

ZTE 中兴通讯股份有限公司

ZTE CORPORATION

Interim Report 2017

stock code : 000063.SZ 763.HK



Important

The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of the Company confirm that this report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents of this report.

There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this report.

This report has been considered and approved at the Twenty-second Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Bingsheng Teng, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Chen Shaohua, Independent Non-executive Director, to vote on his behalf.

The interim financial reports of the Group for the six months ended 30 June 2017 were unaudited.

Mr. Yin Yimin, Chairman of the Company, Mr. Wei Zaisheng, 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 2017.

This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. Investors should beware of investment risks. The attention of investors is drawn in potential risks inherent in the operations of the Company are described in the section headed “Report of the Board of Directors (VI) Business outlook for the second half of 2017 and risk exposures” in this report.

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

China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> are designated media for the Company’s information disclosure. Only information of the Company published in the aforesaid media should be relied upon. Investors should beware of investment risks.

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Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed “Glossary”.

Company or ZTE	ZTE Corporation, a limited company incorporated in China, the shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively
Articles of Association	The Articles of Association of ZTE Corporation
Company Law	Company Law of the People’s Republic of China
Securities Law	Securities Law of the People’s Republic of China
Group	ZTE and one or more of its subsidiaries
Board of Directors	The board of directors of the Company
Directors	Members of the board of directors of the Company
Supervisory Committee	The supervisory committee of the Company
Supervisors	Members of the supervisory committee of the Company
China or PRC	The People’s Republic of China
ITU	International Telecommunications Union, is a specialised agency of the United Nations for information and communication technologies
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
Nubia	Nubia Technology 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.
Lianchuang Electronic	Lianchuang Electronic Technology Co., Ltd.
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)
Zhongxingxin	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited
Mobi Antenna	Mobi Antenna Technologies (Shenzhen) Co., Ltd.
Huatong	Huatong Technology Company Limited
Nanchang Software	Zhongxing Software Technology (Nanchang) Company Limited
Zhongxing Hetai	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
Zhongxing Development	Zhongxing Development Company Limited
Chongqing Zhongxing Development	Chongqing Zhongxing Development Company Limited
航天歐華	深圳市航天歐華科技發展有限責任公司
Xi'an Microelectronics	Xi'an Microelectronics Technology Research Institute
Aerospace Guangyu	Shenzhen Aerospace Guangyu Industrial Company Limited
Zhongxing WXT	Shenzhen Zhongxing WXT Equipment Company Limited
Guoxing Ruike	Zuhai Guoxing Ruike Capital Management Centre (Limited Partnership)
ZTE Group Finance	ZTE Group Finance Co., Ltd.
ZTE Microelectronics	ZTE Microelectronics Technology Company Limited
2013 Share Option Incentive Scheme	the share option incentive scheme considered and approved at the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 of the Company
Relevant U.S. authorities	Bureau of Industry and Security of the United States Department of Commerce, United States Department of Justice and the Office of Foreign Assets Control of the United States Department of Treasury

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 battery life, large capacity and low cost, it is capable of long-distance transmission and applicable mainly to license-free frequency bands.
LTE	LTE (Long Term Evolution) which is the long-term evolution of 3G technology, refers to fourth-generation mobile communication technologies with OFDM as its core technology. LTE is being promoted by 3GPP and is continuously under evolution. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE of frequency division and TDD-LTE of time division. The mixed operation of FDD-LTE and TDD-LTE is supported. In terms of networking, it supports homogeneous networks formed by macro base stations as well as heterogeneous networks formed by macro base stations and micro base stations.
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 configuration 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, FTTP, FTTB and FTTC, etc based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON, etc based on different standards.
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 onto 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.

Glossary

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.
Wearable device	A new form of terminal device featuring the integration of software and hardware worn on the human body, capable of ongoing exchange and a considerable level of computation. It is a product arising from the ongoing developments of communications technologies, computer technologies and micro-electronic technologies under the computational concept of the “priority of people” and “human + machine unification.” It may come in the form of watches, bracelets, spectacles, helmets and footwear, etc.
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 is a massive network connecting all sorts of information sensory devices, such as radio frequency identification units, ultra-red sensors, global positioning systems and laser scanners, to the Internet with the aim of connecting all things to the network for easy identification and management.
VR	Virtual Reality, a virtual 3D environment created with the aid of the computer system and sensor technologies, providing the visual experience of a highly simulated reality and immersive human-machine interaction 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.
Smart City	The application of information technologies such as Cloud Computing, Internet of Things and Big Data in combination with wireline and wireless broadband communication technologies to sense, analyse and integrate various key information of the core operation systems of the city, so as to make automated responses to various requirements such as livelihood, environmental protection, public security, urban services and industrial/commercial activities, in realisation of smart management and operation of cities, creating better lives for citizens and facilitating harmony in and sustainable development for the city.
Intelligent manufacturing	Intelligent Manufacturing, an integrated intelligent system comprising intelligent machines and human experts which is capable of intelligent activities such as analysing, inferring, making judgments, postulating and making decisions in the manufacturing process, such that manufacturing automation can reach a higher level in terms of flexibility, intelligence and intensification.
AR	Augmented Reality, a technology that superimposes virtual objects not existing in reality onto the real world through 3D registration and “aug-mediation”, facilitating a natural interaction between virtual objects and the reality to create faked reality with real-time images, which are further projected to 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 | Yin Yimin |
| 3. | Secretary to the Board of Directors/
Company Secretary
Securities affairs representative
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| 5. | Authorized Representatives | Zhao Xianming
Cao Wei |
| 6. | Media designated for information disclosure
by the Company
Authorised websites on which this report is
made available
Place where this report is available for
inspection | China Securities Journal, Securities Times, Shanghai
Securities News
http://www.cninfo.com.cn
http://www.hkexnews.hk
No. 55, Keji Road South, Shenzhen, Guangdong Province
The People's Republic of China |
| 7. | Listing information | A shares
Shenzhen Stock Exchange
Abbreviated name of stock: 中興通訊
Stock code: 000063

H shares
Hong Kong Stock Exchange
Abbreviated name of stock: ZTE
Stock code: 763 |
| 8. | Change in other relevant information | <input type="checkbox"/> Applicable <input checked="" type="checkbox"/> 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 AS A RESULT OF CHANGES IN ACCOUNTING POLICIES OR FOR THE RECTIFICATION OF ACCOUNTING ERRORS

PRC ASBEs

On 10 May 2017, the MOF announced amendments to “ASBE 16 – Government grants” (the “New Standard”) and required implementation by all enterprises to which the PRC ASBEs are applicable with effect from 12 June 2017. The New Standard has been applied to government grants subsisting as at 1 January 2017 on a prospective basis. New government grants received during the period from 1 January 2017 to the date of implementation of the revised standard shall be adjusted in accordance with the revised standard.

In accordance with the New Standard, the Company has modified the presentation of the financial statements prepared under PRC ASBEs. Government grants relating to day-to-day activities and specifically applied for the reimbursement of incurred related costs and expenses have been removed from “non-operating income” in the income statement and restated as set-off of related costs and expenses; other government grants relating to day-to-day activities (including refund of VAT on software products) are moved from “non-operating income” in the income statement to “other income” in the income statement. In accordance with the requirement of the New Standard, the figures for the same period last year have not been adjusted retrospectively by the Company.

HKFRSs

In accordance with the “Joint Declaration of the China Accounting Standards Committee and the Hong Kong Institute of Certified Public Accountants on the converged China Accounting Standards for Business Enterprises and Hong Kong Financial Reporting Standards”, the Company has modified the presentation of the financial statements prepared under HKFRSs. Government grants relating to day-to-day activities and specifically applied for the reimbursement of incurred related costs and expenses have been removed from “other income and gains” in the comprehensive income statement and restated as set-off of related costs and expenses; the presentation of other government grants relating to day-to-day activities (including refund of VAT on software products) has remained unchanged and continued to be included under “other income and gains”. In accordance with HKAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, the figures for the same period last year have been adjusted retrospectively by the Company. Such retrospective adjustments have affected the entries of “other income and gains” and “research and development costs” on the face of the comprehensive income statement for the same period last year.

(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 2017)	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	144,670,317	141,640,910	2.14%
Owners' equity attributable to holders of ordinary shares of the listed company	28,989,974	26,401,151	9.81%
Share capital (thousand shares) ^{Note 1}	4,190,015	4,184,628	0.13%
Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share)	6.92	6.31	9.67%
Gearing ratio (%)	70.15%	71.13%	Decreased by 0.98 percentage point

Unit: RMB in thousands

Item	Reporting period (Six months ended 30 June 2017)	Same period of last year (Six months ended 30 June 2016)	Changes compared with the same period of last year
Operating revenue	54,010,596	47,757,302	13.09%
Operating profit	3,296,621	495,416	565.42%
Total profit	3,287,400	2,707,781	21.41%
Net profit attributable to holders of ordinary shares of the listed company	2,292,867	1,766,397	29.80%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	1,951,508	1,673,242	16.63%
Basic earnings per share (RMB/share) ^{Note 2}	0.55	0.43	27.91%
Diluted earnings per share (RMB/share) ^{Note 3}	0.55	0.42	30.95%
Basic earnings per share after extraordinary items (RMB/share) ^{Note 2}	0.47	0.40	17.50%
Weighted average return on net assets	8.28%	5.83%	Increased by 2.45 percentage points
Weighted average return on net assets after extraordinary items	7.05%	5.52%	Increased by 1.53 percentage points
Net cash flows from operating activities	(4,206,552)	2,354,931	(278.63%)
Net cash flows from operating activities per share (RMB/share)	(1.00)	0.57	(275.44%)

Highlights of Accounting Data and Financial Indicators

Note 1: The total share capital of the Company increased from 4,184,628,172 shares to 4,190,014,530 shares following the exercise of 5,386,358 A share options by scheme participants under the 2013 Share Option Incentive Scheme of the Company during the reporting period;

Note 2: Basic earnings per share and basic earnings per share after extraordinary items for the reporting period 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 3: As the 2013 share options granted by the Company have given rise to 1,009,000 and 13,420,000 potentially dilutive ordinary shares, respectively, for the reporting period and the same period last year, 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 and others	499,648
Gains/(Losses) from fair value change	(58,055)
Investment income	46,421
Less: Losses/(Gains) on disposal of non-current assets	26,356
Less: Other non-operating expenses	52,268
Less: Effect of income tax	61,409
Less: Effect of non-controlling interests (after tax)	6,622
Total	341,359

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

Item	Six months ended 30 June 2017	Six months ended 30 June 2016
Basic earnings per share (RMB/share) ^{Note}	0.55	0.43
Weighted average return on net assets	8.28%	5.83%
Weighted average return on net assets after extraordinary items	7.05%	5.52%

Item	30 June 2017	31 December 2016
Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share)	6.92	6.31

Note: Basic earnings per share for the reporting period and 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 2017 CALCULATED IN ACCORDANCE WITH PRC ASBES ARE FULLY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.

Summary of the Company's Business

I. PRINCIPAL BUSINESSES

The Group is dedicated to the design, development, production, distribution and installation of a broad range of advanced ICT-related solutions, systems, equipment and terminals, including carriers' networks, government and corporate business and consumer business. There was no significant change to the principal businesses of the Group during the reporting period.

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

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

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

II. THE INDUSTRY IN WHICH WE OPERATE

The Company is a leading provider of integrated communication and information solutions in the world market. Through the provision of innovative technology and product solutions to telecommunications service providers and government and corporate customers in more than 160 countries and regions, the Company enables communications services via multiple means, such as voice, data, multi-media, wireless broadband and wireline broadband for users all over the world.

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

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.

Summary of the Company's Business

IV. TECHNOLOGICAL INNOVATION

During the first half of 2017, the Group increased investment in the R&D and marketing of core sectors in tandem with its strategy of leading 5G innovations, as it continued to optimise its technologies and market presence in sectors such as 4G/5G, bearer access, Cloud Computing, smart terminal, Big Data, IOT, chips and operating systems in persistent implementation of innovation-driven approach, with a special emphasis on the development of a business ecosphere and an ongoing orientation towards openness and cooperation.

The Group's annual R&D expenditure is equivalent to more than 10% of its sales revenue. We have established 20 R&D centres in China, the United States, Sweden, France, Japan and Canada, as well as more than 10 joint innovation centres established in association with leading carriers to ensure success in the market through better assessment of market demand and customers' experience.

As at 30 June 2017, the Group held patent assets of over 68,000 items, including granted global patents of over 29,000 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 40,000 research papers in aggregate to international standardisation organisations and editorships and authorships for more than 350 international standards.

The Group was also a key participant and contributor in the research of 5G technologies and standards. As a core member of IMT-2020, we headed over 30% of its topical research projects and served as the leader of the IEEE group, network technology group and transmission technology group, respectively, and were assigned editorships for three new 5G air-interface standards, namely, RAN2 (Radio Access Network), RAN3 and RAN4. The Group also headed research projects on key 5G technologies, such as 3GPP NOMA (Non Orthogonal Multiple Access) and network slicing.

During the first half of 2017, the Group undertook leading roles for a number of key national technological programmes for the "new-generation broadband wireless mobile communication network", as well as the R&D and industrialisation of numerous projects, including key R&D programmes of the Ministry of Science and Technology, the "Internet+" special project of the NDRC and the special technical transformation of electronic information industry.

The Group has formed the "ZTE Forum for Cooperation of Enterprises, Academies and Research Institutes" to solicit memberships among leading domestic colleges and research institutes specialising in telecommunications technologies, in support of the government's call for the formation of a regime for cooperation in technological innovation, where the industrial, academic and research sectors join forces in market-oriented initiatives under the leadership of business enterprises. By far 32 institutions have joined the Forum and 3 united innovation centres at tertiary institutions have been established to jointly undertake key national projects and industrialisation projects of the NDRC.

Report of the Board of Directors

The Board of Directors of the Company is pleased to present this unaudited interim report together with the financial statements of the Group for the six months ended 30 June 2017.

FINANCIAL RESULTS

Please refer to page 76 and page 207 of this report for the results of the Group for the six months ended 30 June 2017 prepared in accordance with PRC ASBEs and HKFRSs.

(I) REVIEW OF BUSINESS IN THE FIRST HALF OF 2017

1. Overview of the domestic telecommunications industry for the first half of 2017

With the growth in cloud computing and big data business, development of big video and big bandwidth business, ongoing advance of the Broadband China Strategy and continuous expansion in network data flow, the primary source of operating revenue for carriers shifted from voice and SMS to internet access via handsets and wireline broadband during the first half of 2017. Affected by the changing profile in revenue described above, carriers were compelled to drive virtualisation, broadband transmission, smart application and centralised operation in their plans for networks and related operations, in order to achieve technological innovation and network coordination. Elsewhere, 5G and IOT represented some of the latest areas of interests for the industry, as the Ministry of Industry and Information Technology of the PRC issued a public invitation for recommendations on working 5G frequencies, while domestic carriers and equipment manufacturers were actively involved in the formulation of 5G standards and the verification of related technologies and solutions, making sure that they get themselves prepared for 5G deployment at a later stage. Meanwhile, vigorous efforts on the part of domestic carriers to drive IOT deployment and related business development following the freezing of NB-IoT standards have given rise to market opportunities in relevant areas. According to statistical data published by the Ministry of Industry and Information Technology of the PRC, the telecommunications sector reported revenue of RMB645.4 billion for the six months ended 30 June 2017, representing year-on-year growth of 5.6%.

2. Overview of the global telecommunications industry for the first half of 2017

Investment in equipment by the global telecommunications industry during the first half of 2017 was characterised by regional disparity. As large-scale 5G deployment had yet to begin, investments continued to be focused on 4G networks, optical fibre transmission and broadband access products. Certain carriers did start the deployment of Pre-5G networks to alleviate the pressure of network data flow created by the video business, as well as to enhance users' experience. In the meantime, with the imminent launch of 5G, global carriers were announcing 5G plans and actively driving the progress of 5G, with the hope of alleviating the pressure of network data flow through 5G and further consolidating their market position by achieving innovation in business models via the three major applications of 5G.

3. Operating results of the Group for the first half of 2017

For the first half of 2017, the Group reported operating revenue of RMB54.011 billion, representing year-on-year growth of 13.09%. In connection with carriers' networks, growth was reported in operating revenue and gross profit for wireless communications as well as fixed-line and bearer systems, as domestic carriers continued to invest in 4G network transmission and access systems. In the consumer business, growth was also reported in operating revenue and gross profit generated by handset products in line with the development of overseas markets. For the six months ended 30 June 2017, the Group's net profit attributable to holders of ordinary shares of the listed company amounted to RMB2.293 billion, representing year-on-year growth of 29.80%. Basic earnings per share amounted to RMB0.55.

Report of the Board of Directors

(1) *By market*

The domestic market

During the reporting period, the Group's operating revenue from the domestic market amounted to RMB32.319 billion, accounting for 59.84% of the Group's overall operating revenue. Driven by big video, big connection and digitalised services, transformation and restructuring became imperative for domestic carriers who wanted to nurture competitive strengths for the future. The Group reported increasing market shares for a number of products which reflected growing customer recognition and satisfaction, as it continued to cater to domestic carriers' requirements in network construction by offering innovative resolutions.

The international market

During the reporting period, the Group's operating revenue from the international market amounted to RMB21.692 billion, accounting for 40.16% of the Group's overall operating revenue. With a strong focus on high-worth market segments and customers, the Group orchestrated transformation in its product profile and improved the quality of its operations on the back of formidable strengths in R&D, variety in product solutions, and constant improvements in capabilities for project work. In the meantime, the Group achieved rapid growth in handset, home media centre and fixed-line broadband terminal on the back of its strong ability in customisation and the wealth of its intellectual properties, as it pursued vigorous development of its consumer business in overseas markets.

(2) *By business segment*

During the reporting period, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB32.352 billion, RMB3.765 billion and RMB17.894 billion, respectively.

Carriers' networks

In connection with wireless products, the Group became a market leader in the 4G era on the back of ongoing technological innovation and improvements in product competitiveness, as it claimed substantially larger shares in the domestic market than it had done during the 2G and 3G eras, while continuously optimising its businesses in the overseas markets. The Group pioneered in the application of key 5G technologies (Massive MIMO) in 4G networks and launched Pre-5G products to help carriers enhance network performance at lower costs, to the wide acclaim of the industry underpinned by commercial application in a number of countries. In connection with wireless communication for the future, the Group was actively involved in the formulation of 5G standards as a major participant in and contributor to global 5G technologies and related standards, in an effort to become a forerunner in 5G.

In connection with wireline and optical communications products, the Group maintained its leading position in the market for optical access products as it continued to lead the way in innovation in this category. The Group enhanced the marketing of its solutions for bearer products by capitalising on opportunities relating to 4G/Pre-5G/5G bearers, big video business bearer, data centre virtualisation bearer, OTN network upgrade and conversion, and bearer for IP and optical integration. Leveraging our overall superiority in products, we have established a reasonable presence in the global markets. Meanwhile, the Group continued to strengthen its product competitiveness in SDN/NFV, 5G bearer, high-end router and switch in full support of the changing profile of its bearer products.

Government and corporate business

Focused on key sectors including government, transportation, finance, energy, enterprise, education and great healthcare, the Group's operations have won extensive approval from customers in the government and corporate service sector, as we continued to improve our product portfolio for the financial sector, while making breakthroughs in market size for the transportation sector.

Consumer business

In connection with handset terminals, the Group continued to focus on strategy, boutique products, quality upgrades, breakthroughs in key country markets and brand enhancement. In connection with the home media centre, we achieved ongoing increase in domestic market shares as the domestic big-three carriers had included the home video service in their basic services, while in the overseas market, we seized opportunities presented by technological upgrades and replacements in developed countries and video digitalisation in emerging markets to make breakthroughs. Our fixed-line broadband terminal business reported stable growth as it benefited from the active move of domestic carriers to expand the base of fixed-line broadband users. In the meantime, we also commenced the commercial launch of our smart home service on a trial basis.

(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 for the reporting period by industry, business and region segments 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	54,010,596	100%	36,447,741	32.52%	13.09%	14.53%	(0.84)
Total	54,010,596	100%	36,447,741	32.52%	13.09%	14.53%	(0.84)
II. By business							
Carriers' networks	32,351,248	59.90%	18,832,801	41.79%	12.58%	11.81%	0.41
Government and corporate business	3,765,334	6.97%	2,444,906	35.07%	(18.27%)	(10.90%)	(5.37)
Consumer business	17,894,014	33.13%	15,170,034	15.22%	24.13%	23.97%	0.11
Total	54,010,596	100%	36,447,741	32.52%	13.09%	14.53%	(0.84)
III. By region							
The PRC	32,318,969	59.84%	20,058,985	37.93%	16.24%	13.77%	1.35
Asia (excluding the PRC)	8,051,823	14.91%	5,430,707	32.55%	11.29%	(0.55%)	8.03
Africa	1,634,316	3.03%	1,377,147	15.74%	(47.28%)	(16.66%)	(30.96)
Europe, Americas and Oceania	12,005,488	22.22%	9,580,902	20.20%	24.81%	35.33%	(6.20)
Total	54,010,596	100%	36,447,741	32.52%	13.09%	14.53%	(0.84)

Report of the Board of Directors

(1) Analysis of change in revenue

The Group reported RMB54,010,596,000 in operating revenue for the first six months of 2017, a 13.09% increase as compared to the same period last year, of which domestic operating revenue increased by 16.24% to RMB32,318,969,000, while international operating revenue increased by 8.71% to RMB21,691,627,000 as compared to the same period last year.

Analysed by business segment, year-on-year growth in operating revenue for the first six months of 2017 reflected mainly year-on-year growth in the Group's operating revenue from the two principal business segments of carriers' networks and consumer business as compared to the same period last year. Year-on-year growth of 12.58% in operating revenue from carriers' networks for the first six months of 2017 reflected mainly year-on-year growth in operating revenue from 4G system products, fixed-line and bearer system in the domestic market, as well as wireless products in the European market. Year-on-year growth of 24.13% in operating revenue from the consumer business for the first six months of 2017 reflected mainly year-on-year growth in operating revenue from handset products in the international market and home terminal products in the domestic market. The Group's government and corporate business registered a year-on-year decrease of 18.27% for the first six months of 2017 mainly in line with the year-on-year decrease in operating revenue from domestic and international government and corporate projects.

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

Unit: RMB in thousands

Six months ended 30 June 2017			Six months ended 30 June 2016 ^{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	
54,010,596	36,447,741	32.52%	47,410,242	31,483,198	33.59%	13.92%	15.77%	
								(1.07)

Note: Figures of operating revenue and operating costs for the six months ended 30 June 2016 are stated after exclusion of operating revenue and operating costs of subsidiaries deconsolidated for the six months ended 30 June 2017.

The Company completed the disposal of 85% equity interests in ZTE Supply Chain Co., Ltd. ("ZTE Supply Chain") in April 2017 and ZTE Supply Chain had been excluded from the consolidated statements of the Group as from May 2017. Operating revenue and operating cost of ZTE Supply Chain included in the consolidated financial statements for the period from May to June 2016 amounted to RMB347,060,000 and RMB341,189,000, respectively. Excluding operating revenue and operating costs of ZTE Supply Chain for the period from May to June 2016, the Group's operating revenue and operating costs for the first six months of 2017 would have increased by 13.92% and 15.77%, respectively, over the same period last year, while gross profit margin would have been 1.07 percentage points lower as compared to 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 2017		Six months ended 30 June 2016		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	28,651,849	78.61%	25,730,966	80.85%	11.35%
	Engineering costs	5,403,695	14.83%	5,120,607	16.09%	5.53%
	Total	34,055,544	93.44%	30,851,573	96.94%	10.39%

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

Unit: RMB in thousands

Item	Six months ended 30 June 2017	Six months ended 30 June 2016	Year-on-year increase/ decrease
Selling and distribution expenses	5,676,552	5,978,607	(5.05%)
Administrative expenses	1,427,749	1,393,985	2.42%
Finance expenses	289,157	(95,058)	404.19% ^{Note 1}
Income tax	744,184	519,427	43.27% ^{Note 2}

Note 1: Attributable mainly to losses from exchange rate volatility for the reporting period versus gains for the same period last year;

Note 2: Attributable mainly to the increase in profit of the Group for the period.

4. Research and development expense of the Group

Unit: RMB in thousands

Item	Six months ended 30 June 2017	Six months ended 30 June 2016	Year-on-year increase/ decrease
Amount of R&D expense ^{Note 1}	6,676,679	7,059,164	(5.42%)
R&D expense as a percentage of operating revenue	12.36%	14.78%	Decreased by 2.42 percentage points
Amount of capitalised R&D expense	664,552	502,775	32.18% ^{Note 2}
Capitalised R&D expense as a percentage of R&D expense	9.95%	7.12%	Increased by 2.83 percentage points

Note 1: For the period, certain government grants relating to day-to-day activities were set off against R&D expenses under the revised accounting standard on government grants. Had the figures for the same period last year been adjusted retrospectively, R&D expense would have increased by 6.24%, year-on-year;

Note 2: Attributable mainly to the ongoing increase in the Group's investment in the research and development of products such as Pre-5G, 5G, high-end routers, SDN, OTN and core chipsets and the extensive market application of these products during the period.

Report of the Board of Directors

5. Breakdown of the Group's cash flow

Unit: RMB in thousands

Item	Six months ended 30 June 2017	Six months ended 30 June 2016	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	61,452,257	67,234,449	(8.60%)
Sub-total of cash outflows from operating activities	65,658,809	64,879,518	1.20%
Net cash flows from operating activities	(4,206,552)	2,354,931	(278.63%) ^{Note 1}
Sub-total of cash inflows from investing activities	510,169	1,063,494	(52.03%) ^{Note 2}
Sub-total of cash outflows from investing activities	2,873,296	1,969,376	45.90% ^{Note 3}
Net cash flows from investing activities	(2,363,127)	(905,882)	(160.86%) ^{Note 4}
Sub-total of cash inflows from financing activities	16,041,676	15,177,227	5.70%
Sub-total of cash outflows from financing activities	13,537,019	14,976,719	(9.61%)
Net cash flows from financing activities	2,504,657	200,508	1,149.16% ^{Note 5}
Net increase in cash and cash equivalents	(4,141,801)	1,314,377	(415.12%)

Note 1: Attributable mainly to payment of penalties imposed by relevant U.S. authorities amounting to approximately RMB5,552,091,000;

Note 2: Attributable mainly to the decrease in cash received from the disposal of investments;

Note 3: Attributable mainly to the increase in cash paid for investment during the period;

Note 4: Attributable mainly to the combined effect of the decrease in cash received from the disposal of investment and the increase in cash paid for investment during the period;

Note 5: Attributable mainly to the increase in cash received in loans.

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 54. 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 2017, the Group reported operating profit of RMB3,296,621,000, an increase by 565.42% compared to the same period last year, which was mainly attributable to growth in revenue and gross profit and the modified structure of presentation for government grants in line with the revised accounting standard relating to government grants for the period. Expenses for the period amounted to RMB14,070,137,000, which was 1.86% lower as compared to the same period last year, reflecting mainly the combined effect of stronger cost control initiatives, the set-off of R&D expenses by certain government grants relating to day-to-day activities and exchange losses owing to exchange rate volatility for the period. Investment income amounted to RMB51,996,000, a decrease by 85.47% as compared to the same period last year, reflecting mainly the decrease in investment gains from the disposal of available-for-sale financial assets for the period. Net non-operating income and expenses amounted to RMB-9,221,000, representing a year-on-year decrease of 100.42%, which was mainly attributable to the modified structure of presentation for government grants in line with the revised accounting standard relating to government grants for the period.

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

The gross profit margin of the Group for the first half of 2017 was 32.52%, which was largely unchanged compared to the same period last year.

7. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in thousands

Item	As at 30 June 2017		As at 31 December 2016		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	144,670,317	100%	141,640,910	100%	—
Cash	27,569,965	19.06%	32,349,914	22.84%	(3.78)
Trade receivables	26,007,904	17.98%	25,998,188	18.35%	(0.37)
Inventories	25,879,956	17.89%	26,810,568	18.93%	(1.04)
Investment properties	2,019,957	1.40%	2,016,470	1.42%	(0.02)
Long-term equity investments	757,613	0.52%	665,876	0.47%	0.05
Fixed assets	7,875,519	5.44%	7,516,241	5.31%	0.13
Construction in progress	1,539,373	1.06%	1,729,450	1.22%	(0.16)
Short-term loans	17,873,244	12.35%	15,132,120	10.68%	1.67
Long-term loans due within one year	1,460,322	1.01%	1,932,025	1.36%	(0.35)
Long-term loans	4,377,412	3.03%	5,018,276	3.54%	(0.51)

(2) Assets and liabilities measured at fair value

① Items relating to fair value measurement

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Amount purchased for the period	Amount disposed of for the period	Closing balance
Financial assets							
Including: 1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	—	—	—	—	—	—	—
2. Derivative financial assets	54,857	(39,963)	1,341	—	—	—	17,864
3. Available-for-sale financial assets	1,315,085	—	1,149,222	—	—	—	1,310,662
Sub-total of financial assets	1,369,942	(39,963)	1,150,563	—	—	—	1,328,526
Investment properties	2,016,470	3,487	—	—	—	—	2,019,957
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	3,386,412	(36,476)	1,150,563	—	—	—	3,348,483
Financial liabilities ^{Note}	40,148	(21,579)	(11,996)	—	—	—	65,893

Note: Financial liabilities included derivative financial liabilities.

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

② *Fair value changes in items measured at fair value and their impact on the Company's profit*

Assets of the Company are stated at historical costs, except for derivative financial instruments, equity investments at fair value through profit and loss, a small number of available-for-sale financial assets and investment properties which are measured at fair value. Gains or losses arising from fair value changes in the Company's derivative financial instruments measured at fair value were subject to uncertainties relating to fluctuations in forward exchange rates between RMB and foreign currencies such as JPY and EUR.

③ *Internal control systems relating to fair value measurement*

The Company has established a fair value measurement internal control system to be operated through collaboration of various departments under the leadership of the Chief Financial Officer. The "Fair Value Measurement Internal Control Measures" (《公允價值計量的內部控制辦法》) has been formulated as a complement to the "ZTE Accounting Policies" (《中興通訊會計政策》) and the "ZTE Internal Control System" (《中興通訊內部控制制度》) to regulate the application and disclosure of fair value measurements.

(3) *Financial assets and financial liabilities held in foreign currencies*

Unit: RMB in thousands

Item	Opening balance	Gains/ losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Closing balance
Financial assets					
Including: 1. Financial assets at fair value through profit or loss	—	—	—	—	—
Including: Derivative financial assets	54,857	(39,963)	1,341	—	17,864
2. Loans and receivables	36,178,872	—	—	706,893	36,370,844
3. Available-for-sale financial assets	38,490	—	(2,626)	—	39,596
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	36,272,219	(39,963)	(1,285)	706,893	36,428,304
Financial liabilities	13,157,636	(21,579)	(11,996)	—	13,000,911

(4) *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 third-party investments at the end of the reporting period amounted to approximately RMB757,613,000, representing an increase of 38.54% compared to approximately RMB546,851,000 as at 30 June 2016.

(2) Material equity investment and non-equity investment conducted by the Group

For details of equity investment and non-equity investment conducted by the Group during the reporting period, please refer to the section headed "Material Matters (VI) Asset Transactions" in this report.

(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}	1,547.62	Fair-value measurement	14,175.00	–	9,792.38	–	–	–	11,340.00	Available-for-sale financial assets	Issue proceeds
Stock	300502	Eoptolink ^{Note 1}	1,385.12	Fair-value measurement	30,761.78	–	17,404.17	–	–	91.41	18,789.29	Available-for-sale financial assets	Issue proceeds
Stock	603986	Giga Device ^{Note 1}	1,800.00	Fair-value measurement	56,511.70	–	47,614.80	–	–	168.29	49,414.80	Available-for-sale financial assets	Issue proceeds
Stock	603633	Laimu ^{Note 1}	2,000.00	Fair-value measurement	13,670.00	–	7,056.67	–	–	41.67	9,056.67	Available-for-sale financial assets	Issue proceeds
Stock	603920	Olympic Circuit Technology ^{Note 1}	2,562.00	Fair-value measurement	2,562.00	–	25,218.29	–	–	–	27,780.29	Available-for-sale financial assets	Issue proceeds
Stock	002036	Lianchuang Electronic ^{Note 2}	3,266.00	Fair-value measurement	13,196.56	–	8,098.47	–	–	25.15	11,364.47	Available-for-sale financial assets	Issue proceeds
Stock	ENA:TSV	Enablence Technologies ^{Note 3}	3,583.26	Fair-value measurement	3,193.45	–	(262.62)	–	–	–	3,320.64	Available-for-sale financial assets	Internal funds
Other securities investments held at the end of the period			–	–	–	–	–	–	–	–	–	–	–
Total			16,144.00	–	134,070.49	–	114,922.16	–	–	326.52	131,066.16	–	–

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

Note 2: Figures corresponding to Lianchuang Electronic are provided with Jiaxing Fund as the accounting subject.

Note 3: The initial investment for the acquisition of Enablence Technologies shares by ZTE HK, a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company's foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD38,333,900, equivalent to approximately RMB33,206,400 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.86624) on 30 June 2017.

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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. 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 7,835,400 shares in Eoptolink (following the implementation of the 2016 equity distribution plan), 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 6,350,700 shares in Giga Device (following the implementation of the 2016 equity distribution plan), a company listed on the Shanghai Stock Exchange, accounting for 3.13% 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 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 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 Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 1.23% of the total share capital of Lianchuang Electronic.

g. 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 15.30% of its total share capital.

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

C. Investment in securities after the end of the reporting period

Union Optech, an investee of Jiaxing Fund, was listed on the GEM Board of the Shenzhen Stock Exchange on 11 August 2017 with the issue of 21.40 million shares at an issue price of RMB15.96/share. Jiaxing Fund held 2,763,600 shares in Union Optech, accounting for 3.23% of the total number of shares in Union Optech following the issue.

② Derivative investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment ^{Note 1}	Initial investment amount in the derivative investment	Start date	End date	Opening balance of investment amount	Amount purchased during the period	Amount disposed of during the period	Impairment provision amount (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets ^{Note 2}	Actual profit or loss for the reporting period
Financial institution	N/A	No	Foreign exchange forwards	–	2017/3/6	2018/6/4	100,566.02	166,081.22	165,752.45	–	100,894.79	3.48%	(2,574.12)
Financial institution	N/A	No	Foreign exchange forwards	–	2017/2/23	2017/12/18	116,175.46	144,878.10	169,482.33	–	91,571.23	3.16%	(2,336.25)
Financial institution	N/A	No	Foreign exchange forwards	–	2017/2/3	2017/12/22	18,107.74	99,211.70	53,794.56	–	63,524.88	2.19%	(1,620.70)
Other financial institutions	N/A	No	Foreign exchange forwards	–	2017/2/24	2018/5/24	166,795.33	419,947.18	371,839.15	–	214,903.36	7.41%	(5,470.74)
Total				–	–	–	401,644.55	830,118.20	760,868.49	–	470,894.26	16.24%	(12,001.81)

Report of the Board of Directors

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, and “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.
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 and “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.
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>Value-protection derivative investments were conducted by the Company during the first half of 2017. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> 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 losses recognised for the reporting period amounted to RMB120.02 million, comprising losses from fair-value change of RMB61.54 million and recognised investment losses of RMB58.48 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.

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

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

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

Independent Non-executive Directors’ Opinion:

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

Report of the Board of Directors

- Note 1: Derivative investments are classified according to their types and the financial institutions involved;
- Note 2: Net assets as at the end of the reporting period represented net assets attributable to holders of ordinary shares of the listed company as at the end of the reporting period;
- Note 3: 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.

(4) Entrusted fund management and entrusted loans

① Entrusted fund management

Unit: RMB in ten thousands

Name of trustee	Whether a connected transaction	Product type	Amount of entrusted investment	Commencement date	Maturity date	Method for determining remuneration	Principal amount returned for the period	Impairment provision amount (if any)	Estimated gain	Actual profit or loss for the reporting period	Actual recovery of profit or loss for the reporting period
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000 ^{Note 1}	2016-7-14	2017-1-5	Settlement upon maturity on an as-incurred basis	1,000	—	—	0.39	17.02
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000 ^{Note 1}	2016-10-27	2017-4-20	Settlement upon maturity on an as-incurred basis	1,000	—	—	10.30	16.54
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	750 ^{Note 1}	2016-12-14	2017-4-25	Settlement upon maturity on an as-incurred basis	750	—	—	8.55	9.90
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000 ^{Note 1}	2017-4-25	2017-7-26	Settlement upon maturity on an as-incurred basis	—	—	10.84	7.78	—
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	750 ^{Note 1}	2017-5-2	2017-6-15	Settlement upon maturity on an as-incurred basis	750	—	—	3.71	3.71
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	780 ^{Note 1}	2017-6-20	2017-9-24	Settlement upon maturity on an as-incurred basis	—	—	6.25	1.06	—
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,450 ^{Note 1}	2017-1-25	T+1 redemption	Investment income for the previous month settled on the dividend record date	725	—	—	14.78	14.78
Minsheng Bank, Shenzhen Branch	No	Bank investment product	10,000 ^{Note 2}	2016-12-20	2017-3-20	Settlement upon maturity on an as-incurred basis	10,000	—	—	100	100
Minsheng Bank, Shenzhen Branch	No	Bank investment product	30,000 ^{Note 2}	2016-10-25	2017-10-24	Settlement of investment income on a quarterly basis	—	—	1,230	606.67	606.67
Minsheng Bank, Shenzhen Branch	No	Bank investment product	30,000 ^{Note 2}	2017-2-28	2018-2-28	Settlement upon maturity on an as-incurred basis	—	—	1,314	—	—
Minsheng Bank, Shenzhen Branch	No	Bank investment product	7,000 ^{Note 2}	2017-6-1	2017-8-31	Settlement upon maturity on an as-incurred basis	—	—	535	—	—
Minsheng Bank, Shenzhen Branch	No	Bank investment product	10,000 ^{Note 2}	2017-6-15	2017-8-15	Settlement upon maturity on an as-incurred basis	—	—	77	—	—
Minsheng Bank, Shenzhen Branch	No	Bank investment product	5,000 ^{Note 2}	2017-6-15	2017-7-17	Settlement upon maturity on an as-incurred basis	—	—	37	—	—
Minsheng Bank, Shenzhen Branch	No	Bank investment product	4,000 ^{Note 2}	2017-6-15	T+1 redemption	Settlement upon redemption on an as-incurred basis	—	—	—	—	—
Total			102,730	—	—	—	14,225	—	3,210.09	753.24	768.62

Source of funds for entrusted investment	Internal funds, issue proceeds
Aggregate amount of overdue and outstanding principal and gain	Nil
Litigation incurred (if applicable)	N/A
Date of announcement of the Board of Directors regarding the approval of entrusted investment (if any)	N/A
Date of announcement of the general meeting regarding the approval of entrusted investment (if any)	N/A
Whether there are entrusted investment plans in future	Yes

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

Note 2: Seven bank investment products listed above were purchased with issue proceeds by Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership) (“Zhonghe Chunsheng Fund III”), in which the Company and Changshu Changxing Capital Investment Management Company, a wholly-owned subsidiary of ZTE Capital held 25.83% equity interests in aggregate.

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

(5) Use of Issue Proceeds

Applicable N/A

9. The Group did not conduct any material disposals of assets and equity interests during the reporting period.

10. Analysis of principal subsidiaries and investee companies

Unit: RMB in thousands

Name of company	Corporate type	Principal business	Industry	Registered capital	Total assets	Net assets	Operating revenue	Operating	
								profit/(loss)	Net profit/(loss)
ZTE Kangxun Telecom Company Limited	Subsidiary	Production and sales of electronic components and circuit boards	Manufacturing of communications and related equipment	RMB1,755 million	19,998,389	2,961,177	26,919,340	192,176	146,558
Zhongxing Software	Subsidiary	Software development	Manufacturing	RMB51.08 million	31,830,041	8,021,329	10,984,512	764,892	674,436
Nubia	Subsidiary	Production and sales of communications products	Manufacturing of communications and related equipment	RMB118,748,300	5,522,410	3,113,628	2,874,107	(195,425)	(162,710)
ZTE Technology & Service Company Limited	Subsidiary	Communications engineering technologies and services	Communication service	RMB200 million	7,271,770	1,378,933	3,511,026	217,860	197,078
Xi'an Zhongxing New Software Company Limited	Subsidiary	Communications equipment/terminal equipment	Manufacturing of communications and related equipment	RMB600 million	3,255,045	1,819,132	1,433,992	182,779	181,398
西安中興通訊終端科技有限公司	Subsidiary	Production and sales of mobile terminals	Manufacturing	RMB300 million	3,436,079	777,223	7,825,423	173,052	146,748
ZTE Telecom India Private Ltd.	Subsidiary	Sales of and technical support for communications products	Communications	INR2,250 million	3,037,919	(840,852)	435,371	229,354	229,342
ZTE (USA) Inc.	Subsidiary	Sales of terminals and system equipment	Communications	USD30 million	4,783,080	695,870	5,872,701	368,470	336,842
ZTE (Thailand) Co., Ltd.	Subsidiary	Sales of and engineering service for communications products	Communications	THB50 million	1,630,811	(40,113)	852,955	143,224	114,108

Report of the Board of Directors

For information of other subsidiaries and principal investee companies, please refer to Note XV “5. Long-term equity investments” and Note VII to the financial report prepared in accordance with PRC ASBEs.

For the reporting period, the following 9 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. ZTE Kangxun Telecom Company Limited and Zhongxing Software reported year-on-year decrease in net profit of 64.17% and 23.33%, respectively, reflecting mainly the decline in gross profit; Nubia, ZTE Technology & Service Company Limited, Xi’an Zhongxing New Software Company Limited, 西安中興通訊終端科技有限公司 and ZTE (USA) Inc. reported year-on-year net profit growth of 44.92%, 74.50%, 48.24%, 34.46% and 302.19%, respectively, reflecting mainly the increase in gross profit; ZTE Telecom India Private Ltd. reported year-on-year net profit growth of 41,750.73%, mainly attributable to the exchange gains for the period versus exchange losses for the previous year as a result of exchange rate volatility. The net profits of ZTE (Thailand) Co., Ltd. increased by 118.13% as compared to the same period in the previous year, reflecting mainly the increase in gross profit and exchange gains for the period versus exchange losses for the same period in the previous year as a result of exchange rate volatility.

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

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 2017		For the six months ended 30 June 2016	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers’ networks	32,351.3	59.9%	28,735.0	60.2%
Government and corporate business	3,765.3	7.0%	4,607.3	9.6%
Consumer business	17,894.0	33.1%	14,415.0	30.2%
Total	54,010.6	100.0%	47,757.3	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 2017		For the six months ended 30 June 2016	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	32,319.0	59.9%	27,803.0	58.2%
Asia (excluding the PRC)	8,051.8	14.9%	7,234.9	15.2%
Africa	1,634.3	3.0%	3,100.1	6.5%
Europe, the Americas and Oceania	12,005.5	22.2%	9,619.3	20.1%
Total	54,010.6	100.0%	47,757.3	100.0%

The Group reported RMB54,010.6 million in operating revenue for the first six months of 2017, a 13.1% increase as compared to the same period last year, of which domestic operating revenue increased by 16.2% to RMB32,319.0 million, while international operating revenue increased by 8.7% to RMB21,691.6 million as compared to the same period last year.

Analysed by business segment, year-on-year growth in operating revenue for the first six months of 2017 reflected mainly year-on-year growth in the Group's operating revenue from the two principal business segments of carriers' networks and consumer business as compared to the same period last year. Year-on-year growth of 12.6% in operating revenue from carriers' networks for the first six months of 2017 reflected mainly year-on-year growth in operating revenue from 4G system products, fixed-line and bearer system in the domestic market, as well as wireless products in the European market. Year-on-year growth of 24.1% in operating revenue from the consumer business for the first six months of 2017 reflected mainly year-on-year growth in operating revenue from handset products in the international market and home terminal products in the domestic market. The Group's government and corporate business registered a year-on-year decrease of 18.3% for the first six months of 2017 mainly in line with the year-on-year decrease in operating revenue from domestic and international government and corporate projects.

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 2017		For the six months ended 30 June 2016	
	Cost of sales	As a percentage of business segment revenue	Cost of sales	As a percentage of business segment revenue
Carriers' networks	19,463.8	60.2%	17,412.4	60.6%
Government and corporate business	2,515.6	66.8%	2,835.0	61.5%
Consumer business	15,365.8	85.9%	12,382.5	85.9%
Total	37,345.2	69.1%	32,629.9	68.3%

Report of the Board of Directors

Unit: RMB in millions

Business segment	For the six months ended 30 June 2017		For the six months ended 30 June 2016	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	12,887.5	39.8%	11,322.6	39.4%
Government and corporate business	1,249.7	33.2%	1,772.3	38.5%
Consumer business	2,528.2	14.1%	2,032.5	14.1%
Total	16,665.4	30.9%	15,127.4	31.7%

Cost of sales of the Group for the first six months of 2017 increased 14.5% as compared to the same period last year to RMB37,345.2 million. The Group's overall gross profit margin for the first half of 2017 of 30.9% was 0.8 percentage point lower as compared to the same period last year, in line with lower gross profit margin for the government and corporate business.

Cost of sales of the Group's carriers' networks for the first six months of 2017 amounted to RMB19,463.8 million, an 11.8% increase compared to the same period last year. The relevant gross profit margin was 39.8% versus 39.4% for the same period last year. The increase in gross profit margin of carriers' networks mainly reflected higher gross profit margin for 4G system products in the domestic and international markets as well as optical transmission products in the domestic market.

Cost of sales of the Group's government and corporate business for the first six months of 2017 amounted to RMB2,515.6 million, a decline of 11.3% compared to the same period last year. The relevant gross profit margin was 33.2% versus 38.5% for the same period last year. The decrease in the gross profit margin of government and corporate business reflected mainly the decrease in the gross profit margin of international government and corporate projects.

Cost of sales of the Group's consumer business for the first six months of 2017 amounted to RMB15,365.8 million, increasing by 24.1% compared to the same period last year. The relevant gross profit margin was largely flat at 14.1% as compared to the same period last year. The flat gross profit margin of the consumer business reflected mainly the combined effect of a lower gross profit margin for home terminal products and an improved gross profit margin for handset products.

Other Income and Gains

Other income and gains of the Group for the first six months of 2017 amounted to RMB2,085.5 million, representing a 28.2% decrease compared to RMB2,906.6 million for the first six months of 2016. The decrease reflected mainly the Group's exchange losses for the period included in "Other Expenses" versus exchange gains for the same period last year included in "Other Income and Gains" owing to exchange rate volatility.

Research and Development Costs

The Group's research and development costs for the first six months of 2017 increased by 6.2% to RMB6,676.7 million from RMB6,284.3 million for the first six months of 2016, was mainly attributable to the ongoing increase in the Group's investment in the research and development of products such as Pre-5G, 5G, high-end routers, SDN, OTN and core chipsets during the period. Research and development costs as a percentage of operating revenue decreased by 0.8 percentage point to 12.4%, as compared to 13.2% for the first six months of 2016.

Selling and Distribution Expenses

The Group's selling and distribution expenses for the first six months of 2017 decreased by 4.9% to RMB5,754.0 million from RMB6,052.2 million for the first six months of 2016, was mainly attributable to the reduction in the Group's advertising and promotional expenses for the period. Selling and distribution expenses as a percentage of operating revenue was 10.7%, decreasing by 2.0 percentage points compared to 12.7% for the first six months of 2016.

Administrative Expenses

Administrative expenses of the Group for the first six months of 2017 increased by 3.0% to RMB1,498.7 million, as compared to RMB1,454.7 million for the first six months of 2016, which was mainly attributable to the increase in the Group's staff expenses for the period. Administrative expenses as a percentage of operating revenue decreased by 0.2 percentage point to 2.8% from 3.0% for the first six months of 2016.

Other Expenses

Other expenses comprise mainly asset impairment losses, exchange losses and non-operating expenses. Other expenses of the Group for the first six months of 2017 increased by 5.7% to RMB964.2 million, as compared to RMB912.3 million for the first six months of 2016. The increase was mainly attributable to the Group's exchange losses for the period included in "Other Expenses" versus exchange gains for the same period last year included in "Other Income and Gains" arising from exchange rate volatility.

Profit from Operating Activities

The Group's profit from operating activities for the first six months of 2017 increased by 15.8% to RMB3,857.3 million, as compared to RMB3,330.5 million for the first six months of 2016, while the operating profit margin increased by 0.1 percentage point to 7.1% from 7.0% for the first six months of 2016, reflecting primarily the increase in revenue coupled with decrease in expense ratio of the Group for the period.

Finance Costs

Finance costs of the Group for the first six months of 2017 decreased by 6.1% to RMB566.4 million as compared to RMB603.2 million for the first six months of 2016, which was attributable mainly to the Group's efforts to enhance control over financial expenses, optimise debt structure and lower interest expenses during the period.

Income Tax Expense

The Group's income tax expense for the first six months of 2017 was RMB744.2 million, representing a 43.3% increase as compared to RMB519.4 million for the first six months of 2016, which was mainly attributable to the increase in the Group's profit for the period.

Profit Attributable to Non-Controlling Interests

The Group's profit attributable to non-controlling interests for the first six months of 2017 amounted to RMB0.4 million, representing a decrease of 99.8% compared to RMB172.0 million for the first six months of 2016, reflecting mainly the decrease in profit of certain subsidiaries of the Group for the period.

Other Comprehensive Income

Other comprehensive income of the Group for the first six months of 2017 amounted to RMB221.1 million, compared to other comprehensive loss amounted to RMB673.7 million for the first six months of 2016, which was mainly attributable to gains on translation of the Group's statements denominated in foreign currencies for the period owing to exchange rate volatility versus translation losses 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 2017 was 41.2%, increasing by 2.6 percentage points as compared to 38.6% for 2016. The increase was mainly attributable to the increase in the Group's interest-bearing bank loans during the period.

Report of the Board of Directors

Cash Flow Data

Unit: RMB in millions

Item	For the six months ended 30 June 2017	For the six months ended 30 June 2016
Net cash inflow/(outflow) from operating activities	(6,321.2)	1,831.6
Net cash outflow from investing activities	(1,383.8)	(1,508.3)
Net cash inflow from financing activities	3,640.0	1,326.3
Net increase (decrease) in cash and cash equivalents	(4,065.0)	1,649.6
Cash and cash equivalents at the end of the period	25,908.0	27,931.4

As at 30 June 2017, the Group's cash and cash equivalents amounted to RMB25,908.0 million, which were mainly denominated in RMB, and to a lesser extent in USD, EUR, HKD and other currencies.

Operating Activities

The Group reported net cash outflow from operating activities of RMB6,321.2 million for the first six months of 2017, compared to net cash inflow of RMB1,831.6 million for the first six months of 2016, attributable mainly to the payment of penalties imposed by relevant U.S. authorities amounting to approximately RMB5,552.1 million during the period.

Of which, the Group reported year-on-year decrease in cash received from sales of goods and provision of services by RMB4,437.2 million, increase in other cash receipts relating to operating activities by RMB243.8 million and decrease in tax rebates by RMB1,588.8 million; coupled with decrease in cash paid for the purchase of goods and services by RMB5,939.5 million, increase in cash payments to and on behalf of employees by RMB1,540.9 million, decrease in tax payments by RMB379.4 million, increase in other cash payments relating to operating activities by RMB5,557.3 million, and increase in dividend distribution or interest repayment by RMB9.6 million, as compared to the same period last year.

Investing Activities

The Group's net cash outflow from investing activities was RMB1,383.8 million for the first six months of 2017 versus RMB1,508.3 million for the first six months of 2016, reflecting mainly the increase in cash received for the disposal of investment for the period.

Financing Activities

The Group's net cash inflow from financing activities for the first six months of 2017 was RMB3,640.0 million versus RMB1,326.3 million for the first six months of 2016, reflecting mainly the decrease in cash paid by the Group for the repayment of bank loans for the period.

Indebtedness

Unit: RMB in millions

Item	30 June 2017	31 December 2016
Secured bank loans	122.4	48.8
Unsecured bank loans	23,588.6	22,033.6

Unit: RMB in millions

Item	30 June 2017	31 December 2016
Short-term bank loans	19,333.6	17,064.1
Long-term bank loans	4,377.4	5,018.3

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. The Group's short-term RMB bank loan with an amount of RMB8,340.4 million and long-term bank loan with an amount of RMB922.8 million were subject to fixed interest rates, while short-term USD bank loans and short-term EUR bank loans subject to fixed interest rates amounted to approximately RMB1,044.5 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 2017 increased by RMB1,628.6 million versus 31 December 2016. The new loans were mainly applied as additional working capital.

Contractual obligations

Unit: RMB in millions

Item	30 June 2017			
	Total	Within 1 year	2 to 5 years	Over 5 years
Bank loans	23,711.0	19,333.6	4,317.4	60.0
Obligations under operating leases	728.5	448.1	240.5	39.9

Capital Commitments

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

Unit: RMB in millions

Item	30 June 2017	31 December 2016
Land and buildings:		
Contracted, but not provided for	545.6	1,052.8
Investment in associates:		
Contracted, but not provided for	2,405.3	128.4

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 2017 and in previous periods 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 2016 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

Report of the Board of Directors

(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

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

During the reporting period, the Company hosted 10 receptions of investors for research purposes, receiving 18 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	Information furnished
External meetings	January 2017	Shanghai	UBS investors' conference	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	February 2017	Hangzhou	Zhongtai Securities investors' conference	Customers of Zhongtai Securities	Day-to-day operations of the Company	Published announcements and regular reports
	March 2017	Shanghai	Founder Securities investors' conference	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
	March 2017	Shenzhen	Everbright Securities investors' conference	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	April 2017	Hong Kong	Guotai Jun'an investors' conference	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Hong Kong	CICC investors' conference	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Hong Kong	Goldman Sachs investors' conference	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Shanghai	Founder Securities investors' conference	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Changsha	Essence Securities investors' conference	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Chengdu	CITIC Securities investors' conference	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Xiamen	Shenyin Wanguo investors' conference	Customers of Shenyin Wanguo	Day-to-day operations of the Company	Published announcements and regular reports
	June 2017	Guangzhou	China Merchants Securities investors' conference	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2017	Shanghai	BOCI investors' conference	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
	June 2017	Hong Kong	UBS investors' conference	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
June 2017	Shanghai	CICC investors' conference	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports	
Company visits by investors	January to June 2017	Company	Verbal	Investors FengHe Asia, Macquarie Capital Limited, Credit Suisse, Signature Global Asset Management, Surveyor Capital, PSP Investments, Principal Global Investors, Viking Global Investors LP, Neo-Criterion Capital, GIC, Northeast Securities, SEB, KWAP, Resona Bank, Balyasny Asset Management, Lone Pine Capital, AO Asset Management, Silver Point Advisors	Day-to-day operations of the Company	Published announcements and regular reports

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

(VI) BUSINESS OUTLOOK FOR THE SECOND HALF OF 2017 AND RISK EXPOSURES

1. Business outlook for the second half of 2017

Looking to the second half of 2017, the Group will welcome new opportunities for development as the market enters a stage of continuous boom in 4G user population and data flow volume warranting more extensive application of Pre-5G products, while its work in 5G standard formulation and the verification of related technologies and solutions will generate initial results. Big video and the Broadband China Strategy will further accelerate the development of the fixed-line broadband market, while the IOT business will make revenue contributions to carriers as the IOT industry chain continues to grow in maturity.

In connection with carriers' networks, the Group will persist in R&D investment and technological build-up, with a strong focus on principal products in 5G, IOT, virtualisation, cloudification, big video, optical transmission and optical access, offering innovative solutions while enhancing its ability in project work servicing, in a bid to enlarge its market share on a global basis.

In connection with government and corporate business, the Group will leverage its technical strengths to help its government and corporate clients to speed up with the deployment and application of new products and solutions.

In connection with the consumer business, we intend to leverage fully on our ability in R&D innovation and our global presence to establish ourselves in the worldwide carriers' market and devise plans to enhance our ability to operate in the open market. The Group will emphasise exquisite experience as a core value for its products, underpinned by the essential factors of boutique quality, large-nation market, partnership, service and industry-wide support. In the strategic market of large nations, we will make meticulous effort to identify further potentials and seek co-development with strategic customers and in-depth cooperation with partners, in an ongoing effort to enhance our brand reputation.

In the second half of 2017, the Group will persist in a prudent business strategy and develop new niches for growth. On the back of the wealth of our technologies and stock of products developed over the years, we will seize opportunities presented by changing global scenarios to enhance our position in the worldwide market by strengthening investments in two areas: in technologies in connection with wireless and 5G bearer, and in marketing in connection with important international customers and markets.

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

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(2) *Risk associated with intellectual property rights*

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

(3) *Exchange 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. The Group seeks to mitigate the impact of foreign exchange risks on its operations on an ongoing basis through the use of measures such as the business strategic guidance, internal settlement management, adjustment of financing structure, internal exchange settlement and derivative financial instruments based on the principle of prudent exposure management, aiming to retain favourable exposures as appropriate, strictly control unfavourable exposures subject to apparent adverse developments or which are without value protection features. The Group will also actively explore foreign exchange sources in countries practicing exchange control, strengthen liquidity management and facilitate RMB pricing and settlement for overseas projects to lower its exchange rate risks in the long run.

(4) *Interest rate risk*

The interest rate risk of the Group is mainly associated with interest-bearing liabilities. Fluctuations in the interest rates of RMB or foreign currencies will result in changes in the total amount of interest payable by the Group and will therefore affect the Group's profitability. The Group seeks to lower its interest rate risk mainly by managing the total amount and structure of its interest bearing liabilities. Control over the total amount of interest-bearing liabilities is mainly achieved by improving the cash turnover efficiency and increasing the free cash flow of the Group. 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》) issued by five ministries and commissions including the MOF and the CSRC, the “Notice on Procuring Work relating to Trial Internal Control Rules for Shenzhen Listed Companies” (《關於做好深圳轄區上市公司內部控制規範試點有關工作的通知》) and “Notice on Further Procuring Work relating to the Implementation of Internal Control Rules for Shenzhen Listed Companies” (《關於進一步做好深圳轄區上市公司內控規範實施有關工作的通知》) issued by Shenzhen CSRC, 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, the Company focused its efforts on the following internal control work in the first half of 2017.

During the first quarter of 2017, the Company was mainly engaged in the review and assessment of internal control operations conducted in 2016. The internal control assessment report for 2016 was produced and the compliance check for investments in derivatives and securities in 2016 was completed. At the same time, risk management and internal control training and examination was conducted for the management officers of the Company. The “Operation Sunshine ZTE” was also launched, while we continued to identify and manage risk exposures in operations as well as optimised our risk grading and classification to facilitate implementation of risk control duties and measures at all levels. For details, please refer to the section headed “3. Material Matters – 3.7 Development and implementation of internal control in the first quarter of 2017” in the 2017 first quarterly report of the Company.

Details of the development and implementation of internal control in the second quarter of 2017 are as follows:

- (1) Self-assessment of internal control for 2017 commenced during the period, as the Company enhanced inspection of internal control implementation by marketing units in addition to routine internal control assessments, while also commencing self-assessment of internal control at the subsidiaries to further strengthen and regulate the development of internal control at the subsidiaries;
- (2) The “Operation Sunshine ZTE” continued with the completion of the credit score system for general staff and management officers and the commencement of initiatives such as the annual rotation of key positions, risk control in relation to outsourcing contracts of overseas projects, sunshine supply chain and risk control for the government and corporate service segment;
- (3) The Company continued to enhance control over material risks by streamlining and optimising the existing mechanisms and processes for the control of material risks;

Material Matters

- (4) Improvements in organisational and individual abilities were facilitated through the development and application of maturity models and models for the assessment of risk control personnel;
- (5) The Company continued to foster the risk control culture by organising activities for the participation of all staff, such as education in risk control and the propagation of risk control cases.

2. Information on the Convening of General Meeting

On 20 June 2017, the Company convened the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 by way of a combination of on-site voting and online voting on the website, and convened the First H Shareholders' Class Meeting of 2017 by way of on-site voting. For relevant details, please refer to the 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 published by the Company on 20 June 2017.

3. During the period from 1 January to 30 June 2017, the Company was in full compliance with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules, except for the following:

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive should be separate and should not be performed by the same individual.

The office of the Chairman of the Company had previously been undertaken by Mr. Zhao Xianming, President of the Company. The Company was of the view that, the structure of the Company operated as such will not undermine the checks and balances between the Board and the management. Members of the Board of Directors have made contributions to the Company with their extensive experience, and the Company believes that it would be able to ensure that the checks and balances between the Board of Directors and the management would remain unaffected.

In order to enhance corporate governance and separate the roles of the chairman and the chief executive officer, Mr. Zhao Xianming has tendered his resignation from the office of Chairman of the Seventh Session of the Board of Director. Following his resignation from the office of Chairman, 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 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). The Company has fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules since 14 March 2017.

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 2017.

(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 Company did not propose any profit distribution in 2016.

Aggregate profit distribution of the Company in the form of cash in 2014–2016 accounted for 603.15% of the annual average profit available for distribution in the past three years, which was in compliance with Article 234 of the Articles of Association which states that “Aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years.”

The Company did not conduct any adjustments or changes to its profit distribution policy during the reporting period.

The Company does not propose any profit distribution for the six months ended 30 June 2017.

(III) MATERIAL LITIGATION, ARBITRATION AND GENERAL MEDIA QUERIES

1. Material litigation and arbitration

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

- (1) In August 2005, an Indian consultant firm instituted an overseas arbitration to claim indemnity against the Company for a total amount of approximately USD1.714 million in respect of advisory fees, agency fees and related damages. The consultant firm subsequently raised its total claim amount to approximately USD2.27 million.

Material Matters

The case was heard before an arbitration court formed by International Chamber of Commerce (“ICC”) in Singapore during 25–28 July 2008. The Company was represented at all arbitration sessions. On 23 July 2010, the arbitration court issued its arbitration award on the arbitration fees, legal fees and travel expenses relating to the case and ruled that the Company should pay a total of USD1.323 million to the said consultant firm. Subsequent to the consultant firm’s application to the High Court of Delhi in India on 28 September 2010 for the enforcement of the arbitration award, the Company filed an objection to the enforcement of the arbitration award on the grounds that the said consultant firm no longer carried the status of a corporate. On 23 September 2011, the High Court of Delhi in India ruled to reject the said consultant firm’s application for the enforcement of the arbitration award. It also ruled that the said consultant firm may re-submit its application for the enforcement of the arbitration award after restoring its corporate status. On 30 April 2013, the High Court of Delhi in India received the application for the enforcement of arbitration award re-submitted by the said consultant firm, and the case is currently pending judgement by the court. 3 July 2017, the High Court of Delhi in India ruled in support of the application for the enforcement of arbitration award submitted by the said consultant firm. On 5 July 2017, the Company filed an appeal with the Supreme Court of India in respect of the aforesaid ruling of the High Court of Delhi in India. On 6 July 2017, the Supreme Court of India heard the case and ruled to reject the appeal of the Company. The High Court of Delhi in India has yet to make a ruling on the final compensation amount for the case.

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

- (2) 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 with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. 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.

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

- (3) On 20 May 2013, ZTE DO BRAZIL LTDA (“ZTE Brazil”), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB198 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that: (1) ZTE Brazil’s entitlement to the ICMS output tax was provable by existing invoices and customers’ statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527. A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil received the judgement of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. On 20 July 2017, the level 2 administrative court under the tax bureau of Sao Paulo State ruled to revoke the administrative penalty imposed by the tax bureau of Sao Paulo State. Pursuant to the taxation laws of Brazil, the tax bureau of Sao Paulo State is still entitled to appeal against the aforesaid ruling.

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

- (4) In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company’s and ZTE USA’s products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. There has been no substantial progress in the litigation process. 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 said 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. Currently, the Federal District Court of California has yet to issue its verdict.

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

Material Matters

- (5) 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 USD22,711,900.

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

Note: The exchange rates are based on the book exchange rates of the Company as at 30 June 2017 where BRL amounts are translated at the exchange rate of BRL1:RMB2.0544.

2. General media queries

Applicable N/A

(IV) THERE WAS NO APPROPRIATION AND REPAYMENT OF NON-OPERATING CAPITAL 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. The acquisition of equity interests in Netaş, a listed Turkish company, by the Company

On 6 December 2016, ZTE Cooperatief U.A. (“ZTE Cooperatief”), a wholly-owned subsidiary of the Company entered into the “SHARE PURCHASE AGREEMENT related to NETAŞ TELEKOMÜNİKASYON A.Ş.” (the “Share Purchase Agreement”) with OEP Turkey Tech. B. V. (“OEP”) in connection with the acquisition of 48.04% equity interests in NETAŞ TELEKOMÜNİKASYON A.Ş. (“Netaş”), a listed Turkish company, by ZTE Cooperatief from OEP for a price of not more than USD101,280,539. The Company is of the view that the acquisition of Netaş will enable the Company to drive its business expansion in Turkey. To ensure the completion of the transaction as soon as possible and procure maximum assurance for the Company’s interests, ZTE Cooperatief entered into relevant supplemental agreements with OEP and OEP Network Integration Services Cooperatief U.A. on 5 May 2017. As of 28 July 2017 (Turkey time), the conditions precedent to closing as stipulated under the Share Purchase Agreement had been satisfied in full. In accordance with the provisions of the Share Purchase Agreement and the supplemental agreements entered into by ZTE Cooperatief and OEP, the transaction between the two parties was completed on 28 July 2017 (Turkey time). On 7 August 2017 (Turkey time), ZTE Cooperatief submitted a Mandatory Tender Offer application to the Capital Markets Board of Turkey pursuant to Turkish laws and regulations.

The aforesaid matters was considered and approved at the Eleventh Meeting and Eighteenth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the relevant announcements published by the Company on 6 December 2016, 8 May 2017 and 28 July 2017.

2. Acquisition of land use rights by the Company through bidding

Owing to the requirements of its operations and development, the Company entered into the bidding for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District, Shenzhen listed on Shenzhen Land & Real Estate Exchange Center. On 27 June 2017, the Company entered into a confirmation with Shenzhen Land & Real Estate Exchange Center confirming its successful bid for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District for a consideration of RMB3,542 million. On 14 July 2017, the Company and the Nanshan Bureau of Shenzhen Urban Planning Land and Resources Commission of the Shenzhen Municipality entered into the Land Use Rights Transfer Agreement. The Company plans to develop the aforesaid land site into commercial complex buildings for use as office premises of the Group or for investment purposes. The acquisition would satisfy the business development needs of the Group.

The aforesaid matter was considered and approved at the Nineteenth 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 Nineteenth Meeting of the Seventh Session of the Board of Directors” and “DISCLOSEABLE TRANSACTION ACQUISITION OF LAND USE RIGHTS IN SHENZHEN” published by the Company on 27 June 2017.

3. Disposal of 10.1% equity interests in Nubia by the Company

Based on considerations in relation to the strategic development of Nubia, the Company, Pingxiang Yingcai Investment Consulting Company Limited, Suning Commerce Group Co., Ltd., Nanjing Hengmian Enterprise Management Partnership (Limited Partnership), Nanchang Gaoxin New Industry Investment Co., Ltd. (“Nanchang Gaoxin”) and Nubia entered into the Sale and Purchase Agreement in Nubia Technology Limited (“Sale and Purchase Agreement”) and Nubia Technology Limited Shareholders’ Agreement on 27 July 2017. Pursuant to the Sale and Purchase Agreement, the Company transferred 10.1% equity interests in subsidiary Nubia to Nanchang Gaoxin for a consideration of RMB727.2 million. Following the completion of the aforesaid transfer, the Company held 49.9% equity interests in Nubia, and Nubia was excluded from the Company’s consolidated statements.

The aforesaid matter was considered and approved at the Twenty-first Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the “Overseas Regulatory Announcement Announcement of Resolutions of the Twenty-first Meeting of the Seventh Session of the Board of Directors” and “DISCLOSEABLE TRANSACTION DISPOSAL OF 10.1% OF THE EQUITY INTEREST IN NUBIA TECHNOLOGY LIMITED” published by the Company on 27 July 2017.

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

1. The 2013 Share Option Incentive Scheme

The Share Option Scheme of ZTE Corporation (Revised Draft) (the “2013 Share Option Incentive Scheme (Revised Draft)”) was considered and approved at the Third Extraordinary General Meeting in 2013, the First A Shareholders’ Class Meeting of 2013 and the First H Shareholders’ Class Meeting of 2013 of the Company. Pursuant to the “Resolution on Matters pertaining to the Grant of Share Options under the Share Option Incentive Scheme of the Company” considered and approved 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 was set for 31 October 2013 (Thursday), on which 102.989 million share options were granted to 1,528 participants. The exercise price for the share options granted was RMB13.69 per A share. The 2013 Share Option Incentive Scheme is valid five years from the date of grant. The vesting period was two years from the date of grant. Subject to the fulfilment of the exercise conditions, options can be exercised in 3 periods after the two-year vesting period.

Pursuant to the “Resolution on the Fulfilment of Exercise Conditions for the First Exercise Period under the Share Option Incentive Scheme” considered and approved at the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, the fulfilment of the exercise conditions for the first exercise period under the 2013 Share Option Incentive Scheme of the Company was confirmed and the exercise period shall be from 2 November 2015 to 31 October 2016.

Material Matters

Pursuant to the “Resolution on the Fulfillment of Exercise Conditions for the Second Exercise Period under the Share Option Incentive Scheme” considered and approved at the Ninth Meeting of the Seventh Session of the Board of Directors convened on 27 October 2016, the fulfillment of exercise conditions for the second exercise period under the 2013 Share Option Incentive Scheme was confirmed and the exercise period shall be from 1 November 2016 to 31 October 2017.

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 convened on 23 March 2017, the exercise conditions for the third exercise period under the 2013 Share Option Incentive Scheme had not been fulfilled, share options that could not be exercised owing to the non-fulfillment of conditions pertaining to business results would lapse with immediate effect and withdrawn and cancelled by the Company without compensation in accordance with the 2013 Share Option Incentive Scheme (Revised Draft). A total of 44,356,320 share options had been granted in respect of the third exercise period.

Share options under the 2013 Share Option Scheme of the Company have been exercised on a voluntary basis. During the reporting period, a total of 5,386,358 options were exercised at an exercise price of RMB10.97. The closing price of the A shares as at the end of the reporting period was RMB23.74, and the number of A shares of the Company has increased by 5,386,358 shares as a result of the exercise. Proceeds received from the exercise of share options have been placed in a designated account of the Company. Details of share options held by participants and the exercise of such options during the reporting period are set out in the following table:

Name of participant	Position of participant	Number of share options exercisable during the Second Exercise Period of the beginning of the reporting period	Number of share options exercised during the Second Exercise Period of the reporting period	Number of outstanding share options during the Second Exercise Period of the end of the reporting period	Weighted average closing price (RMB/share)
					Note
Zhang Jianheng	Non-executive Director	10,800	0	10,800	—
Xu Huijun	Executive Vice President	126,000	126,000	0	19.12
Xiong Hui	Executive Vice President	51,700	51,700	0	15.95
Cao Wei	Secretary to the Board	25,200	0	25,200	—
Other participants	—	7,865,971	5,208,658	2,657,313	17.98
Total	—	8,079,671	5,386,358	2,693,313	17.98

Note: The weighted average closing price of the A shares of the Company on the trading date immediately preceding the exercise date.

The final accounting treatment of the share option and the influence on the financial position and operating results of the Company during the reporting period and in the future are set out in the Note 11 of the financial statements prepared in accordance with the China Accounting Standards for Business Enterprises.

For previous adjustments and other details of the exercise price and number of share options of the 2013 Share Option Incentive 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.

2. The 2017 Share Option Incentive Scheme

In order to further refine the Company's structure of corporate governance, improve its incentive mechanism and enhance the sense of responsibility and mission on the part of the management team and key personnel in relation to its sustainable and healthy development so as to ensure the realisation of its development targets, the Company has formulated prepared the "2017 Share Option Incentive Scheme (Draft) of ZTE Corporation" (the "2017 Share Option Incentive Scheme (Draft)") in accordance with relevant laws and regulations. The 2017 Share Option Incentive Scheme (Draft) was considered and approved by the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 convened on 20 June 2017. Pursuant to the "Resolution on Matters pertaining to the Grant of Share Options under the 2017 Share Option Incentive Scheme of the Company" and the "Resolution on Adjustments to the List of Participants and the Number of Share Options to be Granted under the 2017 Share Option Incentive Scheme of the Company" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors of the Company held on 6 July 2017, the date of grant was set for 6 July 2017 (Thursday), on which 149,601,200 share options were granted to 1,996 scheme participants. The exercise price for the share options granted was 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 Options granted
Zhang Jianheng	Non-executive Director	50,000
Luan Jubao	Non-executive Director	50,000
Zhao Xianming	Executive Director and President	800,000
Wang Yawen	Non-executive Director	50,000
Tian Dongfang	Non-executive Director	50,000
Zhan Yichao	Non-executive Director	50,000
Xu Huijun	Executive Vice President	550,000
Zhang Zhenhui	Executive Vice President	550,000
Pang Shengqing	Executive Vice President	450,000
Xiong Hui	Executive Vice President	450,000
Cao Wei	Secretary to the Board	200,000
Other participants	1,985 persons	146,351,200
Total	1,996 persons	149,601,200

The 2017 Share Option Incentive Scheme is valid five years. The vesting period is two years from the date of grant. Subject to the fulfilment of the performance conditions, the first, second and third exercise period has the exercisable rights of 1/3 Options during the subsequent three exercise period respectively.

Exercise period	Duration	Exercise Ratio
First exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of grant and ending on the last trading day of the 36-month period from the date of grant	1/3
Second exercise period	Commencing from the first trading day after expiry of the 36-month period from the date of grant and ending on the last trading day of the 48-month period from the date of grant	1/3
Third exercise period	Commencing from the first trading day after expiry of the 48-month period from the date of grant and ending on the last trading day of the 60-month period from the date of grant	1/3

For details of the 2017 Share Option Incentive Scheme, please refer to the relevant announcements dated 24 April 2017, 6 July 2017 and 20 July 2017 published by the Company.

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(VIII) APPLICATION FOR QUOTATION OF SHANGHAI ZHONGXING, A SUBSIDIARY, ON THE NATIONAL EQUITIES EXCHANGE AND QUOTATIONS

Pursuant to the “Resolution of the Company on the Proposed Application for Quotation on the National Equities Exchange and Quotations by Shanghai Zhongxing Telecom Equipment Technologies Company Limited, a Subsidiary of the Company” considered and approved at the Thirty-third Meeting of the Sixth Session of the Board of Directors of the Company, approval was granted to the general conversion of Shanghai Zhongxing Telecom Equipment Technologies Company Limited and its application for quotation on the National Equities Exchange and Quotations. 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”). Shanghai Zhongxing was granted an approval for quotations of its shares on the National Equities Exchange and Quotations on 21 February 2017. For the aforesaid matters, please refer to the relevant announcements published by the Company on 11 November 2015, 29 March 2016, 2 February 2017 and 20 February 2017, respectively.

(IX) SUBSCRIPTION FOR ZHONGHE QIUSHI FUND BY THE COMPANY

ZTE Capital, a subsidiary of the Company has proposed to establish by way of promotion as general partner Shenzhen Nanshan Zhonghe Qiushi Industrial Fund (Limited Partnership) (深圳南山中和秋實產業基金(有限合伙)) (tentative title subject to the final approval of the industrial and commercial registration authorities, hereinafter the “Zhonghe Qiushi Fund”) and subscribe for Zhonghe Qiushi Fund with a capital contribution of RMB20 million. The Company has also proposed to subscribe for shares in Zhonghe Qiushi Fund as limited partner with a capital contribution of RMB1,280 million. Zhonghe Qiushi Fund principally invests in businesses capable of offering strategic synergies for the Company.

The aforesaid matter was considered and approved by the Sixteenth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to “Overseas Regulatory Announcement Announcement Resolutions of the Sixteenth Meeting of the Seventh Session of the Board of Directors” and “Overseas Regulatory Announcement Announcement on the Subscription for Zhonghe Qiushi Fund” published by the Company on 17 April 2017.

(X) UPDATES ON WAIVER OF PREFERENTIAL RIGHT FOR SUBSCRIPTION AND CAPITAL CONTRIBUTION IN RESPECT OF XI’AN ZHONGXING NEW SOFTWARE COMPANY LIMITED

Pursuant to the “Resolution of the Company on the investment by CDB Development Fund Co., Ltd. (國開發基金有限公司) in Xi’an Zhongxing New Software Company Limited (西安中興新軟件有限責任公司), a wholly-owned subsidiary of the Company” considered and approved at the Eighth Meeting of the Seventh Session of the Board of Directors of the Company, approval was granted to the Company and Xi’an Zhongxing New Software Company Limited (“Xi’an New Software”), its wholly-owned subsidiary, to enter into the “CDB Development Fund Investment Agreement” (the “Investment Agreement”) with CDB Development Fund Co., Ltd. (“CDB Development Fund”). Pursuant to the Investment Agreement, CDB Development Fund has proposed to invest RMB675 million in Xi’an New Software by way of capital increase, in connection with which the Company shall waive its preferential right of subscription and capital contribution. The term of investment of CDB Development Fund shall be 11 years from the date of completion of the capital increase payment. The required investment return rate shall be: 1.2% per annum. At the same time, the Company shall repurchase all equity interests in Xi’an New Software held by CDB Development Fund in accordance with the provisions of the Investment Agreement. In respect of the obligation for the payment of investment gains, obligation for the refund of capital contributions and obligations for repurchase, the Company and Xi’an New Software shall assume joint liability to each other for a total guarantee amount of RMB754.22 million for a term commencing on the date on which the Investment Agreement becomes effective and ending on the date on which the fulfillment of the obligations of the Company and Xi’an New Software under the Investment Agreement is completed in full. For details, please refer to the “Announcement Resolutions of the Eighth Meeting of the Seventh Session of the Board of Directors” and the “Announcement on the Investment by CDB Development Fund Co., Ltd. in Zhongxing New Software Company Limited, a wholly-owned subsidiary of the Company” published by the Company on 25 August 2016.

As at the end of the reporting period, the two parties had not entered and did not expect to subsequently enter into the Investment Contract, as they had failed to agree on terms in the Investment Agreement in relation to the investment return rate, and the joint liability guarantee provided by the Company for Xi'an New Software under the Investment Contract had not been incurred.

(XI) 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 ("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 came into effective upon approval by the Court. On 23 March 2017 (United States time), the settlement order by BIS was issued, upon which the agreement with BIS became effective. Upon the recommendation by BIS, the Company and ZTE Kangxun Telecom Company Limited 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.

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(XII) 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	As a percentage of transactions in the same classification	Whether approved cap has been exceeded	Settlement	Market price for similar transactions available	Domestic announcement date	Domestic announcement index
						(RMB in ten thousands)	(%)	(RMB)				
Zhongxingxin and its subsidiaries and investee companies	Controlling shareholder of the Company, its subsidiaries and companies in which the Company 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 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.	15,728.18	0.61%	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 *	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.	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.	31,879.14	1.24%	No	Commercial acceptance bill	N/A	2015-9-23 2015-11-26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
Huatong **	Subsidiary of a company for which a natural person related to the Company had 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.	Senior engineer at a price ranging from RMB450-680 per head/day; Intermediate-grade engineer at a price ranging from RMB330-520 per head/day; Junior engineer at a price ranging from RMB230-400 per head/day; Technician at a price ranging from RMB190-230 per head/day.	2,715.64	0.11%	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"

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	As a percentage of Whether approved in the same cap has been exceeded			Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index	
						Amount (RMB in ten thousands)	(%)	Settlement				
Nanchang Software **	A company of which more than half of the board members can be controlled by another company for which a natural person related to the Company had 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.	1,786.65	0.07%	No	Tele-transfer	N/A	2014-12-24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	A company for which a natural person related to the Company acted as chairman and its subsidiaries	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.	1,704.67	0.07%	No	Tele-transfer	N/A	2016-4-29	No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Development **	A company for which a natural person related to the Company 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 the Company 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 the Company and no management fees are payable.)	2,312.07	6.07%	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 **	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.	445.52	1.17%	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	A company for which a natural person related to the Company acted as chairman and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		RMB74/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB53/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB116/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB53/sq.m./month for hotel and related equipment and facilities in Xi'an.	3,852.10	20.12%	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	A company for which a natural person related to the Company acted as chairman and its subsidiaries	Financial services	Provision of deposit services to the connected party by ZTE Group Finance		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.	3,856.00 ^{***1}	0.21%	No	Tele-transfer	N/A	2015-3-26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

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Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	As a percentage of transactions in the same classification		Whether approved cap has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
						Amount (RMB in ten thousands)	(%)					
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"
航天霸華	A Company for which a natural person related to 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.	3,582.56	0.07%	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 more than half of the board members can be controlled by another company for which a natural person related to the Company had 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						67,842.53	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 2017 be capped at RMB900 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 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 of raw materials from Mobi Antenna, a connected party, by the Company in 2017 be capped at RMB1,900 million (before VAT);

At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, by the Company in 2017 be capped at RMB75 million and RMB79 million, respectively (before VAT);

At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated sales of products and rendering of services to Nanchang Software, a connected party, by the Company in 2017 be capped at RMB31 million (before VAT);

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

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

At the 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;

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;

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;

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 航天歌華 by the Company in 2017 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

- * As the natural person related to the Company had ceased to be supervisor of Zhongxingxin, controlling shareholder of the Company, as from 23 June 2016, Mobi Antenna has ceased to be a connected party of the Company as from 23 June 2017.
- ** As the natural person related to the Company had ceased to be director of Zhongxing Development as from 19 July 2016, Zhongxing Development has ceased to be a connected person of the Company as from 19 July 2017, and Chongqing Zhongxing Development and Huatong, being subsidiaries of Zhongxing Development, and Nanchang Software, a company of which more than half of the board members can be controlled by Zhongxing Development, have ceased to be connected parties of the Company as from 19 July 2017.
- *** In accordance with Rule 10.1.6 of the Shenzhen Listing Rules, corporations or natural persons falling within the scope of the following are deemed as connected persons of a listed company:

Material Matters

(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 6 months ended 30 June 2017.

Note 2: The amount represented the estimated maximum daily balance of outstanding discounted bills (principal cum interest) for the 6 months ended 30 June 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)".

2. **The Company did not conduct any connected transactions arising from acquisitions or disposals of assets 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**

As approved at the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, the Company and Zhongxingxin entered into a Supplemental Agreement to the Zhongxingxin Purchase Framework Agreement to extend the scope of the Zhongxingxin Purchase Framework Agreement to cover Zhongxingxin, its subsidiaries and investee companies (namely, companies in which Zhongxingxin directly or indirectly holds equity interests of 30% or above. Apart from the amendments stated in the foregoing, all other terms and conditions of the Zhongxingxin Purchase Framework Agreement disclosed in the "Overseas Regulatory Announcement" published on 22 September 2015 remained unchanged.

The following connected transactions were considered and approved at the Fifteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 23 March 2017. For relevant details, please refer to the "Announcement Resolutions of the Fifteenth Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement" published by the Company on 23 March 2017.

The annual rent payable by the Company to Zhongxing Development, a connected party, for the lease of a property for a term commencing on 18 April 2017 and ending on 17 December 2017 was capped at RMB40 million.

(XIII) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. There was no trust, contract management or lease of assets of other companies by the Company or of the Company's assets by other companies commencing or subsisting during the reporting period.
2. Third-party guarantees of the Group

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

Third-party guarantees provided by the Company and subsidiaries (excluding guarantees on behalf of subsidiaries)							Whether fully performed	Whether provided on behalf of connected parties	
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			
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	
Ansaldo STS S.p.A. and Ansaldo STS Transportation Systems India Private Limited ^{Note 2}	N/A	USD628,300 and INR63,736,410	N/A	–	Joint liability assurance	From the issuance of the bank letter of guarantee to the earlier of: (1) the completion of all obligations of the Joint Entity under the Underground Project, (2) 31 December 2021	N/A	No	
Zhejiang Sunland Technology Company, Ltd. ^{Note 3}	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)				RMB21,019,300	
Total amount of third-party guarantee approved as at the end of the reporting period (A3)				Total amount of third-party guarantee actually incurred as at the end of the reporting period (A4)				RMB39,702,700	RMB28,784,800

Guarantees provided by the Company on behalf of subsidiaries							Whether fully performed	Whether provided on behalf of connected parties
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		
ZTE France SASU ^{Note 4}	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 5}	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 5}	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 6}	27 March 2014 201413	Not more than USD600 million or RMB4,000 million	18 July 2014	USD450 million	Joint liability assurance	Not more than 5 years (from the date on which the debt financing agreement comes into effect)	No	No
			12 January 2015	EUR40 million	Joint liability assurance	From 12 January 2015 to (1) 6 months after 12 January 2018, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
			20 March 2015	USD60 million	Joint liability assurance	From 20 March 2015 to 20 March 2019	No	No
ZTE (Malaysia) Corporation SDN. BHD ^{Note 7}	24 September 2014 201440 8 January 2016 201605	USD60 million	27 November 2014	USD24.62 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 7}	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 8}	26 March 2015 201511	EUR200 million	24 June 2015	EUR70 million	Joint liability assurance	From 24 June 2015 to 22 December 2018	No	No
			24 June 2015	EUR30 million	Joint liability assurance	From 24 June 2015 to (1) 6 months after 24 June 2018, or (2) the irrevocable settlement in full by ZTE 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
			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

Material Matters

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
PT. ZTE Indonesia ^{note 9}	7 April 2016 201628	USD50 million	N/A	–	Joint liability assurance	Within 5 years from the date on which the bank letter of guarantee entered into between the Company and BOC comes into effect	N/A	No
ZTE (Heyuan) Company Limited ^{note 10}	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
Xi'an Zhongxing New Software Company Limited ^{note 11}	26 August 2016 201665	RMB754.22 million	N/A	–	Joint liability assurance	Commencing on the date on which the "Investment Contract" comes into effect upon execution and ending on the date on which performance of the obligations of the Company and Xi'an New Software under the "Investment Contract" is completed.	N/A	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)		–		Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)			RMB310,979,000	
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)		RMB8,070,952,700		Total amount of guarantee on behalf of subsidiaries actually incurred as at the end of the reporting period (B4)			RMB6,106,940,900	
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	RMB105,298,200	Joint liability	5 years (from the date of drawdown)	No	No
西安中興通訊設備有限公司 ^{note 13}	N/A	RMB60,005,000	13 March 2015	RMB60,005,000	Joint liability	5 years	No	No
深圳市中興新能源汽車服務有限公司 ^{note 14}	N/A	RMB60 million	29 December 2015	RMB60 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 深圳市中興新能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	USD1,116,000	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
Total amount of guarantee for subsidiary approved during the reporting period (C1)		RMB203,073,000		Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)			RMB7,554,300	
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)		RMB569,527,700		Total amount of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)			RMB319,307,200	
Total amount guaranteed by the Company (sum of the three categories aforesaid)								
Total amount of guarantee approved during the reporting period (A1+B1+C1)		RMB203,073,000		Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)			RMB339,552,600	
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)		RMB8,680,183,100		Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)			RMB6,455,032,900	
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company							22.27%	
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)							RMB5,766,940,900	
Amount of total guarantee exceeding 50% of net assets (F)							0	
Aggregate amount of the three guarantee amounts stated above (D+E+F)							RMB5,766,940,900	
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 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 and general meeting of ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary of the Company, it was approved that a guarantee letter be issued by ZTE India for the joint entity (the "Joint Entity") formed by the Company and ZTE India with Ansaldo STS S.p.A. and Ansaldo STS Transportation Systems India Private Limited for an amount of USD628,300 and INR63,736,410 to guarantee obligations of the Joint Entity under the Greater Noida underground railway project (the "Underground Project") for a term from the date on which the guarantee letter is issued to the earlier of: (1) the completion of all obligations of the Joint Entity under the Underground Project, (2) 31 December 2021. As at the end of the reporting period, the aforesaid guarantee letter had yet to be issued.

Note 3: Following consideration by the board of directors of ZTEsoft Technology Company Limited ("ZTEsoft"), a subsidiary of the Company, it was approved that guarantee be provided by the ZTEsoft by way of joint liability assurance 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 4: It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France, a wholly-owned subsidiary of the Company under the 2010 SMS Execution Contract (“SMS Contract”) and the PATES-NG Execution Contract (“PATES Contract”). As at the end of the reporting period, the 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 5: 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 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, a USD15 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company’s bank credit facilities had been executed and the USD40 million performance guarantee agreement had been signed.
- Note 6: The Company 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.
- Note 7: 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, 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, USD24.62 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 8: 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 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 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.

Material Matters

- Note 9: It was considered and approved at the Second Meeting of the Seventh Session of the Board of Directors and the 2015 Annual General Meeting that an application be made by the Company to BOC on behalf of ZTE Indonesia for credit facilities in connection with the issuance of bank letters of guarantee and guarantee be provided by way of joint liability assurance for a total amount of not more than USD50 million for ZTE Indonesia for a term of 5 years commencing on the date on which the guarantee agreement between the Company and BOC comes into effect. As at the end of the reporting period, the relevant guarantee agreement had yet to be signed and the guarantee had yet to come into effect.
- Note 10: 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 11: At the Eighth Meeting of the Seventh Session of the Board of Directors, it was considered and approved that the Company and Xi'an New Software shall assume reciprocal joint liability in respect of the obligation for the payment of investment gains, obligation for the refund of capital contributions and obligations for repurchase for a total guarantee amount of RMB754.22 million for a term commencing on the date on which the Investment Agreement becomes effective and ending on the date on which the fulfillment of the obligations of the Company and Xi'an New Software under the Investment Agreement is completed in full. As at the end of the reporting period, the Investment Agreement had not been and was not expected to be subsequently entered into, and the aforesaid guarantee had not been incurred.
- 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 RMB105,298,200 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 guarantee by way of joint liability assurance for an amount of EUR11,173,111 for ZTEsoft Netherlands B.V., 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 USD1,116,000 had come into effect.
- Note 17: The guaranteed amounts are translated at the following book exchange rates of the Company as at 30 June 2017: USD1: RMB6.7691, EUR1: RMB7.7373, INR1: RMB0.10457.
- Note 18: All third-party guarantees of the Company have been submitted to the Board of Directors for its review and come into effect with the approval of two-thirds of the members of the Board of Directors. Third-party guarantees which are further subject to consideration and approval at the general meeting in accordance with relevant regulations have come into effect with the approval of the general meeting following approval by the Board of Directors.

3. **A special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company has been furnished by Independent Non-Executive Directors of the Company. For details, please refer to the “Overseas Regulatory Announcement Independent Opinion of the Independent Non-Executive Directors on related issues” published by the Company on 24 August 2017.**
4. **Progress of material contracts entered into during or prior to the reporting period**

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

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

(XIV) UNDERTAKING

1. **Undertakings by the de facto controller of the Company, shareholders, connected parties, acquirer and parties of the Company relating to the undertaking fulfilled or overdue and outstanding during the reporting period**

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

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

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

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

Material Matters

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

Applicable N/A

- (XV) **EXPLANATORY STATEMENT BY THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE ON THE ACCOUNTANT’S “QUALIFIED OPINION” FOR THE REPORTING PERIOD**

Applicable N/A

- (XVI) **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

- (XVII) **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 during the reporting period, please refer to the section headed “Highlights of Accounting Data and Financial Indicators (I)” of this report.

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

Applicable N/A

- (XIX) **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 中興克拉科技（蘇州）有限公司, 西安中興物聯網終端有限公司, ZTE (Xi’an) Co., Ltd., ZTE NetArtist Technologies (Shanghai) Co., Ltd; tier-two subsidiaries 浙江中興網信科技有限公司, 中興雲產業投資管理（杭州）有限公司, PT.NUBIA TECHNOLOGY INDONESIA, Nubia (Thailand) CO.,LTD, Nubia USA, Inc., 深圳中興智坪科技有限公司, ZTE HK Telecommunication Jamaica Limited, 蘇州洛合鑄信美國公司; tier-three subsidiaries ZTE d.o.o. Beograd, ZTE NICARAGUA, S.A., 重慶中萬網盛科技有限公司, 蘇州洛合鑄信光電科技有限公司; and tier-four subsidiary ZTE ITALIA SERVIZI S.R.L.

The Company completed the disposal of 85% equity interests in ZTE Supply Chain in April 2017 and ZTE Supply Chain had been excluded from the consolidated financial statements of the Group as from May 2017. The Company completed the disposal of 81% equity interests in 北京市中保網盾科技有限公司 (“中保網盾”) on 29 June 2017 and 中保網盾 has been excluded from the consolidated financial statements of the Group as from 29 June 2017.

- (XX) THERE WAS NO REPLACEMENT OR DISMISSAL OF ACCOUNTANT FIRMS BY THE COMPANY DURING THE REPORTING PERIOD.**
- (XXI) DURING THE REPORTING PERIOD, NONE OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT, CONTROLLING SHAREHOLDER, DE FACTO CONTROLLER OR ACQUIRER WAS SUBJECT TO INVESTIGATION BY COMPETENT AUTHORITIES, ENFORCEMENT BY JUDICIARY OR DISCIPLINARY AUTHORITIES, DETAINMENT BY JUDICIAL AUTHORITIES OR PROSECUTION FOR CRIMINAL CHARGES, CASE INVESTIGATION OR ADMINISTRATIVE PENALTY BY CSRC, PROHIBITION FROM PARTICIPATION IN THE SECURITIES MARKET, OPINION OF DEEMED INAPPROPRIATENESS, MATERIAL ADMINISTRATIVE PUNISHMENT BY ENVIRONMENTAL PROTECTION, SECURITY SUPERVISION, TAXATION OR OTHER ADMINISTRATIVE AUTHORITIES OR PUBLIC CENSURE BY THE STOCK EXCHANGE.**
- (XXII) THERE WAS NO NON-COMPLIANCE WITH VALID COURT JUDGEMENT ON THE PART OF OR OVERDUE DEBTS OF A SUBSTANTIAL NATURE OWED BY THE COMPANY OR ITS CONTROLLING SHAREHOLDER DURING THE REPORTING PERIOD**
- (XXIII) THE COMPANY WAS NOT SUBJECT TO ANY RISK OF DELISTING AS A RESULT OF VIOLATIONS OF LAWS AND REGULATIONS DURING THE REPORTING PERIOD**
- (XXIV) DURING THE REPORTING PERIOD, THE COMPANY HAD NO CORPORATE BONDS WHICH WERE PUBLICLY ISSUED AND LISTED ON A STOCK EXCHANGE.**
- (XXV) OTHER MATERIAL MATTERS**

Save as aforesaid, no other material matters as specified under Rule 67 of the Securities Law and Article 30 of the Measures for the Administration of Information Disclosure by Listed Companies and matters that were material in the judgment of the Board of Directors of the Company occurred to the Company during the reporting period.

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

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE REPORTING PERIOD

Unit: share

	At the beginning of the reporting period		Increase/decrease as a result of the change during the reporting period (+, -)					At the end of the reporting period	
	Number of shares	Percentage	New issue Note 1	Bonus issue	Transfer		Sub-total	Number of shares	Percentage
					from capital reserve	Others Note 2			
I. Shares subject to lock-up	4,820,945	0.12%	94,500	—	—	181,036	275,536	5,096,481	0.12%
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	4,820,945	0.12%	94,500	—	—	181,036	275,536	5,096,481	0.12%
II. Shares not subject to lock-up	4,179,807,227	99.88%	5,291,858	—	—	-181,036	5,110,822	4,184,918,049	99.88%
1. RMB ordinary shares	3,424,304,693	81.83%	5,291,858	—	—	-181,036	5,110,822	3,429,415,515	81.85%
2. Domestic-listed foreign shares	—	—	—	—	—	—	—	—	—
3. Overseas-listed foreign shares (H shares)	755,502,534	18.05%	—	—	—	—	—	755,502,534	18.03%
4. Others	—	—	—	—	—	—	—	—	—
III. Total number of shares	4,184,628,172	100.00%	5,386,358	—	—	—	5,386,358	4,190,014,530	100.00%

Note 1: During the reporting period, a total of 5,386,358 A share options were exercised by participants under the 2013 Share Option Incentive Scheme of the Company, and the number of A shares of the Company increased by 5,386,358 shares correspondingly;

Note 2: In accordance with relevant domestic regulations, shares held by the Directors, Supervisors or senior management shall be subject to lock-up or unlocking on a pro-rata basis.

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

Unit: share

No.	Name of shareholders subject to lock-up	Number of A shares subject to lock-up as at 31 December 2016	Number of A shares released from lock-up during the reporting period Note 1	Increase in the number of A shares subject to lock-up during the reporting period Note 2	Number of A shares subject to lock-up at the end of the reporting period	Reason for lock-up	Date of unlocking
1	Fan Qingfeng	514,265	—	171,422	685,687	Restricted senior management shares	—
2	Shi Lirong	495,458	—	165,155	660,613	Restricted senior management shares	—
3	Yin Yimin	569,549	—	—	569,549	Restricted senior management shares	—
4	Xu Huijun	473,138	—	94,500	567,638	Restricted senior management shares	—
5	Pang Shengqing	550,261	—	—	550,261	Restricted senior management shares	—
6	Zhao Xianming	488,636	—	—	488,636	Restricted senior management shares	—
7	Zeng Xuezhong	414,630	103,658	103,658	414,630	Restricted senior management shares	—
8	Xie Daxiong	371,852	—	—	371,852	Restricted senior management shares	—
9	Wei Zaisheng	329,758	—	—	329,758	Restricted senior management shares	—
10	Chen Jianzhou	187,327	46,832	46,832	187,327	Restricted senior management shares	—
11	Others	426,071	163,041	7,500	270,530	Restricted senior management shares	—
	Total	4,820,945	313,531	589,067	5,096,481	—	—

Note 1: The decrease in the number of shares subject to lock-up is attributable to 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;

Note 2: The increase in the number of shares subject to lock-up is attributable to (1) the exercise of A share options granted under the 2013 Share Option Incentive Scheme by the Directors and senior management of the Company. Pursuant to relevant domestic regulations, up to 25% of shares not subject to lock-up acquired by the Directors, Supervisors and senior management are disposable during the year of acquisition; (2) a lock-up applying to shareholdings of departed Directors, Supervisors and senior management in accordance with relevant domestic regulations; and (3) a lock-up applying to shareholdings of newly appointed Directors, Supervisors and senior management in accordance with relevant domestic regulations.

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

- On 31 October 2013, the Company granted 102,989,000 A share options to 1,528 Scheme Participants. Registration for the A share options granted has been completed in November 2013. The option code is “037032” and the abbreviated name is “中興JLC1.” Following the implementation of the 2014 plan for profit distribution and conversion of capital reserve, it was considered and approved at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors of the Company held on 22 July 2015 that the number of A share options would be adjusted to 123,586,800. At the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, it was considered and approved that the number of A share options granted would be adjusted to 116,613,000. It was considered and approved at the Ninth Meeting of the Seventh Session of the Board of Directors of the Company held on 27 October 2016 that the number of A share options would be adjusted to 112,014,630. As the exercise conditions for the third exercise period under the 2013 Share Option Incentive Scheme of the Company had not been fulfilled, it was considered and approved at the Fifteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 23 March 2017 that share options not entitled to be exercised owing to the non-fulfillment of conditions pertaining to business results will be withdrawn and cancelled by the Company without compensation. A total of 44,356,320 share options had been granted for the third exercise period. During the reporting period, a total of 5,386,358 A share options were exercised by participants in the 2013 Share Option Incentive Scheme of the Company, and the number of A shares of the Company increased by 5,386,358 shares correspondingly. The matters had no material impact on the structure of assets and liabilities of the Company.
- The Company had no employees' shares.

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

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

Total number of shareholders						
As at 30 June 2017		There were 160,535 shareholders (comprising 160,171 holders of A shares and 364 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	30.35%	1,271,868,333	+2,038,000	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.00%	754,017,396	+15,678	—	Unknown
3. China Securities Finance Corporation Limited	General domestic corporation	2.30%	96,291,741	-9,655,779	—	Nil
4. Sun Huigang (孫惠剛)	Domestic natural person	1.57%	65,798,298	+65,798,298	—	Nil
5. Central Huijin Asset Management Ltd.	State-own corporation	1.25%	52,519,600	—	—	Nil
6. Hunan Nantian (Group) Co., Ltd.	State-own corporation	1.02%	42,657,008	—	—	Nil
7. NSSF Portfolio #401	Others	0.62%	26,000,057	+5,000,106	—	Nil
8. Bank of China Limited – China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	Others	0.52%	21,965,903	—	—	Nil
9. China Mobile No. 7 Research Institute	State-own corporation	0.46%	19,073,940	—	—	Nil
10. Zhong Ou AMC – Agricultural Bank of China – Zhong Ou Zhong Zheng Financial Asset Management Plan	Others	0.38%	15,849,000	—	—	Nil

Changes in Shareholdings and Information of Shareholders

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

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,269,830,333	A shares
	2,038,000	H shares
2. HKSCC Nominees Limited	754,017,396	H shares
3. China Securities Finance Corporation Limited	96,291,741	A shares
4. Sun Huigang (孫惠剛)	65,798,298	A shares
5. Central Huijin Asset Management Ltd.	52,519,600	A shares
6. Hunan Nantian (Group) Co., Ltd.	42,657,008	A shares
7. NSSF Portfolio #401	26,000,057	A shares
8. Bank of China Limited-China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	21,965,903	A shares
9. China Mobile No. 7 Research Institute	19,073,940	A shares
10. Zhong Ou AMC – Agricultural Bank of China – Zhong Ou Zhong Zheng Financial Asset Management Plan	15,849,000	A shares

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)

Sun Huigang (孫惠剛), the fourth ranking shareholder among the top 10 shareholders, held 25,798,298 A shares in the Company through a common securities account and 40,000,000 A shares in the Company through a credit securities account.

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

Note 2: Shareholders holding 5% or above of the Company's shares — Zhongxingxin, controlling shareholder of the Company, acquired 2,038,000 H shares in the Company through the Shenzhen-Hong Kong mutual market access programme ("Shenzhen-Hong Kong Stock Connect") during the reporting period. As at the end of the reporting period, Zhongxingxin was interested in 1,271,868,333 shares in the Company in aggregate, accounting for 30.35% of the Company's total share capital. Changes in the shareholdings of Zhongxingxin during the reporting period are set out 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
	+2,038,000	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:	Yin Yimin
Date of incorporation:	29 April 1993
Uniform Social Credit Code:	91440300192224518G
Registered capital:	RMB100 million
Scope of business:	Production of SPC switch cabinets, telephones and related parts and components, electronic products; import and export operations (in accordance with the requirements under document Shen Mao Guan Shen Zheng Zi No. 727); treatment of waste water, toxic fumes and noise and related technical services, research and technical development of environmental protection equipment; production of continuous monitoring smoke systems; manufacturing of mining equipment; manufacturing of power transmission and distribution and control equipment; computer systems integration; development of digital processing system technologies and technological research and development for related technical services.

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

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

Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tian Dongfang and its organisation number is H0420141-X. It is the only specialised research institute in China which integrates on a complementary basis 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. The legal representative is Cui Yuping and the registered capital amounts to RMB17,950,000. Its standardised social credit code is 91440300192175031U. The scope of business includes aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile, sales of automobile; domestic trade; import and export operations; trade brokerage and agency; lease of owned properties; wholesale of 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

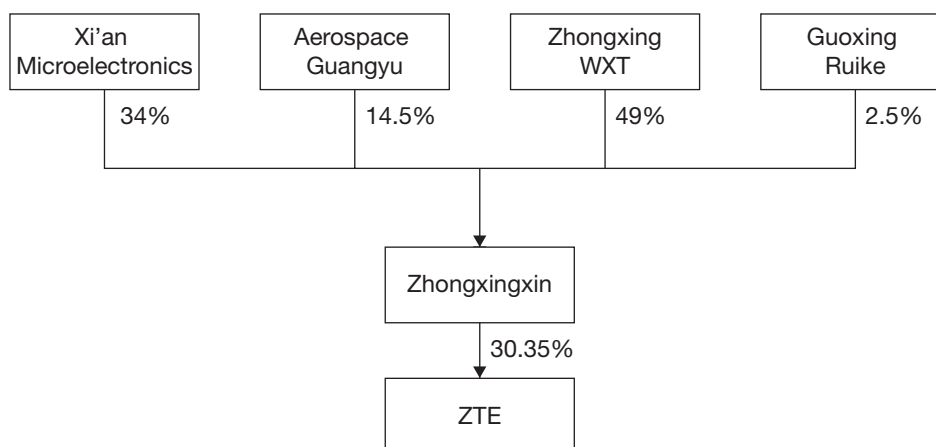
Changes in Shareholdings and Information of Shareholders

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 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).

Zhongxing WXT is a private enterprise incorporated on 23 October 1992. Its legal representative is Hou Weigui and its registered capital amounts to RMB10 million. Its standardised 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 standardised 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 2017:



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 2017, the following shareholders held interests or short positions in 5% or more in any class of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO.

Name	Capacity	Number of shares held	Approximate shareholding as a percentage (%) of ^{Note 1}	
			Total share capital	Relevant class of shares
Zhongxingxin ^{Note 2}	Beneficial owner	1,269,830,333 A shares (L)	30.31%	36.97%
Zhongxing WXT	Interests of corporation controlled by the majority shareholder	1,269,830,333 A shares (L)	30.31%	36.97%
Xi'an Microelectronics	Interests of corporation controlled by the majority shareholder	1,269,830,333 A shares (L)	30.31%	36.97%
China Aerospace Electronics Technology Research Institute	Interests of corporation controlled by the majority shareholder	1,269,830,333 A shares (L)	30.31%	36.97%
China Aerospace Science and Technology Corporation	Interests of corporation controlled by the majority shareholder	1,269,830,333 A shares (L)	30.31%	36.97%
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.92%	5.08%
The Bank of New York Mellon Corporation	Interests of corporation controlled by the majority shareholder	43,690,119 H shares (L)	1.04%	5.78%
	N/A	42,474,979 H shares (P)	1.01%	5.62%

(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 4,190,014,530 shares, comprising 3,434,511,996 A shares and 755,502,534 H shares, as at 30 June 2017.

Note 2: During the reporting period, Zhongxingxin, controlling shareholder of the Company, acquired 2,038,000 H shares in the Company, accounting for 0.27% of the H shares of Company, via Shenzhen-Hong Kong Stock Connect.

Save as disclosed above, as at 30 June 2017, 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 during the period (shares)	Decrease in the number of A shares during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reasons for changes	Whether remuneration is received from connected parties ^{Note 1}
Directors of the Company													
1	Yin Yimin ^{Note 2}	Male	54	Chairman Director	Incumbent	3/2017 3/2016	3/2019 3/2019	759,400	—	—	759,400	—	No
2	Zhang Jianheng	Male	56	Vice Chairman	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
3	Luan Jubao	Male	55	Vice Chairman	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
4	Zhao Xianming ^{Note 2}	Male	51	Chairman Director President	Resigned Incumbent	3/2016 3/2016 4/2016	3/2017 3/2019 3/2019	651,515	—	—	651,515	—	No
5	Wang Yawen	Male	54	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
6	Tian Dongfang	Male	57	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
7	Zhan Yichao	Male	54	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
8	Wei Zaisheng	Male	55	Director Executive Vice President and Chief Financial Officer	Incumbent	3/2016 4/2016	3/2019 3/2019	439,677	—	—	439,677	—	No
9	Zhai Weidong ^{Note 3}	Male	50	Director	Incumbent	6/2017	3/2019	—	—	—	—	—	Yes
10	Shi Lirong ^{Note 4}	Male	53	Director	Resigned	3/2016	2/2017	660,613	—	—	660,613	—	No
11	Richard Xike Zhang	Male	47	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
12	Chen Shaohua	Male	56	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
13	Lü Hongbing	Male	51	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
14	Bingsheng Teng	Male	47	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
15	Zhu Wuxiang	Male	52	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
Supervisors of the Company													
16	Xie Daxiong	Male	54	Chairman of Supervisory Committee	Incumbent	3/2016	3/2019	495,803	—	—	495,803	—	No
17	Zhou Huidong	Male	41	Supervisor	Note 5	3/2016	8/2017	70,342	—	—	70,342	—	No
18	Xu Weiyan	Female	55	Supervisor	Incumbent	3/2016	3/2019	11,039	—	—	11,039	—	No
19	Wang Junfeng	Male	51	Supervisor	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
20	Xia Xiaoyue	Female	42	Supervisor	Incumbent	3/2016	3/2019	50,927	—	—	50,927	—	No
Senior Management of the Company													
21	Xu Huijun	Male	44	Executive Vice President	Incumbent	4/2016	3/2019	630,851	126,000	—	756,851	Note 9	No
22	Zhang Zhenhui	Male	44	Executive Vice President	Incumbent	4/2016	3/2019	218,400	—	—	218,400	—	No
23	Pang Shengqing	Male	49	Executive Vice President	Incumbent	4/2016	3/2019	733,682	—	—	733,682	—	No
24	Xiong Hui ^{Note 6}	Male	48	Executive Vice President	Incumbent	1/2017	3/2019	10,000	51,700	51,700	10,000	Note 9	No
25	Zeng Xuezhong ^{Note 7}	Male	44	Executive Vice President	Resigned	4/2016	4/2017	414,630	—	—	414,630	—	No
26	Fan Qingfeng ^{Note 6}	Male	49	Executive Vice President	Resigned	4/2016	1/2017	685,687	—	—	685,687	—	No
27	Chen Jianzhou ^{Note 6}	Male	47	Executive Vice President	Resigned	4/2016	1/2017	187,327	—	—	187,327	—	No
28	Cao Wei	Female	41	Secretary to the Board	Incumbent	4/2016	3/2019	—	—	—	—	—	No
Total								6,019,893	177,700	51,700	6,145,893		

Note 1: Pursuant to Rule 10.1.3(III) of the Shenzhen Listing Rules, legal entities or other entities in which the Directors, Supervisors and senior management of a listed company act as directors and senior management (other than the listed company and its subsidiaries) are deemed as connected parties of the listed company.

Note 2: Mr. Zhao Xianming tendered his resignation from the position of Chairman of the Company in March 2017. 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 Company.

Note 3: At the 2016 Annual General Meeting of the Company held on 20 June 2017, Mr. Zhai Weidong was elected as a non-independent and non-executive director of the Seventh Session of the Board of Directors of the Company.

Note 4: Mr. Shi Lirong tendered his resignation from the positions of Non-executive Director and member of the Remuneration and Evaluation Committee and the Nomination Committee of the Company in February 2017.

Note 5: Mr. Zhou Huidong resigned as Staff Representative Supervisor of the Company in August 2017.

Note 6: At 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 and the appointment of each of Mr. Fan Qingfeng and Mr. Chen Jianzhou as Executive Vice President be discontinued.

Note 7: Mr. Zeng Xuezhong resigned the position of Executive Vice President in April 2017.

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.

Note 9: Reduction or increase of shareholdings in accordance with “Rules Governing the Holding of Shares in the Company by Directors, Supervisors and Senior Management of Listed Companies and Changes Thereof”, including the exercise of A share options.

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

For details of the A share options of the Company held by Directors and senior management of the Company during the reporting period and details of share options granted after the close of 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) AS AT THE END OF THE REPORTING PERIOD, INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING POSITIONS IN CORPORATE SHAREHOLDERS OF THE COMPANY

Name	Name of shareholder	Position with the shareholder	Commencement of term of office	Conclusion of term of office	Whether receiving remuneration from shareholders entities
Yi Yimin	Zhongxingxin	Chairman	August 2015	August 2018	No
Luan Jubao	Zhongxingxin	Vice chairman	August 2015	August 2018	No
Tian Dongfang	Zhongxingxin	Vice chairman	August 2015	August 2018	No
Zhan Yichao	Zhongxingxin	Director	August 2015	August 2018	No
Wei Zaisheng	Zhongxingxin	Director	August 2015	August 2018	No
Zhai Weidong	Zhongxingxin	Director and general manager	September 2015	August 2018	Yes
Xu Weiyan	Zhongxingxin	Supervisor	June 2016	August 2018	No
Wang Junfeng ^{Note}	Zhongxingxin	Supervisor	March 2017	August 2018	No

Note: Mr. Wang Junfeng was appointed supervisor of Zhongxingxin in March 2017.

Directors, Supervisors and Senior Management

(III) AS AT THE END OF THE REPORTING PERIOD, INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING MAJOR POSITIONS IN OTHER ENTITIES

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities	
Yin Yimin ^{Note 1}	Zhongxing WXT	Vice chairman	No	
	Shenzhen Hekang Investment Management Company Limited	Executive director	No	
	Nubia	Chairman	No	
	ZTE Capital	Chairman	No	
		General manager	Note 2	
	Shenzhen Zhonghe Chunsheng Fund	Executive manager	No	
	Jiaying Xinghe Capital Management Company Limited	Executive director/general manager	No	
	Changshu Changxing Capital Management Company Limited	Chairman/general manager	No	
	Zhang Jianheng ^{Note 3}	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
		China Aerospace Investment Holdings Limited	Chairman	No
國華軍民融合產業發展基金（有限合夥） 國創基金管理有限公司		Representative of executive partner Chairman	No No	
Luan Jubao	Shenzhen Aerospace Industrial Technology Research Institute Limited	Director/general manager	Yes	
	CASIC Shenzhen (Group) Company Limited	Director/general manager	No	
	Aerospace Guangyu 天浩投資有限公司	Director/general manager Chairman	No No	
	Zhao Xianming	Held positions in 14 subsidiaries including Zhongxing Software	Chairman	No
Wang Yawen	中國航天時代電子公司	Deputy general manager	No	
	China Aerospace Electronics Technology Research Institute	Deputy head	Yes	
	China Aerospace Times Electronics Co., Ltd.	Vice chairman/president	No	
	鄭州航天電子技術有限公司	Chairman	No	
	桂林航天電子有限公司	Chairman	No	
	杭州航天電子技術有限公司 中國時代遠望科技有限公司	Chairman Chairman	No No	
Tian Dongfang	China Aerospace Electronics Technology Research Institute	Chief economist	No	
	Xi'an Microelectronics	Head	Yes	
	西安西岳電子技術有限公司	Chairman	No	
	西安太乙電子有限公司	Chairman	No	
Zhan Yichao	Shenzhen Zhongxing Information Company Limited	Chairman	No	
	Aerospace Guangyu	Director	No	
	Shenzhen Aerospace Industrial Technology Research Institute Limited	Deputy general manager/chief accountant	Yes	
	CASIC Shenzhen (Group) Company Limited	Director/deputy general manager/ chief accountant	No	
	三亞航天科工投資發展有限公司	Chairman	No	
	航天科工財務有限責任公司	Director	No	
	天浩投資有限公司	Director	No	
Wei Zaisheng	Held positions in 16 subsidiaries including ZTE Group Finance	Chairman/director	No	
	Zhongxing WXT	Director	No	

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Zhai Weidong	Sindi Technologies Co., Ltd	Chairman	No
	Shenzhen Xinyu Tengyue Electronics Co., Ltd	Director	No
	Pylon Technologies Co., Ltd	Chairman	No
	ZTE Quantum Co., Ltd	Chairman	No
	Huizhou Zhongxing Telecommunications Equipment Company Limited	Chairman	No
	上海中興新能源科技有限公司	Chairman	No
	惠州市昆騰通訊設備有限公司	Chairman	No
	Shenzhen Zhongxing Hechuang Investment Management Company Limited	Chairman	No
	Hefei Zhongxing Hechuang Investment Management Company Limited	Executive director	No
Shi Lirong	南京中興合盈創業投資基金(有限合夥)	Representative of executive partner	No
	Zhongxing WXT	Director	No
Richard Xike Zhang	Apax Partners	Equity Partner and Head of Greater China	Yes
Chen Shaohua Note 4	Xiamen University	Professor	Yes
	大博醫療科技股份有限公司	Independent non-executive director	Yes
	Sinoma International Engineering Co., Ltd	Independent non-executive director	Yes
	China United Property Insurance Corporation	Independent non-executive director	Yes
Lü Hongbing	Grandall Law Firm	Principal executive partner	Yes
	Shimao Property Holdings Limited	Independent non-executive director	Yes
	Shanghai Shentong Metro Co., Ltd.	Independent non-executive director	Yes
	Shandong Airlines Corporation	Independent non-executive director	Yes
	Tebon Fund Management Co.,Ltd	Independent non-executive director	Yes
	Shanghai Pharmaceuticals (Group) Company Limited	Director	Yes
	Bailian Group Company Limited	Director	Yes
	Shanghai Electric Group Company Limited	Director	Yes
Bingsheng Teng	Cheung Kong Group School of Business	Professor/head/associate dean	Yes
	Shandong Gold Mining Co., Ltd.	Independent non-executive director	Yes
Zhu Wuxiang	Tsinghua University	Professor	Yes
	Beijing Properties (Holdings) Ltd.	Independent non-executive director	Yes
	China Fortune Land Development Co., Ltd.	Independent non-executive director	Yes
	Dongxing Securities Co., Ltd.	Independent non-executive director	Yes
	China Cinda Asset Management Co., Ltd.	Independent non-executive director	Yes
	Unisplendour Corporation Limited	Supervisor	Yes
	Everbright Securities Company	Supervisor	Yes
Xie Daxiong	Held positions in 2 subsidiaries including Guangdong New Pivot Technology & Service Company Limited	Chairman	No
Zhou Huidong Note 5	Held positions in 31 subsidiaries including ZTE Group Finance	Supervisor/chairman of supervisory committee/director	No
	Zhongxing Hetai	Supervisor	No
	上海中興思秸通訊有限公司	Supervisor	No
	前海融資租賃股份有限公司	Chairman of supervisory committee	No
Xu Weiyan Note 6	Held positions in 5 subsidiaries including 中興光電子技術有限公司	Supervisor/chairman of supervisory committee	No
	Puxing Mobile Tech Company Limited (普興移動通訊設備有限公司)	Chairman of supervisory committee	No
	西安城投智能充電股份有限公司	Chairman of supervisory committee	No

Directors, Supervisors and Senior Management

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Wang Junfeng	Shenzhen Aerospace Industrial Technology Research Institute Limited	Director	Yes
	CASIC Shenzhen (Group) Company Limited	Director	No
	Aerospace Guangyu	Director	No
	Nanjing Aerospace Yinshan Electric Co., Ltd	Director	No
	航天歐華	Director	No
	廣東歐科空調製冷有限公司	Director	No
	深圳航天科創實業有限公司	Director	No
Xu Huijun	Xi'an Liangli Instrument and Meter Co., Ltd.	Chairman	No
	Held positions in 4 subsidiaries including ZTE Microelectronics	Chairman/director	No
Zhang Zhenhui	Held positions in 2 companies including ZTE Energy Limited	Director	No
	Held positions in 2 subsidiaries including Xi'an Zhongxing Jing Cheng Communication Company Limited	Director	No
Pang Shengqing	Held positions in 15 subsidiaries including Shanghai Zhongxing Software Company Limited	Chairman/director	No
	KAZNURTEL Limited Liability Company	Director	No
Xiong Hui	Zhongxing Hetai	Chairman	No
Chen Jianzhou	ZTE HK	General manager	Yes
Cao Wei	ZTE Capital	Director	No

Note 1: Mr. Yin Yimin has been appointed chairman of Nubia as from June 2017 and has ceased to be chairman of Nubia as from July 2017.

Note 2: Mr. Yin Yimin received project rewards at ZTE Capital in January 2017 during the reporting period. Following his appointment as Chairman of the Company in March 2017, he will no longer receive any remuneration at ZTE Capital.

Note 3: Mr. Zhang Jianheng has ceased to be non-executive director and board chairman of China Aerospace International Holding Limited as from February 2017 and has been appointed chairman of 國創基金管理有限公司 as from June 2017.

Note 4: Mr. Chen Shaohua has ceased to be independent non-executive director of Fujian Septwolves Industrial Co., Ltd. as from April 2017.

Note 5: Mr. Zhou Huidong has been appointed supervisor of 中興克拉科技(蘇州)有限公司 as from March 2017, supervisor of ZTE (Xi'an) Co., Ltd. as from May 2017 and supervisor of ZTE NetArtist Technologies (Shanghai) Co. Ltd as from June 2017. He has ceased to be chairman of supervisory committee of Shenzhen ZTE Asset Management Limited and supervisor of 深圳市中興通訊節能服務有限責任公司 as from January 2017, chairman of supervisory committee of 中興耀維科技江蘇有限公司 and Shenzhen Guoxin Electronics Development Company Limited and supervisor of 中保網盾, respectively, as from February 2017, and supervisor of ZTE Jinyun Technology Company Limited as from March 2017.

Note 6: Ms. Xu Weiyan has been appointed supervisor of 深圳市中興系統集成技術有限公司 as from March 2017.

(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

Pursuant to the Resolution on the appointment and removal of senior management personnel considered and approved 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 of the Company (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 will 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, 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 of the Company is concluded (namely, 29 March 2019).

Directors, Supervisors and Senior Management

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. Mr. Zeng Xuezhong’s resignation has become effective as from the date of the said announcement. Following his resignation, Mr. Zeng Xuezhong would not hold any position at the Company.

At the 2016 General Meeting of the Company held on 20 June 2017, Mr. Zhai Weidong was elected as a non-independent and non-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 2016 General Meeting and ending upon the conclusion of the term of the Seventh Session of the Board of Directors of the Company (namely, 29 March 2019).

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

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

On 11 August 2017, the Supervisory Committee of the Company received a Resignation Report in writing from Staff Representative Supervisor Mr. Zhou Huidong. Due to his other personal commitments, Mr. Zhou Huidong has tendered his resignation from the positions of Staff Representative Supervisor of the Company. The resignation of Mr. Zhou Huidong came into effect upon delivery of the Resignation Report at the Supervisor Committee. Following his resignation, Mr. Zhou Huidong remains under the employment of the Company.

(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 2017 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 2017, 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 2017, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

Consolidated Balance Sheet

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

Assets	Note V	30 June 2017 (unaudited)	31 December 2016 (audited)
Current assets			
Cash	1	27,569,965	32,349,914
Derivative financial assets	2	17,864	54,857
Bills receivable	3	4,481,015	1,984,493
Trade receivables	4	26,007,904	25,998,188
Factored trade receivables	4	5,010,441	2,261,280
Other receivables	5	6,448,138	4,430,072
Prepayments	6	905,479	1,739,691
Inventories	7	25,879,956	26,810,568
Amount due from customers for contract works	8	9,978,860	9,345,123
Other current assets	20	8,720,653	7,877,874
Total current assets		115,020,275	112,852,060
Non-current assets			
Available-for-sale financial assets	9	2,812,715	2,659,667
Long-term trade receivables	10	1,302,666	1,376,563
Factored long-term trade receivables	10	1,588,556	1,391,746
Long-term equity investments	11	757,613	665,876
Investment properties	12	2,019,957	2,016,470
Fixed assets	13	7,875,519	7,516,241
Construction in progress	14	1,539,373	1,729,450
Intangible assets	15	4,586,331	4,354,096
Deferred development costs	16	1,368,847	1,365,890
Goodwill	17	219,706	186,206
Deferred tax assets	18	1,292,240	1,604,575
Long-term deferred assets		34,917	34,953
Other non-current assets	20	4,251,602	3,887,117
Total non-current assets		29,650,042	28,788,850
TOTAL ASSETS		144,670,317	141,640,910

Consolidated Balance Sheet (continued)

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

Liabilities	Note V	30 June 2017 (unaudited)	31 December 2016 (audited)
Current liabilities			
Short-term loans	21	17,873,244	15,132,120
Bank advances on factored trade receivables	4	5,013,252	2,263,015
Derivative financial liabilities	22	65,893	40,148
Bills payable	23	10,045,108	11,689,957
Trade payables	24	24,764,511	25,243,881
Amount due to customers for contract works	8	9,335,024	5,876,790
Advances from customers	25	5,908,932	8,092,164
Salary and welfare payables	26	6,065,069	5,169,051
Taxes payable	27	883,365	997,189
Dividends payable	28	1,196	50,317
Other payables	29	9,464,672	13,660,418
Deferred income		1,390,782	712,657
Provisions	30	779,741	887,366
Non-current liabilities due within one year	31	1,460,322	1,932,025
Total current liabilities		93,051,111	91,747,098
Non-current liabilities			
Long-term loans	32	4,377,412	5,018,276
Bank advances on factored long-term trade receivables	10	1,588,556	1,391,746
Provision for retirement benefits		145,192	146,106
Deferred tax liabilities	18	105,899	98,380
Deferred income		545,687	790,223
Other non-current liabilities	33	1,678,396	1,563,991
Total non-current liabilities		8,441,142	9,008,722
Total liabilities		101,492,253	100,755,820

Consolidated Balance Sheet (continued)

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

Shareholders' equity	Note V	30 June 2017 (unaudited)	31 December 2016 (audited)
Shareholders' equity			
Share capital	34	4,190,015	4,184,628
Capital reserves	36	10,788,002	10,734,300
Other comprehensive income	37	(585,857)	(822,724)
Surplus reserve	38	2,022,709	2,022,709
Retained profits	39	12,575,105	10,282,238
Total equity attributable to holders of ordinary shares of the parent		28,989,974	26,401,151
Other equity instruments			
Including: perpetual capital instruments	35	9,137,341	9,321,327
Non-controlling interests		5,050,749	5,162,612
Total shareholders' equity		43,178,064	40,885,090
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		144,670,317	141,640,910

The financial statements set out on pages 73 to 206 have been signed by:

Legal representative:
Yin Yimin

Chief Financial Officer:
Wei Zaisheng

Head of Finance Division:
Xu Jianrui

Consolidated Income Statement

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

	Note V	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
Operating revenue	40	54,010,596	47,757,302
Less: Operating costs	40	36,447,741	31,824,387
Taxes and surcharges	41	533,300	371,198
Selling and distribution costs	42	5,676,552	5,978,607
Administrative expenses	43	1,427,749	1,393,985
Research and development costs		6,676,679	7,059,164
Finance expenses	46	289,157	(95,058)
Impairment losses	47	1,025,756	1,051,218
Add: Losses from changes in fair values	44	(58,055)	(36,350)
Investment income	45	51,996	357,965
Including: Share of losses of associates and joint ventures		(3,507)	(19,517)
Other income	48	1,369,018	—
Operating profit		3,296,621	495,416
Add: Non-operating income	49	69,403	2,263,730
Less: Non-operating expenses	49	78,624	51,365
Including: losses on disposal of non-current assets		26,356	4,659
Total profit		3,287,400	2,707,781
Less: Income tax	51	744,184	519,427
Net profit		2,543,216	2,188,354
Attributable to:			
Holders of ordinary shares of the parent		2,292,867	1,766,397
Holders of perpetual capital instruments		249,963	249,963
Non-controlling interests		386	171,994
Other comprehensive income, net of tax		221,114	(673,746)
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	37	236,867	(528,353)
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)	(55,474)
Effective portion of hedging instruments		(10,655)	(59,507)
Exchange differences on translation of foreign operations		255,303	(413,372)
		236,867	(528,353)
Other comprehensive income attributable to non-controlling interests, net of tax		(15,753)	(145,393)
Total comprehensive income		2,764,330	1,514,608
Attributable to:			
Holders of ordinary shares of the parent		2,529,734	1,238,044
Holders of perpetual capital instruments		249,963	249,963
Non-controlling interests		(15,367)	26,601
Earnings per share (RMB/share)			
Basic	52	RMB0.55	RMB0.43
Diluted	52	RMB0.55	RMB0.42

Consolidated Statement of Changes in Equity

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

Six months ended 30 June 2017 (unaudited)									
Equity attributable to holders of ordinary shares of the parent							Other equity instruments		Total shareholders' equity
Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments	Non-controlling interests		
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
Six months ended 30 June 2016 (unaudited)									
Equity attributable to holders of ordinary shares of the parent							Other equity instruments		Total shareholders' equity
Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments	Non-controlling interests		
I. Current period's opening balance	4,150,791	10,493,439	(685,067)	2,022,709	13,678,222	29,660,094	9,321,327	4,367,184	43,348,605
II. Changes during the period									
(I) Total comprehensive income	—	—	(528,353)	—	1,766,397	1,238,044	249,963	26,601	1,514,608
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	3,451	35,269	—	—	—	38,720	—	—	38,720
2. Equity settled share expenses charged to equity	—	54,884	—	—	—	54,884	—	—	54,884
3. Capital reduction by shareholders	—	—	—	—	—	—	—	(402,859)	(402,859)
4. Acquisition of non-controlling interests	—	(20,283)	—	—	—	(20,283)	—	(140,238)	(160,521)
(III) Profit appropriation									
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(26,590)	(460,539)
III. Current period's closing balance	4,154,242	10,563,309	(1,213,420)	2,022,709	15,444,619	30,971,459	9,137,341	3,824,098	43,932,898

Consolidated Cash Flow Statement

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

	Note V	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		56,882,180	61,319,410
Refunds of taxes		3,001,619	4,590,398
Cash received relating to other operating activities	53	1,568,458	1,324,641
Sub-total of cash inflows		61,452,257	67,234,449
Cash paid for goods and services		41,012,409	46,951,860
Cash paid to and on behalf of employees		10,717,716	9,176,859
Cash paid for all types of taxes		3,902,844	4,282,243
Cash paid relating to other operating activities	53	10,025,840	4,468,556
Sub-total of cash outflows		65,658,809	64,879,518
Net cash flows from operating activities	54	(4,206,552)	2,354,931
II. Cash flows from investing activities			
Cash received from sale of investments		462,375	947,529
Cash received from return on investment		31,808	46,777
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		15,986	14,646
Net cash received from the disposal of subsidiaries and other operating units		—	54,542
Sub-total of cash inflows		510,169	1,063,494
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		1,956,715	1,596,103
Cash paid for acquisition of investments		916,581	373,273
Sub-total of cash outflows		2,873,296	1,969,376
Net cash flows from investing activities		(2,363,127)	(905,882)
III. Cash flows from financing activities			
Cash received from capital injection		68,789	1,789,105
Including: Capital injection into subsidiaries by minority shareholders		9,700	1,750,386
Cash received from borrowings		15,972,887	13,388,122
Sub-total of cash inflows		16,041,676	15,177,227
Cash repayment of borrowings		12,401,660	13,438,324
Cash payments for distribution of dividends and profits or for interest expenses		1,135,359	1,125,775
Including: Distribution of dividends and profits by subsidiaries to minority shareholders		57,671	25,613
Other cash paid relating to financing activities		—	412,620
Sub-total of cash outflows		13,537,019	14,976,719
Net cash flows from financing activities		2,504,657	200,508
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		(76,779)	(335,180)
V. Net (decrease)/increase in cash and cash equivalents		(4,141,801)	1,314,377
Add: cash and cash equivalents at the beginning of period		30,049,791	26,616,996
VI. Net balance of cash and cash equivalents at the end of period	54	25,907,990	27,931,373

Balance Sheet

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

Assets	Note XV	30 June 2017 (unaudited)	31 December 2016 (audited)
Current assets			
Cash		12,444,545	15,894,744
Derivative financial assets		3,325	15,457
Bills receivable		4,080,916	1,200,607
Trade receivables	1	28,643,442	40,132,425
Factored trade receivables		3,535,237	498,052
Prepayments		154,286	50,697
Dividend receivable		3,588,939	3,700,188
Other receivables	2	31,458,751	13,157,923
Inventories		15,513,994	17,993,566
Amount due from customers for contract works		5,622,130	4,904,060
Other current assets		4,893,310	5,177,219
Total current assets		109,938,875	102,724,938
Non-current assets			
Available-for-sale financial assets	3	461,091	458,091
Long-term trade receivables	4	5,978,901	6,154,837
Factored long-term trade receivables		972,163	1,249,292
Long-term equity investments	5	11,518,585	10,707,480
Investment properties		1,611,698	1,608,900
Fixed assets		4,437,859	4,508,652
Construction in progress		867,398	698,944
Intangible assets		1,253,273	1,153,375
Deferred development costs		166,933	191,977
Deferred tax assets		497,539	788,372
Long-term deferred assets		34,991	34,991
Other non-current assets		3,798,630	3,581,621
Total non-current assets		31,599,061	31,136,532
Total assets		141,537,936	133,861,470

Balance Sheet (continued)

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

Liabilities and shareholders' equity	Note XV	30 June 2017 (unaudited)	31 December 2016 (audited)
Current liabilities			
Short-term loans		13,747,102	9,733,700
Derivative financial liabilities		33,445	3,878
Bank advances on factored trade receivables		3,537,342	499,386
Bills payable		12,491,341	14,382,695
Trade payables		50,792,361	40,201,805
Amount due to customers for contract works		6,689,409	3,540,132
Advances from customers		2,927,741	5,498,427
Salary and welfare payables		3,026,174	2,274,908
Taxes payable		202,168	191,128
Dividends payable		225	225
Other payables		21,148,929	30,533,249
Deferred income		786,014	344,610
Provisions		466,129	554,485
Non-current liabilities due within one year		609,219	1,906,025
Total current liabilities		116,457,599	109,664,653
Non-current liabilities			
Long-term loans		475,000	480,000
Bank advances on factored long-term trade receivables		972,163	1,249,292
Provision for retirement benefits		145,192	146,106
Deferred income		95,360	36,674
Other non-current liabilities		1,066,750	1,055,711
Total non-current liabilities		2,754,465	2,967,783
Total liabilities		119,212,064	112,632,436
Shareholders' equity			
Share capital		4,190,015	4,184,628
Capital reserves		8,777,647	8,723,945
Other comprehensive income		691,730	691,947
Surplus reserve		1,360,953	1,360,953
Retained profits		(1,831,814)	(3,053,766)
Total equity attributable to holders of ordinary shares		13,188,531	11,907,707
Other equity instruments			
Including: perpetual capital instruments		9,137,341	9,321,327
Total shareholders' equity		22,325,872	21,229,034
Total liabilities and shareholders' equity		141,537,936	133,861,470

Income Statement

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

	Note XV	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
Operating revenue	6	51,076,488	45,604,317
Less: Operating costs	6	42,138,643	37,836,620
Taxes and surcharges		225,932	41,006
Selling and distribution costs		3,268,005	3,666,151
Administrative expenses		858,396	891,345
Research and development costs		1,663,401	2,232,591
Finance expenses		531,896	(84,734)
Impairment losses		710,462	868,139
Add: Losses from changes in fair values		(43,618)	(5,014)
Investment income	7	10,835	157,053
Including: Share of losses of associates and joint ventures		(5,163)	(21,203)
Other income		50,000	—
Operating profit		1,696,970	305,238
Add: Non-operating income		63,054	435,655
Less: Non-operating expenses		33,758	4,899
Including: losses on disposal of non-current assets		20,055	2,013
Total profit		1,726,266	735,994
Less: Income tax		254,351	134,240
Net profit		1,471,915	601,754
Attributable to:			
Holders of ordinary shares		1,221,952	351,791
Holders of perpetual capital instruments		249,963	249,963
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods			
Exchange differences on translation of foreign operations		(217)	(606)
Other comprehensive income, net of income tax effect on respective items		(217)	(606)
Total comprehensive income		1,471,698	601,148
Holders of ordinary shares		1,221,735	351,185
Holders of perpetual capital instruments		249,963	249,963

Statement of Changes in Equity

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

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

Cash Flow Statement

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

	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	55,190,277	53,714,208
Refunds of taxes	1,710,252	3,021,064
Cash received relating to other operating activities	978,445	768,904
Sub-total of cash inflows	57,878,974	57,504,176
Cash paid for goods and services	50,139,071	49,610,554
Cash paid to and on behalf of employees	3,851,574	3,118,996
Cash paid for all types of taxes	265,031	582,903
Cash paid relating to other operating activities	8,898,081	3,319,720
Sub-total of cash outflows	63,153,757	56,632,173
Net cash flows from operating activities	(5,274,783)	872,003
II. Cash flows from investing activities		
Cash received from sale of investments	19,800	266,934
Cash received from return on investment	124,481	39,049
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	148,928	5,190
Net cash received from the disposal of subsidiaries	236,650	850
Sub-total of cash inflows	529,859	312,023
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	1,173,198	703,848
Cash paid for acquisition of investments	1,074,871	1,032,645
Sub-total of cash outflows	2,248,069	1,736,493
Net cash flows from investing activities	(1,718,210)	(1,424,470)
III. Cash flows from financing activities		
Cash received from capital injection	59,089	38,719
Cash received from borrowings	12,340,875	8,645,637
Sub-total of cash inflows	12,399,964	8,684,356
Cash repayment of borrowings	7,872,829	10,839,961
Cash payments for distribution of dividends, profits and for interest expenses	902,054	982,618
Sub-total of cash outflows	8,774,883	11,822,579
Net cash flows from financing activities	3,625,081	(3,138,223)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	(55,776)	125,190
V. Net decrease in cash and cash equivalents	(3,423,688)	(3,565,500)
Add: cash and cash equivalents at the beginning of period	15,752,732	17,325,750
VI. Net balance of cash and cash equivalents at the end of period	12,329,044	13,760,250

Notes to Financial Statements

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

I. CORPORATE BACKGROUND

ZTE Corporation (the “Company”) was a limited liability company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Company Limited, Hunan Nantian (Group) Company Limited, Jilin Posts and Telecommunications Equipment Company and Hebei Posts and Telecommunications Equipment Company and incorporated through a public offering of shares to the general public. On 6 October 1997, the Company issued ordinary shares to the general public within the network through the Shenzhen Stock Exchange and the shares were listed and traded on the Shenzhen Stock Exchange on 18 November 1997.

The Company and its subsidiaries (collectively the “Group”) 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 and sending labors and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state controlled and monopolised merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialised subcontracting of telecommunications projects (commencement of operations subject to the obtaining of certificate of qualifications), lease of owned properties.

The controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, a company incorporated in the PRC.

The financial statements were approved by the Board of Directors of the Company by way of resolution on 24 August 2017.

The consolidation scope for consolidated financial statement is determined based on the concept of control. For details of changes during the period, please refer to Note VI.

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the “Accounting Standards for Business Enterprises — Basic Standards” promulgated by the Ministry of Finance and the specific accounting standards, subsequent practice notes, interpretations and other relevant regulations as subsequently announced and revised (collectively “ASBEs”).

The financial statements are prepared on a going concern basis.

In the preparation of the financial statements, all items are recorded by using historical cost as the basis of measurement except for some financial instruments and investment properties. Impairment provision is made according to relevant regulation if the assets are impaired.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2017 and the results of their operations and their cash flows for the six months ended 30 June 2017.

2. Financial year

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

3. Reporting currency

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

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

4. Business combination

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

Business combinations involving entities under common control

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

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

Business combinations not involving entities under common control

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combination (continued)

Business combinations not involving entities under common control (continued)

The 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 2017. 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.

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

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Classification of joint venture arrangements and joint operation

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

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

7. Cash and cash equivalents

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

8. Foreign currency translation

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

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

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

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.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments

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

Recognition and derecognition of financial instruments

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

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

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

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

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

Classification and valuation of financial assets

The Group classifies its financial assets into four categories at initial recognition: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and derivatives designated as effective hedging instruments. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss; for other financial assets, the relevant transaction costs are recognised in their initial recognition amount.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise mainly trading financial assets. Financial assets are classified as trading if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial assets are subsequently measured at fair value, and gain or loss from changes in fair value and derecognition are recognised in current period's profit or loss. Dividends or interest income derived from financial assets at fair value through profit or loss are also recognised in current profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets whose maturity and redemption amount are fixed or ascertained and in respect of which the Group has clear intentions and ability to hold until maturity. Such financial assets are subsequently measured using the effective interest method on the basis of amortised cost. Gains or losses arising from derecognition, impairment or amortisation are recognised in the current profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains or losses arising from amortisation or impairment are recognised in the current profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Discounts or premiums are amortised using the effective interest method and recognised as interest income or expense. Fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are recognised in profit or loss, are recognised as other comprehensive income until the financial assets are derecognised or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognised in profit or loss.

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

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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 comprise mainly derivative financial liabilities.

Financial liabilities are classified as derivative if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured. These financial liabilities are subsequently measured at fair value, and all realised or unrealised gain or loss are recognised in current period's profit or loss.

Other financial liabilities

Subsequent to initial recognition, these financial 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 guarantor and the creditor agree that the guarantor shall assume the debts or liability in the event of default of the debtor. Financial guarantee contracts are initially recognised as liability at fair value. Financial guarantee contracts not classified as financial liabilities designated at fair value through profit or loss are, after initial recognition, subsequently measured at the higher of: (i) the amount of the best estimates of the expenditure required to settle the present obligations at the balance sheet date; and (ii) the initial amount less accumulated amortisation determined in accordance with the income recognition principle.

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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. Derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

Any gains or losses arising from the change in fair value on derivatives are taken directly to current profit and loss, except for the effective portion of cash flow hedging recognised as other comprehensive income which is transferred to current profit and loss when profit and loss is affected by hedged items.

Impairment of financial assets

The Group assesses the carrying amount of financial assets at the balance sheet date. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence, which indicates impairment of financial assets, represents events actually occurring after initial recognition of financial assets, having an impact on financial assets' estimated future cash flows, and such impact can be reliably measured. Objective evidences for impairment of financial assets include significant financial difficulties experienced by the issuer or debtor, default of contract terms (such as default or overdue of interest or principal payments) by the debtor, probable closure or other financial restructuring of the debtor and publicly available information indicating estimated future cash flow has decreased and such decrease being measurable.

Assets carried at amortised cost

If an impairment loss has been incurred, the financial asset's carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (namely the effective interest rate determined at initial recognition), taking into account the value of relevant collaterals. The reduced amount is charged to profit or loss. Interest income after impairment is recognised by adopting the discount rate used for discounting future cash flow to its present value when determining the impairment loss. Loans and receivables for which there is no realistic expectation for future recovery and all collaterals have been realised or transferred to the Group shall be written off against loans and receivables and the corresponding impairment provision.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment if there is objective evidence of impairment, and recognises the amount of impairment in profit or loss. For a financial asset that is not individually significant, the Group include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that there is no impairment in an individually assessed financial asset, whether individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and assessed for impairment again collectively. Financial assets, for which an impairment loss is individually recognised, are not included in the collective assessment for impairment.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Assets carried at amortised cost (continued)

After the Group recognises impairment loss of financial assets carried at amortised cost, if there is objective evidence that the financial assets' value recovered and the recovery is objectively related to an event occurring after the impairment is recognised, the previously recognised impairment loss shall be reversed and recognised in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date when the impairment is reversed.

Available-for-sale financial assets

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

Objective evidence of impairment in equity instruments available-for-sale includes a significant or prolonged decline in their fair value. Whether the decline is "significant" or not shall be determined by reference to the extent to which the fair value is lower the cost. Whether the decline is "prolonged" or not shall be determined by reference to the duration in which the fair value is lower than the cost. Where objective evidence of impairment exists, the accumulated loss of the transfer is represented by the balance of acquisition cost after deduction of the current fair value and impairment loss previously charged to profit and loss. Impairment losses recognised for equity instruments classified as available for-sale are not reversed through profit or loss. Fair value gains that arise after the impairment are directly recognised in other comprehensive income.

The exercise of judgement is required to determine the meaning of "significant" or "prolonged." The Group makes its judgement based on the duration in which the fair value is lower than the cost and other factors.

If after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognised, the impairment loss is reversed which is recognised in current profit or loss.

Financial assets carried at cost

If there is objective evidence that financial assets carried at cost are impaired, the impairment loss are recognised in profit or loss and measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

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. Accounts Receivable

(1) Individually significant accounts receivable for which separate bad-debt provision is made

The Group conducts impairment tests in respect of its significant account receivables and makes provision for impairment when there is objective evidence of impairment. Objective evidence for impairment includes: (1) significant financial difficulties experienced by the debtor; (2) default on or non-payment of due interest or principal payments; (3) concessions made to the insolvent debtor by creditors owing to economic or legal considerations; (4) probable bankruptcy or other financial reorganisation of the debtor; (5) inability to recover the debt after repayments from the bankruptcy assets or the estate upon the bankruptcy or death of the debtor; (6) material adverse changes occurring in the market, economic, legal and national environments to which the debtor is subject such that creditors are unlikely to collect the debts.

An account receivable is considered individually significant if it amounts to 0.1% or above of the total original value of all accounts receivable.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

10. Accounts Receivable (continued)

(2) *Accounts receivable for which bad debt provision is made on the basis of credit risk characteristic groups*

Individually insignificant accounts, for which there is no objective evidence under individual impairment tests warranting individual provision, are divided into different asset groups based on their credit risk characteristics, and each group is assessed in accordance with different policies to determine their impairment provision. The management divides trade receivables (other than those in respect of which individual asset impairment provision has been made) into the following asset groups with respective percentages of provision as follows on the basis of credit risk rating and historical repayment records:

	Percentage of provision (%)
0–6 months	—
7–12 months	0–15
13–18 months	5–60
19–24 months	15–85
2–3 years	50–100
Over 3 years	100

11. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, materials for construction-in-progress and product deliveries.

Inventories are initially recorded at costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognised using the weighted moving average method. Materials for construction-in-progress include low-value consumables and packaging materials, which are amortised using the separate amortisation method/one-off write-off method.

Inventories are valued using the perpetual inventories system.

Inventories 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)

12. Long-term equity investments

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

Long-term equity investments were recorded at initial investment cost on acquisition. For long-term equity investments acquired through the business combination of entities under common control, the initial investment cost shall be the share of carrying value of the owners' equity of the merged party at the date of combination as stated in the consolidated financial statements of the ultimate controlling party. Any difference between the initial investment cost and the carrying value of the consideration for the combination shall be dealt with by adjusting the capital reserve (if the capital reserve is insufficient for setting off the difference, such difference shall be further set off against retained profits). Upon disposal of the investment, other comprehensive income prior to the date of combination shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. For long-term equity investments acquired through the business combination of entities not under common control, the initial investment cost shall be the cost of combination (for business combinations of entities not under common control achieved in stages through multiple transactions, the initial investment cost shall be the sum of the carrying value of the equity investment in the acquired party held at the date of acquisition and new investment cost incurred as at the date of acquisition). The cost of combination shall be the sum of assets contributed by the acquiring party, liabilities incurred or assumed by the acquiring party and the fair value of equity securities issued. Upon disposal of the investment, other comprehensive income recognised under the equity method held prior to the date of acquisition shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. The accumulated fair value change of equity investments held prior to the date of acquisition and included in the other comprehensive income as financial instruments shall be transferred in full to current profit and loss upon the change to cost accounting. The initial investment cost of long-term equity investments other than those acquired through business combination shall be recognised in accordance with the following: for those acquired by way of cash payments, the initial investment cost shall be the consideration actually paid plus expenses, tax amounts and other necessary outgoings directly related to the acquisition of the long-term equity investments. For long-term equity investments acquired by way of the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued. For long-term equity investments acquired by way of the swap of non-monetary assets, the initial investment cost shall be determined in accordance with "ASBE No. 7 — Swap of Non-monetary Assets.". For long-term equity investments acquired by way of debt restructuring, the initial investment cost shall be determined in accordance with "ASBE No. 12 — Debt Restructuring."

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Long-term equity investments (continued)

In the financial statements of the Company, the cost method is used for long term equity investments in investees over which the Company exercises control. Control is defined as the power exercisable over the investee, the entitlement to variable return through involvement in the activities of the investee and the ability to influence the amount of return using the power over the investee.

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. When additional investments are made or investments are recouped, the cost of long-term equity investments shall be adjusted. Cash dividend or profit distribution declared by the investee shall be recognised as investment gains for the period.

The equity method is used to account for long-term equity investments when the Group can jointly control or has significant influence over the invested entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. Any excess of the Company's share of the investment's identifiable assets and liabilities over the cost of investment is excluded from the carrying amount of the investment and recognised in profit and loss for the current period, and the cost of long-term equity investment is adjusted accordingly.

Under the equity method, after the long-term equity investments are acquired, investment gains or losses and other comprehensive income are recognised according to the entitled share of net profit or loss and other comprehensive income of the investee and the carrying amount of the long-term equity investment is adjusted accordingly. When recognising the Group's share of the net profit or loss of the invested entity, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date in accordance with the Group's accounting policy and accounting period to investee's net profits, eliminating pro rata profit or loss from internal transactions with associates and joint ventures attributed to investor (except that loss from inter-group transactions deemed as asset impairment loss shall be fully recognised), provided that invested or sold assets constituting businesses shall be excluded. When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognising its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than the net-off of net profits or losses, other comprehensive income and profit allocation of the investee), and includes the corresponding adjustment in equity.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

12. Long-term equity investments (continued)

On disposal of the long-term equity investments, the difference between book value and market price is recognised in profit or loss for the current period. For long-term equity investments under equity method, when the use of the equity method is discontinued, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred in full to current profit and loss. If the equity method remains in use, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee and transferred to current profit and loss on a pro-rata basis. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss on a pro-rata basis.

13. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties of the Group included houses and buildings leased to other parties.

Investment properties are initially measured at cost. Subsequent expenses relating to the investment properties are charged to investment property costs if there is a probable inflow of economic benefits relating to the asset and its cost can be reliably measured; otherwise, those expenditure are recognised in profit or loss as incurred.

Investment properties of the Group represented owned properties reclassified to investment properties measured at fair value. The amount of fair value in excess of the book value as at the date of reclassification is included in the capital reserve. After initial recognition, investment properties will be subsequently measured and presented in fair value. The difference between the fair value and the original book value shall be included in current profit and loss. Fair values are assessed and determined by independent valuers based on open market prices of properties of the same or similar nature and other relevant information.

14. Fixed Assets

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

14. Fixed Assets (continued)

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

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

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

15. Construction in progress

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

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

16. Borrowing costs

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

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

Capitalisation of borrowing costs begins where:

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Borrowing costs (continued)

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

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

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

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

17. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

17. Intangible assets (continued)

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

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

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

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

18. Provisions

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

19. Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares of other equity instruments in consideration for receiving services.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognising services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each balance sheet date during the pending period based on subsequent information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc. 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;

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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

- (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

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 is recognised when it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognised on the following bases:

Revenue from the sales of goods

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and related costs incurred or to be incurred can be measured reliably. Revenue from sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipt of amounts stipulated in contracts or agreements is recognised on a deferred basis. Those with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

Revenue from the rendering of services

On the balance sheet date, when transaction result of the rendering of services could be measured reliably, related revenue from rendering of services is recognised according to the percentage of completion, otherwise revenue is recognised only to the extent of cost incurred and expected to be recoverable. The transaction result of the rendering of services could be measured reliably by meeting the following conditions at the same time: Revenue can be measured reliably, the relevant economic benefits will flow to the Group, the percentage of construction work and relevant cost incurred or to be incurred can be measured reliably. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total revenue for the rendering of services is determined according to amounts stipulated in contracts or agreements received or receivable by workers, unless such amounts are deemed unfair.

Where the sales of goods and rendering of services are included in contracts or agreements between the Group and other enterprises, revenue is separately recognised according to the fair values of various sales items in the contracts, by reference to the aforesaid principles for revenue recognition.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

21. Revenue (continued)

Construction contracts

Construction contract revenue and cost are recognised by percentage of completion at the balance sheet date where the results of the contract could be reliably estimated, otherwise revenue is recognised on the basis of the actual contract cost amount which has been incurred and is expected to be recoverable. The results of the contract can be reliably estimated if it is probable that economic benefits relating to the contract will flow to the Group and the actually incurred contract cost can be clearly distinguished and reliably measured. For contracts with fixed prices, the following conditions should also be met: the total revenue of the contract can be reliably measured, and percentage of completion and outstanding cost for completion can be reliably estimated. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total contract revenue includes initial income stipulated by the contract and income derived from contract modifications, compensation and rewards, and etc.

Rental income

Rental income generated under operating leases is recognised over the respective periods during the lease term using the straight line method. Contingent rental income is charged to current profit and loss when incurred.

Interest income

Interest income is determined by the length of time for which the Group's cash is in use by other parties and the effective interest rate.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

22. Government grants (continued)

Depending on the nature of the business concerned, government grants relating to day-to-day activities were either included in other gains and 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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Income tax (continued)

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.

25. Hedge accounting

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Hedge accounting (continued)

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised immediately in 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 the hedging instrument expires or is sold, terminated or exercised (with the expiry of rollover of the hedging strategic component or unfulfilled replacement or the termination of processing of the contract), if its designation as a hedge is revoked, or if the hedge no longer fulfills the accounting requirement of a hedge, the amounts previously taken to other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs or is fulfilled in actual terms.

Net investment hedging for overseas operations

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Impairment (continued)

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

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

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

In connection with impairment tests for CGUs or CGU groups that comprise goodwill, where indications of impairment exists in a CGU or CGU group related to goodwill, impairment tests should be performed first on CGUs or CGU groups that do not comprise goodwill and recognise impairment loss after estimating the recoverable amount. Then impairment tests on CGUs or CGU groups that comprise goodwill should be performed and the carrying value and recoverable amount should be compared. Where the recoverable amount is lower than the carrying value, the impairment loss should first be offset against the carrying value of the goodwill allocated to CGUs or CGU groups and then against assets in the CGUs or CGU groups other than goodwill in proportion to the weighting of these assets.

Previously recognised impairment losses are not reversed in subsequent periods.

27. Employee remuneration

Employee remuneration includes all kinds of rewards or compensation (other than share-based payments) incurred by the Group in exchange for service rendered by employees or in the termination of employment. Employee remuneration includes short-term remuneration, retirement benefits, termination benefits and other long-term employees' benefits. Benefits provided by the Group to the spouses, children and dependents of employees and families of deceased employees are also a part of employee remuneration.

Short-term remuneration

For accounting periods during which services are rendered by employees, short-term remuneration that will incur is recognised as liability and included in current profit and loss or related capital costs.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Employee remuneration (continued)

Retirement benefit (defined benefit scheme)

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

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

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

Net interest is arrived at by multiplying net liabilities or net assets of defined benefits with a discount rate. Changes in net obligations of defined benefits are recognised as operating costs and administration expenses in the income statement. Service costs included current services costs, past service costs and settlement of profit or loss. Net interest included interest income from scheme assets, interest expenses for scheme obligations and interest of the asset cap effect.

Termination benefits

Where termination benefits are provided to employees, liabilities in employee remuneration are recognised and charged to current profit and loss when: the company is not in a position to withdraw termination benefits provided under termination plans or redundancy plans, or costs or expenses relating to the restructuring exercise which involves the payment of termination benefits are recognised, whichever earlier.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

28. Fair value measurement (continued)

The measurement of non-financial assets measured at fair value should take into account the ability of market participants to utilise the asset in the best way for generating economic benefits, or the ability to dispose of such asset to other market participants who are able to utilise the asset in the best way for generating economic benefits.

The Group adopts valuation techniques that are appropriate in the current circumstances and supported by sufficient usable data and other information. Observable input will be used first and foremost. Unobservable input will only be used when it is not possible or practicable to obtain observable input.

The fair value hierarchy to which an asset or liability measured or disclosed in the financial statements at fair value will be determined on the basis of the lowest level of input which is significant for the fair value measurement as a whole. Input at the first level represents unadjusted quoted prices in an active market for the acquisition of the same asset or liability on the measurement date. Input at the second level represents directly or indirectly observable assets or liabilities apart from input at the first level. Input at the third level represents unobservable input for the asset or liability.

At each balance sheet date, the Group reassesses assets and liabilities measured at fair value on an ongoing basis recognised in the financial statements to determine whether the level of fair value measurement should be changed.

29. Profit distribution

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

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:

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customisation within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customisation and contractual terms with the customer. As a result, our revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

When a customer arrangement involves multiple deliverables where the deliverables are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

- 1) whether the delivered item has value to the customer on a stand-alone basis; and
- 2) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element contract can be treated separately for revenue recognition purposes involves significant estimates and judgement, such as whether the delivered elements have standalone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

At the inception of the arrangement, contract amounts shall be allocated to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence ("VSOE") of selling price, if it exists; otherwise, third-party evidence of selling price should be used. If neither VSOE nor third-party evidence of selling price exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the vendor can determine VSOE or third-party evidence of selling price, the vendor shall not ignore information that is reasonably available without undue cost and effort.

For instance, the Group sells hardware and post-contract services on a stand-alone basis and therefore we have evidence to establish VSOE for both of sale of goods and post-contract services.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

The Group's adoption of appropriate revenue recognition policy for a deliverable involves significant judgement. For instance, the Group has to determine whether post-contract support services is more than incidental to hardware, so as to decide whether the hardware should be accounted for based on multiple-element revenue recognition guidance or general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

For elements related to customised network solutions and certain network build-outs, revenues are recognised under the ASBE No. 15 Construction Contract, generally using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognised in the period that such losses become known. Generally, the terms of long-term contracts provide for progress billing are based on completion of certain phases of work. Contract revenues recognised, based on costs incurred towards the completion of the project, that are unbilled are accumulated in the contracts in progress account included in amount due from customers for contract works. Billings in excess of revenues recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised to date on contracts within amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

Where hardware does not require significant customisation, and any software is considered incidental, revenue should be recognised under ASBE No.14 — Revenue if: it is probable that the economic benefits associated with the transaction will flow to the Group the amount can be measured reliably; the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Note III.21 to the consolidated financial statements.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgements (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of financial assets

The Group determines whether financial assets are impaired by estimating the future cash flow from the financial assets. An impairment loss is recognised only if the carrying amount of an asset exceeds the present value of estimated future cash flows discounted at the financial asset's original effective interest rate, taking into account the value of the related collateral. Where the actual future cash flows and less than expected, an impairment loss may arise.

Depreciation and amortisation

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

Deferred development costs

In determining the amount of capitalisation, the management must make assumptions concerning the expected future cash flow, applicable discount rate and expected beneficial period.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilise these unused tax losses. Significant judgments are needed from management to estimate the timing and amount of taxable profit in the future, with tax planning strategies, to determine the amount of the deferred tax assets that should be recognised.

Provision for inventory impairment

The impairment of inventory to its net realisable value is based on the marketability and net realisable value of the inventory. The determination of the impairment value requires the acquisition of conclusive evidence by the management, who should also take into account factors such as the purpose of stocking the inventory and the impact of post-balance sheet date events before making judgments and estimates. The difference between the actual outcome and the original estimates shall affect the book value of the inventory and charge or reversal of impairment provision for the period during which the estimates were revised.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

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 2017 was RMB2,019,957,000 (31 December 2016: RMB2,016,470,000).

31. Change in accounting policies

In 2016, the Group changed the item "Business tax and surcharge" on the face of the income statement to "Taxes and surcharges" in accordance with the "Regulations for the Accounting Treatment of VAT" (Cai Kuai [2016] No. 22) (《增值稅會計處理規定》(財會[2016]22號)). Property tax, land use tax, vehicle and vessel tax and stamp duty, etc incurred in the operating activities of an enterprise on or after 1 May 2016 shall be presented under "Taxes and surcharges" instead of "Administrative expenses". Property tax and land use tax incurred prior to 1 May 2016 shall continue to be presented under "Administrative expenses". The combined and Company net profit and combined and Company shareholders' equity for the six months ended 30 June 2017 and six months ended 30 June 2016 are not affected.

For 2017, the Group presented "Other income" as a separate item under "Operating profit" on the face of the income statement in accordance with the "Notice of the Ministry of Finance on the Publication of the Revised ASBE 16 — Government Grants" (Cai Kuai [2017] No. 15). Depending on the nature of the business concerned, government grants relating to day-to-day activities were either included in other income or set off against costs and expenses. Government grants specifically applied for the reimbursement of incurred related costs and expenses or losses of the Company were directly set off against relevant costs and expenses, whereas government grants with no specific recipient for reimbursement were included as other income. Government grants not relating to day-to-day activities were accounted for as non-operating income. The revised standard was applied retrospectively to government grants subsisting as at 1 January 2017. New government grants received during the period from 1 January 2017 to the date of implementation of the revised standard shall be adjusted in accordance with the revised standard. The aforesaid change does not affect the combined and Company income statement for the same period last year.

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IV. TAXATION

1. Principal tax items and tax rates

Value-added tax (“VAT”)	—	Output tax payable on income generated from domestic sales of products and equipment repair services at a tax rate 17% (being the tax rate for general taxpayers); regarding service income for which the charge of business tax has been changed to the charge of VAT, output tax is calculated at tax rates of 5%, 6% and 11%, and VAT is payable on the difference after deduction of tax credit available for offsetting for the current period.
City maintenance and construction tax	—	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Education surcharge	—	In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Individual income tax	—	In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	—	In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income.

2. Tax concession

The Company was subject to an enterprise income tax rate of 15% for the years 2014 to 2016 as a national-grade hi-tech enterprise incorporated in Shenzhen. Application for the status of national-grade hi-tech enterprise for years 2017 to 2019 is currently in progress. 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 2017 as a national-grade key software enterprise.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2017 as a national-grade key software enterprise.

ZTE Microelectronics Technology Company Limited was subject to an enterprise income tax rate of 10% in 2017 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 2014 to 2016 as a national-grade hi-tech enterprise. Application for the status of national-grade hi-tech enterprise for years 2017 to 2019 is currently in progress.

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IV. TAXATION (CONTINUED)

2. Tax concession (continued)

Shanghai Zhongxing Software Company Limited was subject to an enterprise income tax rate of 10% in 2017 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2017 as a national-grade key software enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited was subject to an enterprise income tax rate of 15% in 2017 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.

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

1. Cash

	30 June 2017	31 December 2016
Cash	15,110	25,287
Bank deposit	26,051,067	31,110,707
Other cash	1,503,788	1,213,920
	27,569,965	32,349,914

As at 30 June 2017, the Group had no bank borrowings pledged against time deposits with banks (31 December 2016: RMB24,620,000).

As at 30 June 2017, the Group's overseas currency deposits amounted to RMB7,822,521,000 (31 December 2016: RMB6,534,605,000). Funds placed overseas and subject to remittance restrictions amounted to RMB20,010,000 (31 December 2016: RMB40,511,000).

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 RMB158,187,000 (31 December 2016: RMB1,086,203,000) were not included in cash and cash equivalents.

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

2. Derivative financial assets

	30 June 2017	31 December 2016
Net investment hedging instruments for overseas operations	854	862
Derivative financial assets at fair value through current profit or loss	17,010	53,995
	17,864	54,857

For details of net investment hedging instruments for overseas operations, please refer to Note V.57.

Trading in derivative financial assets at fair value through current profit or loss mainly comprised transactions in forward exchange contracts with reputable banks in the PRC and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, they were dealt with at fair value through current profit or loss. For the period, loss arising from fair value changes of non-hedging derivative financial instruments amounting to RMB61,772,000 (Six months ended 30 June 2016: loss of RMB38,566,000) was dealt with in current profit or loss.

3. Bills receivable

	30 June 2017	31 December 2016
Commercial acceptance bills	3,694,249	1,152,175
Bank acceptance bills	786,766	832,318
	4,481,015	1,984,493

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

	30 June 2017		31 December 2016	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Bank acceptance bills	—	103,889	325,915	—

As at 30 June 2017, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2016: Nil).

As at 30 June 2017, bills amounting to RMB103,889,000 were pledged for obtaining short-term borrowing (31 December 2016: Nil).

As at 30 June 2017, there were no outstanding bills receivable endorsed on behalf of third parties (31 December 2016: Nil).

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

4. Trade receivables

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

Aging analysis of trade receivables was as follows:

	30 June 2017	31 December 2016
Within 1 year	24,167,606	23,936,294
1 to 2 years	3,756,149	3,875,526
2 to 3 years	2,680,553	2,253,823
Over 3 years	3,316,950	3,635,481
	33,921,258	33,701,124
Less: bad debt provision for trade receivables	7,913,354	7,702,936
	26,007,904	25,998,188

Please refer to Note V.19 for details of movements in bad debt provision for trade receivables for the period.

	30 June 2017				31 December 2016			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	345,903	1	345,903	100	550,842	2	550,842	100
For which bad debt provision has been collectively made based on credit risks								
0-6 months	20,882,171	60	—	—	19,580,197	58	—	—
7-12 months	3,255,369	10	297,735	9	4,356,097	13	483,535	11
13-18 months	2,059,245	6	823,675	40	2,156,353	6	700,367	32
19-24 months	1,558,300	5	936,823	60	1,719,173	5	886,925	52
2-3 years	2,591,372	8	2,280,320	88	2,253,823	7	1,996,628	89
Over 3 years	3,228,898	10	3,228,898	100	3,084,639	9	3,084,639	100
	33,575,355	99	7,567,451	23	33,150,282	98	7,152,094	22
	33,921,258	100	7,913,354		33,701,124	100	7,702,936	

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

4. Trade receivables (continued)

As at 30 June 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	Reason
Overseas carriers 1	128,912	128,912	100%	Debtor running into serious financial difficulties
Overseas carriers 2	85,906	85,906	100%	Debtor running into serious financial difficulties
Overseas carriers 3	72,516	72,516	100%	Debtor running into serious financial difficulties
Overseas carriers 4	50,141	50,141	100%	Debtor running into serious financial difficulties
Others	8,428	8,428	100%	Debtor running into serious financial difficulties
	345,903	345,903		

As at 31 December 2016, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	182,198	182,198	100%	Debtor running into serious financial difficulties
Overseas carriers 2	114,606	114,606	100%	Debtor running into serious financial difficulties
Overseas carriers 3	81,926	81,926	100%	Debtor running into serious financial difficulties
Overseas carriers 4	73,948	73,948	100%	Debtor running into serious financial difficulties
Overseas carriers 5	56,042	56,042	100%	Debtor running into serious financial difficulties
Others	42,122	42,122	100%	Debtor running into serious financial difficulties
	550,842	550,842		

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

4. Trade receivables (continued)

As at 30 June 2017, there was no write-back of bad-debt provision (31 December 2016: Nil) and a write-off of RMB273,511,000 (31 December 2016: RMB164,226,000) in respect of individually significant trade receivables for which bad-debt provision had been made separately.

Top 5 accounts of trade receivables as at 30 June 2017 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	3,199,243	9.43%	12,028
Customer 2	3,086,977	9.11%	45,485
Customer 3	1,812,075	5.34%	14,886
Customer 4	1,093,945	3.22%	240,010
Customer 5	613,583	1.81%	586,230
	9,805,823	28.91%	898,639

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 2017	31 December 2016
Within 1 year	5,404,179	3,170,036
1 to 2 years	834,692	998,763
2 to 3 years	117,589	186,771
Over 3 years	91,678	74,502
	6,448,138	4,430,072

Other receivables analysed by nature was as follows:

	30 June 2017	31 December 2016
Staff loans	317,448	465,830
Transactions with third parties	3,363,317	2,839,668
Release of loans and advances	1,938,037	519,626
Others	829,336	604,948
	6,448,138	4,430,072

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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 2017 were as follows:

Due from	Closing balance	As a percentage of total amounts of other receivables	Nature
Third-party entity 1	2,000,848	31.03%	Transactions with third parties
Third-party entity 2	820,000	12.72%	Others
Third-party entity 3	512,145	7.94%	Loans and advances
Third-party entity 4	370,570	5.75%	Loans and advances
Third-party entity 5	342,000	5.30%	Transactions with third parties
	4,045,563	62.74%	

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 2017		31 December 2016	
	Book balance	Percentage (%)	Book balance	Percentage (%)
Within 1 year	905,479	100	1,739,691	100

Top 5 accounts of prepayments as at 30 June 2017 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	69,805	7.71%
Supplier 2	48,015	5.30%
Supplier 3	29,820	3.29%
Supplier 4	23,581	2.61%
Supplier 5	17,268	1.91%
	188,489	20.82%

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

7. Inventories

	30 June 2017			31 December 2016		
	Book balance	Provision for impairment	Book value	Book balance	Provision for impairment	Book value
Raw materials	6,493,415	592,722	5,900,693	5,280,233	506,476	4,773,757
Materials under subcontract processing	446,807	17,048	429,759	515,392	31,218	484,174
Work-in-progress	1,724,556	49,047	1,675,509	1,438,920	37,026	1,401,894
Finished goods	3,595,874	453,751	3,142,123	4,066,426	447,167	3,619,259
Dispatch of goods and others	17,046,225	2,314,353	14,731,872	18,631,494	2,100,010	16,531,484
	29,306,877	3,426,921	25,879,956	29,932,465	3,121,897	26,810,568

Please refer to Note V.19 for details of movements in the provision for impairment of inventory during the period.

8. Amount due from/to customers for contract works

	30 June 2017	31 December 2016
Amount due from customers for contract works	9,978,860	9,345,123
Amount due to customers for contract works	(9,335,024)	(5,876,790)
	643,836	3,468,333
Contract costs incurred plus recognized profits to date	102,538,703	95,921,927
Less: Estimated loss	886,627	1,044,198
Progress billings	101,008,240	91,409,396
	643,836	3,468,333

Where estimated total contract costs exceed estimated total contract revenue, provision for estimated losses on the contract measured at the difference between the amount in excess and recognized losses on the contract should be made and charged to current profit or loss.

9. Available-for-sale financial assets

	30 June 2017			31 December 2016		
	Book balance	Impairment at provision	Carrying amount	Book balance	Impairment at provision	Carrying amount
Available-for-sale equity instruments						
At fair value	1,310,662	—	1,310,662	1,315,085	—	1,315,085
At cost	1,502,053	—	1,502,053	1,344,582	—	1,344,582
	2,812,715	—	2,812,715	2,659,667	—	2,659,667

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

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

Available-for-sale financial assets at fair value:

	30 June 2017 Available-for- sale equity instruments	31 December 2016 Available- for-sale equity instruments
Equity instrument cost	161,440	139,167
Fair value	1,310,662	1,315,085
Accumulated fair value change included in other comprehensive income	1,149,222	1,175,918

Available-for-sale financial assets at cost:

30 June 2017

	Book balance			Shareholding percentage (%)	Cash dividend for the period
	Opening balance	Increase during the period	Decrease during the period		
航天科技投資控股有限公司	201,734	—	—	2.6936	—
中國教育出版傳媒股份 有限公司	196,000	—	—	0.985	—
Others	946,848	191,183	(33,712)		3,208
	1,344,582	191,183	(33,712)		3,208

31 December 2016

	Book balance			Shareholding percentage (%)	Cash dividend for the period
	Opening balance	Increase during the period	Decrease during the period		
航天科技投資控股有限公司	201,734	—	—	2.6936	15,000
中國教育出版傳媒股份 有限公司	196,000	—	—	0.985	—
Others	890,732	345,892	(289,776)		14,991
	1,288,466	345,892	(289,776)		29,991

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

10. Long-term receivables

	30 June 2017	31 December 2016
Installment payments for the provision of system construction projects telecommunication	1,332,348	1,460,520
Less: Bad debt provision for long-term receivables	29,682	83,957
	1,302,666	1,376,563

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

11. Long-term equity investments

	30 June 2017	31 December 2016
Equity method		
Joint ventures (1)	62,386	64,322
Associates (2)	699,991	606,318
Less: Provision for impairment in long-term equity Investments	4,764	4,764
	757,613	665,876

30 June 2017

(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	54,520	-	-	(830)	-	-	-	-	53,690	-
Pengzhong Xingsheng	565	-	-	-	-	(1)	-	-	564	-
重慶前洲城市大數據管理有限公司	6,982	-	-	(1,105)	-	-	-	-	5,877	-
	64,322	-	-	(1,935)	-	(1)	-	-	62,386	-

Notes to Financial Statements

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

11. Long-term equity investments (continued)

30 June 2017 (continued)

(2) Associates

	Movements during the period									
	Balances as at the beginning of the period	Increase of investment	Decrease of investment	Investment gains/ losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying values as at the end of the period	Impairment provision at the end of the period
KAZNURTEL Limited Liability Company	2,477	—	—	—	—	—	—	—	2,477	—
思卓中興(杭州)科技有限公司	21,864	—	—	—	—	—	—	—	21,864	—
ZTE Energy Limited	396,345	—	—	(1,549)	—	—	—	—	394,796	—
ZTE Software Technology (Nanchang) Company Limited	4,424	—	—	(1,806)	—	—	—	—	2,618	—
Nanjing Piaoxun Network Technology Company Limited	23	—	—	—	—	—	—	—	23	—
Telecom Innovations	11,480	—	—	—	—	(377)	—	—	11,103	—
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	3,788	—	—	(1,171)	—	—	—	—	2,617	—
北京億科三友科技發展有限公司	—	—	—	—	—	—	—	—	—	(4,764)
寧波中興興通供應鏈有限公司*	11,205	—	(12,402)	1,197	—	—	—	—	—	—
寧波中興雲祥科技有限公司*	—	—	—	—	—	—	—	—	—	—
上海中興思裕通訊有限公司	8,055	—	—	(845)	—	—	—	—	7,210	—
江蘇中興華易科技發展有限公司	—	—	—	—	—	—	—	—	—	—
中興耀維科技江蘇有限公司	4,220	—	—	(202)	—	—	—	—	4,018	—
石家莊市善理通益科技有限公司*	692	—	(1,500)	808	—	—	—	—	—	—
中興智慧成都有限公司	11,181	—	—	(763)	—	—	—	—	10,418	—
INTLIVE TECHNOLOGIES (Private) LIMITED	7,189	—	—	—	—	(168)	—	—	7,021	—
廈門智慧小區網絡科技有限公司	5,844	—	—	(714)	—	—	—	—	5,130	—
Shenzhen Weipin Zhiyuan Information Technology Company Limited*	2,645	—	(2,645)	—	—	—	—	—	—	—
中山優順置業有限公司	2,000	—	—	—	—	—	—	—	2,000	—
鐵建聯和(北京)科技有限公司	2,446	—	—	(326)	—	—	—	—	2,120	—
西安城投智能充電股份有限公司	6,989	—	—	—	—	—	—	—	6,989	—
紹興市智慧城市集團有限公司	4,570	—	—	(602)	—	—	—	—	3,968	—
廣東福能大數據產業園建設有限公司	3,000	10,500	—	(180)	—	—	—	—	13,320	—
廣東中興城智信息技術有限公司	3,510	—	—	1,218	—	—	—	—	4,728	—
前海融資租賃股份有限公司	64,127	—	—	3,338	—	(2,228)	—	—	65,237	—
上海博色信息科技有限公司	20,499	—	—	1,152	—	—	—	—	21,651	—
江蘇中興微通信息科技有限公司*	—	—	—	—	—	—	—	—	—	—
南京寧網科技有限公司	2,981	—	—	(1,127)	—	—	—	—	1,854	—
New Idea Investment Pte. Ltd	—	14,036	—	—	—	(328)	—	—	13,708	—
中興智能科技產業有限公司	—	38,000	—	—	—	—	—	—	38,000	—
衡陽網信置業有限公司	—	52,357	—	—	—	—	—	—	52,357	—
	601,554	114,883	(16,547)	(1,572)	—	(3,101)	—	—	695,227	(4,764)

* For the period, 寧波中興興通供應鏈有限公司, 寧波中興雲祥科技有限公司, 石家莊善理通益科技有限公司 and Shenzhen Weipin Zhiyuan Information Technology Company Limited and 江蘇中興微通信息科技有限公司 were no longer accounted for as associates as the Group had lost important influence over these companies following transfers of equity interests.

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

12. Investment Properties

Fair value measurement

30 June 2017

	Buildings
Opening balance	2,016,470
Fair value change (Note V.44)	3,487
Closing balance	2,019,957

31 December 2016

	Buildings
Opening balance	2,010,396
Fair value change	6,074
Closing balance	2,016,470

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 2017, investment properties with a carrying value of RMB1,432,464,000 (31 December 2016: RMB1,428,829,000) had yet to obtain title registration certificates.

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

13. Fixed Assets

	Buildings	Freehold land	Electronic equipments	Machinery equipments	Vehicles	Other equipments	Total
Cost							
Opening balance	5,809,786	49,560	4,375,740	3,132,567	316,818	418,442	14,102,913
Acquisitions	24,009	—	405,233	17,375	16,278	12,434	475,329
Transfer from construction in progress	616,950	—	—	—	—	—	616,950
Disposal or retirement	(160,919)	—	(229,400)	(191,277)	(12,474)	(4,800)	(598,870)
Exchange rate adjustments	(7,489)	(1,606)	(3,216)	4,359	(2,710)	(73)	(10,735)
Closing balance	6,282,337	47,954	4,548,357	2,963,024	317,912	426,003	14,585,587
Accumulated depreciation							
Opening balance	1,356,668	—	3,138,058	1,657,634	169,640	214,215	6,536,215
Provision	113,686	—	242,615	133,337	13,693	19,904	523,235
Disposed or retirement	(27,938)	—	(200,198)	(153,426)	(10,023)	(2,599)	(394,184)
Exchange rate adjustments	(1,564)	—	(3,475)	1,312	(491)	(716)	(4,934)
Closing balance	1,440,852	—	3,177,000	1,638,857	172,819	230,804	6,660,332
Provision for impairment							
Opening balance	21,378	—	24,318	2,329	—	2,432	50,457
Provision	—	—	—	—	—	—	—
Disposal or retirement	—	—	—	—	—	(7)	(7)
Exchange rate adjustments	(108)	—	(502)	(53)	—	(51)	(714)
Closing balance	21,270	—	23,816	2,276	—	2,374	49,736
Net book value							
At the end of the period	4,820,215	47,954	1,347,541	1,321,891	145,093	192,825	7,875,519
At the beginning of the period	4,431,740	49,560	1,213,364	1,472,604	147,178	201,795	7,516,241

As at 30 June 2017, 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 RMB2,883,526,000 (31 December 2016: RMB2,617,157,000).

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

14. Construction in progress

	Budget	Opening Balance	Increase during the period	Transfer to fixed assets during the period	Closing balance	Source of funds	Construction contribution as a percentage of the budget (%)	Work progress
Staff quarters	1,017,932	443,373	180,208	—	623,581	Internal funds	61.26%	In progress
Sanya R&D Base Project	119,100	82,473	14,433	—	96,906	Internal funds	81.37%	In progress
Heyuan R&D Training Center Phase 1	900,000	649,276	122,817	(616,950)	155,143	Internal funds	85.79%	In progress
Nanjing Project	978,070	55,708	20,901	—	76,609	Internal funds	7.83%	In progress
Xili Data Centre	51,000	17,450	21,914	—	39,364	Internal funds	77.18%	In progress
Nanjing Internet of Things office	175,000	126,094	17,870	—	143,964	Internal funds	82.27%	In progress
Changsha production R&D Base Phase 1	230,020	139,566	17,733	—	157,299	Internal funds	68.38%	In progress
Others	Nil	215,510	30,997	—	246,507	Internal funds	Nil	In progress
		1,729,450	426,873	(616,950)	1,539,373			

As at 30 June 2017, there was no capitalized interest in the balance of the construction in progress (31 December 2016: Nil).

15. Intangible assets

	Software	Technology know-how	Land use right	Franchise	R&D costs	Total
Cost						
Opening balance	452,728	177,606	1,425,581	523,599	6,765,449	9,344,963
Acquisition	31,564	122,692	70,434	19,114	—	243,804
In-house R&D	—	—	—	—	661,595	661,595
Disposal or retirement	(49,504)	(100,265)	(8,118)	—	—	(157,887)
Closing balance	434,788	200,033	1,487,897	542,713	7,427,044	10,092,475
Accumulated amortization						
Opening balance	152,733	39,018	153,700	392,683	4,246,411	4,984,545
Provision	43,699	25,771	14,098	26,616	446,801	556,985
Disposal or retirement	(39,470)	(265)	(1,973)	—	—	(41,708)
Closing balance	156,962	64,524	165,825	419,299	4,693,212	5,499,822
Provision for impairment						
Opening balance	—	—	6,322	—	—	6,322
Provision	—	—	—	—	—	—
Disposal or retirement	—	—	—	—	—	—
Closing balance	—	—	6,322	—	—	6,322
Book value						
At the end of the period	277,826	135,509	1,315,750	123,414	2,733,832	4,586,331
At the beginning of the period	299,995	138,588	1,265,559	130,916	2,519,038	4,354,096

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

15. Intangible assets (continued)

As at 30 June 2017, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen and Nanjing in the PRC, with a net carrying value of approximately RMB331,061,000 (31 December 2016: RMB340,485,000).

There was no transfer of land use rights to investment properties in 2017. (2016: no transfer of land use rights to investment properties).

16. Deferred 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	49,541	6,876	(33,151)	(8,695)	14,571
System products	1,316,349	676,715	(628,444)	(10,344)	1,354,276
	1,365,890	683,591	(661,595)	(19,039)	1,368,847

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

17. Goodwill

30 June 2017

Opening balance	Increase during the period	Decrease during the period	Closing balance
	Combination not involving entities under common control	Disposal	
186,206	33,500	—	219,706

The Group recorded goodwill amounting to RMB186,206,000 following the acquisition of Zhuhai Guangtong Bus Co., Ltd. in October 2016 and goodwill amounting to RMB33,500,000 following the acquisition of 蘇州洛合鑄信光電科技有限公司 in June 2017.

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

18. Deferred tax assets/liabilities

	30 June 2017		31 December 2016	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealised profits arising on consolidation	887,703	204,814	1,146,827	243,430
Provision for impairment in inventory	945,535	178,038	711,115	129,003
Foreseeable construction contract losses	713,232	107,790	969,663	145,450
Amortization of deferred development costs	1,816,242	206,885	1,740,926	194,724
Provision for warranties and returned goods	613,039	100,106	681,945	109,834
Provision for retirement benefits	153,572	23,874	151,680	23,695
Deductible tax losses	107,767	19,595	123,958	25,689
Accruals	3,366,585	467,632	5,162,796	746,086
Overseas taxes pending deduction	1,008,863	151,329	1,045,418	156,813
Share option scheme expenses	11,928	1,789	25,393	3,809
	9,624,466	1,461,852	11,759,721	1,778,533
	30 June 2017		31 December 2016	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	1,086,164	162,088	1,074,268	161,600
Revenue from construction contracts	71,881	11,861	41,451	6,375
Changes in fair value of available-for-sale financial assets	516,540	101,562	530,685	104,363
	1,674,585	275,511	1,646,404	272,338

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

18. Deferred tax assets/liabilities (continued)

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

	30 June 2017		31 December 2016	
	Amount of set-off	Amount after set-off	Amount of set-off	Amount after set-off
Deferred tax assets	169,612	1,292,240	173,958	1,604,575
Deferred tax liabilities	169,612	105,899	173,958	98,380

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

	30 June 2017	31 December 2016
Deductible temporary differences	756,204	3,182,338
Deductible tax losses	4,627,162	2,969,140
	5,383,366	6,151,478

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

	30 June 2017	31 December 2016
2017	133,968	234,993
2018	102,570	149,209
2019	95,714	146,448
After 2020	5,051,114	5,620,828
	5,383,366	6,151,478

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

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

19. Provision for impairment of assets

	Opening balance	Provision for the period	Decrease during the period		Effect of exchange rates	Closing balance
			Write-back	Write-off		
Bad debt provision	7,786,893	1,036,064	(311,044)	(550,112)	(18,765)	7,943,036
Including: Trade receivables	7,702,936	1,036,064	(310,561)	(493,644)	(21,441)	7,913,354
Long-term receivables	83,957	—	(483)	(56,468)	2,676	29,682
Provision for impairment of inventories	3,121,897	417,789	(100,849)	(8,696)	(3,220)	3,426,921
Provision for impairment of amounts due from customers for contract works	66,326	—	(16,204)	—	137	50,259
Provision for impairment of fixed assets	50,457	—	—	(7)	(714)	49,736
Provision for impairment of intangible assets	6,322	—	—	—	—	6,322
Provision for impairment of long-term equity investment	4,764	—	—	—	—	4,764
	11,036,659	1,453,853	(428,097)	(558,815)	(22,562)	11,481,038

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.

20. Other current assets/other non-current assets

Other current assets

	30 June 2017	31 December 2016
Credit tax available for deduction	8,546,505	7,585,904
Others	174,148	291,970
	8,720,653	7,877,874

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

20. Other current assets/other non-current assets (continued)

Other non-current assets

	30 June 2017	31 December 2016
Prepayments for project and equipment	961,014	323,088
Risk compensation fund	2,917,401	3,258,533
Advanced investment amounts	67,691	—
Deposit	305,496	305,496
	4,251,602	3,887,117

21. Short-term loans

		30 June 2017		31 December 2016		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	8,237,000	8,237,000	6,289,018	6,289,018	
	USD	979,000	6,626,949	958,023	6,640,055	
	EUR	313,000	2,421,775	238,000	1,742,874	
Pledged loans	RMB	103,381	103,381	—	—	Note 1
	USD	—	—	3,000	20,793	Note 1
Guaranteed loans	USD	2,940	19,901	—	—	Note 2
	EUR	60,000	464,238	60,000	439,380	Note 3
		17,873,244		15,132,120		

As at 30 June 2017, the annual interest rate of the above loans ranged from 0.70%–6.00% (31 December 2016: 1.20%–5.66%).

Note 1: The loans represented borrowings obtained by ZTE Group Finance Co., Ltd. ("ZTE Group Finance") by pledging against bank acceptance with an amount of RMB103,889,000 (31 December 2016: Nil). As at 30 June 2017, there were no loans pledged against time deposits with banks (31 December 2016: RMB24,620,000).

Note 2: The loans represented short-term borrowings extended to 中興網信國際有限公司 and guaranteed by ZTE ICT Company Limited.

Note 3: The loans represented short-term borrowings extended to ZTE COOPERATIEF UA ("ZTE COOPERATIEF") and guaranteed by ZTE.

As at 30 June 2017, there were no overdue loans (31 December 2016: Nil).

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

22. Derivative financial liabilities

	30 June 2017	31 December 2016
Financial liabilities at fair value through current profit and loss	63,284	36,104
Hedging instruments – current portion	2,609	4,044
	65,893	40,148

Financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details please refer to Note V.2.

For details of hedging instruments, please refer to Note V.57.

23. Bills payable

	30 June 2017	31 December 2016
Bank acceptance bills	5,517,265	6,186,513
Commercial acceptance bills	4,527,843	5,503,444
	10,045,108	11,689,957

As at 30 June 2017, there was no due and outstanding bills payable (31 December 2016: Nil).

24. Trade payables

An aging analysis of the trade payables are as follows:

	30 June 2017	31 December 2016
0 to 6 months	23,831,157	24,543,951
7 to 12 months	458,327	207,469
1 to 2 years	207,161	375,429
2 to 3 years	186,686	90,453
Over 3 years	81,180	26,579
	24,764,511	25,243,881

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

As at 30 June 2017, there were no material trade payables aged over 1 year (31 December 2016: Nil).

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

25. Advances from customers

	30 June 2017	31 December 2016
Advanced payments for system project work	4,847,574	6,512,111
Advanced payments for terminals	1,061,358	1,580,053
	5,908,932	8,092,164

26. Salary and welfare payables

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	5,007,924	11,393,010	(10,480,821)	5,920,113
Post-employment benefits (defined contribution plan)	156,765	556,873	(572,675)	140,963
Termination benefits	4,362	176,821	(177,190)	3,993
	5,169,051	12,126,704	(11,230,686)	6,065,069

Short-term remuneration is analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus and allowance	3,889,284	10,455,064	(9,762,180)	4,582,168
Staff welfare	5,938	29,674	(29,220)	6,392
Social insurance	68,267	338,115	(345,464)	60,918
Including: Medical Insurance	60,861	306,511	(313,002)	54,370
Work Injuries Insurance	2,896	12,994	(13,296)	2,594
Maternity Insurance	4,510	18,610	(19,166)	3,954
Housing funds	21,931	271,867	(251,168)	42,630
Labour union fund and employee education fund	1,022,504	298,290	(92,789)	1,228,005
	5,007,924	11,393,010	(10,480,821)	5,920,113

The defined contribution plan was as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Basic pension insurance	149,293	538,441	(553,703)	134,031
Unemployment insurance	7,472	18,432	(18,972)	6,932
	156,765	556,873	(572,675)	140,963

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

27. Tax payable

	30 June 2017	31 December 2016
Value-added tax	250,728	232,729
Business tax	—	14,273
Income tax	282,153	524,762
Including: PRC tax	269,892	444,792
Overseas tax	12,261	79,970
Individual income tax	236,082	176,094
City maintenance and construction tax	40,536	26,542
Education surcharge	36,696	27,029
Other taxes	37,170	(4,240)
	883,365	997,189

28. Dividend payable

	30 June 2017	31 December 2016
Dividend payable to holders of restricted shares	225	225
Dividend payable to non-controlling interests	971	50,092
	1,196	50,317

29. Other payables

	30 June 2017	31 December 2016
Accruals	914,766	891,034
Deferred income from staff housing due in 1 year	136,583	270,762
Payables to third parties	6,608,932	10,473,391
Including: Payable to Relevant U.S. Authorities	564,561	6,182,452
Deposits	28,695	33,273
Factored interests payable	30,313	33,862
Others	1,745,383	1,958,096
	9,464,672	13,660,418

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

30. Provisions

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Outstanding litigation	133,262	6,896	(1,879)	138,279
Provision for returned handsets	367,056	67,746	(129,448)	305,354
Provision for warranties	387,048	331,867	(382,807)	336,108
	887,366	406,509	(514,134)	779,741

31. Non-current liabilities due within one year

	30 June 2017	31 December 2016
Non-current liabilities due within one year	1,460,322	1,932,025

32. Long-term loans

		30 June 2017		31 December 2016		
		Original currency	RMB equivalent	Original currency	RMB equivalent	
Credit loans	RMB	759,260	759,260	585,298	585,298	
Guaranteed loans	RMB	163,550	163,550	90,444	90,444	Note 1
	USD	507,542	3,435,602	506,277	3,509,004	Note 1
	EUR	—	—	110,000	805,530	
Secured loans	RMB	19,000	19,000	28,000	28,000	Note 2
		4,377,412		5,018,276		

Note 1: The guaranteed loans comprised mainly guaranteed loans provided by the Company for its subsidiaries ZTE (H.K.) Limited, 深圳市中興新能源汽車服務有限公司 and ZTE (Heyuan) Company Limited.

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 RMB26,732,000 and housing properties with a book value of RMB55,458,000.

As at 30 June 2017, the annual interest rate for the aforesaid loans was 1.20%–5.50% (31 December 2016: 1.200%–5.225%).

33. Other non-current liabilities

	30 June 2017	31 December 2016
Factored interests payable	132,255	166,526
Deferred income relating to staff housing	1,164,006	1,104,242
Long-term payable	382,135	293,223
	1,678,396	1,563,991

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

34. Share capital

	Opening balance	Increase/decrease during the period			Closing balance
		Issue of new shares	Others	Sub-total	
Restricted shares					
Senior management shares	4,821	95	181	276	5,097
Total number of restricted shares	4,821	95	181	276	5,097
Unrestricted shares					
RMB Ordinary shares	3,424,305	5,292	(181)	5,111	3,429,416
Overseas listed foreign shares	755,502	—	—	—	755,502
Total number of unrestricted shares	4,179,807	5,292	(181)	5,111	4,184,918
Total number of shares	4,184,628	5,387	—	5,387	4,190,015

35. 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.

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

35. Other Equity Instruments (continued)

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

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

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.

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

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

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

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

35. Other Equity Instruments (continued)

(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	Interest payment during the period	Closing balance
6,000,000	2015.1.27	6,000	6,000,000	6,252,364	173,822	(348,600)	6,077,586
1,500,000	2015.2.6	1,500	1,500,000	1,572,198	42,558	(85,349)	1,529,407
1,500,000	2015.11.20	1,500	1,500,000	1,496,765	33,583	—	1,530,348
9,000,000		9,000	9,000,000	9,321,327	249,963	(433,949)	9,137,341

36. Capital reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	10,628,906	67,168	—	10,696,074
Share-based payment	25,394	—	(13,466)	11,928
Capital investment by government	80,000	—	—	80,000
	10,734,300	67,168	(13,466)	10,788,002

37. Other comprehensive income

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

	1 January 2016	Increase/ decrease	31 December 2016	Increase/ decrease	30 June 2017
Changes in net liabilities arising from the re-measurement of defined benefit plans	(81,516)	743	(80,773)	—	(80,773)
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	284,780	58,780	343,560	(7,781)	335,779
Effective portion of hedging instruments	1,392	(57,047)	(55,655)	(10,655)	(66,310)
Differences arising from foreign currency translation	(1,726,842)	(140,133)	(1,866,975)	255,303	(1,611,672)
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
	(685,067)	(137,657)	(822,724)	236,867	(585,857)

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

37. Other comprehensive income (continued)

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

Six months ended 30 June 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
Other comprehensive income to be subsequently reclassified to profit or loss					
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)

Six months ended 30 June 2016

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

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

38. Surplus reserves

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

39. Retained profits

	30 June 2017
Retained profits at the beginning of the period	10,282,238
Net profit attributable to shareholders of the parent	2,292,867
Less: Statutory surplus reserves	—
Distribution to shareholders	—
Retained profits at the end of the period	12,575,105

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.

40. Operating revenue and costs

	Six months ended 30 June 2017		Six months ended 30 June 2016	
	Revenue	Cost	Revenue	Cost
Principal business	52,285,515	35,059,142	45,803,457	30,230,644
Other business	1,725,081	1,388,599	1,953,845	1,593,743
	54,010,596	36,447,741	47,757,302	31,824,387

Operating revenue is analysed as follows:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Telecommunications systems contracts	34,873,534	31,675,335
Sales of goods and rendering of services	19,071,637	16,014,399
Rental income	65,425	67,568
	54,010,596	47,757,302

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

41. Taxes and surcharges

	Six months ended 30 June 2017	Six months ended 30 June 2016
Business tax	—	67,854
City maintenance and construction tax	201,643	145,220
Education surcharge	156,795	118,817
Property tax	32,233	—
Land use tax	10,761	—
Vehicle and vessel tax	114	—
Stamp duty	42,399	—
Others	89,355	39,307
	533,300	371,198

42. Selling and distribution costs

	Six months ended 30 June 2017	Six months ended 30 June 2016
Wages, welfare and bonuses	2,944,592	2,609,153
Consulting and services charges	203,866	616,938
Travelling expenses	588,755	590,312
Transportation and fuel charges	273,409	266,753
Business expenses	283,431	317,793
Office expenses	140,802	167,635
Advertising and promotion expenses	650,452	808,401
Rental fees	248,203	264,837
Communication expenses	51,977	63,152
Others	291,065	273,633
	5,676,552	5,978,607

43. Administrative expenses

	Six months ended 30 June 2017	Six months ended 30 June 2016
Wages, welfare and bonuses	919,978	785,702
Office expenses	56,842	65,400
Amortisation and depreciation charges	151,329	136,288
Taxes	—	82,221
Rental fees	59,342	77,103
Travelling expenses	50,614	42,936
Others	189,644	204,335
	1,427,749	1,393,985

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

44. Loss from changes in fair values

	Six months ended 30 June 2017	Six months ended 30 June 2016
Financial assets/liabilities at fair value through profit or loss	(61,542)	(38,566)
Including: Derivative financial instruments	(61,542)	(38,566)
Investment properties at fair value	3,487	2,216
	(58,055)	(36,350)

45. Investment income

	Six months ended 30 June 2017	Six months ended 30 June 2016
Investment loss from long-term equity investment under equity method	(3,507)	(19,517)
Investment income earned during the period of holding available-for-sale financial assets	6,473	25,773
Investment loss arising from the disposal of financial assets at fair value through profit or loss	(58,476)	(140,289)
Investment income from the disposal of available-for-sale financial assets	2,609	455,200
Investment income from the disposal of long-term equity investment	104,897	36,798
	51,996	357,965

46. Financial expenses

	Six months ended 30 June 2017	Six months ended 30 June 2016
Interest expenses	566,430	603,232
Less: Interest income	529,632	442,372
Loss/(gain) on foreign currency exchange	56,738	(455,359)
Cash discounts and interest subsidy	82,135	65,212
Bank charges	113,486	134,229
	289,157	(95,058)

For the current period of 2017, interest income from ZTE Group Finance Company Limited ("Finance Company") amounted to RMB207,090,000 (Six months ended 2016: RMB144,906,000).

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

47. Impairment losses

	Six months ended 30 June 2017	Six months ended 30 June 2016
Bad debt provisions	725,020	682,112
Inventories provisions	316,940	369,106
Amount due from customers for contract works	(16,204)	—
	1,025,756	1,051,218

48. Other income

	Six months ended 30 June 2017	Six months ended 30 June 2016
Refund of VAT on software products (Note 1)	1,219,018	—
Others	150,000	—
	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. For the same period last year, software VAT rebates were included in non-operating income. For details, please refer to Note V.49.

49. Non-operating income/Non-operating expenses

Non-operating income

	Six months ended 30 June 2017	Six months ended 30 June 2016	Amount of extraordinary gain/loss recognized for the period
Refund of VAT on software products (Note 1)	—	1,362,573	—
Others (Note 2)	69,403	901,157	67,210
	69,403	2,263,730	67,210

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. In accordance with "ASBE No. 16 – Government Grants" implemented since 12 June 2017, VAT rebates for software products related to day-to-day activities but without specific recipient of reimbursement are included in other income.

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

49. Non-operating income/Non-operating expenses (continued)

Non-operating income (continued)

Note 2 "Others" includes contractual penalty gains and various other gains. In accordance with "ASBE 16 – Government grants" implemented with effect from 12 June 2017, depending on the nature of the business concerned, government grants relating to day-to-day activities and specifically applied for the reimbursement of incurred related costs and expenses or losses of the Company shall be directly set off against relevant costs and expenses, whereas government grants with no specific recipient for reimbursement shall be included as other gains. In accordance with this principle, amounts of RMB138,140,000 and RMB708,719,000 were set off against operating costs and R&D costs, respectively, while an amount of RMB1,369,018,000 was included in other gains for the reporting period. Government grants not relating to day-to-day activities were accounted for as non-operating income. The revised standard was applied retrospectively to government grants subsisting as at 1 January 2017. The aforesaid change does not affect the non-operating income for the same period last year.

Non-operating expenses

	Six months ended 30 June 2017	Six months ended 30 June 2016	Amount of extraordinary gain/loss recognized for the period
Compensation	29,711	43,690	29,711
Loss arising from the disposal of non-current assets	26,356	4,659	26,356
Others	22,557	3,016	22,557
	78,624	51,365	78,624

50. 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 2017	Six months ended 30 June 2016
Cost of goods and services	32,597,687	27,345,822
Staff remuneration (including share-based payment)	12,126,704	11,237,313
Depreciation and amortisation	1,092,324	1,274,212
Rent	380,915	341,940
Others	4,031,091	6,056,856
	50,228,721	46,256,143

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

51. Income tax

	Six months ended 30 June 2017	Six months ended 30 June 2016
Current income tax	421,530	480,387
Deferred income tax	322,654	39,040
	744,184	519,427

Reconciliation between income tax and total profit was as follows:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Total profit	3,287,400	2,707,781
Tax at statutory tax rate (Note 1)	821,850	676,945
Effect of different tax rates applicable to certain subsidiaries	(291,453)	(206,080)
Adjustment to current tax in previous period	(27,087)	(50,998)
Profits and losses attributable to joint ventures and associates	908	2,927
Income not subject to tax	(1,618)	(208,401)
Expenses not deductible for tax	247,340	161,699
Deductible temporary differences not recognised	88,098	—
Deductible losses available from unrecognised deferred tax assets in previous years and deductible temporary differences	(485,149)	(38,365)
Unrecognized tax losses	391,295	181,700
Tax charge at the Group's effective rate	744,184	519,427

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.

52. 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.

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

52. Earnings per share (continued)

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 2017	Six months ended 30 June 2016
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	2,292,867	1,766,397
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	4,187,322	4,153,594
Diluting effect — weighted average number of ordinary shares		
Stock option	1,009	13,420
Adjusted weighted average number of ordinary shares of the company	4,188,331	4,167,014

Note 1: With effect from 1 November 2016, scheme participants that had fulfilled the exercise conditions under the share option incentive scheme of the Company were entitled to exercise share options qualified as such during the second exercise period. During the six months ended 30 June 2017, 5,387,000 new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 2,694,000 after taking into account the duration of time for such shares had been issued and outstanding.

The share options granted by the Company in 2013 have given rise to 1,009,000 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.

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

53. Notes to major items in cash flow statement

	Six months ended 30 June 2017	Six months ended 30 June 2016
Cash received in connection with other operating activities:		
Interest income	529,632	442,372
Cash paid in connection with other operating activities:		
Selling and distribution costs	2,528,094	3,325,659
Administrative expenses and research and development costs	1,107,772	1,038,709
Decrease in other payables — decrease in amounts payable to relevant U.S. authorities	5,552,091	—

54. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Net profit	2,543,216	2,188,354
Add: Provision for impairment of assets	1,025,756	1,051,218
Depreciation of fixed assets	523,235	665,310
Amortization of intangible assets and deferred development costs	556,985	585,737
Amortization of long-term deferred assets	12,104	23,165
Loss on disposal of fixed assets, intangible assets and other long-term assets	26,356	4,659
Loss from changes in fair value	58,055	36,350
Financial expenses	961,646	1,171,410
Investment income	(51,996)	(357,965)
Decrease/(increase) in deferred tax assets	312,335	(5,010)
Increase in deferred tax liabilities	7,519	23,928
Decrease/(increase) in inventories	613,672	(6,405,029)
Increase in operating receivables	(5,457,196)	(3,644,732)
(Decrease)/increase in operating payables	(6,317,519)	7,565,089
Cost of share-based payment	—	54,884
Increase in cash not immediately available for payments	979,280	(602,437)
Net cash flow from operating activities	(4,206,552)	2,354,931

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

54. Supplemental information on cash flow statement (continued)

(2) Change in cash and cash equivalents:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Cash		
Including: Cash on hand	15,110	35,236
Bank deposit readily available	25,892,880	27,896,137
Cash and cash equivalents at end of period	25,907,990	27,931,373

55. Assets under restrictions on ownership or right of use

	30 June 2017	31 December 2016
Cash	1,503,788	1,238,540 Note 1
Fixed assets	55,458	55,227 Note 2
Bills receivable	103,889	— Note 3
Intangible assets	26,732	27,071 Note 4
	1,689,867	1,320,838

Note 1: As at 30 June 2017, the Group's cash subject to ownership restriction amounted to RMB1,503,788,000 (31 December 2016: RMB1,238,540,000). There were no time deposits (31 December 2016: RMB24,620,000) pledged to secure bank borrowings. Acceptance bill deposits amounted to RMB85,247,000 (31 December 2016: RMB37,096,000). Letter of credit deposits amounted to RMB17,048,000 (31 December 2016: RMB143,972,000). Deposit for guarantee letter amounted to RMB385,817,000 (31 December 2016: RMB101,100,000). Amounts due from the People's Bank of China amounted to RMB833,873,000 (31 December 2016: RMB826,211,000) and risk compensation fund to be released within one year amounted to RMB181,803,000 (31 December 2016: RMB105,541,000).

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 2017, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB3,099,204,000 (31 December 2016: RMB3,364,074,000). Risk compensation fund to be released within one year amounting to RMB181,803,000 (31 December 2016: RMB105,541,000) was accounted for as restricted cash. Risk compensation fund to be released after one year amounting to RMB2,917,401,000 (31 December 2016: RMB3,258,533,000) was accounted for as other non-current assets.

Note 2: As at 30 June 2017, fixed assets with a carrying value of RMB55,458,000 (31 December 2016: RMB55,227,000) were pledged to secure bank borrowings.

Note 3: As at 30 June 2017, bank acceptances with an amount of RMB103,889,000 (31 December 2016: Nil) were pledged to secure bank borrowings.

Note 4: As at 30 June 2017, intangible assets with a carrying value of RMB26,732,000 (31 December 2016: RMB27,071,000) were pledged to secure bank borrowings.

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

56. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		30 June 2017			31 December 2016		
		Original currency	Exchange rate	RMB equivalent	Original currency	Exchange rate	RMB equivalent
Cash	USD	1,043	6.7691	7,060	1,536	6.9310	10,646
	SAR	68	1.8051	123	84	1.8483	155
	DZD	7,755	0.0628	487	1,088	0.0625	68
	THB	—	0.1993	—	10	0.1935	2
	EGP	254	0.3742	95	423	0.3803	161
Bank deposit	USD	840,183	6.7691	5,687,283	833,555	6.9310	5,777,370
	HKD	43,881	0.8662	38,010	155,167	0.8957	138,983
	BRL	56,803	2.0544	116,696	39,964	2.1269	84,999
	PKR	426,718	0.0646	27,566	1,972,163	0.0661	130,360
	EGP	12,590	0.3742	4,711	10,823	0.3803	4,116
	IDR	502,858,000	0.0005	251,429	320,140,000	0.0005	160,070
	EUR	130,914	7.7373	1,012,921	111,425	7.3230	815,965
	DZD	936,115	0.0628	58,788	429,616	0.0625	26,851
	MYR	42,079	1.5764	66,333	108,757	1.5450	168,030
	ETB	601,205	0.293	176,153	436,797	0.3094	135,145
	CAD	13,505	5.201	70,240	9,928	5.1620	51,248
	GBP	3,164	8.8121	27,881	2,579	8.5326	22,006
	THB	733,793	0.1993	146,245	550,186	0.1935	106,461
	RUB	529,869	0.1146	60,723	1,124,821	0.1143	128,567
	JPY	4,256,705	0.0604	257,105	1,915,920	0.0598	114,572
	VEF	417,308	0.0026	1,085	178,447	0.0103	1,838
COP	9,942,727	0.0022	21,874	10,942,174	0.0023	25,167	
NPR	352,729	0.0656	23,139	216,505	0.0638	13,813	
CLP	2,572,059	0.0102	26,235	2,504,757	0.0103	25,799	
Other cash	USD	91,601	6.7691	620,056	21,041	6.9310	145,835
Trade receivables	USD	936,451	6.7691	6,338,930	1,240,600	6.9310	8,598,599
	EUR	305,895	7.7373	2,366,801	356,864	7.3230	2,613,315
	BRL	40,466	2.0544	83,133	155,690	2.1269	331,137
	THB	197,637	0.1993	39,389	462,956	0.1935	89,582
	INR	14,877,352	0.1046	1,556,171	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.

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

57. Hedging

	30 June 2017		31 December 2016	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange forward	854	2,609	862	4,044
Non-current portion	—	—	—	—
Current portion	854	2,609	862	4,044

Net investment hedging for overseas operations

The Group entered into multiple forward currency contracts to manage exchange rate risks. Certain of such forward currency contracts were designated for net investment hedging for overseas operations, hence they were measured at fair value and dealt with through other comprehensive income. For the period, net loss arising from the fair value change of currency derivative instruments held for net investment hedging for overseas operations with an amount of RMB10,655,000 (Six months ended 30 June 2016: Net loss of RMB61,750,000) was accounted for in other comprehensive income

VI. CHANGES IN THE SCOPE OF CONSOLIDATION

New subsidiaries established during the period included: tier-one subsidiaries 中興克拉科技（蘇州）有限公司, 西安中興物聯網終端有限公司, ZTE (Xi'an) Co., Ltd., ZTE NetArtist Technologies (Shanghai) Co., Ltd; tier-two subsidiaries 浙江中興網信科技有限公司, 中興興雲產業投資管理（杭州）有限公司, PT.NUBIA TECHNOLOGY INDONESIA, Nubia (Thailand) CO.,LTD, Nubia USA, Inc., 深圳中興智坪科技有限公司, ZTE HK Telecommunication Jamaica Limited, 蘇州洛合鑄信美國公司; tier-three subsidiaries ZTE d.o.o. Beograd, ZTE NICARAGUA, S.A., 重慶中萬網盛科技有限公司, 蘇州洛合鑄信光電科技有限公司; and tier-four subsidiary ZTE ITALIA SERVIZI S.R.L.

The Company completed the disposal of 85% equity interests in ZTE Supply Chain in April 2017 and ZTE Supply Chain had been excluded from the consolidated financial statements of the Group as from May 2017. The Company completed the disposal of 81% equity interests in 北京市中保網盾科技有限公司（“中保網盾”） on 29 June 2017 and 中保網盾 has been excluded from the consolidated financial statements of the Group as from 29 June 2017.

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VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of major subsidiaries of the Company are as below:

Type of subsidiary	Place of registration/ principal place of business	Business nature	Registered capital	Percentage of shareholding	
				Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB51.08 million	100%	—
ZTE (H.K) Limited	Hong Kong	Information technology	HKD995 million	100%	—
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB200 million	90%	10%
ZTE Kangxun Telecom Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB1,755 million	100%	—
ZTEsoft Technology Company Limited	Nanjing	Manufacturing	RMB540 million	89%	—
Nubia Technology Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB118.7483 million	60%	—
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Telecommunications services	RMB236.69 million	90%	—
Xi'an Zhongxing New Software Company Limited	Xi'an	Telecommunications and related equipment manufacturing	RMB600 million	100%	—
ZTE (Hangzhou) Company Limited	Hangzhou	Telecommunications and related equipment manufacturing	RMB100 million	100%	—
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB100 million	90%	—

2. Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Business nature	Registered capital	Percentage of shareholding		Accounting method
				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

* 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.

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

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

	Place of registration/ principal place of business	Business nature	Registered capital	Percentage of shareholding		Accounting method
				Direct	Indirect	
Joint ventures						
KAZNURTEL Limited Liability Company	Kazakhstan	Manufacturing of computers and related equipment	USD3,000,000	49%	—	Equity method
北京中鼎盛安科技有限公司	PRC	Computer application services	RMB4,000,000	49%	—	Equity method
思卓中興(杭州)科技有限公司	PRC	Sales and R&D of communications equipment	USD7,000,000	49%	—	Equity method
ZTE Energy 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	RMB10,000,000	30.15%	—	Equity method
寧波中興興通供應鏈有限公司	PRC	End to end supply chain integration services including procurement etc	RMB60,000,000	20%	—	Equity method
寧波中興雲祥科技有限公司	PRC	Software R&D and supply chain management	RMB80,000,000	20%	—	Equity method
上海中興思秸通訊有限公司	PRC	R&D, sales and investments in communications and related equipment	RMB57,680,000	30%	—	Equity method
中興耀維科技江蘇有限公司	PRC	Energy	RMB20,000,000	23%	—	Equity method
石家莊市善理通益科技有限公司	PRC	R&D and sales of hard/software	RMB5,000,000	30%	—	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
Shenzhen Weipin Zhiyuan Information Technology Company Limited	PRC	R&D of mobile Internet technologies	RMB12,500,000	48%	—	Equity method
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Zimbabwe	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
江蘇中興興通信息科技有限公司	PRC	R&D, sales and technical services of communications products	RMB25,714,300	35%	—	Equity method
中山優順置業有限公司	PRC	Real estate property	RMB10,000,000	20%	—	Equity method
鑑建聯合(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	24.5%	—	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
衡陽網信置業有限公司	PRC	Real estate property	RMB20,000,000	30.00%	—	Equity method

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

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

The following table sets out the combined financial information of joint ventures and associates which are insignificant to the Group:

	30 June 2017	31 December 2016
Joint ventures		
Aggregate carrying value of investments	62,386	64,322
	Six months ended 30 June 2017	Six months ended 30 June 2016
Aggregate amounts of the following attributable to shareholdings:		
Net (loss)/profit	(1,935)	1,533
Other comprehensive income	—	—
Total comprehensive income	(1,935)	1,533
	30 June 2017	31 December 2016
Associates		
Aggregate carrying value of investments	695,227	601,554
	Six months ended 30 June 2017	Six months ended 30 June 2016
Aggregate amounts of the following attributable to shareholdings:		
Net loss	(1,572)	(21,050)
Other comprehensive income	—	—
Total comprehensive income	(1,572)	(21,050)

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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 2017

Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available for-sale financial assets	Derivatives designated as effective hedging instruments	Total
Cash	–	27,569,965	–	–	27,569,965
Derivative financial assets	17,010	–	–	854	17,864
Available-for-sale financial assets	–	–	2,812,715	–	2,812,715
Bills receivable	–	4,481,015	–	–	4,481,015
Trade receivables and long-term receivables	–	27,310,570	–	–	27,310,570
Factored trade receivables and factored long-term receivables	–	6,598,997	–	–	6,598,997
Other receivables	–	4,447,290	–	–	4,447,290
Other non-current assets	–	3,222,897	–	–	3,222,897
	17,010	73,630,734	2,812,715	854	76,461,313

Financial liabilities

	Financial liabilities at fair value through current profit and loss Trading	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Derivative financial liabilities	63,284	–	2,609	65,893
Bank loans	–	23,710,978	–	23,710,978
Bills payables	–	10,045,108	–	10,045,108
Trade payables	–	24,764,511	–	24,764,511
Bank advances on factored trade receivables and long-term trade receivables	–	6,601,808	–	6,601,808
Other payables (excluding accruals and staff housing fund contributions)	–	8,413,323	–	8,413,323
Other non-current liabilities	–	514,390	–	514,390
	63,284	74,050,118	2,609	74,116,011

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

1. Classification of financial instruments (continued)

31 December 2016

Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available for-sale financial assets	Derivatives designated as effective hedging instruments	Total
Cash	—	32,349,914	—	—	32,349,914
Derivative financial assets	53,995	—	—	862	54,857
Available-for-sale financial assets	—	—	2,659,667	—	2,659,667
Bills receivable	—	1,984,493	—	—	1,984,493
Trade receivables and long-term receivables	—	27,374,751	—	—	27,374,751
Factored trade receivables and factored long-term receivables	—	3,653,026	—	—	3,653,026
Other receivables	—	3,466,583	—	—	3,466,583
Other non-current assets	—	3,564,029	—	—	3,564,029
	53,995	72,392,796	2,659,667	862	75,107,320

Financial liabilities

	Financial liabilities at fair value through current profit and loss Trading	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Derivative financial liabilities	36,104	—	4,044	40,148
Bank loans	—	22,082,421	—	22,082,421
Bills payables	—	11,689,957	—	11,689,957
Trade payables	—	25,243,881	—	25,243,881
Bank advances on factored trade receivables and long-term trade receivables	—	3,654,761	—	3,654,761
Other payables (excluding accruals and staff housing fund contributions)	—	12,498,622	—	12,498,622
Other non-current liabilities	—	459,749	—	459,749
	36,104	75,629,391	4,044	75,669,539

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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 year, 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 RMB103,889,000 (31 December 2016: 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 2017, trade receivables that have been transferred but not settled by the debtors amounted to RMB5,027,742,000 (31 December 2016: RMB1,962,171,000).

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 2017, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB19,259,102,000 (31 December 2016: RMB9,645,201,000). 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 2017	31 December 2016
	RMB'000	RMB'000
Carrying value of assets under continuous involvement	4,550,286	1,690,855
Carrying value of liabilities under continuous involvement	4,551,437	1,692,589

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 2017, the amount of factored trade receivables was RMB6,598,997,000 (31 December 2016: RMB3,653,026,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables". As at 30 June 2017, the amount of bank advances on factored trade receivables was RMB6,601,808,000 (31 December 2016: RMB3,654,761,000).

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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 2017, under the above arrangement, trade receivable due from the customer amounted to RMB5,927,488,000 (31 December 2016: RMB5,814,705,000) among which RMB4,653,681,000 (31 December 2016: RMB4,518,810,000) 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 RMB1,273,807,000 (31 December 2016: RMB1,295,895,000) 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 2017 amounted to RMB162,568,000 (31 December 2016: RMB200,388,000), comprising RMB30,313,000 (31 December 2016: RMB33,862,000) due within one year and classified as other payables (see Note V.29) and RMB132,255,000 (31 December 2016: RMB166,526,000) due after one year and classified as other non-current liabilities (see Note V.33).

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 period. The Group was of the view that, for the period, there were no bills receivable relating to which substantially all risks and rewards were transferred upon discounting and qualified for the derecognition of financial assets (31 December 2016: RMB325,915,000). Hence, the relevant bills receivable were derecognized at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such 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 did not recognize any gain or loss (31 December 2016: RMB4,326,000) in respect of the derecognized bills receivable as at the date of transfer. No profit or loss relating to continuous involvement was recognized in respect of the current interim period and the previous year.

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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.2.10.

Although the top five accounts accounted for 28.91% (2016: 19.82%) 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 10.

The maturity profile of trade receivables, long-term receivables and other receivables as at 30 June 2017 is analysed as follows:

30 June 2017

	Total	Not overdue/ not impaired	Overdue for			
			Less than 1 year	1-2 years	2-3 years	Over 3 years
Trade receivables	26,007,904	4,431,513	19,408,292	1,857,047	311,052	—
Long-term receivables	1,302,666	1,302,666	—	—	—	—
Other receivables	4,447,290	—	3,403,331	834,692	117,589	91,678

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

31 December 2016

	Total	Not overdue/not impaired	Overdue for			
			Less than 1 year	1-2 years	2-3 years	Over 3 years
Trade receivables	25,998,188	3,193,304	20,259,455	2,288,234	257,195	—
Long-term receivables	1,376,563	1,376,563	—	—	—	—
Other receivables	3,466,583	—	2,800,643	189,032	239,749	237,159

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 2017

	Current	Within 1 year	1-2 years	2-3 years	Over 3 years	Total
Bank loans	—	19,384,660	4,250,724	231,396	331,161	24,197,941
Derivative financial liabilities	—	65,893	—	—	—	65,893
Bills payable	—	10,045,108	—	—	—	10,045,108
Trade payables	24,764,511	—	—	—	—	24,764,511
Bank advances on factored trade receivables and factored long-term trade receivable	—	5,167,460	382,640	399,429	869,475	6,819,004
Other payables (excluding accruals and staff housing fund contributions)	8,413,323	—	—	—	—	8,413,323
Other non-current liabilities	—	—	107,807	96,494	209,028	413,329
	33,177,834	34,663,121	4,741,171	727,319	1,409,664	74,719,109

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

31 December 2016

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	16,803,191	4,336,957	1,037,056	331,237	22,508,441
Derivative financial liabilities	–	40,148	–	–	–	40,148
Bills payable	–	11,689,957	–	–	–	11,689,957
Trade payables	25,243,881	–	–	–	–	25,243,881
Bank advances on factored trade receivables and factored long-term trade receivable	–	2,332,625	437,951	332,963	687,198	3,790,737
Other payables (excluding accruals and staff housing fund contributions)	12,498,622	–	–	–	–	12,498,622
Other non-current liabilities	–	–	120,974	109,050	185,324	415,348
	37,742,503	30,865,921	4,895,882	1,479,069	1,203,759	76,187,134

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 2017, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 0.7% and 6.0%. In addition, the Group borrowed a USD450 million loan at floating interest rates. As at 30 June 2017, the Group had no interest rate swaps (31 December 2016: nil) and approximately 43% of the interest-bearing borrowings of the Group were at fixed interest rates (31 December 2016: 44%).

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.

	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 2017	0.25% (0.25%)	(30,747) 30,747	– –	(30,747) 30,747
Six months ended 30 June 2016	0.25% (0.25%)	(15,240) 15,240	245 (245)	(14,995) 14,995

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk (continued)

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 2017				
Weaker RMB against USD	3%	129,900	—	129,900
Stronger RMB against USD	(3%)	(129,900)	—	(129,900)
Six months ended 30 June 2016				
Weaker RMB against USD	3%	188,063	—	188,063
Stronger RMB against USD	(3%)	(188,063)	—	(188,063)

	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 2017				
Weaker RMB against EUR	5%	50,769	—	50,769
Stronger RMB against EUR	(5%)	(50,769)	—	(50,769)
Six months ended 30 June 2016				
Weaker RMB against EUR	5%	55,475	—	55,475
Stronger RMB against EUR	(5%)	(55,475)	—	(55,475)

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.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

4. Capital management (continued)

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 2017.

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 2017	31 December 2016
Interest-bearing bank borrowings	23,710,978	22,082,421
Bank advances on factored trade receivables and long-term receivables	6,601,808	3,654,761
Total interest-bearing liabilities	30,312,786	25,737,182
Owner's equity	43,178,064	40,885,090
Owner's equity and interest-bearing net liabilities	73,490,850	66,622,272
Financial gearing ratio	41.2%	38.6%

IX. DISCLOSURES OF FAIR VALUES

1. Assets and liabilities measured at fair value

30 June 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	—	17,864	—	17,864
Available-for-sale financial assets				
Investment in equity instruments	1,310,662	—	—	1,310,662
Investment properties				
Leased properties	—	—	2,019,957	2,019,957
	1,310,662	17,864	2,019,957	3,348,483
Derivative financial liabilities		(65,893)	—	(65,893)
		(65,893)	—	(65,893)

Notes to Financial Statements

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IX. DISCLOSURES OF FAIR VALUES (CONTINUED)

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

31 December 2016

	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	—	54,857	—	54,857
Available-for-sale financial assets				
Investment in equity instruments	1,315,085	—	—	1,315,085
Investment properties				
Leased properties	—	—	2,016,470	2,016,470
	1,315,085	54,857	2,016,470	3,386,412
Derivative financial liabilities	—	(40,148)	—	(40,148)
	—	(40,148)	—	(40,148)

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 2017, 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.

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IX. DISCLOSURES OF FAIR VALUES (CONTINUED)

2. Estimation of fair value (continued)

Fair value of financial assets (continued)

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 2017, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default. Changes in the credit risk profile of counterparties did not have any material impact on the evaluation of the hedging effectiveness of designated derivative instruments in the hedge and other financial instruments measured at fair value.

Fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties as at 30 June 2017 was RMB2,019,957,000 (31 December 2016: RMB2,016,470,000).

3. Unobservable inputs

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

30 June 2017

	Fair value at period-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,019,957,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB45.5–RMB477
			Rent growth (p.a.)	1%–5%
			Long-term vacancy rate	5%
			Discount rate	6%–7%

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IX. DISCLOSURES OF FAIR VALUES (CONTINUED)

3. Unobservable inputs (continued)

31 December 2016

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,016,470,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long-term vacancy rate Discount rate	RMB45.5–RMB477 1%–5% 5% 6%–7%

4. Fair value measurement adjustment

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

30 June 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			
Investment properties	2,016,470	–	–	3,487	–	2,019,957	3,487

31 December 2016

	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 year included in profit and loss
				Included in profit and loss Included in other comprehensive income			
Investment properties	2,010,396	–	–	6,074	–	2,016,470	6,074

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IX. DISCLOSURES OF FAIR VALUES (CONTINUED)

4. Fair value measurement adjustment (continued)

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

	Six months ended 30 June 2017 Profit and loss relating to non-financial assets	Six months ended 30 June 2016 Profit and loss relating to non-financial assets
Total profit or loss for the period included in profit and loss	3,487	2,216
Change in unrealised profit or loss for the period of assets held at the end of the period included in profit and loss	3,487	2,216

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
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Shenzhen, Guangdong	Manufacturing	RMB100 million	30.35%	30.35%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note VII.1.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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	Subsidiary of the Company's controlling shareholder
深圳中興創新材料技術有限公司	Subsidiary of the Company's controlling shareholder
深圳市中興環境儀器有限公司	Subsidiary of the Company's controlling shareholder
Shanghai Zhongxing Paineng Energy Technology Co., Ltd.	Investee of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd	Investee 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
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder
北京中興協力科技有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
南京中興群力信息科技有限公司 ¹	Subsidiary of an associate of the Company
Zhongxing Energy (Shenzhen) Company Limited	Subsidiary of an associate of the Company
Zhongxing Energy (Tianjin) Company Limited	Subsidiary of an associate of the Company
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
中興能源（天津）節能服務有限公司	Subsidiary of an associate of the Company
鄂爾多斯市雲端科技有限公司	Subsidiary of an associate of the Company
善理通益信息科技（深圳）有限公司	Subsidiary of an associate of the Company
Shenzhen Gaodonghua Communication Technology Company Limited ^{*2}	Company for which a former supervisor of the controlling shareholder of the Company acted as director
Mobi Antenna Technologies (Shenzhen) Co., Ltd. ^{*2}	Company for which a former supervisor of the controlling shareholder of the Company acted as director
CASIC Shenzhen (Group) Limited	Company for which a connected natural person of the Company acted as director
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 director
深圳中興環保集團股份有限公司 ³	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 ³	Company for which a former connected natural person of the Company acted as chairman
Zhengzhou ZTE Communications Technology Company Limited ³	Company for which a former connected natural person of the Company acted as chairman
深圳中興科揚節能環保股份有限公司 ³	Company for which a former connected natural person of the Company acted as director
深圳中興新源環保股份有限公司 ³	Company for which a former connected natural person 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
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	Company for which a connected natural person of the Company acted as chairman
Zhongxing Development Company Limited ⁵	Company for which a connected natural person of the Company had previously acted as director

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

	Relationship
Chongqing Zhongxing Development Company Limited* ⁵	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
Huatong Technology Company Limited* ⁵	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
中興軟件技術（瀋陽）有限公司 ⁵	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
中興軟件技術（濟南）有限公司 ⁵	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
三河中興發展有限公司 ⁵	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
三河中興物業服務有限公司 ⁵	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
杭州中興發展有限公司 ⁵	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
杭州中興中投物業管理有限公司 ⁵	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
中興長天信息技術（南昌）有限公司	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
Tianma Microelectronics Co., Ltd.* ⁶	Company for which a connected natural person of the Company had previously acted as independent director
Yunnan Baiyao Group Co., Ltd.* ⁷	Company for which a former connected natural person of the Company had previously acted as independent director

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

*2 The natural connected person of the Company has ceased to be a supervisor of the controlling shareholder of the Company as from 23 June 2016. Such company has ceased to be a connected party of the Company as from 23 June 2017.

*3 The natural connected person of the Company has ceased to be a director of the Company as from 30 March 2016. Such company has ceased to be a connected party of the Company as from 30 March 2017.

*4 The Company completed the disposal of equity interests held in 上海共進新媒體技術有限公司 (“Shanghai Gongjin”) on 28 January 2016. The natural connected person of the Company has ceased to be a director of Shanghai Gongjin as from 28 January 2016 and Shanghai Gongjin has ceased to be an associated corporation of the Company as from 28 January 2017.

*5 The natural connected person of the Company had ceased to be a director of such company as from 19 July 2016. Such company will cease to be a connected party of the Company as from 19 July 2017.

*6 The natural connected person of the Company had ceased to be an independent director of such company as from 30 June 2016. Such company has ceased to be a connected party of the Company as from 30 June 2017.

*7 The natural connected person of the Company had ceased to be an independent director of such company as from 22 July 2015. Such company had ceased to be a connected party of the Company as from 22 July 2016.

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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 2017 Amount	Six months ended 30 June 2016 Amount
Shenzhen Zhongxing Information Company Limited	—	3,889
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	4	1,066
Sindi Technologies Co., Ltd	—	8
Mobi Antenna Technologies (Shenzhen) Company Limited	430	114
南京中興群力信息科技有限公司	—	41
Puxing Mobile Tech Company Limited	101,272	(255)
ZTE Quantum Co., Ltd	5	63
Zhongxing Development Company Limited	62	35
上海共進新媒體技術有限公司	21	78
深圳市航天歐華科技發展有限責任公司	35,626	294,472
Telecom Innovations	1,966	4,382
興天通訊技術有限公司	23	2,109
深圳中興創新材料技術有限公司	176	377
中興軟件技術（瀋陽）有限公司	8	11
江蘇中興微通信息科技有限公司	3	13
上海市和而泰酒店投資管理有限公司	815	829
上海中興思秸通訊有限公司	188	2
三河中興發展有限公司	6	10
中興儀器（深圳）有限公司	10,469	—
深圳中興節能環保股份有限公司	1,560	3,779
重慶前沿城市大數據管理有限公司	—	12,449
廈門智慧小區網絡科技有限公司	—	295
Yunnan Baiyao Group Co., Ltd	—	746
Shenzhen Weipin Zhiyuan Information Technology Company Limited	27	2
Shenzhen Xinyu Tengyue Electronics Co., Ltd	1,699	54
石家莊市善理通益科技有限公司	—	1,952
善理通益信息科技（深圳）有限公司	—	59
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	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	1,308	—
Zhongxing Energy (Tianjin) Company Limited	1	—
Zhongxing Energy (Shenzhen) Company Limited	3	—
	155,701	326,580

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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 2017 Amount	Six months ended 30 June 2016 Amount
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	94,037	132,253
Sindi Technologies Co., Ltd	25,038	46,736
Shenzhen Xinyu Tengyue Electronics Co., Ltd	36,447	30,794
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	318,791	498,736
Huatong Technology Company Limited	27,156	21,521
ZTE Software Technology (Nanchang) Company Limited	17,867	19,698
Shenzhen Zhongxing Information Company Limited	1,758	410
深圳市航天歐華科技發展有限責任公司	2,050	317
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	10,144	10,212
南京中興和泰酒店管理有限公司	2,680	1,838
上海市和而泰酒店投資管理有限公司	3,032	2,904
西安中興和泰酒店管理有限公司	1,191	1,680
Zhongxing Energy (Shenzhen) Company Limited	810	731
Zhongxing Energy (Tianjin) Company Limited	492	478
南京中興群力信息科技有限公司	—	154
ZTE 9 (Wuxi) Co., Ltd	—	71
上海中興思秸通訊有限公司	87	385
興天通訊技術有限公司	—	1,089
北京中興協力科技有限公司	1,359	—
中興儀器（深圳）有限公司	621	9,189
Pylon Technologies Co., Ltd	1,139	1,123
CASIC Shenzhen (Group) Limited	—	350
Zhongxing Development Company Limited	242	254
石家莊市善理通益科技有限公司	90	710
Shenzhen Weipin Zhiyuan Information Technology Company Limited	151	—
Tianma Microelectronics Co., Ltd.	131,670	—
Shenzhen Zhongxing WXT Equipment Company Limited	6,738	—
	683,590	781,633

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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

		Six months ended 30 June 2017	Six months ended 30 June 2016
		Lease income	Lease income
Property leased			
Zhongxing Development Company Limited	Office	117	1,166
深圳中興科揚節能環保股份有限公司	Office	40	166
Puxing Mobile Tech Company Limited	Office	243	248
中興儀器（深圳）有限公司	Office	470	564
深圳中興環保集團股份有限公司	Office	40	243
南京中興群力信息科技有限公司	Office	—	118
中興軟件技術（濟南）有限公司	Office	177	—
上海中興思秸通訊有限公司	Office	177	95
衡陽網信置業有限公司	Office	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
		39,838	41,121

As lessee

		Six months ended 30 June 2017	Six months ended 30 June 2016
		Lease expense	Lease expense
Property leased			
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	4,414	4,414
Zhongxing Development Company Limited	Office	24,382	23,516
Chongqing Zhongxing Development Company Limited	Office	4,455	4,455
三河中興發展有限公司	Office	5,022	4,382
三河中興物業服務有限公司	Office	1,673	1,280
杭州中興發展有限公司	Quarters and plants	—	2,925
杭州中興中投物業管理有限公司	Quarters and plants	—	858
		39,946	41,830

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

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

(3) Guarantees for related parties

For the first six months of 2017 and the first six months of 2016, 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 2017 and the first six months of 2016, the Group did not transfer any equity interests to related parties.

(5) Transfer of assets to related parties

For the first six months of 2017 and the first six months of 2016, the Group did not transfer any assets to related parties.

(6) Other major related transactions

	Six months ended 30 June 2017 Amount	Six months ended 30 June 2016 Amount
Remuneration of key management personnel	26,295	22,501

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 2017.

(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 2017 and lease income of RMB39,838,000 (Six months ended 30 June 2016: RMB41,121,000) 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 2017 and lease expenses of RMB39,946,000 (Six months ended 30 June 2016: RMB41,830,000) 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 2017 was RMB26,295,000 (for six months ended 30 June 2016: RMB22,501,000). The cost of share-based payments amounted to RMB0 (Six months ended 30 June 2016: RMB2,888,000). 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 2017	31 December 2016
Bills receivable	深圳市航天歐華科技發展有限責任公司	327,528	93,260
	Sindi Technologies Co., Ltd	—	20
		327,528	93,280
Trade receivables	Puxing Mobile Tech Company Limited	31,164	108,480
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	—	150
	Sindi Technologies Co., Ltd	—	1
	Xi'an Microelectronics Technology Research Institute	9	9
	ZTE Quantum Co., Ltd	335	320
	深圳市航天歐華科技發展有限責任公司	71,468	217,694
	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	2,426	2,259
	江蘇中興微通信息科技有限公司	1	—
	寧波中興雲祥科技有限公司	—	57
	ZTE Software Technology (Nanchang) Company Limited	3,474	3,724
	中興儀器（深圳）有限公司	6,510	116
	Shenzhen Zhongxing Information Company Limited	190	190
	Shenzhen Xinyu Tengyue Electronics Co., Ltd	—	1,019
	中興智慧成都有限公司	9,058	8,968
	Mobi Antenna Technologies (Shenzhen) Company Limited	—	230
	深圳中興節能環保股份有限公司	—	275
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	1,970
	重慶前沿城市大數據管理有限公司	18,954	18,954
	廈門智慧小區網絡科技有限公司	111	111
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	10	—	
Zhongxing Energy (Tianjin) Company Limited	1	—	
衡陽網信置業有限公司	59	—	
Zhongxing Energy (Shenzhen) Company Limited	1	—	
		143,772	364,528
Prepayments	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	242	242
	Zhongxing Development Company Limited	70	83
	深圳市航天歐華科技發展有限責任公司	1,402	742
	Zhengzhou ZTE Communications Technology Company Limited	—	180
	深圳市中興環境儀器有限公司	149	—
	CASIC Shenzhen (Group) Limited	66	—
		1,929	1,247

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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 2017	31 December 2016
Other receivables	南京中興和泰酒店管理有限公司	2	2
	北京億科三友科技發展有限公司	—	23
	ZTE 9 (Wuxi) Co., Ltd	2,219	2,219
	Shenzhen Zhongxing Information Company Limited	14	14
	Zhongxing Development Company Limited	14	345
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	45,439	23,483
	Sindi Technologies Co., Ltd	445	445
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	1,843
	深圳中興創新材料技術有限公司	—	526
			48,133
Bills payable	Shenzhen Xinyu Tengyue Electronics Co., Ltd	11,691	8,913
	Tianma Microelectronics Co., Ltd.	—	9,142
		11,691	18,055
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	27,858	50,126
	Shenzhen Xinyu Tengyue Electronics Co., Ltd	11,884	10,648
	Mobi Antenna Technologies (Shenzhen) Company Limited	—	78,402
	Sindi Technologies Co., Ltd	3,746	327
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	183	183
	Shenzhen Zhongxing WXT Equipment Company Limited	7,065	327
	Shenzhen Zhongxing Information Company Limited	4,837	3,665
	Shenzhen Gaodonghua Communication Technology Company Limited	—	176
	Puxing Mobile Tech Company Limited	11,495	6,080
	深圳市航天歐華科技發展有限責任公司	1,988	1,987
	中興能源（天津）節能服務有限公司	537	537
	興天通訊技術有限公司	2,775	3,464
	上海中興思秸通訊有限公司	1	1
	Xi'an Microelectronics Technology Research Institute	192	192
	Huatong Technology Company Limited	289	496
	北京中興協力科技有限公司	135	142
	深圳中興環保集團股份有限公司	—	15,230
	CASIC Shenzhen (Group) Limited	—	3
	Tianma Microelectronics Co., Ltd.	—	27,612
	中興儀器（深圳）有限公司	19,386	19,528
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	4
	ZTE 9 (Wuxi) Co., Ltd	83	83
石家莊市善理通益科技有限公司	—	106	
		92,454	219,319

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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 2017	31 December 2016	
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	5,327	5,327	
	Puxing Mobile Tech Company Limited	28,211	30,912	
	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	71,947	43,187	
	中興軟件技術（瀋陽）有限公司	13	13	
	上海共進新媒體技術有限公司	—	61	
	ZTE Energy Limited	1	1	
	中興儀器（深圳）有限公司	693	7	
	江蘇中興微通信息科技有限公司	9	8	
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	1	1	
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	28	
	深圳中興環保集團股份有限公司	—	497	
	善理通益信息科技（深圳）有限公司	—	1,170	
	中興智慧成都有限公司	2,517	2,517	
	ZTE 9 (Wuxi) Co., Ltd	1	1	
	ZTE Quantum Co., Ltd	—	3	
	石家莊市善理通益科技有限公司	—	439	
	中興長天信息技術（南昌）有限公司	7	—	
			110,510	85,955
	Other payables	Shenzhen Xinyu Tengyue Electronics Co., Ltd	31	31
		Shenzhen Zhongxing WXT Equipment Company Limited	12	12
		Shenzhen Zhongxing Information Company Limited	—	48
Zhongxing Development Company Limited		215	215	
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited		308	308	
Huatong Technology Company Limited		10	128	
上海中興思秸通訊有限公司		70	70	
深圳中興新源環保股份有限公司		—	4	
寧波中興興通供應鏈有限公司		—	8,000	
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED		5,126	5,020	
西安中興和泰酒店管理有限公司		—	11,786	
中山優順置業有限公司		2,000	2,000	
Shenzhen Weipin Zhiyuan Information Technology Company Limited		—	352	
衡陽網信置業有限公司		434	—	
中興軟件技術（瀋陽）有限公司		100	—	
北京中興協力科技有限公司	400	—		
		8,706	27,974	

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

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 an usual credit term of 0–90 days, which may be extended to up to 1 year depending on the reputation of the customer.

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

(1) Customer deposits

	30 June 2017	31 December 2016
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	12,884	13,336
南京中興和泰酒店管理有限公司	6,512	4,833
上海市和而泰酒店投資管理有限公司	2,736	4,406
西安中興和泰酒店管理有限公司	16,428	6,456
Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	3,394
前海融資租賃股份有限公司	4	4
江蘇中興微通信息科技有限公司	—	21,956
	38,564	54,385

(2) Interest expenses

	Six months ended 30 June 2017	Six months ended 30 June 2016
南京中興和泰酒店管理有限公司	25	21
上海市和而泰酒店投資管理有限公司	28	21
西安中興和泰酒店管理有限公司	52	46
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	42	23
Shenzhen Weipin Zhiyuan Information Technology Company Limited	3	2
江蘇中興微通信息科技有限公司	50	—
	200	113

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

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

(3) Interest income from loans and bills discounting

	Six months ended 30 June 2017	Six months ended 30 June 2016
Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	142
前海融資租賃股份有限公司	—	2,107
	—	2,249

(4) Interest payable

	31 June 2017	31 December 2016
南京中興和泰酒店管理有限公司	—	2
上海市和而泰酒店投資管理有限公司	—	3
西安中興和泰酒店管理有限公司	—	4
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	—	2
江蘇中興微通信息科技有限公司	—	6
	—	17

(5) Income from consultation services

	Six months ended 30 June 2017	Six months ended 30 June 2016
前海融資租賃股份有限公司	—	472
Shenzhen Weipin Zhiyuan Information Technology Company Limited	—	20
	—	492

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XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows

	Six months ended 30 June 2017	Six months ended 30 June 2016
Accumulated balance of equity-settled share-based payments credited to capital reserves*	11,928	286,608
Total costs of equity-settled share-based payments in the period	—	54,884

* Among which the cost of equity-settled share-based payment amounting to RMB13,466,000 arising from the exercise of share options was transferred to the share premium under capital reserve.

2. Share option incentive scheme

On 22 July 2013, the “ZTE Corporation Share Option Incentive Scheme (Draft)” and its summary was considered and approved at the Sixth Meeting of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Supervisory Committee of the Company. On 20 August 2013, the Company was notified that the opinion of the state-owned shareholders of the Company on the implementation of the Share Option Incentive Scheme had been approved and filed by State-owned Assets Supervision and Administration Commission of the State Council. On 23 August 2013, the Company was notified that the Listed Companies’ Regulation Department I of CSRC had confirmed it had no objection to the Company convening a general meeting to consider the share option incentive scheme in accordance with the “Administrative Measures on Share Incentives of Listed Company (Trial)” (《上市公司股權激勵管理辦法（試行）》). On 26 August 2013, the resolution on the “ZTE Corporation Share Option Incentive Scheme (Revised Draft)” (hereinafter referred to as the “Share Incentive Scheme”) and its summary was considered and approved at Eighth Meeting of the Sixth Session of the Board of Directors and the Sixth Meeting of the Sixth Supervisory Committee. The Share Incentive Scheme was considered and approved at Third Extraordinary General Meeting of 2013, the First A Shareholders’ Class Meeting of 2013 and the First H Shareholders’ Class Meeting of 2013 of the Company convened on 15 October 2013. On 31 October 2013, relevant resolutions were considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors and the Ninth Meeting of the Sixth Session of the Supervisory Committee of the Company, pursuant to which the date of grant for the Share Option Incentive Scheme of the Company has been set for 31 October 2013. Under the Share Incentive Scheme, 102.989 million share options were granted to 1,528 Participants. Each share option shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the Scheme at the exercise price, subject to the conditions of exercise. The source of shares under the Scheme shall be shares of the Company issued to the Participants by the Company by way of placing. The Scheme Participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, principal shareholders holding 5% or more of the company’s shares or the actual controller of the Company and their spouse or blood relative.

Notes to Financial Statements

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

The share options shall be valid for a period of 5 years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. The share options shall be exercisable separately in the subsequent 3 exercise periods, whose percentages of options exercisable are 30%, 30% and 40% respectively, subject to the Company's performance as the conditions of exercise. The exercise price shall be RMB13.69/share. The share options not exercisable due to failing to fulfill the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

- (1) Rate of Return on Common Stockholders' Equity ("ROE");
- (2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

The calculation of the net profit used by the above indicators is based on the net profit before or after extraordinary items whichever is lower. Net assets refer to the net assets attributable to the shareholders of the listed company.

The detailed conditions for the exercise of the share options:

- (1) Within the valid period of the Share Incentive Scheme, the net profit attributable to the shareholders of the listed company and the net profit after extraordinary items attributable to the shareholders of the listed company shall not be lower than the average of the three most recent accounting years before the date of grant and shall not be a negative number;
- (2) The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	30%	2015.11.1–2016.10.31	ROE for the year 2014 not less than 6%; growth rate of net profit for the year 2014 not less than 20% compared to 2013
Second exercise period	30%	2016.11.1–2017.10.31	ROE for the year 2015 not less than 8%; growth rate of net profit for the year 2015 not less than 20% compared to 2014
Third exercise period	40%	2017.11.1–2018.10.31	ROE for the year 2016 not less than 10%; growth rate of net profit for the year 2016 not less than 44% compared to 2014

As the conditions for the exercise of share option incentives in the third exercise period had not been fulfilled, the Company reversed in 2016 all option fees for the third period recognised during the period from 2013 to 2015.

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

Outstanding share options under the scheme are as follows:

	30 June 2017		31 December 2016	
	Weighted average exercise price* RMB/shares	Number of share options (‘000)	Weighted average exercise price* RMB/shares	Number of share options (‘000)
Opening balance	10.97	8,080	11.22	90,871
Conversion of capital reserve into share capital	—	—	—	—
Lapsed	—	—	10.97	(48,954)
Exercised during the period	10.97	(5,387)	11.22	(3,471)
	—	—	10.97	(30,366)
Closing balance	10.97	2,693	10.97	8,080

The weighted average share price for share options exercised during the six months ended 30 June 2017 as at the date of exercise was RMB10.97. (2016: RMB11.00).

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

30 June 2017 Number of share options (‘000)	Exercise price* RMB/share	Effective exercise period
2,693	10.97	1 November 2016 to 31 October 2017
2,693		

31 December 2016 Number of share options (‘000)	Exercise price* RMB/share	Effective exercise period
8,080	10.97	1 November 2016 to 31 October 2017
8,080		

* The exercise price of the share options is subject to adjustments for share placing, dividend distribution and other similar changes in the share capital of the Company.

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

For the six months ended 30 June 2017, the Company issued 5,386,358 ordinary shares as a result of the exercise of 5,386,358 share options. The share capital was enlarged by RMB5,387,000, and the share premium amounted to RMB67,168,000 (before issue expenses). Please refer to Note V.34 and 36.

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

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

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

XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	30 June 2017	31 December 2016
Contracted but not provided of		
Capital commitments	545,639	1,052,816
Investment commitments	2,465,980	137,702
	3,011,619	1,190,518

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events

- 2.1. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762,984,000 (equivalent to approximately RMB49,284,000). 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 RMB21,189,000) be paid by the Company. As at the end of the reporting period, the Company had made provision for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not paid any compensation in connection with this arbitration case.

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

- 2.2. Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased, in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Shenzhen Nanshan District People's Court ("Nanshan Court"), pleading for the revocation of the contract and court order of the evacuation of the work sites by China Construction Fifth Division, as well as a penalty payment for work delay in the amount of RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The Nanshan Court handed the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth Division be revoked and a penalty payment for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth Division. China Construction Fifth Division filed an appeal against the aforesaid judgement with the Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth Division's case with the Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") had handed down the final trial judgement for China Construction Fifth Division's case with the Shenzhen Intermediate Court in May 2014, the Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth Division was not required to pay the penalty payment of RMB12.817 million to the Company. In response to the aforesaid second trial judgement, the Company had applied to Guangdong Higher Court for retrial. 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. In October and November 2009, the Company further instituted two lawsuits with the Nanshan Court, demanding China Construction Fifth Division to undertake a penalty payment for work delay in the amount of RMB30.615 million and the payment of RMB39.537 million, representing the amount of work payments in excess of the total contract amount. Currently, the above cases are under trial suspension.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.2. (continued)

In July 2009, China Construction Fifth Division instituted a lawsuit with the Shenzhen Intermediate Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75.563 million for raw materials and staff deployment. The Shenzhen Intermediate Court handed down a first trial judgement in November 2012, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest, damages for work suspension of approximately RMB953,000 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division filed an appeal with the Guangdong Higher Court against the said judgement, and Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth Division amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company. In response to the aforesaid second trial judgement, the Company had applied to the Supreme People's Court for retrial, which application was rejected by the Supreme People's Court. Subsequently, the Company filed a protest against such second trial judgement with Guangdong Provincial People's Procuratorate, which admitted the Company's application and referred the case to the Supreme People's Procuratorate for protest. On 24 December 2015, the Supreme People's Procuratorate filed a protest with the Supreme People's Court. On 17 June 2016, the Company received through the Guangdong Higher Court the ruling of the Supreme People's Court, which ordered the Guangdong Higher Court to conduct a retrial in respect of the aforesaid second trial judgement.

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

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

- 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 compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney to defend its case.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.3. (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 ruled 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 United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by the Company and ZTE USA, a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its initial determination in respect of the case, ruling that one of the patents relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of ITC.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.4. (continued)

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337.

The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case ruling that the Company and ZTE USA had not infringed upon the patents. The Company and ZTE USA has appointed a legal counsel to conduct active defense in respect of the said case and will appeal against the aforesaid ruling of the Federal District Court of Delaware that the three patents have been infringed upon.

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

- 2.5. On 20 May 2013, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB198 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that: (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527. A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil received the judgement of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State.

On 20 July 2017, the level 2 administrative court under the tax bureau of Sao Paulo State ruled to revoke the administrative penalty imposed by the tax bureau of Sao Paulo State. Pursuant to the taxation laws of Brazil, the tax bureau of Sao Paulo State is still entitled to appeal against the aforesaid ruling. As at the balance sheet date of the reporting period, ZTE Brazil had made provisions of BRL17.70 million (equivalent to approximately RMB36.36 million) and included the amount under "Provisions".

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.5. (continued)

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 can be reliably estimated. The aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

- 2.6. In May 2012, Flashpoint Technology, Inc., a U.S. company, filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in image processing technologies. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a limited exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of Delaware, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of Delaware has been suspended. On 1 October 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

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

- 2.7. In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. 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 said 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. Currently, the Federal District Court of California has yet to issue its verdict.

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)

- 2.8. In November 2012, ZTE DO BRAZIL LTDA (“ZTE Brazil”), a wholly-owned subsidiary of the Company, filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB64.41 million). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. 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 RMB64.15 million), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB64.15 million) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. 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 RMB64.15 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.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB170 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

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

- 2.9 The Company has reached agreements (collectively the “Agreements”) with the Bureau of Industry and Security of the United States Department of Commerce (“BIS”), the United States Department of Justice (“DOJ”) and the Office of Foreign Assets Control of the United States Department of Treasury (“OFAC”) in relation to investigations regarding the Company’s compliance with U.S. Export Administration Regulations (the “EAR”) and U.S. sanctions laws. Due to violations of U.S. export controls laws and U.S. rules and regulations in relation to the provision of information and other conduct during the investigations, the Company agreed to plead guilty and pay a total of 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 on the condition of the Company’s compliance with the requirements in the 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 DOJ agreement is a prerequisite for the issue of a settlement order by BIS. BIS would recommend the removal of the Company from the Entity List, conditioned on court approval of the DOJ agreement, entry of the plea, and the issuance of BIS Assistant Secretary’s Order. 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).

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.9 (continued)

The Agreements also covers the following key issues:

- (1) A 3-year monitor term shall be set up pursuant to the agreement between the Company and DOJ, during which an independent compliance officer approved by the US Government shall be appointed to prepare annual reports during his/her term of office in order to monitor the Company's compliance with U.S. export control laws and performance of its obligations under the agreement. Thereafter, pursuant to the agreement between the Company and BIS, the Company shall appoint an independent compliance auditor for a three-year term, and the auditor will prepare annual audit reports of the Company's compliance with U.S. export control laws and performance of its obligations under the agreement.
- (2) Pursuant to the agreement between the Company and BIS, BIS is suspending a denial order for 7 years that would restrict and prohibit, among other things, the Company from applying for or using any licenses or buying or selling any item exported from the United States that is subject to the EAR. BIS is suspending the denial order subject to the Company's compliance of the requirements under the agreement, and the denial order will be waived after the 7-year period.
- (3) The Company shall provide extensive training on export control requirements to its management and employees and the management and employees of its subsidiaries and other entities over which it has ownership or control.

For a comprehensive execution of the agreement, the Company will be continuously taking an overhaul of its organization and structure, business procedures and internal control. Through such measures as the establishment of the compliance committee and the independent compliance department, the appointment of the chief export compliance officer, the adoption of new automated tools and processes, the framing and execution of the export control compliance manual, and consistent training on export controls to employees, the Company shall ensure its compliance with U.S. export control laws and performance of its obligations under the Agreements. Based upon the aforementioned policies and measures, the Company believes that it is unlikely that the USD300,000,000 penalty payment suspended by BIS would not be exempted as a result of any violation of the Agreements.

- 2.10. As at 30 June 2017, an amount of RMB9,072,144,000 (31 December 2016: RMB8,400,893,000) was outstanding under the bank guarantee letters issued by the Group.

XIII. EVENTS AFTER THE REPORTING PERIOD

1. Owing to the requirements of its operations and development, the Company entered into the bidding for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District, Shenzhen listed on Shenzhen Land & Real Estate Exchange Center. On 27 June 2017, the Company entered into a confirmation with Shenzhen Land & Real Estate Exchange Center confirming its successful bid for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District for a consideration of RMB3,542 million. On 14 July 2017, the Company and the Nanshan Bureau of Shenzhen Urban Planning Land and Resources Commission of the Shenzhen Municipality entered into the Land Use Rights Transfer Agreement. The Company plans to develop the aforesaid land site into commercial complex buildings for use as office premises of the Group or for investment purposes. The acquisition would satisfy the business development needs of the Group.

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XIII. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

2. Union Optech Co., Ltd. ("Union Optech"), an investee of Jiaxing Xinghe Equity Investment Partnership (Limited Partnership) ("Jiaxing Fund"), was listed on the GEM Board of the Shenzhen Stock Exchange on 11 August 2017 with the issue of 21.40 million shares at an issue price of RMB15.96/share. Jiaxing Fund held 2,763,600 shares in Union Optech, accounting for 3.23% of the total number of shares in Union Optech following the issue. As at 30 June 2017, the equity investment of Jiaxing Fund in Union Optech was accounted for as available-for-sale financial assets and valued at RMB34,987,000 based on the cost method. Subsequent to the listing of the Union Optech, the item has been measured at fair value.
3. 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 USD22,711,900.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

4. On 6 December 2016, ZTE Cooperatief U.A. ("ZTE Cooperatief"), a wholly-owned subsidiary of the Company entered into the "SHARE PURCHASE AGREEMENT related to NETAŞ TELEKOMÜNİKASYON A.Ş." (the "Share Purchase Agreement") with OEP Turkey Tech. B. V. ("OEP") in connection with the acquisition of 48.04% equity interests in NETAŞ TELEKOMÜNİKASYON A.Ş. ("Netaş"), a listed Turkish company, by ZTE Cooperatief from OEP for a price of not more than USD101,280,539. The Company is of the view that the acquisition of Netaş will enable the Company to drive its business expansion in Turkey. To ensure the completion of the transaction as soon as possible and procure maximum assurance for the Company's interests, ZTE Cooperatief entered into relevant supplemental agreements with OEP and OEP Network Integration Services Cooperatief U.A. on 5 May 2017. As of 28 July 2017 (Turkey time), the conditions precedent to closing as stipulated under the Share Purchase Agreement had been satisfied in full. In accordance with the provisions of the Share Purchase Agreement and the supplemental agreements entered into by ZTE Cooperatief and OEP, the transaction between the two parties was completed on 28 July 2017 (Turkey time). On 7 August 2017 (Turkey time), ZTE Cooperatief submitted a Mandatory Tender Offer application to the Capital Markets Board of Turkey pursuant to Turkish laws and regulations.
5. Based on considerations in relation to the strategic development of Nubia Technology Limited ("Nubia"), the Company, Pingxiang Yingcai Investment Consulting Company Limited, Suning Commerce Group Co., Ltd., Nanjing Hengmian Enterprise Management Partnership (Limited Partnership), Nanchang Gaoxin New Industry Investment Co., Ltd. ("Nanchang Gaoxin") and Nubia entered into the Sale and Purchase Agreement in Nubia Technology Limited ("Sale and Purchase Agreement") and Nubia Technology Limited Shareholders' Agreement on 27 July 2017. Pursuant to the Sale and Purchase Agreement, the Company transferred 10.1% equity interests in subsidiary Nubia to Nanchang Gaoxin for a consideration of RMB727.2 million. Following the completion of the aforesaid transfer, the Company held 49.9% equity interests in Nubia, and Nubia was excluded from the Company's consolidated statements.

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XIII. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

6. In order to further refine the Company's structure of corporate governance, improve its incentive mechanism and enhance the sense of responsibility and mission on the part of the management team and key personnel in relation to its sustainable and healthy development so as to ensure the realisation of its development targets, the Company has formulated prepared the "2017 Share Option Incentive Scheme (Draft) of ZTE Corporation" (the "2017 Share Option Incentive Scheme (Draft)") in accordance with relevant laws and regulations. The 2017 Share Option Incentive Scheme (Draft) was considered and approved by the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 convened on 20 June 2017. Pursuant to the "Resolution on Matters pertaining to the Grant of Share Options under the 2017 Share Option Incentive Scheme of the Company" and the "Resolution on Adjustments to the List of Participants and the Number of Share Options to be Granted under the 2017 Share Option Incentive Scheme of the Company" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors of the Company held on 6 July 2017, the date of grant was set for 6 July 2017 (Thursday), on which 149,601,200 share options were granted to 1,996 scheme participants. The exercise price for the share options granted was 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 Options granted
Zhang Jianheng	Non-executive Director	50,000
Luan Jubao	Non-executive Director	50,000
Zhao Xianming	Executive Director and President	800,000
Wang Yawen	Non-executive Director	50,000
Tian Dongfang	Non-executive Director	50,000
Zhan Yichao	Non-executive Director	50,000
Xu Huijun	Executive Vice President	550,000
Zhang Zhenhui	Executive Vice President	550,000
Pang Shengqing	Executive Vice President	450,000
Xiong Hui	Executive Vice President	450,000
Cao Wei	Secretary to the Board	200,000
Other participants	1,985	146,351,200
Total	1,996	149,601,200

The 2017 Share Option Incentive Scheme is valid for 5 years. The vesting period is 2 years from the date of grant. Subject to the fulfilment of the performance conditions, the first, second and third exercise period has the exercisable rights of 1/3 Options during the subsequent three exercise period, respectively.

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XIII. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

6. (continued)

Exercise period	Duration	Exercise Ratio
First exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of grant and ending on the last trading day of the 36-month period from the date of grant	1/3
Second exercise period	Commencing from the first trading day after expiry of the 36-month period from the date of grant and ending on the last trading day of the 48-month period from the date of grant	1/3
Third exercise period	Commencing from the first trading day after expiry of the 48-month period from the date of grant and ending on the last trading day of the 60-month period from the date of grant	1/3

XIV. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

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

	30 June 2017	31 December 2016
Within one year (including first year)	448,077	307,719
In the first to second years (including second year)	158,757	109,021
In the second to third years (including third year)	55,317	40,928
After the third year	66,357	102,979
	728,508	560,647

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 2017	31 December 2016
Within one year (including first year)	123,705	136,452
In the first to second years (including second year)	41,579	482,162
In the second to third years (including third year)	40,980	40,980
After the third year	345,282	379,639
	551,546	1,039,233

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting

Operating segments

The Group's business operations are organised and managed in three operating segments as follows based on the products and services offered:

- (1) The carriers' network business is focused on meeting requirements of carriers by providing wireless networks, wireline networks, core networks, IT systems and products, telecommunication software systems and services and other innovative technologies and product solutions.
- (2) The consumer business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry and corporate clients through the development, production and sales of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, wearable devices, as well as the provision of related software application and value-added services.
- (3) The government and corporate network business is focused on meeting requirements of government and corporate clients, providing top-level design and consultation services and integrated informatization solutions for the government and corporate informatization projects through the application of communications networks, Internet of Things, Big Data and Cloud Computing technologies and related core ICT products.

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

Segment assets exclude derivative financial instruments, deferred tax assets, pledged bank deposits, cash and cash equivalents, investment in joint ventures and associates, other trade receivables and 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 trade payables, bonds payables, 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.

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Six months ended 30 June 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 30 June 2017				3,287,400
Total assets				
Segment assets	47,478,911	21,244,458	5,526,029	74,249,398
Unallocated assets				70,420,919
Sub-total				144,670,317
Total liabilities				
Segment liabilities	15,763,539	4,247,520	1,834,705	21,845,764
Unallocated liabilities				79,646,489
Sub-total				101,492,253
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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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segments (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Six months ended 30 June 2016				
Segment revenue				
Revenue from external transactions	28,734,974	14,415,057	4,607,271	47,757,302
Sub-total	28,734,974	14,415,057	4,607,271	47,757,302
Segment results	8,070,444	261,906	1,250,760	9,583,110
Unallocated revenue				2,263,730
Unallocated cost				(9,178,250)
Finance costs				95,058
Loss from changes in fair values				(36,350)
Investment loss from associates and joint ventures				(19,517)
Total profit				2,707,781
31 December 2016				
Total assets				
Segment assets	42,979,978	19,688,690	6,499,293	69,167,961
Unallocated assets				72,472,949
Sub-total				141,640,910
Total liabilities				
Segment liabilities	12,073,774	3,724,184	1,825,757	17,623,715
Unallocated liabilities				83,132,105
Sub-total				100,755,820
Supplemental information				
Six months ended 30 June 2016				
Depreciation and amortization expenses	766,677	384,608	122,927	1,274,212
Capital expenditure	1,106,100	554,882	177,349	1,838,331
Asset impairment losses	632,505	317,299	101,414	1,051,218

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XIV. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

	Six months ended 30 June 2017	Six months ended 30 June 2016
The PRC	32,318,969	27,803,026
Asia (excluding the PRC)	8,051,823	7,234,938
Africa	1,634,316	3,100,051
Europe, America and Oceania	12,005,488	9,619,287
	54,010,596	47,757,302

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

Total non-current assets

	30 June 2017	31 December 2016
The PRC	15,184,235	14,474,584
Asia (excluding the PRC)	1,081,849	1,019,306
Africa	216,567	360,132
Europe, America and Oceania	942,293	1,163,078
	17,424,944	17,017,100

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

Information of major customers

Operating revenue of RMB11,645,473,000 represented revenue for carriers' network and consumer business from one major customer (Six months ended 30 June 2016: RMB8,032,456,000 from one major customer).

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

The aging analysis of trade receivables is set out as follows:

	30 June 2017	31 December 2016
Within 1 year	18,747,955	30,964,659
1–2 years	4,952,534	4,451,692
2–3 years	2,874,024	2,411,958
Over 3 years	7,461,335	7,487,791
	34,035,848	45,316,100
Less: bad debt provision for trade receivables	5,392,406	5,183,675
	28,643,442	40,132,425

	30 June 2017				31 December 2016			
	Book balance Amount	Bad debt provision Percentage (%)	Bad debt provision Amount	Bad debt provision Percentage (%)	Book balance Amount	Bad debt provision Percentage (%)	Bad debt provision Amount	Bad debt provision Percentage (%)
Individually significant and for which bad debt provision has been separately made	345,903	1	345,903	100	550,842	1	550,842	100
For which bad debt provision has been collectively made								
0–6 months	12,922,546	38	—	—	24,828,643	55	—	—
7–12 months	5,795,343	17	168,870	3	6,136,016	14	243,641	4
13–18 months	3,226,933	9	680,091	21	2,603,915	6	492,503	19
19–24 months	1,586,997	5	628,430	40	1,847,777	4	705,922	38
2–3 years	2,784,843	8	1,492,060	54	2,411,958	5	1,186,332	49
Over 3 years	7,373,283	22	2,077,052	28	6,936,949	15	2,004,435	29
	33,689,945	99	5,046,503	15	44,765,258	99	4,632,833	10
	34,035,848	100	5,392,406		45,316,100	100	5,183,675	

Movements in bad-debt provisions for trade receivables:

Opening balance	Provision for the period	Decrease during the period		Closing balance
		Write back	Write off	
5,183,675	558,381	—	(349,650)	5,392,406

As at 30 June 2017, there was no write-back (31 December 2016: Nil) and a write-off of RMB349,650,000 (31 December 2016: RMB164,281,000) of bad-debt provision 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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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables

The aging analysis of other receivables:

	30 June 2017	31 December 2016
Within 1 year	26,348,365	7,660,224
1-2 years	2,282,441	2,960,763
2-3 years	567,408	104,769
Over 3 years	2,260,537	2,432,167
	31,458,751	13,157,923

Other receivables are analysed as follows:

	30 June 2017	31 December 2016
Staff loans	103,386	231,900
Transactions with third parties	31,355,365	12,926,023
	31,458,751	13,157,923

3. Available-for-sale financial assets

	30 June 2017	31 December 2016
Available-for-sale equity instruments At cost	461,091	458,091

Available-for-sale financial assets at cost:

30 June 2017

	Book balance			Shareholding percentage (%)	Cash dividend for the period
	Opening balance	Increase during the period	Decrease during the period		
航天投資控股有限公司	201,734	—	—	2.6936	—
Others	256,357	3,000	—		—
	458,091	3,000	—		—

31 December 2016

	Book balance			Shareholding percentage (%)	Cash dividend for the period
	Opening balance	Increase during the period	Decrease during the period		
航天科技投資控股有限公司	201,734	—	—	2.6936	15,000
Others	164,990	95,943	(4,576)		4,671
	366,724	95,943	(4,576)		19,671

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

4. Long-term trade receivables

	30 June 2017	31 December 2016
Loans granted to subsidiaries (Note 1)	5,738,785	5,879,893
Installment payments for the provision of telecommunication system construction projects	240,116	331,896
Less: Bad debt provision for long-term receivables	—	56,952
	5,978,901	6,154,837

Note 1: Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

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

Opening balance	Provision for the period	Decrease during the period		Closing balance
		Write back	Write off	
56,952	—	(483)	(56,469)	—

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

5. Long-term equity investments

		30 June 2017	31 December 2016
Equity method			
Joint ventures	(1)	53,690	54,520
Associates	(2)	468,597	475,572
Less: Provision for impairment in long-term equity investments		4,764	4,764
		517,523	525,328
Cost method			
Subsidiaries	(3)	11,079,911	10,261,001
Less: Provision for impairment in long-term equity Investments	(4)	78,849	78,849
		11,001,062	10,182,152
		11,518,585	10,707,480

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

5. Long-term equity investments (continued)

(1) Joint ventures

	Movements during the period								Carrying values as at the end of the period	Impairment provision at the end of the period
	Balance as at the beginning	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	54,520	—	—	(830)	—	—	—	—	53,690	—
	54,520	—	—	(830)	—	—	—	—	53,690	—

(2) Associates

	Movements during the period								Carrying values as at the end of the period	Impairment provision at the end of the period
	Balance as at the beginning	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	—
ZTE Software Technology (Nanchang) Company Limited	4,424	—	—	(1,806)	—	—	—	—	2,618	—
ZTE Energy Limited	396,345	—	—	(1,549)	—	—	—	—	394,796	—
思卓中興(杭州)科技有限公司	21,864	—	—	—	—	—	—	—	21,864	—
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	3,788	—	—	(1,171)	—	—	—	—	2,617	—
北京億科三友科技發展有限公司	—	—	—	—	—	—	—	—	—	(4,764)
上海中興思絡通訊有限公司	8,055	—	—	(845)	—	—	—	—	7,210	—
中興江蘇羅維科技	4,220	—	—	(202)	—	—	—	—	4,018	—
Shenzhen Weipin Zhiyuan Information Technology Company Limited	2,645	—	(2,645)	—	—	—	—	—	—	—
廣東中興城智信息技術有限公司	3,510	—	—	1,218	—	—	—	—	4,728	—
上海博色信息科技有限公司	20,499	—	—	1,152	—	—	—	—	21,651	—
南京攀網科技有限公司	2,981	—	—	(1,127)	—	—	—	—	1,854	—
	470,808	—	(2,645)	(4,330)	—	—	—	—	463,833	(4,764)

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

5. Long-term equity investments (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Shenzhen Zhongxing Software Company Limited	263,293	263,293	—	263,293	100%	100%	—
ZTEsoft Technology Company Limited	250,441	250,441	—	250,441	89.0%	89.0%	—
Shanghai Zhongxing Telecom Equipment Technology Company Limited	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%	—
Nubia Technology Limited	321,407	321,407	—	321,407	60.0%	60.0%	—
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%	—
ZTE 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.LDEC.V.	42	42	—	42	100.0%	100.0%	—
ZTE DoBrasil 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.	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 TKMobile	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%	—
ZTE Supply Chain Co., Ltd.	—	28,500	(28,500)	—	95.0%	95.0%	—
北京中興網捷科技有限公司	289,341	159,341	130,000	289,341	100.0%	100.0%	—
深圳市中興高達技術有限公司	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	112,500	112,500	—	112,500	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%	—

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

5. Long-term equity investments (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
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%	—
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%	—
北京市中保網盾科技有限公司	—	20,000	(20,000)	—	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%	—
長沙中興智慧技術有限公司	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	—	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	22,000	22,000	—	22,000	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	20,000	28,960	48,960	51.0%	51.0%	—
中興高能技術有限責任公司	400,000	400,000	—	400,000	80.0%	80.0%	—
濟源中興智慧科技產業有限公司	2,550	2,550	—	2,550	51.0%	51.0%	—
瀋陽(中興)大數據研究院有限公司	2,000	2,000	—	2,000	100.0%	100.0%	—
ZTE Smart Auto Company Limited	790,500	500,000	290,500	790,500	100.0%	100.0%	—
珠海市廣通客車有限公司	—	232,400	(232,400)	—	70.0%	70.0%	—
石家莊國創中興智慧城市設計有限公司	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%	—
中興通訊(義烏)研究院有限公司	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%	—
中興克拉科技(蘇州)有限公司	44,100	—	44,100	44,100	90.0%	90.0%	—
西安中興物聯網終端有限公司	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(原「西安中興軟件有限責任公司」)	11,250	—	11,250	11,250	100.0%	100.0%	—
	10,261,001	818,910	11,079,911				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.

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

5. 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
Nubia Technology Limited	17,657	—	17,657
ZTE DoBrasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L	827	—	827
	78,849	—	78,849

6. Operating revenue and costs

	Six months ended 30 June 2017		Six months ended 30 June 2016	
	Revenue	Cost	Revenue	Cost
Major business	41,554,130	41,936,707	36,117,321	37,835,111
Other business	9,522,358	201,936	9,486,996	1,509
	51,076,488	42,138,643	45,604,317	37,836,620

7. Investment income

	Six months ended 30 June 2017	Six months ended 30 June 2016
Investment loss from long-term equity investment under equity method	(5,160)	(21,203)
Investment income from long-term equity investment under cost method	10,450	168,770
Investment gain earned during the period of holding available-for-sale financial assets	—	15,000
Investment loss from financial assets at fair value through profit and loss for the period of holding	(18,604)	(28,221)
Gain from the disposal of available-for-sale financial assets	—	5,424
Investment income from the disposal of long-term equity investment	24,149	17,283
	10,835	157,053

Supplementary Information to Financial Statements

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

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Six months ended 30 June 2017
Loss from the disposal of non-current assets	(26,356)
Investment gain from the disposal of long-term equity investments	104,897
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	(120,018)
Gain from change in fair value of investment properties	3,487
Net amount of other non-operating income and expenses and others	447,380
	409,390
Effect of income tax	(61,409)
Effect of non-controlling interests (net of tax)	(6,622)
	341,359

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 2017	Reason
Refund of VAT on software products	1,219,018	In line with national policies and received on an ongoing basis
Return of tax refund fee	2,193	In line with national policies and received on an ongoing basis
Special financial subsidies	564,421	In line with national policies and received on an ongoing basis
Venture capital firm investment income	2,609	Within the scope of business

Supplementary Information to Financial Statements

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

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

30 June 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

30 June 2016

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

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 2017

	Note	Six months ended 30 June 2017 (unaudited) RMB'000	Six months ended 30 June 2016 (unaudited) (Restated) RMB'000
Revenue	4	54,010,596	47,757,302
Cost of Sales		(37,345,221)	(32,629,903)
Gross Profit		16,665,375	15,127,399
Other income and gains	4	2,085,519	2,906,552
Research and development costs		(6,676,679)	(6,284,269)
Selling and distribution expenses		(5,754,014)	(6,052,152)
Administrative expenses		(1,498,668)	(1,454,669)
Other expenses		(964,196)	(912,331)
Finance costs	6	(566,430)	(603,232)
Share of profits and losses of:			
Joint ventures		(1,935)	1,533
Associates		(1,572)	(21,050)
Profit before tax	5	3,287,400	2,707,781
Income tax expense	7	(744,184)	(519,427)
Profit for the year		2,543,216	2,188,354
Attributable to:			
Ordinary equity holders of the parent		2,292,867	1,766,397
Perpetual capital instruments		249,963	249,963
Non-controlling interests		386	171,994
		2,543,216	2,188,354
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)	(59,507)
Changes in fair value of available-for-sale investments, net of tax		(27,243)	(198,699)
Exchange differences on translation of foreign operations		259,012	(415,540)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		221,114	(673,746)
Other comprehensive income/(loss) for the year, net of tax		221,114	(673,746)
Total comprehensive income for the year		2,764,330	1,514,608
Attributable to:			
Ordinary equity holders of the parent		2,529,734	1,238,044
Perpetual capital instruments		249,963	249,963
Non-controlling interests		(15,367)	26,601
		2,764,330	1,514,608
Earnings per share attributable to ordinary equity holders of the parent	9		
Basic		RMB0.55	RMB0.43
Diluted		RMB0.55	RMB0.42

Consolidated Statement of Financial Position

(Prepared under HKAS 34)
Six months ended 30 June 2017

	Note	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Non-current assets			
Property, plant and equipment		9,449,809	9,280,644
Prepaid land lease payments		1,286,121	1,237,174
Goodwill		219,706	186,206
Other intangible assets		4,639,427	4,454,427
Investment properties		2,019,957	2,016,470
Investments in joint ventures		62,386	64,322
Investments in associates		695,227	601,554
Available-for-sale investments		2,812,715	2,659,667
Long-term trade receivables	11	1,302,666	1,376,563
Factored long-term trade receivables		1,588,556	1,391,746
Deferred tax assets		1,292,240	1,604,575
Pledged deposits		2,917,401	3,258,533
Long-term prepayments, deposits and other receivables		1,334,201	628,584
Total non-current assets		29,620,412	28,760,465
Current assets			
Prepaid land lease payments		29,630	28,385
Inventories		25,879,956	26,810,568
Amount due from customers for contract works	10	9,978,860	9,345,123
Trade and bills receivables	11	30,488,919	27,982,681
Factored trade receivables		5,010,441	2,261,280
Prepayments, deposits and other receivables		16,074,270	13,814,908
Derivative financial assets		17,864	54,857
Pledged deposits		1,503,788	1,213,920
Time deposits with original maturity of over three months		158,187	1,086,203
Cash and cash equivalents		25,907,990	30,049,791
Total current assets		115,049,905	112,647,716
Current liabilities			
Trade and bills payables	12	34,809,619	36,933,838
Amount due to customers for contract works	10	9,335,024	5,876,790
Other payables and accruals		23,430,667	27,873,988
Provisions		779,741	887,366
Derivative financial instruments		65,893	40,148
Interest-bearing bank borrowings		19,333,566	17,064,145
Bank advances on factored trade receivables		5,013,252	2,263,015
Tax payable		282,153	524,762
Dividends payable		1,196	50,317
Total current liabilities		93,051,111	91,514,369
Net current assets		21,998,794	21,133,347
Total assets less current liabilities		51,619,206	49,893,812

Consolidated Statement of Financial Position (continued)

(Prepared under HKAS 34)
Six months ended 30 June 2017

	Note	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Non-current liabilities			
Interest-bearing bank borrowings		4,377,412	5,018,276
Bank advances on factored long-term trade receivables		1,588,556	1,391,746
Deferred tax liabilities		105,899	98,380
Provision for retirement benefits		145,192	146,106
Other non-current liabilities		2,224,083	2,354,214
Total non-current liabilities		8,441,142	9,008,722
Net assets			
Equity			
Equity attributable to ordinary equity holders of the parent			
Issued capital		4,190,015	4,184,628
Reserves		24,799,959	22,216,523
		28,989,974	26,401,151
Perpetual capital instruments	13	9,137,341	9,321,327
Non-controlling interests		5,050,749	5,162,612
Total equity		43,178,064	40,885,090

Yin Yimin
Director

Zhao Xianming
Director

Consolidated Statement of Changes in Equity

(Prepared under HKAS 34)
Six months ended 30 June 2017

	Attributable to ordinary equity holders of the parent										
	Issued capital (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Hedging reserve (unaudited) RMB'000	Share	Statutory reserves (unaudited) RMB'000	Exchange	Retained profits (unaudited) RMB'000	Total (unaudited) RMB'000	Perpetual capital instruments (unaudited) RMB'000	Non-controlling interests (unaudited) RMB'000	Total equity (unaudited) RMB'000
				incentive		fluctuation					
				scheme reserve (unaudited) RMB'000		reserve (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	5,162,612	40,885,090
Profit for the period	—	—	—	—	—	—	2,292,867	2,292,867	249,963	386	2,543,216
Other comprehensive income for the period:											
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)	—	(19,462)	(27,243)
Exchange differences on translation of foreign operations	—	—	—	—	—	255,303	—	255,303	—	3,709	259,012
Total comprehensive income for the period	—	(7,781)	(10,655)	—	—	255,303	2,292,867	2,529,734	249,963	(15,367)	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)	(97,646)
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(8,550)	(8,550)
Capital contribution by non-controlling shareholders	—	—	—	—	—	—	—	—	—	9,700	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	5,050,749	43,178,064

	Attributable to ordinary equity holders of the parent										
	Issued capital (unaudited) RMB'000	Capital reserve (unaudited) RMB'000	Hedging reserve (unaudited) RMB'000	Share	Statutory reserves (unaudited) RMB'000	Exchange	Retained profits (unaudited) RMB'000	Total (unaudited) RMB'000	Perpetual capital instruments (unaudited) RMB'000	Non-controlling interests (unaudited) RMB'000	Total equity (unaudited) RMB'000
				incentive		fluctuation					
				scheme reserve (unaudited) RMB'000		reserve (unaudited) RMB'000					
At 1 January 2016	4,150,791	11,285,997	1,392	247,825	2,022,709	(1,726,842)	13,678,222	29,660,094	9,321,327	4,367,184	43,348,605
Profit for the period	—	—	—	—	—	—	1,766,397	1,766,397	249,963	171,994	2,188,354
Other comprehensive income for the period:											
Hedges, net of tax	—	—	(59,507)	—	—	—	—	(59,507)	—	—	(59,507)
Changes in fair value of available-for-sale investments, net of tax	—	(55,474)	—	—	—	—	—	(55,474)	—	(143,225)	(198,699)
Exchange differences on translation of foreign operations	—	—	—	—	—	(413,372)	—	(413,372)	—	(2,168)	(415,540)
Total comprehensive income for the period	—	(55,474)	(59,507)	—	—	(413,372)	1,766,397	1,238,044	249,963	26,601	1,514,608
Issue of ordinary shares	3,451	35,269	—	—	—	—	—	38,720	—	—	38,720
Acquisition of non-controlling shareholders' interests	—	(20,283)	—	—	—	—	—	(20,283)	—	(140,238)	(160,521)
Capital withdrawal by non-controlling shareholders	—	—	—	—	—	—	—	—	—	(402,859)	(402,859)
Dividends declared to non-controlling shareholders	—	—	—	—	—	—	—	—	—	(26,590)	(26,590)
Repayment of interests of perpetual capital instruments	—	—	—	—	—	—	—	—	(433,949)	—	(433,949)
Share incentive scheme:											
Equity-settled share option expenses	—	—	—	54,884	—	—	—	54,884	—	—	54,884
At 30 June 2016	4,154,242	11,245,509	(58,115)	302,709	2,022,709	(2,140,214)	15,444,619	30,971,459	9,137,341	3,824,098	43,932,898

Consolidated Cash Flow Statement

(Prepared under HKAS 34)
Six months ended 30 June 2017

Item	Six months ended 30 June 2017 (unaudited) RMB'000	Six months ended 30 June 2016 (unaudited) RMB'000
Net cash (outflow)/inflow from operating activities	(6,321,191)	1,831,593
Net cash outflow used in investing activities	(1,383,847)	(1,508,319)
Net cash inflow from financing activities	3,640,016	1,326,283
Net (decrease)/increase in cash and cash equivalents	(4,065,022)	1,649,557
Cash and cash equivalents at beginning of period	30,049,791	26,616,996
Effect of foreign exchange rate changes, net	(76,779)	(335,180)
Cash and cash equivalents at end of period	25,907,990	27,931,373
Analysis of balance of cash and cash equivalents		
Cash and unrestricted bank balances	24,420,924	27,594,889
Time deposits with original maturity of less than three months	1,487,066	336,484
	25,907,990	27,931,373

Notes to Condensed Consolidated Interim Financial Statements

(Prepared under HKAS 34)
30 June 2017

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.

The Group is dedicated to the design, development, production, distribution and installation of a broad range of advanced ICT-related systems, equipment and terminals, including carriers’ networks, government and corporate business and consumer business.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

2.1. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 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 2016.

2.2 Changes in accounting policies and disclosures

The Group has changed the presentation of government grants. Government grants relating to income shall be: (a) accounted for in the income statement (either separately or under general entries such as “Other income and gains”); or (b) set off in the reporting of related expenses. In the presentation of grants related to revenue, both methods are acceptable.

In order to more accurately reflect the actual substance of the accounts, increase the comparability of its financial information versus its peers, and provide more relevant information to users of its financial statements, and given that the election between the two methods of presentation set out above is also permissible under “ASBE 16 — Government grants”, the Group has elected to report government grants relating to revenue as a deduction in the reporting of related expenses.

The Group has adopted this revision retrospectively. Its effect on the consolidated statement of comprehensive income is disclosed as follows:

	Six months ended 30 June 2017 RMB’000	Six months ended 30 June 2016 RMB’000
Decrease in the following:		
Research and development costs	708,719	774,895
Cost of sales	138,140	—
Other income and gains	846,859	774,895

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2017

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

2.3 New and revised standards and interpretations adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the period ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The adoption of the new standards and revisions has had no material impact on the accounting policies of the Group and the amounts reported for the current period and the previous periods. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) The Carriers' Networks are focused on meeting the demands of carriers by providing wireless networks, wireline networks, core networks, IT systems and products, telecommunication software systems and services and other innovative technologies and product solutions.
- (b) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the demands of industry and corporate clients through the development, production and sale of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, wearable devices, as well as the provision of related software application and value-added services.
- (c) The Government and Corporate Business is focused on meeting the demands of government and corporate clients, providing top-level design and consultation services and integrated informatisation solutions for the government and corporate informatisation projects through the application of Communications Networks, Internet of Things, Big Data technologies, Cloud Computing and related core ICT products.

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

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

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2017

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 2017				
Segment revenue:				
Sales to 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
Corporate and other 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
30 June 2017				
Segment assets	47,478,911	21,244,458	5,526,029	74,249,398
Investment in joint ventures				62,386
Investment in associates				695,227
Corporate and other unallocated assets				69,663,306
Total assets				144,670,317
Segment liabilities	15,763,539	4,247,520	1,834,705	21,845,764
Corporate and other unallocated liabilities				79,646,489
Total liabilities				101,492,253
Six months ended 30 June 2017				
Other segment information:				
Impairment losses recognised in profit or loss	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

* Capital expenditure included the increase in property, plant and equipment, intangible assets, prepaid land lease payments and investment properties.

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2017

3. OPERATING SEGMENT INFORMATION (CONTINUED)

	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Six months ended 30 June 2016				
Segment revenue:				
Sales to external customers	28,734,974	14,415,057	4,607,271	47,757,302
	<u>28,734,974</u>	<u>14,415,057</u>	<u>4,607,271</u>	<u>47,757,302</u>
Segment results				
	8,070,444	261,906	1,250,760	9,583,110
Bank and other interest income				442,372
Dividend income and unallocated gains				2,464,180
Corporate and other unallocated expenses				(9,159,132)
Finance costs				(603,232)
Share of profits and losses of:				
Joint ventures				1,533
Associates				(21,050)
Profit before tax				<u>2,707,781</u>
31 December 2016				
Segment assets				
	42,979,978	19,688,690	6,499,293	69,167,961
Investment in joint ventures				64,322
Investment in associates				601,554
Corporate and other unallocated assets				71,574,344
Total assets				<u>141,408,181</u>
Segment liabilities				
	12,073,774	3,724,184	1,825,757	17,623,715
Corporate and other unallocated liabilities				82,899,376
Total liabilities				<u>100,523,091</u>
Six months ended 30 June 2016				
Other segment information:				
Asset impairment loss	632,505	317,299	101,414	1,051,218
Depreciation and amortisation	766,677	384,608	122,927	1,274,212
Capital expenditure	1,106,100	554,882	177,349	1,838,331

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2017

3. OPERATING SEGMENT INFORMATION (CONTINUED)

Geographical information

(a) Revenue from external transactions

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
The PRC	32,318,969	27,803,026
Asia (excluding the PRC)	8,051,823	7,234,938
Africa	1,634,316	3,100,051
Europe, Americas and Oceania	12,005,488	9,619,287
	54,010,596	47,757,302

Information on revenue set out above is analysed by geographical locations where the customers are located.

(b) Non-current assets

	30 June 2017 RMB'000	31 December 2016 RMB'000
The PRC	15,154,605	14,446,199
Asia (excluding the PRC)	1,081,849	1,019,306
Africa	216,567	360,132
Europe, Americas and Oceania	942,293	1,163,078
	17,395,314	16,988,715

Figures for non-current assets set out above is based on the locations of the assets and excludes financial instruments, deferred tax assets, investments in joint ventures, investments in associates and other non-current assets.

Information of major customers

Operating revenue of RMB11,645,473,000 represented revenue for carriers' network and consumer business from one major customer for the reporting period (Six months ended 30 June 2016: RMB8,032,456,000 from one major customer).

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2017

4. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the period. All significant intra-group transactions have been eliminated on consolidation.

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

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Revenue		
Telecommunications system contracts	34,873,534	31,675,335
Sale of goods and services	19,071,637	16,014,399
Rental income	65,425	67,568
	54,010,596	47,757,302

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000 (Restated)
Other Revenue		
VAT refunds for software products [#]	1,219,018	1,362,573
Bank interest income	529,632	442,372
Exchange gains	—	455,359
Dividend income	6,473	25,773
Others ^{##}	219,403	126,261
	1,974,526	2,412,338
Gains		
Revaluation gains on investment properties	3,487	2,216
Gains from disposal of available-for-sale financial assets	2,609	455,200
Gains from disposal of long-term equity investment	104,897	36,798
	110,993	494,214
	2,085,519	2,906,552

[#] VAT refund for software products represents tax payments by subsidiaries of the Group on any effective VAT rate in excess of 3% in respect of software product sales which are immediately refundable upon payment pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

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

Notes to Condensed Consolidated Interim Financial Statements (continued)

(Prepared under HKAS 34)
30 June 2017

5. PROFIT BEFORE TAX

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

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000 (Restated)
Cost of goods and services	32,597,687	27,345,822
Depreciation	535,339	688,475
Amortisation of land lease payments	14,098	13,013
Amortisation of intangible assets other than deferred development costs	96,086	58,830
Research and development costs:		
Deferred development costs amortised	446,801	513,894
Current period expenditure	6,894,430	6,273,150
Less: deferred development costs	(664,552)	(502,775)
	6,676,679	6,284,269
Fair value (gain)/loss, net*:		
Derivative instruments	61,542	38,566
Investment properties	(3,487)	(2,216)
Impairment of trade receivables*	725,020	682,112
Impairment of amount due from customers for contract works*	(16,204)	—
Provision for warranties**	399,613	623,541
Provision for legal obligation*	6,896	24,235
Write-down of inventories to net realisable value**	316,940	369,106
Minimum lease payments under operating leases on land and buildings	380,915	341,940
Contingent rental income in respect of operating leases	(16,333)	(2,854)
Auditors' remuneration	670	600
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	11,588,263	10,600,021
Equity-settled share option expense	—	54,884
Retirement benefit scheme contributions:		
Defined contribution pension schemes	538,441	582,408
	12,126,704	11,237,313
Foreign exchange loss/(gain)*	56,738	(455,359)
Loss on disposal of items of property, plant and equipment*	26,356	4,659
Gain on disposal of subsidiaries	(56,187)	(18,814)
Gain on disposal of interest in an associate	(48,710)	(17,984)
Loss on disposal of derivative financial instruments*	58,476	140,289
Gain on disposal of available-for-sale investments	(2,609)	(455,200)

* The fair value losses, impairment of trade receivables, impairment of amount due from customers for contract works, provision for legal obligation, foreign exchange loss, loss on disposal of items of property, plant and equipment and loss on disposal of derivative financial instruments are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

** Provision for warranties and write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

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6. FINANCE COSTS

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Interest on bank loans wholly repayable within five years	345,490	332,979
Interest on bonds payable	—	58,222
Total interest expense on financial liabilities not at fair value through profit or loss	345,490	391,201
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	220,940	212,031
	566,430	603,232

7. INCOME TAX

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Current — Hong Kong	4,435	242
Current — Mainland China	250,243	405,982
Current — Overseas	166,852	74,163
Deferred	322,654	39,040
Total tax charge for the period	744,184	519,427

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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 2014 to 2016 as a national-grade hi-tech enterprise incorporated in Shenzhen. Application for the status of national-grade hi-tech enterprise for years 2017 to 2019 is currently in progress. 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 2017 as a national-grade key software enterprise.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2017 as a national-grade key software enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 10% in 2017 as an IC design enterprise under national planning.

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7. INCOME TAX (CONTINUED)

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise. Application for the status of national-grade hi-tech enterprise for years 2017 to 2019 is currently in progress.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2017 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2017 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 2017 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 2017 (Same period in 2016: nil).

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic earnings per share amount is computed by dividing the profit for the period attributable to holders of ordinary shares of the Company by the weighted average number of ordinary shares in issue.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per shares are as follows:

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Earnings		
Profit for the period attributable to ordinary equity holders of the parent	2,292,867	1,766,397

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9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT (CONTINUED)

	Six months ended 30 June 2017 '000 shares	Six months ended 30 June 2016 '000 shares
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation (Note 1)	4,187,322	4,153,594
Effect of dilution — weighted average number of ordinary shares:		
Share options	1,009	13,420
Adjusted weighted average number of ordinary shares in issue	4,188,331	4,167,014

Note 1: With effect from 1 November 2016, scheme participants that had fulfilled the exercise conditions under the share option incentive scheme of the Company were entitled to exercise share options qualified as such during the second exercise period. During the six months ended 30 June 2017, 5,387,000 new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 2,694,000 after taking into account the duration of time for such shares had been issued and outstanding.

The 2013 share options granted by the Company gave rise to 1,009,000 potential dilutive ordinary shares during the reporting period.

10. TELECOMMUNICATIONS SYSTEM CONTRACTS

	30 June 2017 RMB'000	31 December 2016 RMB'000
Amount due from customers for contract works	9,978,860	9,345,123
Amount due to customers for contract works	(9,335,024)	(5,876,790)
	643,836	3,468,333
Contract costs incurred plus recognised profits	102,538,703	95,921,927
Less: Recognised losses to date	886,627	1,044,198
Less: Progress billings	101,008,240	91,409,396
	643,836	3,468,333

11. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade and bills receivables	39,734,621	37,146,137
Impairment	(7,943,036)	(7,786,893)
	31,791,585	29,359,244
Current portion	(30,488,919)	(27,982,681)
Long-term portion	1,302,666	1,376,563

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11. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (CONTINUED)

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 2017 RMB'000	31 December 2016 RMB'000
Within 6 months	26,665,852	22,941,253
7 to 12 months	2,957,634	3,872,562
1 to 2 years	1,857,047	2,288,234
2 to 3 years	311,052	257,195
	31,791,585	29,359,244
Less: Current portion of trade and bills receivables	(30,488,919)	(27,982,681)
Long-term portion	1,302,666	1,376,563

The movements in the provision for impairment of trade and bills receivables are as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Opening balance	7,786,893	5,802,188
Impairment losses recognised	1,036,064	2,261,577
Amount written back	(311,044)	(150,957)
Amount written off	(550,112)	(232,680)
Exchange rate changes	(18,765)	106,765
Closing balance	7,943,036	7,786,893

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB375,585,000 (31 December 2016: RMB634,799,000) with a carrying amount before provision of RMB375,585,000 (31 December 2016: RMB634,799,000). 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.

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11. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (CONTINUED)

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Neither past due nor impaired	5,734,179	4,569,867
Less than one year past due	22,304,024	21,906,738
	28,038,203	26,476,605

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The balances due from the controlling shareholder, joint ventures, associates and other related companies included in the above are analysed as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
The controlling shareholder	—	150
Joint ventures	50,118	127,434
Associates	12,713	14,830
Other related companies	408,469	315,394
	471,300	457,808

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.

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 2017 RMB'000	31 December 2016 RMB'000
Within 6 months	33,876,265	36,097,084
7 to 12 months	458,327	459,023
1 to 2 years	207,161	286,434
2 to 3 years	186,686	57,892
Over 3 years	81,180	33,405
	34,809,619	36,933,838

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12. TRADE AND BILLS PAYABLES (CONTINUED)

The balances due to the controlling shareholder, joint ventures, associates and other related companies included in the above are analysed as follow:

	30 June 2017 RMB'000	31 December 2016 RMB'000
The controlling shareholder	27,858	50,126
Joint ventures	11,495	6,080
Associates	84	194
Other related companies	64,708	180,974
Total	104,145	237,374

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.

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.

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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 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.

(2) Movement of issued Medium Term Note as at the end of the period

Face value RMB'000	Issue date	Volume	Amount RMB'000	Opening balance RMB'000	Interest charge for the period RMB'000	Interest payment for the period RMB'000	Closing balance RMB'000
6,000,000	2015.1.27	60,000,000	6,000,000	6,252,364	173,822	(348,600)	6,077,586
1,500,000	2015.2.6	15,000,000	1,500,000	1,572,198	42,558	(85,349)	1,529,407
1,500,000	2015.11.20	15,000,000	1,500,000	1,496,765	33,583	—	1,530,348
9,000,000		90,000,000	9,000,000	9,321,327	249,963	433,949	9,137,341

14. CONTINGENT LIABILITIES

- (a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Guarantees given to banks in connection with borrowings to customers	—	—
Guarantees given to banks in respect of performance bonds	9,072,144	8,400,893
	9,072,144	8,400,893

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14. CONTINGENT LIABILITIES (CONTINUED)

- (b) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762,984,000 (equivalent to approximately RMB49,284,000). 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 RMB21,189,000) be paid by the Company. As at the end of the reporting period, the Company had made provision for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not paid any compensation in connection with this arbitration case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

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

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

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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 the Guangdong Higher Court against the said judgement, and the Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth Division amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company. In response to the aforesaid second trial judgement, the Company had applied to the Supreme People's Court for retrial, which application was rejected by the Supreme People's Court. Subsequently, the Company filed a protest against such second trial judgement with Guangdong Provincial People's Procuratorate, which admitted the Company's application and referred the case to the Supreme People's Procuratorate for protest. On 24 December 2015, the Supreme People's Procuratorate filed a protest with the Supreme People's Court. On 17 June 2016, the Company received through the Guangdong Higher Court the ruling of the Supreme People's Court, which ordered the Guangdong Higher Court to conduct a retrial in respect of the aforesaid second trial judgement.

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

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

(d) 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 with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court ruled 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 endorsed 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.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

(e) On 26 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with the United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by the Company and ZTE USA, a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, the ITC issued its initial determination in respect of the case, ruling that one of the patents relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of the ITC.

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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 will file an appeal based on the verdicts on the three patents involved in the litigation ruled by the court to have been subject to infringement.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

(f) On 20 May 2013, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB198 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that: (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527. A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil received the judgement of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. On 20 July 2017, the level 2 administrative court under the tax bureau of Sao Paulo State ruled to revoke the administrative penalty imposed by the tax bureau of Sao Paulo State. Pursuant to the taxation laws of Brazil, the tax bureau of Sao Paulo State is still entitled to appeal against the aforesaid ruling. As at the balance sheet date of the reporting period, the Company had made provisions of BRL17.70 million (equivalent to approximately RMB36.36 million).

Notes to Condensed Consolidated Interim Financial Statements (continued)

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14. CONTINGENT LIABILITIES (CONTINUED)

(f) (continued)

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated. The aforesaid cases will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

- (g) In May 2012, Flashpoint Technology, Inc., a U.S. company, filed a claim with the ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in image processing technologies. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a limited exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of Delaware, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of Delaware has been suspended. On 1 October 2013, the ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

- (h) In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. 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 said 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. Currently, the Federal District Court of California has yet to issue its verdict.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

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14. CONTINGENT LIABILITIES (CONTINUED)

- (i) 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 RMB64,410,000). 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 RMB64,150,000), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB64,150,000) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the Federal Regional and District Court had handed down the second trial judgement, dismissing the appeal filed by the said Brazilian company. In November 2016, the Federal Regional and District Court ruled to activate provisional enforcement procedures to order payment of BRL31,224,300 (equivalent to approximately RMB64,150,000) together with accrued interests and an adjustment amount for inflation by the Brazilian company to ZTE Brazil. In February 2017, the Federal Regional and District Court ruled to reject the clarification motion filed by the Brazilian company in October 2016 in respect 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 RMB170 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

- (j) The Company has reached agreements (collectively the “Agreements”) with the Bureau of Industry and Security of the United States Department of Commerce (“BIS”), the United States Department of Justice (“DOJ”) and the Office of Foreign Assets Control of the United States Department of Treasury (“OFAC”) in relation to investigations regarding the Company’s compliance with U.S. Export Administration Regulations (the “EAR”) and U.S. sanctions laws. Due to violations of U.S. export controls laws and U.S. rules and regulations in relation to the provision of information and other conduct during the investigations, the Company agreed to plead guilty and pay a total of 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 on the condition of the Company’s compliance with the requirements in the 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 DOJ agreement is a prerequisite for the issue of a settlement order by BIS. BIS would recommend the removal of the Company from the Entity List, conditioned on court approval of the DOJ agreement, entry of the plea, and the issuance of BIS Assistant Secretary’s Order. 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).

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14. CONTINGENT LIABILITIES (CONTINUED)

(j) (continued)

The Agreements also covers the following key issues:

- (1) A 3-year monitor term shall be set up pursuant to the agreement between the Company and DOJ, during which an independent compliance officer approved by the US Government shall be appointed to prepare annual reports during his/her term of office in order to monitor the Company's compliance with U.S. export control laws and performance of its obligations under the agreement. Thereafter, pursuant to the agreement between the Company and BIS, the Company shall appoint an independent compliance auditor for a three-year term, and the auditor will prepare annual audit reports of the Company's compliance with U.S. export control laws and performance of its obligations under the agreement.
- (2) Pursuant to the agreement between the Company and BIS, BIS is suspending a denial order for 7 years that would restrict and prohibit, among other things, the Company from applying for or using any licenses or buying or selling any item exported from the United States that is subject to the EAR. BIS is suspending the denial order subject to the Company's compliance of the requirements under the agreement, and the denial order will be waived after the 7-year period.
- (3) The Company shall provide extensive training on export control requirements to its management and employees and the management and employees of its subsidiaries and other entities over which it has ownership or control.

For a comprehensive execution of the agreement, the Company will be continuously taking an overhaul of its organization and structure, business procedures and internal control. Through such measures as the establishment of the compliance committee and the independent compliance department, the appointment of the chief export compliance officer, the adoption of new automated tools and processes, the framing and execution of the export control compliance manual, and consistent training on export controls to employees, the Company shall ensure its compliance with U.S. export control laws and performance of its obligations under the Agreements. Based upon the aforementioned policies and measures, the Company believes that it is unlikely that the USD300,000,000 penalty payment suspended by BIS would not be exempted as a result of any violation of the Agreements.

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 RMB16,333,000 (30 June 2016: Nil).

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.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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15. OPERATING LEASE ARRANGEMENTS (CONTINUED)

(a) As lessor (continued)

At 30 June 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within one year	123,705	136,452
In the second to fifth years, inclusive	164,519	605,101
After five years	263,322	297,680
	551,546	1,039,233

(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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within one year	448,077	307,719
In the second to fifth years, inclusive	240,486	174,340
After five years	39,945	78,588
	728,508	560,647

16. COMMITMENTS

Capital commitments

	30 June 2017 RMB'000	31 December 2016 RMB'000
Contracted, but not provided for:		
Land and buildings	545,639	1,052,816
Investments in associates	2,405,279	128,351
	2,950,918	1,181,167

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17. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the period:

	Notes	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
The controlling shareholder:			
Purchase of raw materials	(a)	94,037	132,253
Sales of finished goods	(b)	4,386	1,066
Rental expense	(c)	4,414	4,414
Associates:			
Purchase of raw materials	(a)	28,339	31,076
Sales of finished goods	(b)	3,503	6,633
Rental income	(e)	8,475	8,340
Interest expense	(f)	95	25
Interest income	(f)	—	142
Consulting service income	(g)	—	20
Joint ventures:			
Sales of finished goods	(b)	101,272	12,207
Rental income	(e)	243	248
Interest income	(f)	—	2,107
Consulting service income	(g)	—	472
Companies under significant influence of key management personnel of the Group			
Purchase of raw materials	(a)	164,235	410
Sales of finished goods	(b)	35,702	3,889
Rental income	(d)	35,532	—
Rental expense	(e)	294	—
Entities controlled by the controlling shareholder			
Purchase of raw materials	(a)	63,245	87,842
Sales of finished goods	(b)	12,349	502
Rental income	(e)	470	564
Substantial shareholder of controlling shareholder			
Purchase of raw materials	(a)	6,738	—

In the opinion of the directors, the related party transactions were conducted in the ordinary course of business.

Notes:

- 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.
- The sales of finished goods were made in accordance with published prices and conditions offered to major customers of the Group.
- The housing rental expense was charged at rates of RMB40 per square metre per month and RMB200 per car parking space per month.
- Rental expense ranged from RMB13.04 to RMB900 per square metre.
- Rental income ranged from RMB34.5 to RMB150 per square metre.
- 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.
- The consulting services were made with reference to published prices and conditions offered to major customers of the Group.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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17. RELATED PARTY TRANSACTIONS (CONTINUED)

(II) Compensation of key management personnel of the Group

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Short-term employee benefits	26,124	19,368
Post-employment benefits	171	245
Equity-settled share option expense	—	2,888
Total compensation paid to key management personnel	26,295	22,501

Certain key management personnel mentioned above were simultaneously entitled to defined benefit plans provided by the Group, the amounts of which are not included in the aforesaid remuneration.

18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, an amount due to the ultimate holding company and loans from associates approximate to their carrying amounts, largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, trade and bills receivables, deposits and other receivables and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 30 June 2017 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair value of a listed equity investment is based on quoted market prices.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A- or above credit ratings. Derivative financial instruments, including forward currency contracts and interest rate swaps are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Notes to Condensed Consolidated Interim Financial Statements (continued)

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18. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2017

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	1,310,662	—	—	1,310,662
Derivative financial instruments	—	17,864	—	17,864
	1,310,662	17,864	—	1,328,526

As at 31 December 2016

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	1,315,085	—	—	1,315,085
Derivative financial instruments	—	54,857	—	54,857
	1,315,085	54,857	—	1,369,942

Liabilities measured at fair value:

As at 30 June 2017

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(65,893)	—	(65,893)

As at 31 December 2016

	Quoted prices in active markets (Level 1) RMB'000	Fair value measurement using Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(40,148)	—	(40,148)

During the period, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for financial assets and liabilities (2016: Nil)

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19. EVENTS AFTER THE REPORTING PERIOD

- (a) Owing to the requirements of its operations and development, the Company entered into the bidding for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District, Shenzhen listed on Shenzhen Land & Real Estate Exchange Center. On 27 June 2017, the Company entered into a confirmation with Shenzhen Land & Real Estate Exchange Center confirming its successful bid for the land use rights of Site No. T208-0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District for a consideration of RMB3,542 million. On 14 July 2017, the Company and the Nanshan Bureau of Shenzhen Urban Planning Land and Resources Commission of the Shenzhen Municipality entered into the Land Use Rights Transfer Agreement. The Company plans to develop the aforesaid land site into commercial complex buildings for use as office premises of the Group or for investment purposes. The acquisition would satisfy the business development needs of the Group.
- (b) Union Optech Co., Ltd. (“Union Optech”), an investee of Jiaxing Xinghe Equity Investment Partnership (Limited Partnership) (“Jiaxing Fund”), was listed on the GEM Board of the Shenzhen Stock Exchange on 11 August 2017 with the issue of 21.40 million shares at an issue price of RMB15.96/share. Jiaxing Fund held 2,763,600 shares in Union Optech, accounting for 3.23% of the total number of shares in Union Optech following the issue. As at 30 June 2017, the equity investment of Jiaxing Fund in Union Optech was accounted for as available-for-sale financial assets and valued at RMB34,987,000 based on the cost method. Subsequent to the listing of the Union Optech, the item has been measured at fair value.
- (c) 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 USD22,711,900.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated.

- (d) On 6 December 2016, ZTE Cooperatief U.A. (“ZTE Cooperatief”), a wholly-owned subsidiary of the Company entered into the “SHARE PURCHASE AGREEMENT related to NETAŞ TELEKOMÜNİKASYON A.Ş.” (the “Share Purchase Agreement”) with OEP Turkey Tech. B. V. (“OEP”) in connection with the acquisition of 48.04% equity interests in NETAŞ TELEKOMÜNİKASYON A.Ş. (“Netaş”), a listed Turkish company, by ZTE Cooperatief from OEP for a price of not more than USD101,280,539. The Company is of the view that the acquisition of Netaş will enable the Company to drive its business expansion in Turkey. To ensure the completion of the transaction as soon as possible and procure maximum assurance for the Company’s interests, ZTE Cooperatief entered into relevant supplemental agreements with OEP and OEP Network Integration Services Cooperatief U.A. on 5 May 2017. As of 28 July 2017 (Turkey time), the conditions precedent to closing as stipulated under the Share Purchase Agreement had been satisfied in full. In accordance with the provisions of the Share Purchase Agreement and the supplemental agreements entered into by ZTE Cooperatief and OEP, the transaction between the two parties was completed on 28 July 2017 (Turkey time). On 7 August 2017 (Turkey time), ZTE Cooperatief submitted a Mandatory Tender Offer application to the Capital Markets Board of Turkey pursuant to Turkish laws and regulations.

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19. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

- (e) Based on considerations in relation to the strategic development of Nubia Technology Limited (“Nubia”), the Company, Pingxiang Yingcai Investment Consulting Company Limited, Suning Commerce Group Co., Ltd., Nanjing Hengmian Enterprise Management Partnership (Limited Partnership), Nanchang Gaoxin New Industry Investment Co., Ltd. (“Nanchang Gaoxin”) and Nubia entered into the Sale and Purchase Agreement in Nubia Technology Limited (“Sale and Purchase Agreement”) and Nubia Technology Limited Shareholders’ Agreement on 27 July 2017. Pursuant to the Sale and Purchase Agreement, the Company transferred 10.1% equity interests in subsidiary Nubia to Nanchang Gaoxin for a consideration of RMB727.2 million. Following the completion of the aforesaid transfer, the Company held 49.9% equity interests in Nubia, and Nubia was excluded from the Company’s consolidated statements.
- (f) In order to further refine the Company’s structure of corporate governance, improve its incentive mechanism and enhance the sense of responsibility and mission on the part of the management team and key personnel in relation to its sustainable and healthy development so as to ensure the realisation of its development targets, the Company has formulated prepared the “2017 Share Option Incentive Scheme (Draft) of ZTE Corporation” (the “2017 Share Option Incentive Scheme (Draft)”) in accordance with relevant laws and regulations. The 2017 Share Option Incentive Scheme (Draft) was considered and approved by the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017 and the First H Shareholders’ Class Meeting of 2017 convened on 20 June 2017. Pursuant to the “Resolution on Matters pertaining to the Grant of Share Options under the 2017 Share Option Incentive Scheme of the Company” and the “Resolution on Adjustments to the List of Participants and the Number of Share Options to be Granted under the 2017 Share Option Incentive Scheme of the Company” considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors of the Company held on 6 July 2017, the date of grant was set for 6 July 2017 (Thursday), on which 149,601,200 share options were granted to 1,996 scheme participants. The exercise price for the share options granted was 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 Options granted
Zhang Jianheng	Non-executive Director	50,000
Luan Jubao	Non-executive Director	50,000
Zhao Xianming	Executive Director and President	800,000
Wang Yawen	Non-executive Director	50,000
Tian Dongfang	Non-executive Director	50,000
Zhan Yichao	Non-executive Director	50,000
Xu Huijun	Executive Vice President	550,000
Zhang Zhenhui	Executive Vice President	550,000
Pang Shengqing	Executive Vice President	450,000
Xiong Hui	Executive Vice President	450,000
Cao Wei	Secretary to the Board	200,000
Other participants	1,985 persons	146,351,200
Total	1,996 persons	149,601,200

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19. EVENTS AFTER THE REPORTING PERIOD (CONTINUED)

(f) (continued)

The 2017 Share Option Incentive Scheme is valid for 5 years. The vesting period is 2 years from the date of grant. Subject to the fulfilment of the performance conditions, the first, second and third exercise period has the exercisable rights of 1/3 Options during the subsequent three exercise period, respectively.

Exercise period	Duration	Exercise Ratio
First exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of grant and ending on the last trading day of the 36-month period from the date of grant	1/3
Second exercise period	Commencing from the first trading day after expiry of the 36-month period from the date of grant and ending on the last trading day of the 48-month period from the date of grant	1/3
Third exercise period	Commencing from the first trading day after expiry of the 48-month period from the date of grant and ending on the last trading day of the 60-month period from the date of grant	1/3

20. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 24 August 2017.

Documents Available for Inspection

- (I) Text of the 2017 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 2017 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 posted on <http://www.cninfo.com.cn> during the reporting period; and
- (IV) Articles of Association.

By order of the Board
Yin Yimin
Chairman

25 August 2017

ZTE Leading 5G Innovations

