 2018	60,263,570	40,492,150	(962,412)	93,839,432

Notes to Condensed Consolidated Interim Financial Statements (continued)

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10. CONTRACT ASSETS/CONTRACT LIABILITIES (CONTINUED)

(a) Contract assets (continued)

The movement of contract assets provision is as follows:

	Opening balance RMB'000	Impairment losses recognised RMB'000	Amount written back RMB'000	Amount written off RMB'000	Exchange rate changes RMB'000	Closing balance RMB'000
Six months ended 30 June 2018	119,011	—	(20,996)	—	(382)	97,633

(b) Contract liabilities

	30 June 2018 RMB'000
Amount due to customers for contract works	9,684,256
Receipts in advance for system contracts	12,851,612
Receipts in advance for handset contracts	1,030,281
Total	23,566,149

The closing balance of contract liabilities includes those construction contracts that are finished but not yet reached payment term.

	Accumulated incurred costs RMB'000	Accumulated recognised profits/losses RMB'000	Onerous loss RMB'000	Amount reached payment term RMB'000
As at 30 June 2018	12,000,788	4,895,218	—	26,580,262

(c) Amount due from/to customers for contract works

	31 December 2017 RMB'000
Amount due from customers for contract works	9,012,909
Amount due to customers for contract works	(8,050,655)
	962,254
Contract costs incurred plus recognised profits	152,136,153
Less: Recognised losses to date	581,244
Less: Progress billings	150,592,655
	962,254

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.

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Trade and bills receivables	33,916,816	36,818,333
Impairment	(10,757,012)	(9,175,345)
	23,159,804	27,642,988
Current portion	(22,181,067)	(26,398,228)
Long-term portion	978,737	1,244,760

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

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 6 months	18,526,754	22,841,186
7 to 12 months	2,784,565	2,528,908
1 to 2 years	1,436,686	1,716,792
2 to 3 years	411,799	556,102
	23,159,804	27,642,988
Less: Current portion of trade and bills receivables	(22,181,067)	(26,398,228)
Long-term portion	978,737	1,244,760

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Opening balance	9,175,345	7,786,893
Opening balance adjustment	23,139	—
Provision for expected credit losses	2,103,356	2,572,475
Amount written back	(446,511)	(350,379)
Amount written off	(146,351)	(781,951)
Exchange rate changes	48,034	(51,693)
Closing balance	10,757,012	9,175,345

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11. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (CONTINUED)

Included in the above provision for impairment of trade and bills receivables is a provision of RMB3,261,652,000 (31 December 2017: RMB1,796,417,000) for individually impaired trade receivables with a carrying amount before provision of RMB3,919,376,000 (31 December 2017: RMB2,167,312,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Neither past due nor impaired	4,514,765	6,249,860
Less than one year past due	15,349,181	16,131,233
	19,863,946	22,381,093

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

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

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Joint ventures	143,473	115,563
Associates	105,491	323,267
Other related companies	34,993	239,954
	283,957	678,784

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

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12. TRADE AND BILLS PAYABLES

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 6 months	21,645,593	33,839,956
7 to 12 months	477,506	272,723
1 to 2 years	195,274	252,918
2 to 3 years	64,948	66,953
Over 3 years	27,062	30,517
Total	22,410,383	34,463,067

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

	30 June 2018 RMB'000	31 December 2017 RMB'000
The Controlling shareholder	3,993	41,437
Joint ventures	3,231	9,231
Associates	237,611	1,069,476
Other related companies	22,582	39,524
Total	267,417	1,159,668

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

Trade payables are non-interest-bearing and are normally settled on within 180 days.

13. PERPETUAL CAPITAL INSTRUMENTS

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

The Company issued the 2015 Tranche I Medium Term Notes with a total principal amount of RMB6,000,000,000 on 27 January 2015. The notes will remain valid indefinitely until they are redeemed by the issuer (the "Company") pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 5th interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests). The coupon interest rate for the first 5 years for which interest is accruable is 5.81% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 6th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread (the difference between the coupon interest rate and the initial benchmark rate), the initial benchmark rate being the arithmetic average (rounding to the nearest 0.01%) of the yield rates of treasury bonds with a 5-year term in the interbank fixed rate treasury bond yield curve for China bonds announced on www.chinabond.com.cn or other websites approved by CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD. 5 working days prior to setting up the account book. The coupon rate will thereafter remain unchanged from the 6th to the 10th interest accruing years. Thereafter, the coupon interest rate is reset every 5 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

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13. PERPETUAL CAPITAL INSTRUMENTS (CONTINUED)

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

The Company issued the 2015 Tranche II Medium Term Notes with a total principal amount of RMB1,500,000,000 on 6 February 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests). The coupon interest rate for the first 3 years for which interest is accruable is 5.69% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

The Company issued the 2015 Tranche III Medium Term Notes with a total principal amount of RMB1,500,000,000 on 20 November 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests). The coupon interest rate for the first 3 years for which interest is accruable is 4.49% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

Unless an event triggering mandatory interest payment has occurred, the issuer may choose prior to each interest payment date to defer the payment of current interests and deferred interests and the compound interest in full or in part to the next interest payment date pursuant to this clause. There is no limit to the timing and frequency of payment deferrals. Deferral of any interest payments under this clause shall not be deemed as default. Each deferred interest payment shall accrue interests at the current coupon rate for the period of deferral.

In the event the issuer conducts the following within 12 months prior to the current interest payment date for the Medium Term Note, it should not defer the payment of current interests and all deferred interests and compound interest:

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

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13. PERPETUAL CAPITAL INSTRUMENTS (CONTINUED)

(2) Movement of issued Medium Term Note as at the end of the period

Face value RMB'000	Issue date	Volume ('000)	Amount RMB'000	Opening balance RMB'000	Interest charge for the period RMB'000	Decreased amount RMB'000	Interest payment for the period RMB'000	Closing balance RMB'000
6,000,000	2015.1.27	6,000	6,000,000	6,252,364	172,868	—	348,599	6,076,633
1,500,000	2015.2.6	1,500	1,500,000	1,572,198	8,652	1,495,500*	85,350	—
1,500,000	2015.11.20	1,500	1,500,000	1,496,765	33,398	—	—	1,530,163
9,000,000		9,000	9,000,000	9,321,327	214,918	1,495,500	433,949	7,606,796

* In the current period, the Company repurchased the second term Medium Term Note issued on 6 February 2015.

14. CONTINGENT LIABILITIES

- (a) At the end of the reporting period, contingent liabilities not provided for in the financial statements of the Group were as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Guarantees given to banks in respect of performance bonds	10,359,983	8,419,135
	10,359,983	8,419,135

- (b) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.984 million (equivalent to approximately RMB41,610,000). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB17,890,000) be paid by the Company, the Company had made provision for the amount. In accordance with local laws, the Company had filed with the local district court an objection against the arbitration award and a claim against the customer's breach of contract. On 23 June 2018, the district court ruled to reject the Company's objection to the arbitration award and uphold the original arbitration award. The Company will appeal to the higher court against the ruling of the district court in accordance with local laws.

The Company, based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated, and had not made new provision for the amount.

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14. CONTINGENT LIABILITIES (CONTINUED)

- (c) Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court of Shenzhen ("Nanshan Court"), pleading for the revocation of the contract and court order of the evacuation of the work sites by China Construction Fifth Division, as well as a penalty payment for work delay in the amount of RMB24.912 million and damages of RMB11.319 million payable to the Company. Nanshan Court handed down the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth Division be revoked and a penalty payment in the amount of RMB12.817 million be payable by China Construction Fifth Division. China Construction Fifth Division filed an appeal against the aforesaid judgement with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth Division's case with Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth Division's case with Shenzhen Intermediate Court in May 2014, Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth Division was not required to pay the penalty payment of RMB12.817 million to the Company. In response to the aforesaid second trial judgement, the Company had applied to Guangdong Higher Court for retrial. In January 2016, Guangdong Higher Court accepted the application for retrial and decided to proceed with retrial of the case. After commencing the trial of the aforesaid case, Guangdong Higher Court ruled to suspend trial on the grounds that retrial on the second trial judgement of Shenzhen Intermediate Court on China Construction Fifth Division's case had commenced. On 11 December 2017, the Guangdong Higher Court handed down the retrial judgement for the China Construction Fifth Division case by Shenzhen Intermediate Court. Therefore, Guangdong Higher Court resumed the retrial of the aforesaid case in June 2018.

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

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14. CONTINGENT LIABILITIES (CONTINUED)

(c) (Continued)

In July 2009, China Construction Fifth Division instituted a lawsuit with the Shenzhen Intermediate Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75.563 million for raw materials and staff deployment. The Shenzhen Intermediate Court handed down a first trial judgement in November 2012, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest, damages for work suspension of approximately RMB953,000 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division has filed an appeal with Guangdong Higher Court against the said judgement, and Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth Division amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company. In response to the aforesaid second trial judgement, the Company had applied to the Supreme People's Court for retrial, which application was rejected by the Supreme People's Court. Subsequently, the Company filed a protest against such second trial judgement with Guangdong Provincial People's Procuratorate, which admitted the Company's application and referred the case to the Supreme People's Procuratorate for protest. On 24 December 2015, the Supreme People's Procuratorate filed a protest with the Supreme People's Court. On 17 June 2016, the Company received through the Guangdong Higher Court the ruling of the Supreme People's Court, which ordered the Guangdong Higher Court to conduct a retrial in respect of the aforesaid second trial judgement. On 11 December 2017, the Guangdong Higher Court gave a final verdict that upheld its second trial judgement.

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

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

- (d) On 11 June 2010, a lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

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14. CONTINGENT LIABILITIES (CONTINUED)

(d) (Continued)

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company and subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration ruling. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the district court of Dallas, Texas in respect of the aforesaid ruling.

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

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

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14. CONTINGENT LIABILITIES (CONTINUED)

(e) (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 the ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, the ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA have engaged a legal counsel to conduct active defence of the case and file an appeal to the United States Court of Appeals for the Federal Circuit based on the verdicts on the three patents involved in the litigation ruled by the Federal District Court of Delaware to have been subject to infringement. In November 2017, United States Court of Appeals for the Federal Circuit ruled that the Company and ZTE USA had infringed upon two out of three patents involved in the aforesaid case. No ruling has yet been made in respect of the one remaining patent involved in the case. Currently, the Federal District Court of Delaware is scheduling a trial to determine compensation in respect of the infringement of the two patents as aforesaid.

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

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14. CONTINGENT LIABILITIES (CONTINUED)

- (f) In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. In November 2015, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. The company filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again in respect of the said verdict of the Federal District Court of California. Currently, the United States Court of Appeals for the Federal Circuit has yet to make a ruling.

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

- (g) 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 RMB53,890,000). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB53,670,000), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB53,670,000) together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB53,670,000) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement.

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 RMB143 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

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

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14. CONTINGENT LIABILITIES (CONTINUED)

- (h) On 12 July 2017, the Company received a notice of arbitration filed with the London Court for International Arbitration (LCIA) against the Company by a Sudanese carrier and its Mauritanian subsidiary. On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre – London Court for International Arbitration (DIFC-LCIA) against the Company by the said Mauritanian subsidiary. The Sudanese carrier and its Mauritanian subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31.80 million in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

On 10 August 2017, the Company submitted its written defences to LCIA and DIFC-LCIA, respectively, for the aforementioned arbitrations. In the meantime, the Company filed counter-arbitration petitions against the said Mauritanian subsidiary for an aggregate amount of approximately USD22,711,000.

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

- (i) In November 2016, Maxell, Ltd. (formerly known as Hitachi Maxell, hereinafter referred to as "Maxell") filed a litigation against the Company and ZTE USA, Inc. ("ZTE USA") for the infringement of 8 patent rights at the Eastern District Court of Texas, United States. Maxell has withdrawn its litigation in relation to 1 of the patent rights involved, and the case currently involves 7 patent rights ("Case I"). In March 2018, Maxell filed a litigation against the Company and ZTE USA for other infringements of patent rights at the Eastern District Court of Texas, United States ("Case II"). In both cases, Maxell demanded payment of damages for losses and legal fees by the Company and ZTE USA, although no specific amount of compensation was named.

On 18 June 2018, a jury trial of Case I was held at the Eastern District Court of Texas, United States against ZTE USA only. On 29 June 2018, the jury reached a verdict that the 7 patent rights involved were valid, there had been infringement of rights, the amount of compensation shall be USD43.30 million, and ZTE USA had committed deliberate infringement of rights. The case is pending judgement of the first trial by the judge. The attorney appointed by ZTE USA is actively handling the case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company has made provision for the amount in the financial statements.

- (j) The Company and its wholly-owned subsidiary, Shenzhen ZTE Kangxun Telecom Company Limited ("ZTE Kangxun", and collectively with the Company, "ZTE") have reached a superseding settlement agreement (the "Agreement") with BIS to supersede the settlement agreement signed between ZTE and BIS in March 2017. The Agreement has been approved by BIS via a superseding order relating to ZTE on 8 June 2018 (U.S. time), which was effective immediately. For details, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by company on 12 June 2018.

The Company has been fully committed to the fulfilment of obligations stipulated under the settlement agreement reached with the U.S. government. The Company has committed and will continue to commit significant resources to the improvement and implementation of the compliance projects of the Company and its subsidiaries, the training and recruitment of new export compliance personnel and the adoption of other measures. For example, ZTE appointed additional export compliance personnel last year and currently has 19 dedicated staff at its PRC headquarters, including the chief export compliance officer, 4 controllers working in China and 3 regional controllers. The recruitment is ongoing and ZTE hopes to employ at least another 33 dedicated export compliance officers.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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14. CONTINGENT LIABILITIES (CONTINUED)

(j) (Continued)

Apart from the implementation of the SAP global trade service (SAP GTS) system at the Company, SAP GTS is also being implemented at certain subsidiaries, and plans are being drawn up to deploy innovative scanning solutions such as automated scanners made. In 2017, the Company provided export compliance training to over 60,000 employees. In the future, the Company will further enhance online and other training courses for its employees worldwide. The Company has also worked closely with the compliance monitor and the U.S. government, offering full support to fulfill its obligations. Such measures have provided strong support for the Company's determination and ability to become a trusted business partner of global suppliers and customers.

15. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group is entitled to share a portion of the profit generated from the telecommunications network up to year 2018. Operating lease rental income recognized for the period under the aforesaid arrangement amounted to RMB3,402,000 (30 June 2017: RMB16,333,000).

The Group leases its investment properties under operating lease arrangement, with leases negotiated for terms ranging from 1 to 15 years. The terms of the leases generally require the tenants to pay security deposits and periodic rent according to the lease contracts.

At 30 June 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within one year	107,013	97,220
In the second to fifth years, inclusive	208,476	240,920
After five years	298,063	314,119
	613,552	652,259

(b) As lessee

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years.

At 30 June 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within one year	350,659	556,766
In the second to fifth years, inclusive	175,788	378,807
After five years	20,200	27,911
	546,647	963,484

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16. COMMITMENTS

Capital commitments

	30 June 2018 RMB'000	31 December 2017 RMB'000
Contracted, but not provided for:		
Land and buildings	3,220,137	2,854,506
Investments in associates	63,452	110,328
	3,283,589	2,964,834

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 2018 RMB'000	Six months ended 30 June 2017 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	46,179	94,037
Sales of finished goods	(b)	6	4,386
Rental expense	(c)	4,414	4,414
Rental income	(d)	6	—
Associates:			
Purchase of raw materials	(a)	596,116	28,339
Sales of finished goods	(b)	418,120	3,503
Rental expense	(e)	38,839	8,475
Interest expense	(f)	3	95
Joint ventures:			
Purchase of raw materials	(a)	3,231	—
Sales of finished goods	(b)	32,529	101,272
Rental income	(e)	318	243
Companies under significant influence of key management personnel of the Group			
Purchase of raw materials	(a)	1,490	164,235
Sales of finished goods	(b)	110,748	35,702
Rental expense	(d)	181	294
Rental income	(e)	97	35,532
Interest expense	(f)	548	—
Entities controlled by the controlling shareholder			
Purchase of raw materials	(a)	71,493	63,245
Sales of finished goods	(b)	5,594	12,349
Rental income	(e)	1,114	470
Interest income	(f)	78	—
Substantial shareholder of controlling shareholder			
Purchase of raw materials	(a)	—	6,738

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17. RELATED PARTY TRANSACTIONS (Continued)

(I) Transactions with related parties (continued)

In the opinion of the directors, the related party transactions were conducted in the ordinary course of business.

Notes:

- (a) The purchases of raw materials were made in accordance with published prices and conditions similar to those offered by the Group's suppliers to their major customers.
- (b) The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.
- (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) Rental expense ranged from RMB13.04 to RMB60 per square metre.
- (e) Rental income ranged from RMB34.5 to RMB157.5 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

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Short-term employee benefits	6,178	26,124
Post-employment benefits	—	171
Total compensation paid to key management personnel	6,178	26,295

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.

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18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

(I) Assets and liabilities measured at fair value

30 June 2018

	Input applied in the measurement of fair value			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	
Continuous measurement of fair value				
Derivative financial assets	—	154,904	—	154,904
Trading financial assets				
Financial assets at fair value through current profit or loss				
Creditor instruments	—	—	523,265	523,265
Equity instruments	656,967	—	375,345	1,032,312
Other current assets				
Financial assets at fair value through other comprehensive income				
Creditor instruments	—	1,092,690	—	1,092,690
Other non-current financial assets				
Financial assets at fair value through current profit or loss				
Equity instruments	—	19,510	1,568,008	1,587,518
Investment properties	—	—	2,030,773	2,030,773
Leased properties	—	—	—	—
	656,967	1,267,104	4,497,391	6,421,462
Derivative financial liabilities	—	(164,131)	—	(164,131)
	—	(164,131)	—	(164,131)

31 December 2017

	Input applied in the measurement of fair value			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	
Continuous measurement of fair value				
Derivative financial assets	—	116,794	—	116,794
Available-for-sale financial assets				
Investment in equity instruments	1,711,846	—	—	1,711,846
Investment properties	—	—	2,023,809	2,023,809
Leased properties	—	—	—	—
	1,711,846	116,794	2,023,809	3,852,449
Derivative financial liabilities	—	(49,830)	—	(49,830)
	—	(49,830)	—	(49,830)

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18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

(II) Estimation of fair value

Fair value of financial assets

The 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 and so on. 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 and long/short-term loans 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 2018, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair value of listed equity instruments is determined as their quoted market price. The fair value of investments in non-listed equity instruments is estimated using the market approach, where assumptions adopted are not supported by observable market prices or interest rates. The Group is required to make estimations in respect of projected future cash flow (including projected future dividend and income from disposal). The Group believes that fair values and the changes thereof estimated with the use of valuation techniques are reasonable and represent the most appropriate value as at the balance sheet date.

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 2018, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default. Changes in the credit risk profile of counterparties did not have any material impact on the evaluation of the hedging effectiveness of designated derivative instruments in the hedge and other financial instruments measured at fair value.

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18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

(II) 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 2018 was RMB2,030,773,000 (31 December 2017: RMB2,023,809,000).

(III) Unobservable inputs

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

30 June 2018

	Fair value at period-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Equity instruments	RMB1,943,353,000	Comparison with listed companies	Liquidity discount	60%–90%
Creditor instruments	RMB523,265,000	Discounted cash flow method	Estimated return rate	4%–7%
Commercial properties	RMB2,030,773,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long-term vacancy rate Discount rate	RMB46–RMB547 1%–3% 5% 6%–7%

31 December 2017

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,023,809,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long-term vacancy rate Discount rate	RMB45.5–RMB594 1%–3% 5% 6%–7%

Notes to Condensed Consolidated Interim Financial Statements (continued)

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18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

(IV) Fair value measurement adjustment

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

30 June 2018

	Opening Balance	Transfer into Level 3	Transfer out of Level 3	Total profit for the period	Acquisition	Issue	Disposal	Settlement	Closing balance	Change in unrealised profit for the period of assets held at the end of the period included in profit and loss
				Included in profit and loss	Included in other comprehensive income					
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Trading financial assets										
Financial assets at fair value through other comprehensive income										
Creditor instruments	—	—	—	23,265	—	500,000	—	—	523,265	23,265
Equity instruments	529,463	—	—	(152,312)	—	—	—	—	375,345	(154,118)
Other non-current financial assets										
Financial assets at fair value through current profit or loss										
Equity instruments	1,598,640	—	—	(6,420)	—	65,578	—	42,900	1,587,518	(33,800)
Investment property	2,023,809	—	—	6,964	—	—	—	—	2,030,773	6,964
	4,151,912	—	—	(128,503)	—	565,578	—	42,900	4,516,901	(157,689)

31 December 2017

	Opening Balance	Transfer into Level 3	Transfer out of Level 3	Total profit or loss for the period	Acquisition	Closing balance	Change in unrealised profit or loss for the period of assets held at the end of the period included in profit and loss
				Included in profit and loss	Included in other comprehensive income		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Investment properties	2,016,470	—	—	7,339	—	2,023,809	7,339

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18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

(IV) Fair value measurement adjustment (continued)

Information on information on profit or loss included in current profit or loss relating to financial assets and non-financial assets in the continuous fair value measurement at level 3 is set out as follows:

	Six months ended 30 June 2018 Profit or loss relating to financial assets RMB'000	Six months ended 30 June 2018 Profit and loss relating to non-financial assets RMB'000
Total profit for the period included in profit or loss	(135,467)	6,964
Change in unrealised profit or loss for the period of assets held at the end of the period included in profit or loss	(164,653)	6,964

	Six months ended 30 June 2017 Profit or loss relating to financial assets RMB'000	Six months ended 30 June 2017 Profit and loss relating to non-financial assets RMB'000
Total profit for the period included in profit or loss	—	7,339
Change in unrealised profit or loss for the period of assets held at the end of the period included in profit or loss	—	7,339

(V) 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.

19. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 30 August 2018.

Documents Available for Inspection

- (I) Text of the 2018 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 2018 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
Li Zixue
Chairman

31 August 2018

