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ZTE

ZTE CORPORATION
中興通訊股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)
(Stock Code: 763)

2017 FIRST QUARTERLY REPORT

This announcement is published simultaneously in the Mainland in accordance with the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange and in Hong Kong in accordance with the disclosure obligations under Rule 13.09(2) and Rule 13.10B of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the inside information provisions set out in Part XIVA of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong).

§ 1 IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) confirm that there are no false information and misleading statements in this quarterly report nor any material omissions therefrom, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.2 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.
- 1.3 This quarterly report has been considered and approved at the Sixteenth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the Meeting due to work reasons and has authorised Mr. Tian Dongfang, Director, to vote on his behalf. Mr. Wang Yawen, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Tian Dongfang, Director, to vote on his behalf. Mr. Zhan Yichao, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Luan Jubao, Vice Chairman, to vote on his behalf.
- 1.4 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”).

- 1.5 Mr. Yin Yimin, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial statements contained in this quarterly report.
- 1.6 China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> are designated media for the Company's information disclosure. Only information of the Company published in the aforesaid media should be relied upon.

§ 2 CORPORATE INFORMATION

2.1 Brief analysis of the overall operating conditions of the Company and its subsidiaries (the "Group") during the reporting period

At present, the ICT industry is sustaining robust development with areas of interest such as artificial intelligence, virtual reality, 5G, cloudification, virtualisation and smart city constantly emerging, while rapid growth in network data flow continued. These trends have presented market opportunities for innovations in the telecommunications industry.

In connection with carriers' networks, carriers continued to enhance indoor coverage and depth of coverage of 4G networks during the reporting period while actively driving 5G development and stepping up with transformation towards digitalisation. In the domestic market, the Group secured stable market shares on the back of vigorous efforts to support domestic carriers' requirements in network construction and business transformation. In the international market, we started to reshape market distribution thanks to the launch of integrated solutions for innovative products, in persistent adherence to the focus on populous nations and global mainstream carriers and the principle of "creating value for customers". In connection with government and corporate business, the Group facilitated faster deployment and application of new products and solutions for its government and corporate clients. In connection with consumer business, the Group made further inroads in the global carriers' market. While increasing our profitability, we have also expanded our ability to operate in the open market and enhanced our brand position in consumer products.

For the three months ended 31 March 2017, the Group reported operating revenue of RMB25.745 billion, representing growth of 17.78% as compared to the previous year which mainly reflected the year-on-year growth in operating revenue from carriers' networks and consumer business. Net profit attributable to holders of ordinary shares of the listed company amounted to RMB1.214 billion, representing a year-on-year increase of 27.81%. Basic earnings per share was RMB0.29.

For the next reporting period, the Group will persist in proactive and prudent operation strategy while exploring new possibilities with persistent research and development efforts complemented by stronger commitment to innovation and more stringent project management, as it seeks mutual growth with its customers, partners and other stakeholders and the creation of a positive ecosystem for the industry.

2.2 Major Accounting Data and Financial Indicators

2.2.1 Major Accounting Data and Financial Indicators of the Group

Item	As at the end of the reporting period (31 March 2017)	As at the end of last year (31 December 2016)	Change as at the end of the reporting period compared with the end of last year
Total assets <i>(RMB in thousands)</i>	141,198,258	141,640,910	(0.31%)
Owners' equity attributable to holders of ordinary shares of the listed company <i>(RMB in thousands)</i>	27,584,982	26,401,151	4.48%
Total share capital <i>(thousand shares)</i> ^{Note 1}	4,185,897	4,184,628	0.03%
Net assets per share attributable to holders of ordinary shares of the listed company <i>(RMB/share)</i>	6.59	6.31	4.44%

Item	The reporting period (Three months ended 31 March 2017)	Same period last year (Three months ended 31 March 2016)	Change compared with the same period last year
Operating revenue <i>(RMB in thousands)</i>	25,744,612	21,858,509	17.78%
Net profit attributable to holders of ordinary shares of the listed company <i>(RMB in thousands)</i>	1,213,607	949,510	27.81%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company <i>(RMB in thousands)</i>	1,069,337	969,174	10.33%
Net cash flows from operating activities <i>(RMB in thousands)</i>	(971,165)	3,945,521	(124.61%)
Net cash flows from operating activities per share <i>(RMB/share)</i>	(0.23)	0.95	(124.21%)
Basic earnings per share <i>(RMB/share)</i> ^{Note 2}	0.29	0.23	26.09%
Diluted earnings per share <i>(RMB/share)</i> ^{Note 3}	0.29	0.23	26.09%
Weighted average return on net assets (%)	4.50%	3.18%	Increased by 1.32 percentage points
Weighted average return on net assets after extraordinary items (%)	3.96%	3.25%	Increased by 0.71 percentage points

- Note 1:* The total share capital of the Company increased from 4,184,628,172 shares to 4,185,896,909 shares following the exercise of 1,268,737 A share options by scheme participants under the share option incentive scheme of the Company during the reporting period;
- Note 2:* Basic earnings per share for the reporting period and for the three months ended 31 March 2016 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 3:* As A share options granted by the Company have given rise to 2,087,000 and 22,444,000 potentially dilutive ordinary shares for the three months ended 31 March 2017 and three months ended 31 March 2016, respectively, dilutive earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

Extraordinary item

	<i>Unit: RMB in thousands</i>
	Amount from the beginning of the year to the end of the reporting period
Extraordinary item	
Non-operating income	223,755
Gains/(Losses) from fair value change	(62,194)
Investment income	56,971
Less: Loss on disposal of non-current assets	8,341
Less: Other non-operating expenses	30,350
Less: Effect of income tax	26,976
Less: Effect of non-controlling interests (after tax)	8,595
	<hr/>
Total	<u><u>144,270</u></u>

2.2.2 The amounts of net profit and shareholders' equity of the Group for the three months ended 31 March 2017 and as at 31 March 2017 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.

2.3 Total number of shareholders and shareholdings of top 10 shareholders and top 10 holders of shares not subject to lock-up of the Company as at the end of the reporting period

Total number of shareholders

As at 31 March 2017 There were 160,455 shareholders in total (comprising 160,084 holders of A shares and 371 holders of H shares).

Shareholdings of shareholders holding 5% or above or top 10 shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Number of shareholdings as at the end of the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of pledged or frozen shares
1. Shenzhen Zhongxingxin Telecommunication Equipment Company Limited (“Zhongxingxin”)	State-owned corporation	30.34%	1,269,830,333	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.01%	754,003,385	—	Unknown
3. China Securities Finance Corporation Limited	General domestic corporation	2.53%	105,947,520	—	Unknown
4. Sun Huigang (孫惠剛)	Domestic natural person	1.54%	64,628,763	—	Unknown
5. Central Huijin Asset Management Ltd.	State-owned corporation	1.25%	52,519,600	—	Unknown
6. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.02%	42,657,008	—	Unknown
7. NSSF Portfolio #103	Others	0.72%	29,960,214	—	Unknown
8. NSSF Portfolio #401	Others	0.57%	23,999,982	—	Unknown
9. Bank of China Limited — China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	Others	0.52%	21,965,903	—	Unknown
10. China Mobile No. 7 Research Institute	State-owned corporation	0.46%	19,073,940	—	Unknown

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

Name of shareholders	Number of shares held not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,269,830,333	A share
2. HKSCC Nominees Limited	754,003,385	H share
3. China Securities Finance Corporation Limited	105,947,520	A share
4. Sun Huigang (孫惠剛)	64,628,763	A share
5. Central Huijin Asset Management Ltd.	52,519,600	A share
6. Hunan Nantian (Group) Co., Ltd.	42,657,008	A share
7. NSSF Portfolio #103	29,960,214	A share
8. NSSF Portfolio #401	23,999,982	A share
9. Bank of China Limited — China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	21,965,903	A share
10. China Mobile No. 7 Research Institute	19,073,940	A share
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<p>1. Zhongxingxin was neither a connected party nor a concerted party of any of the top 10 shareholders and top 10 holders of shares that were not subject to lock-up set out in the table above.</p> <p>2. Save as aforesaid, the Company is not aware of any connected party relationships or concerted party relationships among other top 10 shareholders and other top 10 holders of shares not subject to lock-up.</p>	
Description of top 10 shareholders' involvement in financing and securities lending businesses (if any)	Sun Huigang (孫惠剛), the 4th ranking shareholder among the top 10 shareholders, held 24,628,763 A shares of the Company through an ordinary securities account and 40,000,000 A shares of the Company through a credit securities account.	

Whether top 10 shareholders and top 10 holders of shares 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.

§ 3 MATERIAL MATTERS

3.1 Substantial changes in key financial data and financial indicators of the Company and the reasons thereof

Unit: RMB in thousands

Balance sheet

Item	31 March 2017	31 December 2016	Change	Analysis of reasons for changes
Derivative financial assets	23,679	54,857	(56.84%)	Attributable mainly to the settlement of certain derivative investments upon maturity for the period
Bills receivable	2,676,446	1,984,493	34.87%	Attributable mainly to the increase in payments in the form of acceptance bills received for the period
Amount due from customers for contract works	6,253,285	9,345,123	(33.09%)	Attributable mainly to the transfer to trade receivables of certain construction contracts which have fulfilled the conditions for payment collection for the reporting period
Derivative financial liabilities	76,040	40,148	89.40%	Attributable mainly to loss arising from the fair-value re-measurement at the end of the period on certain derivative investments for the reporting period
Dividends payable	1,536	50,317	(96.95%)	Attributable mainly to payment of dividend declared in the previous period by certain subsidiaries during the reporting period
Deferred income	1,015,932	712,657	42.56%	Attributable mainly to the increase in asset-related government subsidies for the period

Income Statement (Three months ended 31 March)

Item	Three months ended 31 March 2017	Three months ended 31 March 2016	Change	Analysis of reasons for changes
Taxes and surcharges	230,073	422,005	(45.48%)	Attributable mainly to the decrease in taxable income subject to business tax as a result of the change of business tax to VAT for the reporting period
Finance expenses	(15,686)	152,613	(110.28%)	Attributable mainly to the increase in interest income for the reporting period
Impairment losses	509,189	189,347	168.92%	Attributable mainly to the increase in provision for trade receivables and bad debt and in impairment provision for goods dispatched for the reporting period
Gains/(Losses) from changes in fair values	(62,194)	(111,824)	44.38%	Attributable mainly to the decrease in loss arising from fair-value re-measurement at the end of the period on derivative investments for the reporting period
Investment income	60,453	(3,680)	1,742.74%	Attributable mainly to gains from the disposal of certain equity investments for the reporting period
Non-operating expenses	38,691	8,151	374.68%	Attributable mainly to the increase in compensation expenses for the reporting period
Income tax	414,485	309,838	33.77%	Attributable mainly to the increase in profit for the reporting period
Non-controlling interests	(21,136)	(13,340)	(58.44%)	Attributable mainly to the increase in loss reported by subsidiaries with higher levels of non-controlling interests for the reporting period
Changes in the fair value of available-for-sale financial assets	(1,485)	(19,241)	92.28%	Attributable mainly to the decrease in loss arising from volatility in the market prices of restricted equity interests in listed companies held for the reporting period
Effective portion of hedging instruments	(3,999)	(43,102)	90.72%	Attributable mainly to the decrease in loss arising from fair-value re-measurement at the end of the period of hedging instruments for the reporting period
Exchange differences on translation of foreign operations	(38,210)	(607,330)	93.71%	Attributable mainly to the decrease in loss on translation of foreign operations due to exchange rate volatility for the reporting period
Other comprehensive income attributable to non-controlling interests, net of tax	(2,304)	8,250	(127.93%)	Attributable mainly to loss arising from volatility in the market prices of restricted equity interests in listed companies held by subsidiary fund partnerships of Shenzhen ZTE Capital Management Company Limited (“ZTE Capital”) for the reporting period

Cash Flow Statement (Three months ended 31 March)

Item	Three months ended 31 March 2017	Three months ended 31 March 2016	Change	Analysis of reasons for changes
Net cash flows from operating activities	(971,165)	3,945,521	(124.61%)	Attributable mainly to the decrease in cash received from sale of goods or rendering of services for the reporting period
Net cash flows from investing activities	(899,446)	(387,405)	(132.17%)	Attributable mainly to the increase in cash paid for investments by subsidiary fund partnerships of ZTE Capital for the reporting period
Net cash flows from financing activities	(1,266,132)	6,326,529	(120.01%)	Attributable mainly to the increase in cash paid for debt repayment the reporting period
Effect of changes in foreign exchange rate on cash and cash equivalents	36,157	(573,009)	106.31%	Attributable mainly to gains due to exchange rate volatility for the reporting period versus losses due to exchange rate volatility for the same period last year

3.2 Progress of significant events and analysis of their impacts and solutions

3.2.1 Statement of qualified opinion

Applicable N/A

3.2.2 Provision of any funds by the Company to the controlling shareholders or other connected parties or provision of third-party guarantees in violation of stipulated procedures

Applicable N/A

3.2.3 Execution and performance of material contracts in day-to-day operations

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

No.	Contents of material contracts	Date of domestic announcements	Pricing principle	Transaction prices	Whether a connected transaction	Performance status as at the end of the reporting period
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	30 April 2007	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	Under normal progress
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Under normal progress
3	Network Supply Agreement and Managed Service Agreement between the Company and its subsidiary ZTE Corporation South Africa (PTY) Limited on the one hand and Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited, on the other	27 January 2010	By reference to market prices	USD378 million	No	Under normal progress

3.2.4 Others

3.2.4.1 Application by Shanghai Zhongxing (a subsidiary of the Company) for quotation on the National Equities Exchange and Quotations (“NEEQ”)

The Company has proposed the conversion of Shanghai Zhongxing Telecom Equipment Technologies Company Limited, a subsidiary of the Company, into a joint stock company and, following the completion of such conversion, and the application by Shanghai Zhongxing Telecom Equipment Technologies Company Limited for quotation on NEEQ subject to compliance with relevant national laws, regulations and policies. The aforesaid matter has been considered and approved at the Thirty-third Meeting of the Sixth Session of the Board of Directors of the Company. The inaugural meeting of Shanghai Zhongxing Telecom Equipment Technologies Company Limited was held on 28 December 2015 and the company was renamed Shanghai Zhongxing Telecom Equipment Technologies Corporation (“Shanghai Zhongxing”). On 29 March 2016, Shanghai Zhongxing filed an application for quotation on NEEQ. On 24 January 2017, Shanghai Zhongxing received the “Letter regarding Approval of the Quotation of Shanghai Zhongxing Telecom Equipment Technologies Corporation on the National Equities Exchange and Quotations” (《關於同意上海中興通訊技術股份有限公司股票在全國中小企業股份轉讓系統掛牌的函》) issued by the National Equities Exchange and Quotations Co. Ltd, granting approval for the quotation of Shanghai Zhongxing shares on NEEQ. The shares of Shanghai Zhongxing was listed on the NEEQ on 21 February 2017. For details of the aforesaid matter, please refer to the relevant announcements published by the Company on 11 November 2015, 29 March 2016, 2 February 2017 and 20 February 2017.

3.2.4.2 Export restrictions imposed on the Company by the U.S. Department of Commerce

The Company published announcements in respect of matters pertaining to the decision of the Bureau of Industry and Security of the Department of Commerce of the United States (“BIS”) to implement export restrictions against the Company and their updates on 9 March 2016, 23 March 2016, 28 March 2016, 6 April 2016, 28 June 2016, 19 August 2016, 18 November 2016, 14 February 2017 and 24 February 2017, respectively.

The Company has reached agreements with the BIS, United States Department of Justice (“DOJ”) and the Office of Foreign Assets Control of the United States Department of Treasury (“OFAC”) in respect of the investigations in the Company’s compliance with U.S. export control regulations and U.S. sanction laws (the “Agreements”). As the Company had violated U.S. export control laws, and had violated pertinent U.S. laws and regulations in connection with the supply of information and other acts in the investigation process, the Company agreed to plead guilty and pay fines amounting to USD892,360,064. Moreover, BIS charged the Company with an additional fine of USD300 million, which would be suspended and exempted after a 7-year probationary period subject to the Company’s performance of its agreement with BIS during such period. The agreement between the Company and OFAC came into effect immediately upon execution. The agreement between the Company and DOJ would come into effect upon approval by the U.S. district court for the Northern District of Texas (the “Court”). Court approval of the agreement between the Company and DOJ is a precedent condition to the issue of a settlement order by BIS. BIS will recommend the removal of the Company from the Entity List following Court approval of the agreement between the Company and DOJ, the guilty plea by the Company and the signing and issue of a settlement order by the Assistant Secretary of BIS. On 22 March 2017 (United States time), the agreement between the Company and DOJ became effective upon approval by the Court. On 23 March 2017 (United States time), the BIS settlement order was issued, upon which the agreement with BIS came into effect. Upon the recommendation by BIS, the Company and Shenzhen ZTE Kangxun Telecommunications Ltd. were removed from the Entity List on 29 March 2017 (United States time). For details of the aforesaid matter, please refer to the announcements of the Company dated 8 March, 23 March, 24 March and 29 March 2017.

The Company will continue to review its organisational structure, business processes and internal control and has adopted necessary measure to ensure the Company’s compliance with U.S. export control laws and performance of obligations under the Agreements.

3.2.4.3 Changes in Directors and senior management of the Company

Pursuant to the “Resolution on the appointment and removal of senior management personnel” considered and passed at the Second Meeting of the Nomination Committee of the Seventh Session of the Board of Directors and the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, it was approved that Mr. Xiong Hui be appointed Executive Vice President of the Company for a term commencing on the date on which the appointment was considered and approved at the said meeting of the Board of Directors and ending on the date of conclusion of the term of office of the Seventh Session of the Board of Directors (namely, 29 March 2019); and that the appointment of each of Mr. Fan Qingfeng and Mr. Chen Jianzhou as Executive Vice President be discontinued. Mr. Fan Qingfeng and Mr. Chen Jianzhou will continue to work at the Company.

As disclosed in the “Announcement Resignation of Non-Executive Director” published by the Company on 21 February 2017, Mr. Shi Lirong, Non-executive Director of the Company, had tendered his resignation from the positions of Non-executive Director and member of the Remuneration and Evaluation Committee and the Nomination Committee of the Seventh Session of the Board of the Company due to his other personal commitments. Mr. Shi Lirong’s resignation came into effect on the date of said announcement. Following his resignation, Mr. Shi Lirong would not hold any position at the Company.

As disclosed in the “Announcement Change of Chairman of the Board” published by the Company on 14 March 2017, in order to enhance corporate governance and separate the roles of the chairman and the chief executive officer, Mr. Zhao Xianming, Chairman and President of the Company, had tendered his resignation from the office of Chairman of the Seventh Session of the Board of Director. Following his resignation, Mr. Zhao Xianming will continue to serve as Executive Director and President of the Company. At the Fourteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 14 March 2017, Mr. Yin Yimin was elected Chairman of the Seventh Session of the Board of Directors, and in replacement as Member of the Nomination Committee and Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors for a term commencing on 14 March 2017 and ending on the date on which the Seventh Session of the Board of Directors is concluded (namely, 29 March 2019).

Pursuant to the “Resolution on the Nomination of Candidates for Non-independent Director” considered and passed at the Third Meeting of the Nomination Committee of the Seventh Session of the Board of Directors held on 22 March 2017 and the Fifteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 23 March 2017, Mr. Zhai Weidong was nominated candidate for non-independent and non-executive director of the Seventh Session of the Board of Directors of the Company, and the tabling of the said resolution at the 2016 Annual General Meeting of the Company for consideration was approved. Mr. Zhai Weidong was appointed for a term commencing on the date on which this resolution is considered and passed at the 2016 Annual General Meeting of the Company and ending upon the conclusion of the term of the Seventh Session of the Board of Directors of the Company (namely, 29 March 2019).

As disclosed in the “Announcement on Resignation of Senior Management” published by the Company on 5 April 2017, Mr. Zeng Xuezhong, Executive Vice President of the Company had tendered his resignation from the position of Executive Vice President of the Company due to personal reasons, and Mr. Zeng Xuezhong’s resignation became effective as from the date of the said announcement. Following his resignation, Mr. Zeng Xuezhong would not hold any position at the Company.

3.2.4.4 Information on the share option incentive scheme of the Company

The share option incentive scheme (the “Scheme”) implemented by the Company is aimed at further improving the corporate governance structure of the Company, bolstering its incentive mechanism, strengthening the loyalty and sense of responsibility on the part of the management team and key employees of the Company, retaining talents to facilitate the sustainable development of the Company and ensure the achievement of the Company’s development objectives. The Scheme implemented by the Company has been approved by regulatory authorities including State-owned Assets Supervision and Administration Commission of the State Council, China Securities Regulatory Commission and The Stock Exchange of Hong Kong Limited and the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. The source of shares under the Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. The scheme participants shall include Directors, senior management and key business personnel who have direct impact on the overall results and continuous development of the Company or who have made outstanding contributions to the Company (but excluding any independent non-executive directors, supervisors, substantial shareholders or de facto controllers with a shareholding of more than 5%, or their spouses and close family members). Pursuant to the “Resolution on Matters pertaining to the Grant of Share Options under the Share Option Incentive Scheme of the Company” considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013, the date of grant has been set for 31 October 2013 (Thursday), on which 102.989 million share options were granted to 1,528 scheme participants. The exercise price for the share options granted was RMB13.69 per A share.

Pursuant to the “Resolution on the Non-fulfillment of Exercise Conditions for the Third Exercise Period under the Share Option Incentive Scheme” considered and approved at the Fifteenth Meeting of the Seventh Session of the Board of Directors held on 23 March 2017, the exercise conditions for the third exercise period under the share option incentive scheme of the Company have not been fulfilled and share options that cannot be exercised owing to the non-fulfillment of conditions pertaining to business results will lapse with immediate effect and withdrawn and cancelled by the Company without consideration in accordance with the ZTE Corporation Share Option Incentive Scheme (Revised Draft). A total of 44,356,320 share options have been granted in respect of the third exercise period. The Company will carry out the procedures for the cancellation of such share options following the consideration and approval of the 2016 financial report at the general meeting. For details, please refer to the “Announcement Non-fulfillment of Exercise Conditions for the Third Exercise Period under the Share Option Incentive Scheme” published by the Company on 23 March 2017.

Share options under the Scheme of the Company were exercised on a voluntary basis. During the reporting period, a total of 1,268,737 share options were exercised at an exercise price of RMB10.97. The number of A shares of the Company has increased by 1,268,737 shares as a result of the exercise and the proceeds received have been placed in a designated account of the Company. As at the end of the reporting period, 6,810,934 share options under the second exercise period remained unexercised. Details of the exercise of share options by scheme participants during the reporting period are set out as follows:

Name of the Participant	Position of the Participant	Number of exercisable share options for the second exercise period as at the beginning of the reporting period (in ten thousands)	Number of share options for the second exercise period exercised during the reporting period (in ten thousands)	Number of share options remaining unexercised for the second exercise period as at the end of the reporting period (in ten thousands)
Zhang Jianheng	Non-executive Directors	1.0800	0	1.0800
Zhao Xianming	Executive Director and President	0	0	0
Xu Huijun	Executive Vice President	12.6000	0	12.6000
Zhang Zhenhui	Executive Vice President	0	0	0
Pang Shengqing	Executive Vice President	0	0	0
Xiong Hui	Executive Vice President	5.1700	5.1700	0
Zeng Xuezhong	Former Executive Vice President	16.2000	0	16.2000
Cao Wei	Secretary to the Board	2.5200	0	2.5200
Other scheme participants	—	770.3971	121.7037	648.6934
Total	—	807.9671	126.8737	681.0934

For details of adjustments to the exercise price and number of share options and other details of the Scheme of the Company, please refer to the section headed “Material Matters — (VI) IMPLEMENTATION AND IMPACT OF THE COMPANY’S SHARE OPTION INCENTIVE SCHEME” in the 2016 Annual Report of the Company.

3.2.4.5 Material litigation and arbitration during the reporting period

There was no material litigation or arbitration of the Group occurring during the reporting period. For details of the progress in the reporting period of immaterial litigation and arbitration proceedings occurring prior to the reporting period, please refer to the section headed “Material Matters” in the 2016 Annual Report of the Company.

3.2.4.6 Conduct of continuing connected transactions during the reporting period

The connected transactions disclosed in the following table represent connected transactions reaching the benchmark for public disclosure as defined under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of Whether transactions approved in the same cap has classification been exceeded		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 and its subsidiaries	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials and lease of properties by the Company and its subsidiaries from connected parties at prices determined through arm's length negotiations and on the basis of normal commercial terms. Continuing connected transactions in respect of the Group's purchases from connected parties were conducted in the ordinary course of business of the two parties on normal commercial terms and terms no less favourable than those available to or from (as the case may be) independent third parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1-RMB300,000 per unit depending on level of sophistication; Cases and related accessories: RMB1-RMB15,000 per unit depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used.	8,087.92	0.63%	No	Commercial acceptance bill	N/A	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"
Mobi Antenna Technologies (Shenzhen) Co., Ltd. ("Mobi Antenna")*	A company at which a former supervisor of Zhongxingxin, the controlling shareholder of the Company, acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party		Communication antenna: RMB100-RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100-9,999 per unit depending on technical parameters and functional features; Feeder: RMB1-200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1-100 per piece depending on technical parameters and functional features.	14,109.44	1.10%	No	Commercial acceptance bill	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
Huatong Technology Company Limited ("Huatong")**	Subsidiary of a company for which a natural person related to the Company previously acted as director	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	1,204.22	0.09%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Software Technology (Nanchang) Company Limited ("Nanchang Software")**	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company previously acted as director	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	833.72	0.07%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and its subsidiaries**	Subsidiary of a company for which a natural person related to the Company previously acted as director	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.	1,249.96	0.10%	No	Tele-transfer	N/A	2016-4-29	Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of Whether transactions approved in the same cap has classification been exceeded		Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxing Development Company Limited ("Zhongxing Development") **	A Company for which a natural person related to the Company previously acted as director	Property leasing	(1) From 18 April 2015 to 17 April 2017: Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m.; Lease of parking spaces: 25 ground level parking spaces and 127 underground parking spaces by the Company from the connected party (2) From 18 April 2017 to 17 December 2017: Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 30,000 sq.m.; lease of parking spaces: 25 ground level parking spaces and 126 underground parking spaces by the Company from the connected party		(1) From 18 April 2015 to 17 April 2017: Monthly rent of RMB145/sq.m.; monthly rent of ground level parking spaces of RMB350 each; monthly rent of underground parking spaces of RMB600 each. (Property management undertaken by ZTE and no management fees are payable.) (2) From 18 April 2017 to 17 December 2017: Monthly rent of RMB155/sq.m.; monthly rent of ground level parking spaces of RMB350 each; monthly rent of underground parking spaces of RMB600 each. (Property management undertaken by ZTE and no management fees are payable.)	1,141.91	6.09%	No	Tele-transfer	N/A	2015-3-26 2017-3-24	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201721 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Chongqing Zhongxing Development Company Limited ("Chongqing Zhongxing Development")**	Subsidiary of a company for which a natural person related to the Company previously acted as director	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. and 97 parking spaces by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, from the connected party		Monthly rent of RMB50/sq.m. for the office (for a maximum leased area of 18,532.08 sq.m.) and RMB45/sq.m. for the cafeteria (for a maximum leased area of 1,467.92 sq.m.) respectively; monthly management fee of RMB3/sq.m. based on actual area leased; monthly rent of parking space: RMB150 each.	222.76	1.19%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries **	Subsidiary of a company for which a natural person related to the Company previously acted as director	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		RMB74/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB53/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB116/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB53/sq.m./month for hotel and related equipment and facilities in Xi'an.	1,926.05	28.58%	No	Tele-transfer	N/A	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 **	Subsidiary of a company for which a natural person related to the Company previously acted as director	Financial services	The provision of deposit services by ZTE Group Finance Co., Ltd. ("ZTE Group Finance") to the connected party		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; in case the interest rate announced by PBOC was not applicable, ZTE Group Finance would pay interest to the connected party at a rate not higher than the interest rate level adopted by similar businesses carried out by other independent financial institutions.	3,104.48 ^{Note 1}	0.34%	No	Tele-transfer	N/A	2015-3-26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Mobi Antenna*	A company at which a former supervisor of Zhongxingxin, the controlling shareholder of the Company, acted as director	Financial services	The provision of bill discounting services by ZTE Group Finance to the connected party		Bill discounting services were conducted during the ordinary course of business of the two parties based on normal commercial terms. The interest rate for discounting was determined on the basis of the rediscount rate announced by the PBOC taking into account prevailing market levels and in compliance with relevant guidelines and requirements of the PBOC.	— ^{Note 2}	—	No	Tele-transfer	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
深圳市航天歐華科技發展有限公司 ("航天歐華")	Subsidiary of a company for which a Director of the Company acted as director	Sale of products	The sale of digital communications products and communications products by the Company to the connected party		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	—	—	No	Tele-transfer or bank acceptance bill	N/A	2015-9-23	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software**	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company previously acted as director	Sales of products and rendering of services	The provision by the Company to the connected party of software and hardware equipment and engineering services required for smart campus and campus IT development, and integrated solutions for smart traffic, city emergency command system and government/corporate IT systems		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	—	—	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				—	—	31,880.46	N/A	—	—	—	—	—

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products, 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)	<p>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 from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2017 be capped at RMB900 million (before VAT);</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the estimated purchases from Mobi Antenna, a connected party, by the Group in 2017 be capped to RMB1,900 million (before VAT);</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated purchases from Huatong and Nanchang Software, both connected parties, by the Company in 2017 be capped at RMB75 million and RMB79 million, respectively (before VAT);</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated sales of products and rendering of services to Nanchang Software, a connected party, by the Company in 2017 be capped at RMB31 million (before VAT);</p> <p>At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB54 million for a term commencing on 18 April 2015 and ending on 17 April 2017; at the Fifteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 23 March 2017, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB40 million for a term commencing on 18 April 2017 and ending on 17 December 2017;</p> <p>At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the annual rent payable by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB13 million for a term commencing on 1 January 2015 and ending on 31 December 2017;</p> <p>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 2016 and ending on 30 June 2017; 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 2016 and ending on 30 June 2017;</p> <p>At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the estimated daily deposit balance (principal cum interest) of the deposit service provided by ZTE Group Finance to Zhongxing Hetai and its subsidiaries in 2017 shall be capped at RMB100 million;</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the estimated daily balance of outstanding discounted bills (principal cum interest) of the bill discounting service provided by ZTE Group Finance to Mobi Antenna in 2017 shall be capped at RMB450 million;</p> <p>At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated sales of digital communications products and communications products to 航天歐華 by the Company in 2017 be capped at RMB1,100 million (before VAT); and</p> <p>Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.</p>
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

* As the natural person related to the Company has ceased to be supervisor of Zhongxingxin, controlling shareholder of the Company, as from 23 June 2016, Mobi Antenna will cease to be a connected party of the Company as from 23 June 2017.

** As the natural person related to the Company has ceased to be director of Zhongxing Development as from 19 July 2016, Zhongxing Development will cease to be a connected person of the Company as from 19 July 2017, and Chongqing Zhongxing Development, Huatong, Zhongxing Hetai and its subsidiaries, and Nanchang Software, subsidiaries of Zhongxing Development, will cease to be connected parties of the Company as from 19 July 2017.

*** In accordance with Rule 10.1.6 of the Rules Governing the Listing of Stocks on The Shenzhen Stock Exchange, corporations or natural persons falling within the scope of the following are deemed as connected persons of a listed company:

(II) Meeting any of the conditions set out in Rule 10.1.3 or Rule 10.1.5 within the past 12 months.

Note 1: The amount represented the estimated maximum daily deposit balance (principal cum interest) for the 3 months ended 31 March 2017.

Note 2: The amount represented the estimated maximum daily balance of outstanding discounted bills (principal cum interest) for the 3 months ended 31 March 2017.

Note 3: ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2017, and the funds utilised for settlement were limited to the cash deposits placed with ZTE Group Finance by Zhongxing Hetai and its subsidiaries. No handling fees were charged for such settlement service.

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

3.3 Overdue and outstanding undertakings by the de facto controller of the Company, shareholders, connected parties, acquirer and parties of the Company during the reporting period

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

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

2. Other undertaking given to minority shareholders of the Company

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

3.4 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 as compared to the same period last year

Applicable N/A

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities

1. 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}	1,547.62	Fair-value measurement	14,175.00	—	12,028.88	—	—	—	13,576.50	Available-for-sale financial assets	Issue proceeds
Stock	300502	Eoptolink ^{Note 1}	1,385.12	Fair-value measurement	30,761.78	—	21,922.58	—	—	—	23,307.70	Available-for-sale financial assets	Issue proceeds
Stock	603986	Giga Device ^{Note 1}	1,800.00	Fair-value measurement	56,511.70	—	64,914.10	—	—	—	66,714.10	Available-for-sale financial assets	Issue proceeds
Stock	603633	Laimu ^{Note 1}	2,000.00	Fair-value measurement	13,670.00	—	10,106.67	—	—	—	12,106.67	Available-for-sale financial assets	Issue proceeds
Stock	002036	Lianchuang Electronic ^{Note 2}	3,266.00	Fair-value measurement	13,196.56	—	8,993.85	—	—	—	12,259.85	Available-for-sale financial assets	Issue proceeds
Stock	ENA: TSV	Enablence Technologies ^{Note 3}	3,583.26	Fair-value measurement	3,193.45	—	(722.28)	—	—	—	3,166.39	Available-for-sale financial assets	Internal funds
Other securities investments held at the end of the period			—	—	—	—	—	—	—	—	—	—	—
Total			13,582.00	—	131,508.49	—	117,243.80	—	—	—	131,131.21	—	—

Note 1: Figures corresponding to Guangzhou Great Power Energy & Technology Co., Ltd. (“Great Power”), Eoptolink Technology Inc., Ltd. (“Eoptolink”), Giga Device Semiconductor (Beijing) Inc (“Giga Device”) and Shanghai Laimu Electronics Co., Ltd. (“Laimu”) are provided with Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (“Zhonghe Chunsheng Fund”) as the accounting subject.

Note 2: Figures corresponding to Lianchuang Electronic Technology Co., Ltd. (“Lianchuang Electronic”) are provided with Jiaxing Xinghe Equity Investment Partnership (“Jiaxing Fund”) as the accounting subject.

Note 3: The initial investment for the acquisition of Enablence Technologies Inc. (“Enablence Technologies”) shares by ZTE (H.K.) Limited (“ZTE HK”), a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company’s foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company’s foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD35,655,100, equivalent to approximately RMB31,663,900 based on the Company’s foreign currency statement book exchange rate (HKD1: RMB0.88806) on 31 March 2017.

2. Details in investment in securities

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, which was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Zhonghe Chunsheng Fund held 4.50 million shares in Great Power, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 1.60% of the total share capital of Great Power.

B. Shareholdings in Eoptolink

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

C. Shareholdings in Giga Device

As at the end of the reporting period, Zhonghe Chunsheng Fund held 3,175,400 shares in Giga Device, a company listed on the Shanghai Stock Exchange, accounting for 3.18% of the total share capital of Giga Device.

D. Shareholdings in Laimu

As at the end of the reporting period, Zhonghe Chunsheng Fund held 3,333,300 shares in Laimu, a company listed on the Shanghai Stock Exchange, accounting for 2.77% of the total share capital of Laimu.

E. 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 Jiaxing Fund, which was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Jiaxing Fund held 6,887,600 shares in Lianchuang Electronic, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 1.18% of the total share capital of Lianchuang Electronic.

F. Shareholdings in Enablence Technologies

ZTE HK, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies on 4 December 2014. ZTE HK subscribed for 18 million shares issued by Enablence Technologies on 6 January 2015 for a total cash consideration of CAD2.70 million. 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 16.79% of its total share capital.

G. 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.

3.5.2 Records of reception of investors, communications and press interviews during the reporting period

During the reporting period, the Company hosted 3 receptions of investors for research purposes, receiving 8 institutional investors but no individual investor or other researchers. For details, please refer to the following table. The Company did not disclose, reveal or divulge unpublished material information to such investors.

Nature	Time	Location	Mode	Audience received	Key contents discussed	Index of research
External meetings	January 2017	Shanghai	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	February 2017	Hangzhou	Zhongtai Securities investors' meeting	Customers of Zhongtai Securities	Day-to-day operations of the Company	Published announcements and regular reports
	March 2017	Shanghai	Founder Securities investors' meeting	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
	March 2017	Shenzhen	Everbright Securities investors' meeting	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
Investors						
Company visits by investors	January to March 2017	Company	Verbal	FengHe Asia, Macquarie Capital Limited, Credit Suisse, Signature Global Asset Management, Surveyor Capital, PSP Investments, Principal Global Investors, Viking Global Investors LP	Day-to-day operations of the Company	Published announcements and regular reports

3.6 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			Opening balance of investment amount	Purchase during the period	Disposal during the period	Impairment provision (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets ^{Note 2} of the Company at the end of the period (%)	Actual profit or loss for the reporting period
				Start date	End date								
Financial institution	N/A	No	Foreign exchange forwards	—	2016/7/8	2017/9/29	102,547.89	97,513.00	105,999.14	—	94,061.75	3.41%	(974.47)
Financial institution	N/A	No	Foreign exchange forwards	—	2016/10/31	2017/12/22	18,464.59	80,252.23	18,083.20	—	80,633.62	2.92%	(835.35)
Financial institution	N/A	No	Foreign exchange forwards	—	2016/6/29	2017/9/22	40,724.75	66,954.25	40,724.75	—	66,954.25	2.43%	(693.64)
Other financial institution	N/A	No	Foreign exchange forwards	—	2016/9/23	2017/11/20	244,182.50	315,435.59	200,873.55	—	358,744.54	13.01%	(3,716.54)
Total				—	—	—	405,919.73 ^{Note 3}	560,155.07	365,680.64	—	600,394.16	21.77%	(6,220.00)
Source of funds for derivative investment				Internal funds									
Litigation (if applicable)				Not involved in any litigation									
Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)				“Announcement Resolutions of the Second Meeting of the Seventh Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2016”, both dated 6 April 2016.									
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)				“Announcement on Resolutions of the 2015 Annual General Meeting” dated 2 June 2016.									
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period				<p>Derivative investments conducted by the Company during the first quarter of 2017 included value-protection derivatives. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivatives 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; Liquidity risks: The value-protection derivatives 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; 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; 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; 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, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled. 									
Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives				The Company has recognised gains/losses from investments in derivatives during the reporting period. Total losses recognised for the reporting period amounted to RMB62.20 million, comprising losses from fair-value change of RMB62.19 million and recognised investment losses of RMB10,000. 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				<p>Independent Non-executive Directors' Opinion:</p> <p>The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.</p>									

Note 1: Derivative investments are classified according to the financial institutions involved and types of derivative investments;

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

Note 3: Investment amount as at the beginning of the period represents translation from the amount denominated in the original currency using the exchange rate prevailing as at the end of the reporting period.

3.7 Development and implementation of internal control in the first quarter of 2017

During the reporting period, the work of the Company's internal control and audit department was mainly focused on reviewing the internal control operations of 2016 and formulating internal control work plans for 2017 to facilitate audit and rectification of the Company's significant internal control operations. Specifically:

1. The "2016 Summary Report and 2017 Work Plan for Internal Control and Audit of the Company" was completed based on the Company's implementation of internal control in 2016 and the internal control work plans for 2017.
2. An assessment on the effectiveness of the Company's internal control in 2016 was conducted in accordance with provisions of the "Basic Rules for Corporate Internal Control" and its supplementary guidelines and other internal control and regulatory requirements, and the "Self-assessment Report on Internal Control of the Company in 2016" was completed.
3. The Company's derivative investments and investments in securities in 2016 were examined.
4. Risk management and internal control training and examination was conducted for the management officers of the Company to facilitate the implementation of business risk management and internal control duties and requirements by the management officers.
5. The "Operation Sunshine ZTE" was launched, comprising specific tasks such as the development of a credit score system for general staff and management officers, annual rotation of key positions, risk control in relation to outsourcing contracts of overseas projects, end-to-end risk control over overseas marketing and risk control for the government and corporate service segment.
6. Risk exposures of the Company's operations, including the control of national risks, exchange rate risks, interest rate risks, risks relating to intellectual property rights and customer credit risks, were continuously identified and analysed.
7. Risk grading and classification was optimised on an ongoing basis to facilitate to the implementation of risk control duties and measures at all levels.

3.8 This quarterly report is published in both Chinese and English. In case of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

§ 4 APPENDICES

4.1 Balance Sheet (unaudited) (Please see the attached.)

4.2 Income Statement (unaudited) (Please see the attached.)

4.3 Cash Flow Statement (unaudited) (Please see the attached.)

BALANCE SHEET

RMB in thousands

Assets	2017.3.31		2016.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current assets:				
Cash	29,249,328	12,937,188	32,349,914	15,894,744
Derivative financial assets	23,679	3,614	54,857	15,457
Bills receivable	2,676,446	1,900,712	1,984,493	1,200,607
Trade receivables	30,308,637	36,683,444	25,998,188	40,132,425
Factored trade receivables	2,274,781	486,593	2,261,280	498,052
Prepayments	1,498,156	10,909	1,739,691	50,697
Dividend receivable	—	3,628,939	—	3,700,188
Other receivables	5,318,288	21,155,381	4,430,072	13,157,923
Inventories	26,575,613	16,930,580	26,810,568	17,993,566
Amount due from customers for contract works	6,253,285	3,967,280	9,345,123	4,904,060
Other current assets	7,853,482	5,034,696	7,877,874	5,177,219
Total current assets	112,031,695	102,739,336	112,852,060	102,724,938
Non-current assets:				
Available-for-sale financial assets	2,698,419	458,091	2,659,667	458,091
Long-term trade receivables	1,142,365	6,168,812	1,376,563	6,154,837
Factored long-term trade receivables	1,370,627	1,228,173	1,391,746	1,249,292
Long-term equity investments	757,519	10,766,418	665,876	10,707,480
Investment properties	2,016,470	1,608,900	2,016,470	1,608,900
Fixed assets	7,674,689	4,577,689	7,516,241	4,508,652
Construction in progress	1,546,333	630,111	1,729,450	698,944
Intangible assets	4,439,858	1,163,878	4,354,096	1,153,375
Deferred development costs	1,482,509	251,072	1,365,890	191,977
Goodwill	186,206	—	186,206	—
Deferred tax assets	1,437,640	615,649	1,604,575	788,372
Long-term deferred assets	34,912	34,991	34,953	34,991
Other non-current assets	4,379,016	3,540,969	3,887,117	3,581,621
Total non-current assets	29,166,563	31,044,753	28,788,850	31,136,532
Total assets	141,198,258	133,784,089	141,640,910	133,861,470

Legal Representative:
Yin Yimin

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Shi Chunmao

RMB in thousands

Liabilities and shareholders' equity	2017.3.31		2016.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Current liabilities:				
Short-term loans	14,224,879	9,428,099	15,132,120	9,733,700
Derivative financial liabilities	76,040	23,765	40,148	3,878
Bank advances on factored trade receivables	2,276,516	487,927	2,263,015	499,386
Bills payable	10,584,481	13,753,629	11,689,957	14,382,695
Trade payables	25,094,139	45,122,813	25,243,881	40,201,805
Amount due to customers for contract works	7,577,286	5,099,131	5,876,790	3,540,132
Advances from customers	6,408,436	3,836,994	8,092,164	5,498,427
Salary and welfare payables	6,190,127	2,858,645	5,169,051	2,274,908
Taxes payable	830,631	110,369	997,189	191,128
Dividends payable	1,536	225	50,317	225
Other payables	13,650,250	25,977,948	13,660,418	30,533,249
Deferred income	1,015,932	371,545	712,657	344,610
Provisions	856,009	500,181	887,366	554,485
Long-term loans due within one year	1,847,855	1,553,063	1,932,025	1,906,025
Total current liabilities	90,634,117	109,124,334	91,747,098	109,664,653
Non-current liabilities:				
Long-term loans	5,159,683	480,000	5,018,276	480,000
Bank advances on factored long-term trade receivables	1,370,627	1,228,173	1,391,746	1,249,292
Provision for retirement benefits	145,747	145,747	146,106	146,106
Deferred tax liabilities	101,148	—	98,380	—
Deferred income	742,667	18,586	790,223	36,674
Other non-current liabilities	1,337,306	1,105,447	1,563,991	1,055,711
Total non-current liabilities	8,857,178	2,977,953	9,008,722	2,967,783
Total liabilities	99,491,295	112,102,287	100,755,820	112,632,436
Shareholders' equity:				
Share capital	4,185,897	4,185,897	4,184,628	4,184,628
Capital reserves	10,746,949	8,736,594	10,734,300	8,723,945
Other comprehensive income	(866,418)	688,659	(822,724)	691,947
Surplus reserve	2,022,709	1,360,953	2,022,709	1,360,953
Retained profits	11,495,845	(2,302,660)	10,282,238	(3,053,766)
Total equity attributable to ordinary shareholders of the parent	27,584,982	12,669,443	26,401,151	11,907,707
Other equity instruments — perpetual capital instruments	9,012,359	9,012,359	9,321,327	9,321,327
Non-controlling interests	5,109,622	—	5,162,612	—
Total shareholders' equity	41,706,963	21,681,802	40,885,090	21,229,034
Total liabilities and shareholders' equity	141,198,258	133,784,089	141,640,910	133,861,470

INCOME STATEMENT

Item	<i>RMB in thousands</i>			
	Three months ended		Three months ended	
	31 March 2017		31 March 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Operating revenue	25,744,612	25,527,757	21,858,509	22,275,294
Less: Operating costs	17,454,986	21,266,401	14,278,848	17,742,417
Taxes and surcharges	230,073	72,679	422,005	260,985
Selling and distribution costs	2,767,742	1,549,575	2,659,191	1,783,425
Administrative expenses	701,954	407,976	674,907	389,890
Research and development costs	3,330,555	910,467	3,051,853	1,073,841
Finance expenses	(15,686)	125,018	152,613	268,135
Impairment losses	509,189	421,895	189,347	210,699
Add: Gains/(Losses) from changes in fair values	(62,194)	(30,471)	(111,824)	(20,926)
Investment income	60,453	48,967	(3,680)	(2,764)
Including: Share of profits and losses of associates and joint ventures	1,197	—	(509)	—
2. Operating profit	<u>764,058</u>	<u>792,242</u>	<u>314,241</u>	<u>522,212</u>
Add: Non-operating income	1,006,571	239,803	1,064,900	196,613
Less: Non-operating expenses	38,691	7,830	8,151	3,146
Including: Gains/(Losses) on disposal of non-current assets	8,341	5,325	3,652	2,447
3. Total profit	<u>1,731,938</u>	<u>1,024,215</u>	<u>1,370,990</u>	<u>715,679</u>
Less: Income tax	414,485	148,127	309,838	36,570
4. Net profit	<u><u>1,317,453</u></u>	<u><u>876,088</u></u>	<u><u>1,061,152</u></u>	<u><u>679,109</u></u>
Attributable to holders of ordinary shares of the parent	1,213,607	751,106	949,510	554,127
Attributable to holders of perpetual capital instruments	124,982	124,982	124,982	124,982
Non-controlling interests	(21,136)	—	(13,340)	—

Item	<i>RMB in thousands</i>			
	Three months ended 31 March 2017		Three months ended 31 March 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
5. Other comprehensive income, net of tax	(45,998)	(3,288)	(661,423)	(8,961)
Other comprehensive income attributable to the parent company, net of tax	(43,694)	(3,288)	(669,673)	(8,961)
Other comprehensive income that cannot be reclassified to profit and loss in subsequent accounting periods				
Change in net assets (net liabilities) arising from the re-measurement of defined benefit plans	—	—	—	—
	—	—	—	—
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods				
Changes in the fair value of available-for-sale financial assets	(1,485)	—	(19,241)	—
Effective portion of hedging instruments	(3,999)	(1,833)	(43,102)	—
Exchange differences on translation of foreign operations	(38,210)	(1,455)	(607,330)	(8,961)
	(43,694)	(3,288)	(669,673)	(8,961)
Other comprehensive income attributable to non-controlling interests, net of tax	(2,304)	—	8,250	—

Item	<i>RMB in thousands</i>			
	Three months ended		Three months ended	
	31 March 2017		31 March 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
6. Total comprehensive income	1,271,455	872,800	399,729	670,148
Attributable to holders of ordinary shares of the parent	1,169,913	747,818	279,837	545,166
Attributable to holders of perpetual capital instruments	124,982	124,982	124,982	124,982
Attributable to non-controlling interests	(23,440)	—	(5,090)	—
7. Earnings per share				
(1) Basic earnings per share	RMB0.29		RMB0.23	
(2) Diluted earnings per share	RMB0.29		RMB0.23	

CASH FLOW STATEMENT

Item	<i>RMB in thousands</i>			
	Three months ended 31 March 2017		Three months ended 31 March 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Cash flows from operating activities				
Cash received from sale of goods or rendering of services	26,935,766	26,838,631	31,491,449	29,539,331
Refunds of taxes	1,424,996	595,049	1,408,967	874,724
Cash received relating to other operating activities	460,103	269,978	499,984	276,510
Sub-total of cash inflows	28,820,865	27,703,658	33,400,400	30,690,565
Cash paid for goods and services	21,511,467	26,934,700	21,347,633	26,021,913
Cash paid to and on behalf of employees	3,784,224	1,233,203	3,509,488	1,099,134
Cash paid for all types of taxes	1,923,441	125,087	1,904,988	303,625
Cash paid relating to other operating activities	2,572,898	1,057,303	2,692,770	1,479,965
Sub-total of cash outflows	29,792,030	29,350,293	29,454,879	28,904,637
Net cash flows from operating activities	(971,165)	(1,646,635)	3,945,521	1,785,928
2. Cash flows from investing activities				
Cash received from sale of investments	110,511	—	205,981	20,934
Cash received from return on investments	37,488	20,453	85,741	71,129
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	14,810	14,353	9,652	482
Net cash received from the disposal of subsidiaries and other operating units	—	232,400	—	850
Sub-total of cash inflows	162,809	267,206	301,374	93,395
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	553,566	55,531	594,498	223,608
Cash paid for acquisition of investments	508,689	290,316	94,281	87,200
Sub-total of cash outflows	1,062,255	345,847	688,779	310,808
Net cash flows from investing activities	(899,446)	(78,641)	(387,405)	(217,413)

Item	<i>RMB in thousands</i>			
	Three months ended 31 March 2017		Three months ended 31 March 2016	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
3. Cash flows from financing activities				
Cash received from capital injection	13,918	13,918	32,519	30,069
Including: Capital injection into subsidiaries by minority shareholders	—	—	2,450	—
Cash received from borrowings	<u>9,486,670</u>	<u>5,004,846</u>	<u>11,908,787</u>	<u>8,539,916</u>
Sub-total of cash inflows	<u>9,500,588</u>	<u>5,018,764</u>	<u>11,941,306</u>	<u>8,569,985</u>
Cash repayment of borrowings	9,954,734	5,306,429	4,877,073	3,019,401
Cash payments for distribution of dividends or for interest expenses	811,986	581,060	737,704	686,347
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	<u>57,331</u>	—	—	—
Sub-total of cash outflows	<u>10,766,720</u>	<u>5,887,489</u>	<u>5,614,777</u>	<u>3,705,748</u>
Net cash flows from financing activities	<u>(1,266,132)</u>	<u>(868,725)</u>	<u>6,326,529</u>	<u>4,864,237</u>
4. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>36,157</u>	<u>(10,486)</u>	<u>(573,009)</u>	<u>(27,639)</u>
5. Net increase in cash and cash equivalents	<u>(3,100,586)</u>	<u>(2,604,487)</u>	<u>9,311,636</u>	<u>6,405,113</u>
Add: cash and cash equivalents at the beginning of the period	<u>30,049,791</u>	<u>15,752,732</u>	<u>26,616,996</u>	<u>17,325,750</u>
6. Net balance of cash and cash equivalents at the end of the period	<u>26,949,205</u>	<u>13,148,245</u>	<u>35,928,632</u>	<u>23,730,863</u>

By Order of the Board
Yin Yimin
Chairman

Shenzhen, the PRC

17 April 2017

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