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ZTE

ZTE CORPORATION
中興通訊股份有限公司

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

2018 INTERIM REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1. IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) confirm that the 2018 interim report (the “Interim 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 the Interim Report.

The Interim Report containing all information required to be presented in interim reports in accordance with Appendix 16 to the Rules (the “Hong Kong Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) will be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.com.hk) and the Company’s website (www.zte.com.cn) in due course.

- 1.2 There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of the Interim Report.
- 1.3 The Interim Report has been considered and approved at the Thirty-fifth Meeting of the Seventh Session of the Board of Directors of the Company.

- 1.4 The interim financial reports of ZTE and its subsidiaries (the “Group”) for the six months ended 30 June 2018 were unaudited.
- 1.5 Mr. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in the Interim Report.
- 1.6 No profit distribution will be implemented in respect of the interim period of 2018.

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated name of stock	ZTE	
Stock code	000063 (A Shares)	763 (H Shares)
Place of listing	Shenzhen Stock Exchange	The Stock Exchange of Hong Kong Limited
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People’s Republic of China	
Postal code	518057	
Principal place of business in Hong Kong	31/F, Tower Two, Times Square, 1 Matheson Street, Causeway, Hong Kong	
Website	http://www.zte.com.cn	
E-mail	IR@zte.com.cn	

2.2 Contact persons and correspondence

	Authorized representatives	Secretary to the Board of Directors/ Company Secretary	Securities Affairs Representative
Name	Gu Junying, Cao Wei	Cao Wei	Xu Yulong
Address	No. 55, Keji Road South, Shenzhen, Guangdong Province, the People’s Republic of China		
Tel	+86 755 26770282		
Fax	+86 755 26770286		
E-mail	IR@zte.com.cn		

3. SUMMARY OF THE COMPANY'S BUSINESS

3.1 Principal businesses

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

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

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

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

3.2 The industry in which we operate

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

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

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

4. HIGHLIGHTS OF ACCOUNTING AND FINANCIAL INDICATORS

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 Accounting Standards for Business Enterprise (“PRC ASBEs”)

In 2017, the PRC Ministry of Finance (“MOF”) announced a series of amendments to the PRC accounting standards, including “ASBE No. 22 — Recognition and Measurement of Financial Instruments”, “ASBE No. 23 — Transfer of Financial Assets”, “ASBE No. 24 — Hedge Accounting”, “ASBE No. 37 — Presentation of Financial Instruments” (hereinafter referred to as the “New ASBEs on Financial Instruments”) and “ASBE No. 14 — Revenue” (hereinafter referred to as the “New ASBE on Revenue”), and required enterprises with dual domestic and overseas listings to implement such amended accounting standards with effect from 1 January 2018. The Company has made changes to its accounting policies accordingly in compliance with the provisions of the aforesaid accounting standards. In accordance with pertinent requirements under the convergence provisions of the New ASBEs on Financial Instruments and New ASBE on Revenue, the Company has not made any retrospective adjustments to the comparative statements for the same period last year, but has only adjusted the opening balances of retained earnings and other related items on the statements for 2018. For details of changes in the accounting policies relating to financial instruments and revenue, please refer to the “Announcement on Changes in Accounting Policies” published by the Company on 27 April 2018.

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

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

Hong Kong Financial Reporting Standards (“HKFRSs”)

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

In accordance with the New HKFRSs on Financial Instruments, the Company has changed its former accounting policies on financial assets, including the policy on impairment provisions for trade receivables and the policy for the measurement of investments in available-for-sale equity instruments; in accordance with the New HKFRS on Revenue, the Company has changed its former accounting policies on revenue from sales of goods, revenue from rendering of services and revenue from construction contracts, the details and impact of which are the same as those aforementioned under PRC ASBEs. The Company has adjusted the financial reporting format prepared in accordance with HKFRSs as well.

4.1 Major Accounting Data and Financial Indicators of the Group prepared in accordance with PRC ASBEs

Unit: RMB in thousands

Item	End of the reporting period (30 June 2018)	End of last year (31 December 2017)	Changes as at the end of the reporting period compared with the end of last year
Total assets	120,709,368	143,962,215	(16.15%)
Owners' equity attributable to holders of ordinary shares of the listed company	22,044,634	31,646,875	(30.34%)
Share capital (<i>thousand shares</i>)	4,192,672	4,192,672	—
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	5.26	7.55	(30.33%)
Gearing ratio (%)	72.07%	68.48%	Increased by 3.59 percentage points

Unit: RMB in thousands

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

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

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

4.2 Extraordinary gains or losses items and amounts prepared in accordance with PRC ASBEs

Unit: RMB in thousands

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

4.3 Major financial indicators prepared in accordance with HKFRSs

Item	Six months ended 30 June 2018	Six months ended 30 June 2017
Basic earnings per share (<i>RMB/share</i>) ^{Note}	(1.87)	0.55
Weighted average return on net assets	(29.71%)	8.28%
Weighted average return on net assets after extraordinary items	(9.03%)	7.05%
	30 June 2018	31 December 2017
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	5.26	7.55

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

4.4 The amounts of net profit and shareholders' equity of the Group for the six months ended and as at 30 June 2018 calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

5. SHAREHOLDINGS OF THE SHAREHOLDERS

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

Total number of shareholders

As at 30 June 2018 There were 437,799 shareholders (comprising 437,470 holders of A shares and 329 holders of H shares)

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

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

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

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

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

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

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

N/A

Note 1: Shares held by HKSCC Nominees Limited represented the sum of shares held in the accounts of the H shareholders of the Company traded on the trading platform of HKSCC Nominees Limited.

Note 2: Shares held by Hong Kong Securities Clearing Company Limited represented the sum of A shares in the Company purchased through Shenzhen Hong Kong Stock Connect (Northbound).

Note 3: During the reporting period, there was no placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for a designated period.

Note 4: Shareholders holding 5% or above of the Company's shares — As at the end of the reporting period, Zhongxingxin, controlling shareholder of the Company, held 1,271,868,333 shares in the Company, representing 30.34% of the total share capital of the Company. Changes in the shareholdings of the Zhongxingxin during the reporting period are as follows:

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

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

Yes No

The Company had no preferential shares.

5.2 Changes in controlling shareholder and de facto controller

Applicable N/A

During the reporting period, there was no change to the controlling shareholder of the Company. There was no de facto controller of the Company.

5.3 Purchase, sale and redemption of securities

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

6. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

6.1 Changes in the holdings of shares and share options in the Company by the Company's Directors, Supervisors and senior management

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on ^{Note 1}	Term of office ending on ^{Note 1}	Number of A shares held			Number of A shares held at the end of the reporting period (shares)	Whether remuneration is received from connected parties ^{Note 2}	
								at the beginning of the reporting period (shares)	Increase in the number of A shares held during the period (shares)	Decrease in the number of A shares held during the period (shares)			
Directors of the Company													
1	Li Zixue ^{Note 3}	Male	54	Chairman	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
2	Xu Ziyang ^{Note 4, Note 5}	Male	46	Director	Incumbent	8/2018	3/2019	—	—	—	—	—	No
				President		7/2018	3/2019						
3	Li Buqing ^{Note 3}	Male	46	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
4	Gu Junying ^{Note 3}	Male	51	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
				Executive Vice President		7/2018	3/2019						
5	Zhu Weimin ^{Note 3}	Male	52	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
6	Fang Rong ^{Note 3}	Female	54	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
7	Cai Manli ^{Note 3}	Female	45	Independent	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
				Non-executive Director									
8	Yuming Bao ^{Note 3}	Male	46	Independent	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
				Non-executive Director									
9	Gordon Ng ^{Note 3}	Male	54	Independent	Incumbent	6/2018	3/2019	—	—	—	—	—	Yes
				Non-executive Director									
10	Yin Yimin ^{Note 6}	Male	55	Chairman	Resigned	3/2017	6/2018	759,400	—	—	759,400	—	No
				Director		3/2016	6/2018						
11	Zhang Jianheng ^{Note 6}	Male	57	Vice Chairman	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
12	Luan Jubao ^{Note 6}	Male	56	Vice Chairman	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
13	Zhao Xianming ^{Note 4, Note 6}	Male	52	Director	Resigned	3/2016	6/2018	488,636	—	—	488,636	—	No
				President		4/2016	7/2018						
14	Wang Yawen ^{Note 6}	Male	55	Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
15	Tian Dongfang ^{Note 6}	Male	58	Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
16	Zhan Yichao ^{Note 6}	Male	55	Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
17	Wei Zaisheng ^{Note 6}	Male	56	Director	Resigned	3/2016	6/2018	439,677	—	—	439,677	—	Yes
18	Zhai Weidong ^{Note 6}	Male	51	Director	Resigned	6/2017	6/2018	—	—	—	—	—	Yes
19	Richard Xike Zhang ^{Note 6}	Male	48	Independent	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
				Non-executive Director									
20	Chen Shaohua ^{Note 6}	Male	57	Independent	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
				Non-executive Director									

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on <i>Note 1</i>	Term of office ending on <i>Note 1</i>	Number of A shares held at				Reasons for changes	Whether remuneration is received from connected parties <i>Note 2</i>
								the beginning of the reporting period (shares)	Increase in the number of A shares held during the period (shares)	Decrease in the number of A shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)		
21	Lü Hongbing <i>Note 6</i>	Male	52	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
22	Bingsheng Teng <i>Note 6</i>	Male	48	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
23	Zhu Wuxiang <i>Note 6</i>	Male	53	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	Yes
Supervisors of the Company													
24	Xie Daxiong	Male	55	Chairman of Supervisory Committee	Incumbent	3/2016	3/2019	495,803	—	—	495,803	—	No
25	Wang Junfeng	Male	52	Supervisor	Incumbent	3/2016	3/2019	—	—	—	—	—	Yes
26	Xia Xiaoyue	Female	43	Supervisor	Incumbent	3/2016	3/2019	50,927	—	—	50,927	—	No
27	Li Quancai	Male	57	Supervisor	Incumbent	11/2017	3/2019	—	—	—	—	—	No
28	Xu Weiyan <i>Note 7</i>	Female	56	Supervisor	Resigned	3/2016	7/2018	11,039	—	—	11,039	—	Yes
Senior Management of the Company													
29	Wang Xiyu <i>Note 4</i>	Male	44	Executive Vice President	Incumbent	7/2018	3/2019	—	—	—	—	—	No
30	Li Ying <i>Note 4</i>	Female	40	Executive Vice President and Chief Financial Officer	Incumbent	7/2018	3/2019	1,800	—	—	1,800	—	No
31	Cao Wei	Female	42	Secretary to the Board	Incumbent	4/2016	3/2019	25,200	—	—	25,200	—	No
32	Xu Huijun <i>Note 4</i>	Male	45	Executive Vice President	Resigned	4/2016	7/2018	756,851	—	—	756,851	—	No
33	Zhang Zhenhui <i>Note 4</i>	Male	45	Executive Vice President	Resigned	4/2016	7/2018	218,400	—	—	218,400	—	No
34	Pang Shengqing <i>Note 4</i>	Male	50	Executive Vice President	Resigned	4/2016	7/2018	733,682	—	—	733,682	—	No
35	Xiong Hui <i>Note 4</i>	Male	49	Executive Vice President	Resigned	1/2017	7/2018	10,000	—	—	10,000	—	No
36	Shao Weilin <i>Note 4</i>	Male	45	Executive Vice President and Chief Financial Officer	Resigned	9/2017	7/2018	—	—	—	—	—	No
—	Total	—	—	—	—	—	—	3,991,415	—	—	3,991,415	—	—

- Note 1:* The starting and ending dates of the term of office set out in this table are the starting and ending dates of the term of office of the Directors of the Seventh Session of the Board of Directors, Supervisors of the Seventh Session of the Supervisory Committee and senior management of the Company appointed by the Seventh Session of the Board of Directors.
- Note 2:* Pursuant to Rule 10.1.3(III) of the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, legal entities or other entities in which the Directors, Supervisors and senior management of a listed company act as directors and senior management (other than the listed company and its subsidiaries) are deemed as connected parties of the listed company.
- Note 3:* At the 2017 Annual General Meeting of the Company held on 29 June 2018, Mr. Li Zixue, Mr. Li Buqing, Mr. Gu Junying, Mr. Zhu Weimin and Ms. Fang Rong were elected non-independent Directors of the Seventh Session of the Board of Directors of the Company, and Ms. Can Manli, Mr. Yuming Bao and Mr. Gordon Ng were elected Independent Non-executive Directors of the Seventh Session of the Board of Directors of the Company. At the Thirty-first Meeting of the Seventh Session of the Board of Directors of the Company held on 29 June 2018, Mr. Li Zixue was elected Chairman of the Board of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected Non-executive Directors of the Seventh Session of the Board of Directors of the Company, and Mr. Li Zixue and Mr. Gu Junying were elected Executive Directors of the Seventh Session of the Board of Directors of the Company.
- Note 4:* At the Thirty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 5 July 2018, it was approved that the appointment of Mr. Zhao Xianming as President of the Company, each of Mr. Xu Huijun, Mr. Zhang Zhenhui, Mr. Pang Shengqing, Mr. Xiong Hui and Mr. Shao Weilin as Executive Vice President of the Company and Mr. Shao Weilin as Chief Financial Officer of the Company be discontinued; and that Mr. Xu Ziyang be appointed President of the Company and each of Mr. Wang Xiyu, Mr. Gu Junying and Ms. Li Ying be appointed Executive Vice President of the Company; that Ms. Li Ying be concurrently appointed Chief Financial Officer of the Company.
- Note 5:* At the Second Extraordinary General Meeting of 2018 of the Company held on 28 August 2018, Mr. Xu Ziyang was elected Executive Director of the Seventh Session of the Board of Directors of the Company.
- Note 6:* Messrs. Yin Yimin, Zhang Jianheng, Luan Jubao, Zhao Xianming, Wang Yawen, Tian Dongfang, Zhan Yichao, Wei Zaisheng, Zhai Weidong, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang resigned as Directors and members of the specialist committees under the Board of the Company on 29 June 2018.
- Note 7:* Ms. Xu Weiyan resigned as Shareholders' Representative Supervisor of the Company in July 2018.
- Note 8:* As at the end of the reporting period, Mr. Wei Zaisheng held 30,000 H shares of the Company. Save as that, no other Directors, Supervisors or senior management of the Company held any H shares in the issued share capital of the Company.

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

For details of the share options of A shares of the Company held by Directors and senior management of the Company during the reporting period and details of share options granted after the close of the reporting period, please refer to the section headed “Material Matters — (VII) IMPLEMENT AND IMPACT OF THE COMPANY’S SHARE OPTION INCENTIVE SCHEME” in the Interim Report.

6.2 Interests of Directors, Supervisors and Chief Executive Officer of the Company in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2018 are set out in the section of this chapter headed “6.1 Changes in the holdings of shares and share options in the Company by the Company’s Directors, Supervisors and senior management”.

Save as disclosed above, as at 30 June 2018, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model code”) as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 30 June 2018, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

7. REPORT OF THE BOARD OF DIRECTORS

7.1 Review of business in the first half of 2018

(1) Overview of the domestic telecommunications industry for the first half of 2018

According to statistical data published by the Ministry of Industry and Information Technology of the PRC, the domestic telecommunications sector reported revenue of RMB672.0 billion for the six months ended 30 June 2018, representing year-on-year growth of 4.1%. The voice and data businesses improve gradually with the ongoing upgrades for the quality of 4G network coverage as well as the further optimisation for the quality of 4G services. The construction of optical broadband networks continued in accelerating speed. In the meantime, the development of the

5G technology sector expedited with ongoing progress in 5G standardisation, R&D and application and the maturity of the industry chain, while the third stage of national 5G tests continued to roll out.

(2) Overview of the global telecommunications industry for the first half of 2018

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

(3) Operating results of the Group for the first half of 2018

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

A. By market

The domestic market

For the reporting period, the Group's operating revenue from the domestic market amounted to RMB25.746 billion, accounting for 65.29% of the Group's overall operating revenue. The Group persisted in a proactive and prudent business strategy while seeking to expand new niches for growth, as it actively participated

in the network construction and technological evolution of carriers, seizing opportunities presented by technological revolutions on the back of its technological strengths and product competitiveness built over the years.

The international market

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

B. By business segment

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

Carriers' networks

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

Government and corporate business

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

Consumer business

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

7.2 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 as set out in the Interim Report.

7.2.1 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	39,433,777	100%	27,508,353	30.24%	(26.99%)	(24.53%)	(2.28)
Total	39,433,777	100%	27,508,353	30.24%	(26.99%)	(24.53%)	(2.28)
II. By business							
Carriers' networks	23,506,876	59.61%	13,812,696	41.24%	(27.34%)	(26.66%)	(0.55)
Government and corporate business	4,433,296	11.24%	3,164,682	28.62%	17.74%	29.44%	(6.45)
Consumer business	11,493,605	29.15%	10,530,975	8.38%	(35.77%)	(30.58%)	(6.84)
Total	39,433,777	100%	27,508,353	30.24%	(26.99%)	(24.53%)	(2.28)
III. By region							
The PRC	25,746,045	65.29%	15,479,997	39.87%	(20.34%)	(22.83%)	1.94
Asia (excluding the PRC)	4,262,810	10.81%	3,054,734	28.34%	(47.06%)	(43.75%)	(4.21)
Africa	1,283,203	3.25%	830,927	35.25%	(21.48%)	(39.66%)	19.51
Europe, Americas and Oceania	8,141,719	20.65%	8,142,695	(0.01%)	(32.18%)	(15.01%)	(20.21)
Total	39,433,777	100%	27,508,353	30.24%	(26.99%)	(24.53%)	(2.28)

(1) *Analysis of change in revenue*

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

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

Unit: RMB in thousands

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

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

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

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

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

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

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

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

7.3 Management discussion and analysis prepared in accordance with HKFRSs

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

Revenue

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

Unit: RMB in millions

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

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

Unit: RMB in millions

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

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

Cost of Sales and Gross Profit

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

Other Income and Gains

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

Research and Development Costs

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Other Expenses

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

Profit from Operating Activities

The Group's profit from operating activities for the first six months of 2018 amounted to RMB-7,722.8 million, compared to RMB3,857.3 million for the same period last year, reflecting primarily the Company's payment of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018" and the operating losses and provision for losses resulting from the suspension of the major operating activities of the Company as described in the "INSIDE INFORMATION ANNOUNCEMENT" published on 9 May 2018.

Finance Costs

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

Income Tax Expense

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

Profit Attributable to Non-Controlling Interests

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

Other Comprehensive Income

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

Debt-Equity Ratio and the Basis of Calculation

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

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

Cash Flow Data

Unit: RMB in millions

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

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

Operating Activities

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

Investing Activities

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

Financing Activities

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

Indebtedness

	<i>Unit: RMB in millions</i>	
Item	30 June 2018	31 December 2017
Secured bank loans	5.0	24.1
Unsecured bank loans	17,560.9	21,513.9

Unit: RMB in millions

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

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. At 30 June 2018, the Group's short-term RMB bank loan with an amount of RMB5,721.9 million and long-term bank loan with an amount of RMB573.2 million were subject to fixed interest rates, while TRY and EUR short-term bank loans subject to fixed interest rates amounted to approximately RMB2,349.8 million. The remaining USD and EUR loans were subject to floating interest rates. The Group's bank loans were mainly denominated in USD and EUR, apart from RMB loans.

The balance of the Group's bank loans as at 30 June 2018 decreased by RMB3,972.1 million versus 31 December 2017, reflecting mainly the repayment of loans by the Group for the period.

Contractual obligations

Unit: RMB in millions

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

Capital Commitments

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

Unit: RMB in millions

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

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

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

Disclosure required under the Hong Kong Listing Rules

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

7.4 Warnings of and reasons for any projected accumulated net loss from the beginning of the year to the end of the next reporting period or substantial change in accumulated net profit from the beginning of the year to the end of the next reporting period as compared to the same period last year

√ Applicable □ N/A

Preliminary results

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

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

7.5 Business outlook for the second half of 2018 and risk exposures

7.5.1 Business outlook for the second half of 2018

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

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

In connection with carriers' networks, the Group will continue to adopt an innovation-driven approach to ensure it stays atop in terms of the competitiveness of principal products with a strong focus on customer satisfaction and value enhancement for customers. 5G represents a key feature of the future carriers' network business. The Group's 5G products and solutions are in sync with the global timetable for 5G commercialisation and are ready for commercial system application as systems, having undergone 5G testing and verification conducted in association with customers. In the second half of 2018, the Group will make solid efforts to enhance its product competitiveness in order to provide competitive products and solutions to customers, helping them to build high-worth 5G networks in the process of 5G commercialisation in contribution to the mature commercial application of the 5G industry chain, so as to strengthen customer's confidence and seize opportunities presented by 5G.

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

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

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

7.5.2 Risk Exposures

(1) Country risks

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

(2) Risk associated with intellectual property rights

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

(3) *Exchange rate risks*

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

(4) *Interest rate risk*

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

(5) *Credit risk*

The Group provides one-stop communications solutions to its customers. With the rapid expansion of its business, the Group is serving a large customer base with differing credit status, and its business will inevitably be affected by the varied credit profiles of these customers. The Group seeks to mitigate the aforesaid impact by identifying and managing credit risks through the adoption of internal credit management measures, such as customer credit search, customer credit rating, customer credit limit management, overall risk control and credit control against customers with faulty payment records, and by transferring credit risks through the purchase of credit insurance and appropriate financial instruments.

8. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

8.1 Compliance of the Corporate Governance Code

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

8.2 Securities transactions by Directors and Supervisors

The Directors and Supervisors of the Company confirmed that the Company had adopted 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.

9. FINANCIAL REPORTS

9.1 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 the Interim Report, including the financial statements of the Group for the six months ended 30 June 2018.

9.2 Audit opinion

Unaudited Audited

9.3 Comparative financial statements

9.3.1 Financial statements prepared in accordance with PRC ASBEs (Unaudited)
(Please see Appendix I)

9.3.2 Financial statements prepared in accordance with HKAS 34 (Unaudited) and notes thereto
(Please see Appendix II)

9.4 Explanatory statement on changes in the accounting policies, accounting estimates, and auditing methods for the reporting period in comparison with the last annual financial report

Applicable N/A

For details of changes in the Company's accounting policies during the reporting period, please refer to the section "4. HIGHLIGHTS OF ACCOUNTING AND FINANCIAL INDICATORS" of this announcement.

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

Applicable N/A

9.6 Explanation of changes to the scope of consolidated financial statement in comparison with the last annual financial report

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

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

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
30 August 2018

As at the date of this announcement, the Board of Directors of the Company comprises three executive directors, Li Zixue, Xu Ziyang, Gu Junying; three non-executive directors, Li Buqing, Zhu Weimin, Fang Rong; and three independent non-executive directors, Cai Manli, Yuming Bao, Gordon Ng.

**APPENDIX I: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH
PRC ASBES (UNAUDITED)**

CONSOLIDATED BALANCE SHEET

RMB'000

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

RMB'000

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

RMB'000

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

Li Zixue
Legal representative

Li Ying
Chief Financial Officer

Xu Jianrui
Head of Finance Division

CONSOLIDATED INCOME STATEMENT

RMB'000

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Operating revenue	39,433,777	54,010,596
Less: Operating costs	27,508,353	36,447,741
Taxes and surcharges	377,117	533,300
Selling and distribution costs	4,729,622	5,676,552
Administrative expenses	1,359,347	1,427,749
Research and development costs	5,060,624	6,676,679
Finance expenses	183,351	289,157
Including: Interest expense	489,549	566,430
Interest income	(483,485)	(529,632)
Asset impairment losses	1,229,851	1,025,756
Credit impairment losses	1,656,845	—
Add: Other income	1,291,563	1,369,018
Investment (loss)/income	(18,702)	51,996
Including: Share of losses of associates and joint ventures	(213,534)	(3,507)
Gains from changes in fair values	(377,439)	(58,055)
Operating profit	(1,775,911)	3,296,621
Add: Non-operating income	103,497	69,403
Less: Non-operating expenses	6,753,429	78,624
Total profit/(loss)	(8,425,843)	3,287,400
Less: Income tax	(565,033)	744,184
Net profit/(loss)	<u>(7,860,810)</u>	<u>2,543,216</u>
Attributable to:		
Holders of ordinary shares of the parent	<u>(7,824,190)</u>	<u>2,292,867</u>
Holders of perpetual capital instruments	<u>214,918</u>	<u>249,963</u>
Non-controlling interests	<u>(251,538)</u>	<u>386</u>

CONSOLIDATED INCOME STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Other comprehensive income, net of tax	(815,502)	221,114
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	(794,391)	236,867
Other comprehensive income that will be reclassified to profit or loss in subsequent accounting periods		
Changes in the fair value of available-for-sale financial assets	—	(7,781)
Effective portion of hedging instruments	—	(10,655)
Exchange differences on translation of foreign operations	(794,391)	255,303
	(794,391)	236,867
Other comprehensive income attributable to non-controlling interests, net of tax	(21,111)	(15,753)
Total comprehensive income	(8,676,312)	2,764,330
Attributable to:		
Holders of ordinary shares of the parent	(8,618,581)	2,529,734
Holders of perpetual capital instruments	214,918	249,963
Non-controlling interests	(272,649)	(15,367)
Earnings per share (RMB/share)		
Basic	RMB(1.87)	RMB0.55
Diluted	RMB(1.87)	RMB0.55

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

RMB'000

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

RMB'000

	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	<u>4,190,015</u>	<u>10,788,002</u>	<u>(585,857)</u>	<u>2,022,709</u>	<u>12,575,105</u>	<u>28,989,974</u>	<u>9,137,341</u>	<u>5,050,749</u>	<u>43,178,064</u>	

CONSOLIDATED CASH FLOW STATEMENT

RMB'000

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	52,509,269	56,882,180
Refunds of taxes	4,410,278	3,001,619
Cash received relating to other operating activities	1,916,690	1,568,458
	58,836,237	61,452,257
Sub-total of cash inflows		
Cash paid for goods and services	36,166,294	41,012,409
Cash paid to and on behalf of employees	13,362,104	10,717,716
Cash paid for various types of taxes	4,329,621	3,902,844
Cash paid relating to other operating activities	10,024,604	10,025,840
	63,882,623	65,658,809
Sub-total of cash outflows		
Net cash flows from operating activities	(5,046,386)	(4,206,552)
II. Cash flows from investing activities		
Cash received from sale of investments	1,502,078	462,375
Cash received from return on investment	431,435	31,808
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	1,936	15,986
	1,935,449	510,169
Sub-total of cash inflows		
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	2,036,418	1,956,715
Cash paid for acquisition of investments	1,050,375	916,581
	3,086,793	2,873,296
Sub-total of cash outflows		
Net cash flows from investing activities	(1,151,344)	(2,363,127)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	180,600	68,789
Including: Capital injection into subsidiaries by minority shareholders	180,600	9,700
Cash received from borrowings	11,249,198	15,972,887
Sub-total of cash inflows	11,429,798	16,041,676
Cash repayment of borrowings	16,733,687	12,401,660
Cash payment for redemption of perpetual capital instruments	1,500,000	—
Cash payments for distribution of dividends and profits or for interest expenses	1,356,586	1,135,359
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	213,422	57,671
Sub-total of cash outflows	19,590,273	13,537,019
Net cash flows from financing activities	(8,160,475)	2,504,657
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	32,223	(76,779)
V. Net increase/(decrease) in cash and cash equivalents	(14,325,982)	(4,141,801)
Add: cash and cash equivalents at the beginning of period	30,109,268	30,049,791
VI. Net balance of cash and cash equivalents at the end of period	15,783,286	25,907,990

BALANCE SHEET

RMB'000

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

BALANCE SHEET (CONTINUED)

RMB'000

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

INCOME STATEMENT

RMB'000

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

INCOME STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods		
Exchange differences on translation of foreign operations	<u>(653)</u>	<u>(217)</u>
	<u>(653)</u>	<u>(217)</u>
Other comprehensive income, net of income tax effect on respective items	<u>(653)</u>	<u>(217)</u>
Total comprehensive income	<u><u>(7,343,717)</u></u>	<u><u>1,471,698</u></u>
Attributable to holders of ordinary shares	<u><u>(7,558,635)</u></u>	<u><u>1,221,735</u></u>
Attributable to holders of perpetual capital instruments	<u><u>214,918</u></u>	<u><u>249,963</u></u>

STATEMENT OF CHANGES IN EQUITY

RMB'000

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

STATEMENT OF CHANGES IN EQUITY (CONTINUED)

RMB'000

	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	<u>4,190,015</u>	<u>8,777,647</u>	<u>691,730</u>	<u>1,360,953</u>	<u>(1,831,814)</u>	<u>13,188,531</u>	<u>9,137,341</u>	<u>22,325,872</u>

CASH FLOW STATEMENT

RMB'000

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	48,816,197	55,190,277
Refunds of taxes	3,187,537	1,710,252
Cash received relating to other operating activities	1,039,560	978,445
Sub-total of cash inflows	53,043,294	57,878,974
Cash paid for goods and services	43,633,667	50,139,071
Cash paid to and on behalf of employees	5,940,747	3,851,574
Cash paid for various types of taxes	1,025,163	265,031
Cash paid relating to other operating activities	8,612,274	8,898,081
Sub-total of cash outflows	59,211,851	63,153,757
Net cash flows from operating activities	(6,168,557)	(5,274,783)
II. Cash flows from investing activities		
Cash received from sale of investments	—	19,800
Cash received from return on investment	106,975	124,481
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	1,292	148,928
Net cash received from the disposal of subsidiaries and other business units	—	236,650
Sub-total of cash inflow	108,267	529,859
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	602,389	1,173,198
Cash paid for acquisition of investments	306,551	1,074,871
Sub-total of cash outflows	908,940	2,248,069
Net cash flows from investing activities	(800,673)	(1,718,210)

CASH FLOW STATEMENT (CONTINUED)

RMB'000

	Six months ended 30 June 2018 (unaudited)	Six months ended 30 June 2017 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	—	59,089
Cash received from borrowings	<u>7,043,693</u>	<u>12,340,875</u>
Sub-total of cash inflows	<u>7,043,693</u>	<u>12,399,964</u>
Cash repayment of borrowings	6,605,215	7,872,829
Cash payment for redemption of perpetual capital instruments	1,500,000	—
Cash payments for distribution of dividends, profits and for interest expenses	<u>673,917</u>	<u>902,054</u>
Sub-total of cash outflows	<u>8,779,132</u>	<u>8,774,883</u>
Net cash flows from financing activities	<u>(1,735,439)</u>	<u>3,625,081</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>8,673</u>	<u>(55,776)</u>
V. Net increase/(decrease) in cash and cash equivalents	(8,695,996)	(3,423,688)
Add: cash and cash equivalents at the beginning of period	<u>17,006,734</u>	<u>15,752,732</u>
VI. Net balance of cash and cash equivalents at the end of period	<u><u>8,310,738</u></u>	<u><u>12,329,044</u></u>

**APPENDIX II: FINANCIAL STATEMENT PREPARED IN ACCORDANCE WITH
HKAS 34 (UNAUDITED) AND NOTES THERETO**

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2018 (Unaudited) RMB'000	Six months ended 30 June 2017 (Unaudited) RMB'000
Revenue	39,433,777	54,010,596
Cost of sales	<u>(29,136,633)</u>	<u>(37,345,221)</u>
Gross profit	10,297,144	16,665,375
Other income and gains	2,091,251	2,085,519
Research and development costs	(5,060,624)	(6,676,679)
Selling and distribution expenses	(4,795,563)	(5,754,014)
Administrative expenses	(1,388,118)	(1,498,668)
Other expenses	(8,866,850)	(964,196)
Finance costs	(489,549)	(566,430)
Share of profits and losses of:		
Joint ventures	113	(1,935)
Associates	<u>(213,647)</u>	<u>(1,572)</u>
Profit before tax	(8,425,843)	3,287,400
Income tax	<u>565,033</u>	<u>(744,184)</u>
Profit for the period	(7,860,810)	2,543,216
Attributable to:		
Ordinary equity holders of the parent	(7,824,190)	2,292,867
Perpetual capital instruments holders	214,918	249,963
Non-controlling interests	<u>(251,538)</u>	<u>386</u>
	(7,860,810)	2,543,216

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Six months ended 30 June 2018 (Unaudited) <i>RMB'000</i>	Six months ended 30 June 2017 (Unaudited) <i>RMB'000</i>
Other comprehensive income		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		
Hedges-effective portion of changes in fair value of hedging instruments	—	(10,655)
Changes in fair value of available-for-sale investments	—	(27,243)
Exchange differences on translation of foreign operations	<u>(815,502)</u>	<u>259,012</u>
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>(815,502)</u>	<u>221,114</u>
Other comprehensive income/(loss) for the period, net of tax	<u>(815,502)</u>	<u>221,114</u>
Total comprehensive income for the period	<u><u>(8,676,312)</u></u>	<u><u>2,764,330</u></u>
Attributable to:		
Ordinary equity holders of the parent	(8,618,581)	2,529,734
Perpetual capital instruments holders	214,918	249,963
Non-controlling interests	<u>(272,649)</u>	<u>(15,367)</u>
	<u><u>(8,676,312)</u></u>	<u><u>2,764,330</u></u>
Earnings per share attributable to ordinary equity holders of the parent		
Basic	<u>RMB(1.87)</u>	<u>RMB0.55</u>
Diluted	<u>RMB(1.87)</u>	<u>RMB0.55</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2018 (Unaudited) <i>RMB'000</i>	31 December 2017 (Audited) <i>RMB'000</i>
Non-current assets		
Property, plant and equipment	10,339,687	10,202,425
Investment properties	2,030,773	2,023,809
Prepaid land lease payments	1,297,158	1,251,535
Goodwill	311,059	308,806
Other intangible assets	5,898,347	5,363,042
Investments in joint ventures	92,457	92,344
Investments in associates	3,642,309	3,868,253
Available-for-sale investments	—	3,181,668
Other non-current financial assets	1,587,518	—
Long-term trade receivables	978,737	1,244,760
Factored long-term trade receivables	554,429	2,608,006
Deferred tax assets	2,681,410	1,464,250
Pledged deposits	504,356	1,462,286
Long-term prepayments, deposits and other receivables	2,757,034	2,631,327
	32,675,274	35,702,511
Current assets		
Prepaid land lease payments	30,353	29,115
Inventories	26,316,928	26,234,139
Amount due from customers for contract works	—	9,012,909
Contract assets	5,856,243	—
Trade and bills receivables	22,181,067	26,398,228
Factored trade receivables	890,232	1,080,449
Prepayments, deposits and other receivables	12,076,457	11,980,191
Derivative financial instruments	154,904	116,794
Trading financial assets	1,555,577	—
Pledged deposits	3,056,574	3,066,199
Time deposits with original maturity of over three months	132,473	232,411
Cash and cash equivalents	15,783,286	30,109,269
	88,034,094	108,259,704
Total current assets	88,034,094	108,259,704

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	30 June 2018 (Unaudited) <i>RMB'000</i>	31 December 2017 (Audited) <i>RMB'000</i>
Current liabilities		
Trade and bills payables	22,410,383	34,463,067
Amount due to customers for contract works	—	8,050,655
Contract liabilities	23,566,149	—
Other payables and accruals	15,002,787	24,298,839
Provision	1,525,591	533,126
Derivative financial instruments	164,131	49,830
Interest-bearing bank borrowings	15,004,758	18,535,867
Bank advances on factored trade receivables	890,477	1,080,472
Tax payable	426,769	583,091
	78,991,045	87,594,947
Net current assets	9,043,049	20,664,757
Total assets less current liabilities	41,718,323	56,367,268
Non-current liabilities		
Interest-bearing bank borrowings	2,561,186	3,002,146
Bank advances on factored long-term trade receivables	555,251	2,948,006
Deferred tax liabilities	354,577	338,131
Provision for retirement benefits	131,995	133,191
Other non-current liabilities	4,407,126	4,565,647
	8,010,135	10,987,121
Net assets	33,708,188	45,380,147

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	30 June 2018 (Unaudited) <i>RMB'000</i>	31 December 2017 (Audited) <i>RMB'000</i>
Equity		
Equity attributable to ordinary equity holders of the parent		
Issued capital	4,192,672	4,192,672
Reserves	17,851,962	27,454,203
	22,044,634	31,646,875
Perpetual capital instruments	7,606,796	9,321,327
Non-controlling interests	4,056,758	4,411,945
Total equity	33,708,188	45,380,147

Li Zixue
Director

Xu Ziyang
Director

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

1.1. Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with HKAS 34: Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017.

1.2 Changes in accounting policies and disclosures

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards effective as of 1 January 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, HKFRS 15 Revenue from Contracts with Customers and HKFRS 9 Financial Instruments that require restatement of previous financial statements. As required by HKAS 34, the nature and effect of these changes are disclosed below.

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted HKFRS 15 using the modified retrospective method of adoption. The effect of adopting HKFRS 15 is, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2018:

	As reported at 31.12.2017 RMB'000	HKFRS 15 adjustment RMB'000
Assets		
Inventories	26,234,139	2,224,871
Amount due from customers for contract works	9,012,909	(9,012,909)
Contract assets	—	5,520,172
Amount due to customers for contract works	8,050,655	(8,050,655)
Other payables and accruals	24,298,839	(8,702,351)
Contract liabilities	—	16,753,006
Deferred tax assets	1,464,250	188,959
	<u>69,060,792</u>	<u>(1,078,907)</u>
Equity		
Reserves	<u>27,454,203</u>	<u>(1,078,907)</u>

The Group's principal activities consist of telecommunications system contracts and sales of goods and services. The impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

a) *Telecommunications system contracts*

Revenue from telecommunications system contracts was recognized under HKAS 11 Construction Contracts, generally using the percentage of completion method. In using the percentage of completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Upon the adoption of HKFRS 15, performance obligations in those contracts are identified and transaction price allocated each performance obligation will be recognized as revenue when that performance obligation is satisfied by transferring a promised good or service to a customer (which is the point in time when the customer obtains control of that good or service). HKFRS 15 also specify specific matters or transactions. For example: contract cost, warranty, principal versus agent considerations, sale of products with a right of return, customer options for additional goods or services, license, repurchase arrangements, non-refundable upfront fees, etc.

b) *Presentation and disclosure*

Under HKFRS 15, the Group should present contract assets or liabilities based on the relationship between the performance obligations satisfied and the payment term reached. Besides, HKFRS 15 also introduces extensive qualitative and quantitative disclosure requirements, such as relevant accounting policies, significant judgments (Including variable consideration, method of allocating transaction prices to each performance obligations, assumptions used to estimate the stand-alone selling price allocated to the performance obligations, etc), information related to the contracts with customers (Including revenue recognized in current period, contract balance and performance obligations, etc.), and information about the contract costs recognized as an asset etc.

HKFRS 9 Financial Instruments

HKFRS 9 Financial Instruments replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group has applied HKFRS 9 with the initial application date of 1 January 2018 and will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

The effect of adopting HKFRS 9 is, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 31 December 2017:

	As reported at 31 December 2017 RMB'000	Adjustments RMB'000
Assets		
Trade and bills receivables	26,398,228	(23,139)
Available-for-sale investments	3,181,668	133,108
Liabilities		
Deferred tax liabilities	338,131	(23,080)
Equity		
Reserves	27,454,203	59,324
Non-controlling interests	4,411,945	27,565

There is no material impact on the statement of cash flows and the basic and diluted EPS.

(a) *Classification and measurement*

Except for certain trade receivables, under HKFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under HKFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (FVPL), amortised cost, or fair value through other comprehensive income (FVOCI). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's debt financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's Trade and other receivables.
- Debt instruments at FVOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's debt instruments that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell. Under HKAS 39, the Group's debt instruments were classified as trade receivables.

Other financial assets are classified and subsequently measured, as follows:

- Financial assets at FVPL comprise derivative instruments and quoted equity instruments which the Group had not irrevocably elected, at initial recognition or transition, to classify at FVOCI. This category would also include debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under HKAS 39, the Group's quoted equity securities were classified as AFS financial assets. Upon transition the AFS reserve relating to quoted equity securities, which had been previously recognised under accumulated OCI, was reclassified to Retained earnings.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains largely the same as it was under HKAS 39. Similar to the requirements of HKAS 39, HKFRS 9 requires contingent consideration liabilities to be treated as financial instruments measured at fair value, with the changes in fair value recognised in the statement of profit or loss.

Under HKFRS 9, embedded derivatives are no longer separated from a host financial asset. Instead, financial assets are classified based on their contractual terms and the Group's business model.

The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed from that required by HKAS 39.

(b) Impairment

The adoption of HKFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing HKAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

HKFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at FVPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For Contract assets and Trade and other receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payment are 180 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group.

The adoption of the ECL requirements of HKFRS 9 resulted in increases in impairment allowances of the Group's debt financial assets. The increase in allowance resulted in adjustment to Retained earnings.

2. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their customer and products and has three reportable operating segments as follows:

- (a) Carriers' network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer systems, core networks, telecommunication software systems and services and other innovative technologies and product solutions.
- (b) 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 and innovative fusion terminals, as well as the provision of related software application and value-added services.
- (c) Government and corporate business is focused on meeting requirements of government and corporate clients, providing informatization solutions for the government and corporations through the application of products such as "communications networks, IOT, Big Data and Cloud Computing".

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and joint ventures, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from such measurement.

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

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds payable, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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

	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Six months ended 30 June 2018				
Segment revenue:				
Revenue from external customers	<u>23,506,876</u>	<u>11,493,605</u>	<u>4,433,296</u>	<u>39,433,777</u>
	<u>23,506,876</u>	<u>11,493,605</u>	<u>4,433,296</u>	<u>39,433,777</u>
Segment results	6,650,002	(525,812)	694,495	6,818,685
Bank and other interest income				483,485
Dividend income and unallocated gains				1,607,766
Unallocated expenses				(16,632,696)
Finance costs				(489,549)
Share of profits and losses of:				
Joint ventures				113
Associates				<u>(213,647)</u>
Profit before tax				<u>(8,425,843)</u>
30 June 2018				
Segment assets	34,838,176	15,369,129	6,570,331	56,777,636
Investment in joint ventures				92,457
Investment in associates				3,642,309
Unallocated assets				<u>60,196,966</u>
Total assets				<u>120,709,368</u>
Segment liabilities	16,243,943	5,704,396	3,063,538	25,011,877
Unallocated liabilities				<u>61,989,303</u>
Total liabilities				<u>87,001,180</u>
Six months ended 30 June 2018				
Other segment information:				
Asset impairment losses	733,126	358,460	138,265	1,229,851
Credit impairment loss	987,662	482,914	186,269	1,656,845
Depreciation and amortisation	697,163	340,876	131,482	1,169,521
Capital expenditure*	<u>1,189,841</u>	<u>581,768</u>	<u>224,399</u>	<u>1,996,008</u>

* Capital expenditure included the increase in property, plant and equipment, intangible assets, prepaid land lease payments and investment properties.

	Carriers' Networks <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government & Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2017				
Segment revenue:				
Revenue from external customers	32,351,248	17,894,014	3,765,334	54,010,596
	<u>32,351,248</u>	<u>17,894,014</u>	<u>3,765,334</u>	<u>54,010,596</u>
Segment results	9,798,872	666,621	887,510	11,353,003
Bank and other interest income				529,632
Dividend income and unallocated gains				1,555,887
Unallocated expenses				(9,581,185)
Finance costs				(566,430)
Share of profits and losses of:				
Joint ventures				(1,935)
Associates				(1,572)
				<u>3,287,400</u>
Profit before tax				
30 December 2017				
Segment assets	41,211,138	18,963,182	6,404,171	66,578,491
Investment in joint ventures				92,344
Investment in associates				3,868,253
Unallocated assets				73,423,127
				<u>143,962,215</u>
Segment liabilities	14,148,392	4,452,436	2,180,656	20,781,484
Unallocated liabilities				77,800,584
				<u>98,582,068</u>
Six months ended 30 June 2017				
Other segment information:				
Asset impairment losses	614,407	339,839	71,510	1,025,756
Depreciation and amortisation	654,280	361,893	76,151	1,092,324
Capital expenditure*	1,104,415	610,870	128,542	1,843,827
	<u>1,104,415</u>	<u>610,870</u>	<u>128,542</u>	<u>1,843,827</u>

Geographical information

(a) Revenue from external customers

	Six months ended 30 June 2018 <i>RMB'000</i>	Six months ended 30 June 2017 <i>RMB'000</i>
The PRC	25,746,045	32,318,969
Asia (excluding the PRC)	4,262,810	8,051,823
Africa	1,283,203	1,634,316
Europe, Americas and Oceania	8,141,719	12,005,488
Total	<u>39,433,777</u>	<u>54,010,596</u>

The revenue information above is based on the location of the customers.

(b) Non-current assets

	30 June 2018 <i>RMB'000</i>	31 December 2017 <i>RMB'000</i>
The PRC	17,336,580	15,911,554
Asia (excluding the PRC)	986,043	1,217,751
Africa	271,431	263,883
Europe, Americas and Oceania	971,911	1,447,623
Total	<u>19,565,965</u>	<u>18,840,811</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments, deferred tax assets, goodwill, investments in joint ventures, investments in associates and other non-current assets.

3. REVENUE

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 year. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue is as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
	<i>RMB'000</i>	<i>RMB'000</i>
Revenue		
Telecommunications system contracts	26,767,918	34,873,534
Sale of goods and services	12,599,480	19,071,637
Rental income	66,379	65,425
	<u>39,433,777</u>	<u>54,010,596</u>

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	Six months ended 30 June 2018	Six months ended 30 June 2017
	<i>RMB'000</i>	<i>RMB'000</i>
Cost of goods and services	23,631,946	32,597,687
Depreciation	586,472	535,339
Amortisation of land lease payments	15,059	14,098
Amortisation of intangible assets other than deferred development costs	177,422	96,086
Research and development costs:		
Deferred development costs	390,485	446,801
Current period expenditure	5,639,948	6,894,430
Less: deferred development costs	(969,809)	(664,552)
	<u>5,060,624</u>	<u>6,676,679</u>
Fair value (gain)/loss, net*		
Derivative instruments	85,059	61,542
Investment properties	(6,964)	(3,487)
Impairment of trade receivables*	1,656,845	725,020
Impairment of contract assets*	(20,996)	(16,204)
Provision for warranties**	1,041,183	399,613
Provision for legal obligation*	287,186	6,896
Write-down of inventories to net realisable value**	1,250,847	316,940

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Costs related to the comprehensive settlement with US authorities	6,416,700	—
Minimum lease payments under operating leases on land and buildings	327,214	380,915
Contingent rental income in respect of operating leases	(3,402)	(16,333)
Auditors' remuneration	650	670
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	9,199,791	11,588,263
Equity-settled share option expense	78,709	—
Retirement benefit scheme contributions:		
Defined contribution pension schemes	691,045	538,441
	9,969,545	12,126,704
Foreign exchange loss*	82,575	56,738
Loss on disposal of items of property, plant and equipment*	9,552	26,356
(Gain)/loss on disposal of subsidiaries*	3,749	(56,187)
Gain on disposal of interest in an associate	—	(48,710)
(Gain)/loss on disposal of derivative financial instruments*	(169,395)	58,476
Gain on disposal of other non-current financial assets	(14,726)	(2,609)

* The fair value losses, impairment of trade receivables, impairment of contract assets, provision for legal obligation, foreign exchange loss, loss on disposal of items of property, plant and equipment, loss on disposal of subsidiaries and loss on disposal of derivative financial instruments are included in “Other expenses” on the face of the consolidated statement of 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 comprehensive income.

5. FINANCE COSTS

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
Interest on bank loans wholly repayable within five years	<u>351,655</u>	<u>345,490</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u>351,655</u>	<u>345,490</u>
Other finance costs:		
Finance costs on trade receivables factors and bills discounted	<u>137,894</u>	<u>220,940</u>
	<u>489,549</u>	<u>566,430</u>

6. INCOME TAX

	Six months ended 30 June 2018 RMB'000	Six months ended 30 June 2017 RMB'000
The Group:		
Current — Hong Kong	5,660	4,435
Current — Mainland China	261,187	250,243
Current — Overseas	186,839	166,852
Deferred	<u>(1,018,719)</u>	<u>322,654</u>
Total tax charge for the period	<u>(565,033)</u>	<u>744,184</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

The Company was subject to an enterprise income tax rate of 15% for the years 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen.

7. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2018 (Same period in 2017: nil).

8. 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 or conversion all dilutive potential ordinary shares.

The calculations of basic and diluted earnings per shares are as follows:

	Six months ended 30 June 2018	Six months ended 30 June 2017
	<i>RMB'000</i>	<i>RMB'000</i>
Earnings		
Profit for the period attributable to ordinary equity holders of the parent	<u>(7,824,190)</u>	<u>2,292,867</u>

	Six months ended 30 June 2018	Six months ended 30 June 2017
	'000 shares	'000 shares
Shares		
Weighted average number of ordinary shares in issue	4,192,672	4,187,322
Effect of dilution — share options	<u>—</u>	<u>1,009</u>
Adjusted weighted average number of ordinary shares in issue	<u>4,192,672</u>	<u>4,188,331</u>

The 2017 share options granted by the Company gave rise to 0 potential dilutive ordinary shares during the reporting period.

9. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES

	30 June 2018	31 December 2017
	RMB'000	RMB'000
Trade and bills receivables	33,916,816	36,818,333
Impairment	<u>(10,757,012)</u>	<u>(9,175,345)</u>
	23,159,804	27,642,988
Current portion	<u>(22,181,067)</u>	<u>(26,398,228)</u>
	978,737	1,244,760
Long-term portion	<u>978,737</u>	<u>1,244,760</u>

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is normally 90 days, and is extendable up to one year depending on customers' creditworthiness customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk.

An aged analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of provision, is set out as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 6 months	18,526,754	22,841,186
7 to 12 months	2,784,565	2,528,908
1 to 2 years	1,436,686	1,716,792
2 to 3 years	411,799	556,102
	<u>23,159,804</u>	<u>27,642,988</u>
Less: Current portion of trade and bills receivables	<u>(22,181,067)</u>	<u>(26,398,228)</u>
Long-term portion	<u>978,737</u>	<u>1,244,760</u>

The movements in the provision for impairment of trade and bills receivables are as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Opening balance	9,175,345	7,786,893
Opening balance adjustment	23,139	—
Provision for expected credit losses	2,103,356	2,572,475
Amount written back	(446,511)	(350,379)
Amount written off	(146,351)	(781,951)
Exchange rate changes	48,034	(51,693)
Closing balance	<u>10,757,012</u>	<u>9,175,345</u>

Included in the above provision for impairment of trade and bills receivables is a provision of RMB3,261,652,000 (31 December 2017: RMB1,796,417,000) for individually impaired trade receivables with a carrying amount before provision of RMB3,919,376,000 (31 December 2017: RMB2,167,312,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

An aged analysis of the trade and bills receivables that are not considered to be impaired is as follows:

	30 June 2018	31 December 2017
	<i>RMB'000</i>	<i>RMB'000</i>
Neither past due nor impaired	4,514,765	6,249,860
Less than one year past due	15,349,181	16,131,233
	<u>19,863,946</u>	<u>22,381,093</u>

Receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

The balances due from the joint ventures, associates and other related companies included in the above are analysed as follows:

	30 June 2018	31 December 2017
	<i>RMB'000</i>	<i>RMB'000</i>
Joint ventures	143,473	115,563
Associates	105,491	323,267
Other related companies	34,993	239,954
	<u>283,957</u>	<u>678,784</u>

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.

10. TRADE AND BILLS PAYABLES

An aged analysis of the trade and bills payable as at the end of the reporting period, based on the invoice date, is set out as follows:

	30 June 2018 RMB'000	31 December 2017 RMB'000
Within 6 months	21,645,593	33,839,956
7 to 12 months	477,506	272,723
1 to 2 years	195,274	252,918
2 to 3 years	64,948	66,953
Over 3 years	27,062	30,517
Total	<u>22,410,383</u>	<u>34,463,067</u>

The balances due to the controlling shareholder, joint ventures, associates and other related companies included in the above are analysed as follow:

	30 June 2018 RMB'000	31 December 2017 RMB'000
The Controlling shareholder	3,993	41,437
Joint ventures	3,231	9,231
Associates	237,611	1,069,476
Other related companies	22,582	39,524
Total	<u>267,417</u>	<u>1,159,668</u>

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.