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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 FIRST QUARTERLY REPORT**

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

### **§ 1 IMPORTANT**

#### **1.1 Important risk reminder**

The United States Department of Commerce Bureau of Industry and Security (“BIS”) has activated the denial order. For details, please refer to “INSIDE INFORMATION ANNOUNCEMENT AND CONTINUED SUSPENSION OF TRADING” published by ZTE Corporation (“ZTE” or the “Company”) on 20 April 2018.

The denial order has material adverse effects on the normal production and operation of the Company. As at the date of this report, the Company is still unable to complete a comprehensive and accurate assessment or forecast, and the Company is unable to prepare the 2018 First Quarterly Report in accordance with the accounting standards for business enterprises.

According to the provisions relating to completion of preparation and disclosure of the quarterly reports within one month after the end of the third and the ninth month of each financial year under the Measures for the Administration of Information Disclosure of Listed Companies and the “Standards for the Contents and Formats of Information Disclosure by Companies Offering Securities to the Public No. 13 — Contents and Formats of Quarterly Reports issued by the China Securities Regulatory Commission (the “CSRC”), and the Rules Governing Listing of Stocks on the Shenzhen Stock Exchange, the Company hereby issues the 2018 First Quarterly Report. Before BIS activated the denial order, the Company had prepared the 2018 First Quarterly Report in accordance with the accounting standards for business enterprises and the principles of truthfulness, accuracy and completeness; and after BIS activated the denial order, which has an impact on the truthfulness, accuracy and completeness of the 2018 First Quarterly Report and is an event after balance sheet date pursuant to the accounting standards for business enterprises, and the Company is currently unable to accurately and comprehensively assess its impact in this report. Therefore, this report is prepared based on the assumption that the denial order has not affected the Company’s 2018 First Quarterly Report. As the Company has not considered the impact of the denial order in this report, the Board of Directors, Supervisory Committee and the Directors, Supervisors, senior management and the head of finance division of the Company are unable to ensure the truthfulness, accuracy and completeness of the contents of this report. The Company is currently unable to predict the financial status and operating results from the beginning of 2018 to the end of the next reporting period.

The Company is currently assessing the impact of the denial order on the Company. Once the Company has fully and accurately estimated the impact of the denial order on the 2018 First Quarterly Report of the Company, the Company will prepare and disclose an updated 2018 First Quarterly Report.

- 1.2 As the impact of the denial order on the 2018 First Quarterly Report of the Company has not been considered, the Directors, Supervisors, senior management and head of finance division of the Company **are unable to ensure** the truthfulness, accuracy and completeness of the contents of this report.
- 1.3 This quarterly report has been considered and approved at the Twenty-ninth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Luan Jubao, Vice Chairman, was unable to attend the meeting due to work reasons and has authorised Mr. Zhan Yichao, Director, to vote on his behalf.
- 1.4 The financial statements contained in this quarterly report are unaudited.

- 1.5 **The Company hereby specifically reminds the investors that, as the impact of the denial order on the 2018 First Quarterly Report of the Company has not been considered, the Company is unable to ensure the truthfulness, accuracy and completeness of the contents of this report. The Company hereby reminds the investors and the relevant stakeholders not to make any investment decisions or conduct any economic activities or other actions based on this report.**
- 1.6 China Securities Journal, Securities Times, Shanghai Securities News and <http://www.cninfo.com.cn> are designated media for the Company's information disclosure. Only information of the Company published in the aforesaid media should be relied upon, and investors are advised to be aware of the investment risks involved.

## § 2 CORPORATE INFORMATION

### 2.1 Major Accounting Data and Financial Indicators

#### *2.1.1 Statement on retrospective adjustments to or restatement of accounting data of the previous year by the Company because of changes in accounting policies or for the rectification of accounting errors*

##### *PRC Accounting Standards for Business Enterprises (“ASBEs”)*

##### *Government grants*

In accordance with “ASBE No. 16 — Government grants” implemented with effect from 12 June 2017, the Company and its subsidiaries (the “Group”) has presented government grants on a net basis. Government grants relating to day-to-day activities and specifically applied for the reimbursement of incurred related costs and expenses have been removed from “non-operating income” in the income statement and restated as set-off of related costs and expenses; other government grants relating to day-to-day activities (including refund of VAT on software products) are moved from “non-operating income” in the income statement to “other income” in the income statement. As the standard provides for prospective application in respect of government grants subsisting as at 1 January 2017 and adjustments in accordance with the standard in respect of new government grants received during the period from 1 January 2017 to the date of implementation of the standard, the Company has restated and adjusted amounts for the same period last year in accordance with the standards. Such adjustments have affected operating costs, research and development costs, other income and non-operating income on the face of the income statement for the same period last year.

## *Financial instruments and revenue*

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.

(1) In accordance with the New ASBEs on Financial Instruments, the Company has changed the rule on making provisions for the impairment of trade receivables and other financial assets measured at amortised cost and the method for the measurement of investments in available-for-sale equity instruments, the details of which are set out as follows:

- ① Rule on impairment provisions for trade receivables: the Company has adjusted the method of making provisions for the impairment of trade receivables from the “method of incurred losses” to the “method of expected credit losses”, pursuant to which provisions for impairment will be made according to sub-divided asset groups and adjusted ratios of provision for such asset groups based on the evaluation of customers’ credit risk profile, taking into account expectations for the collection of such receivables and the key financial indicators of customers.
- ② Method for the measurement of investments in available-for-sale equity instruments: Under the original ASBEs on financial instruments, available-for-sale equity instruments quoted in an active market were measured at fair value by the Company, and any changes in fair value were recognized in other comprehensive income; available-for-sale equity instruments not quoted in an active market and whose fair value cannot be reliably measured were measured at cost. Under the New ASBEs on Financial Instruments, all available-for-sale equity instruments are measured at fair value (including previous available-for-sale equity instruments not quoted in an active market and measured at cost); changes in the fair value of available-for-sale equity instruments shall be dealt with in current profit or loss, provided that the Company may elect, upon investment in individual non-trading equity instruments, to designate such equity instruments as financial assets at fair value through other comprehensive income (which designation cannot be revoked once made). In accordance with pertinent requirements under the convergence provisions of the New ASBEs on Financial Instruments, the Company has classified its outstanding

available-for-sale equity instruments. As at 31 March 2018, all of the Company's investments in available-for-sale equity instruments were recognized as financial assets at fair value through current profit or loss.

- (2) In accordance with the New ASBE on Revenue, the Company has changed its former accounting policies on revenue from sales of goods, revenue from rendering of services and revenue from construction contracts (Lease income shall be accounted for in accordance with "ASBE No. 21 — Leases" and shall not be affected by the New ASBE on Revenue).

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

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

For details of the aforesaid changes to the accounting policies on financial instruments and revenue, please refer to the “Overseas Regulatory Announcement Announcement on Changes in Accounting Policies” published on the same date as this report.

### ***2.1.2 Major Accounting Data and Financial Indicators of the Group***

| <b>Item</b>   | <b>As at<br/>the end of the<br/>reporting period<br/>(31 March<br/>2018)</b> | <b>As at the end<br/>of last year<br/>(31 December<br/>2017)</b> | <b>Change as<br/>at the end of<br/>the reporting<br/>period compared<br/>with the end<br/>of last year</b> |
|---|--|--|--|
| Total assets ( <i>RMB in thousands</i> )  | <b>139,138,702</b>   | 143,962,215  | (3.35%)  |
| Owners' equity attributable to holders<br>of ordinary shares of the listed<br>company ( <i>RMB in thousands</i> ) | <b>32,081,690</b>  | 31,646,875   | 1.37%  |
| Total share capital ( <i>thousand shares</i> )  | <b>4,192,672</b>   | 4,192,672  | —  |
| Net assets per share attributable to<br>holders of ordinary shares of the<br>listed company ( <i>RMB/share</i> )  | <b>7.65</b>  | 7.55   | 1.32%  |

| Item  | The reporting<br>period (Three<br>months ended<br>31 March 2018) | Same period last<br>year (Three<br>months ended<br>31 March 2017) | Change<br>compared with<br>the same period<br>last year |
|---|--|---|---|
| Operating revenue<br>(RMB in thousands)   | <b>28,879,881</b>  | 25,744,612  | 12.18%  |
| Net profit attributable to holders<br>of ordinary shares of the listed<br>company (RMB in thousands)                              | <b>1,687,020</b>   | 1,213,607   | 39.01%  |
| Net profit after extraordinary<br>items attributable to holders of<br>ordinary shares of the listed<br>company (RMB in thousands) | <b>1,368,023</b>   | 1,069,337   | 27.93%  |
| Net cash flows from operating<br>activities (RMB in thousands)  | <b>(171,149)</b>   | (971,165)   | 82.38%  |
| Net cash flows from operating<br>activities per share<br>(RMB/share)  | <b>(0.04)</b>  | (0.23)  | 82.61%  |
| Basic earnings per share<br>(RMB/share) <sup>Note 1</sup>   | <b>0.40</b>  | 0.29  | 37.93%  |
| Diluted earnings per share<br>(RMB/share) <sup>Note 2</sup>   | <b>0.40</b>  | 0.29  | 37.93%  |
| Weighted average return<br>on net assets (%)  | <b>5.29%</b>   | 4.50%   | Increased by<br>0.79 percentage<br>point                |
| Weighted average return<br>on net assets after<br>extraordinary items (%)   | <b>4.29%</b>   | 3.96%   | Increased by<br>0.33 percentage<br>point                |

*Note 1:* Basic earnings per share for the reporting period and for the three months ended 31 March 2017 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 71,951,000 potentially dilutive ordinary shares for the three months ended 31 March 2018 and the 2013 share options granted by the Company have given rise to 2,087,000 dilutive ordinary shares for the three months ended 31 March 2017, dilutive earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

*Extraordinary item*

*Unit: RMB in thousands*

| <b>Extraordinary item</b>                             | <b>Amount from the beginning<br/>of the year to the end<br/>of the reporting period</b> |
|---|---|
| Non-operating income, other income and others         | 164,636   |
| Gains from fair value change                          | 205,749   |
| Investment income                                     | 28,981  |
| Less: Loss on disposal of non-current assets          | 7,114   |
| Less: Other non-operating expenses                    | 20,903  |
| Less: Effect of income tax                            | 55,702  |
| Less: Effect of non-controlling interests (after tax) | (3,350)   |
| <b>Total</b>  | <b><u>318,997</u></b>   |

***2.1.3 The amounts of net profit and shareholders' equity of the Group for the three months ended 31 March 2018 and as at 31 March 2018 calculated in accordance with PRC ASBEs are fully consistent with those calculated under Hong Kong Financial Reporting Standards.***

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

### *Total number of shareholders*

As at 31 March 2018 There were 312,630 shareholders in total (comprising 312,300 holders of A shares and 330 holders of H shares).

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

| Name of shareholders  | Nature of shareholders  | Percentage of shareholdings | Number of shareholdings as at the end of the reporting period (shares) | Number of shares held subject to lock-up (shares) | Number of pledged or frozen shares |
|---|-------------------------|-----------------------------|--|---|------------------------------------|
| 1. Shenzhen Zhongxingxin Telecommunication Equipment Company Limited (“Zhongxingxin”) <sup>Note 1</sup> | State-owned corporation | 30.34%                      | 1,271,868,333  | —   | Nil                                |
| 2. HKSCC Nominees Limited <sup>Note 2</sup>   | Foreign shareholders    | 17.99%                      | 754,274,439  | —   | Unknown                            |
| 3. Central Huijin Asset Management Ltd.   | State-owned corporation | 1.25%                       | 52,519,600   | —   | Nil                                |
| 4. NSSF Portfolio #104  | Others                  | 1.03%                       | 43,188,881   | —   | Nil                                |
| 5. Fang Deji (方德基)  | Domestic natural person | 1.01%                       | 42,164,403   | —   | Nil                                |
| 6. Hunan Nantian (Group) Co., Ltd   | State-owned corporation | 0.99%                       | 41,516,065   | —   | Nil                                |
| 7. NSSF Portfolio #401  | Others                  | 0.62%                       | 26,000,028   | —   | Nil                                |
| 8. China Mobile No. 7 Research Institute  | State-owned corporation | 0.45%                       | 19,073,940   | —   | Nil                                |
| 9. Hong Kong Securities Clearing Company Limited <sup>Note 3</sup>                                      | Overseas corporation    | 0.42%                       | 17,439,192   | —   | Unknown                            |
| 10. China Life Insurance Company Limited – Dividend – Personal Dividend -005L-FH002 Shen                | Others                  | 0.39%                       | 16,417,196   | —   | Nil                                |

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

| Name of shareholders  | Number of shares held not subject to lock-up (shares)   | Class of shares |
|---|---|-----------------|
| 1. Zhongxingxin   | 1,269,830,333   | A share         |
|   | 2,038,000   | H share         |
| 2. HKSCC Nominees Limited <i>Note 2</i>   | 754,274,439   | H share         |
| 3. Central Huijin Asset Management Ltd.   | 52,519,600  | A share         |
| 4. NSSF Portfolio #104  | 43,188,881  | A share         |
| 5. Fang Deji (方德基)  | 42,164,403  | A share         |
| 6. Hunan Nantian (Group) Co., Ltd   | 41,516,065  | A share         |
| 7. NSSF Portfolio #401  | 26,000,028  | A share         |
| 8. China Mobile No. 7 Research Institute  | 19,073,940  | A share         |
| 9. Hong Kong Securities Clearing Company Limited <i>Note 3</i>  | 17,439,192  | A share         |
| 10. China Life Insurance Company Limited<br>— Dividend — Personal Dividend<br>-005L-FH002 Shen                  | 16,417,196  | A share         |
| Descriptions of any connected party relationships or concerted party relationships among the above shareholders | <p>1. Zhongxingxin was neither a connected party nor a concerted party of any of the top 10 shareholders and top 10 holders of shares that were not subject to lock-up set out in the table above.</p> <p>2. Save as aforesaid, the Company is not aware of any connected party relationships or concerted party relationships among other top 10 shareholders and other top 10 holders of shares not subject to lock-up.</p> |                 |
| Description of top 10 shareholders' involvement in financing and securities lending businesses (if any)         | Fang Deji, the 5th ranking shareholder among the top 10 shareholders, held 42,164,403 A shares of the Company through a credit securities account.  |                 |

*Note 1:* “深圳市中興新通訊設備有限公司 (Shenzhen Zhongxingxin Telecommunication Equipment Company Limited)” has renamed to “中興新通訊有限公司 (Zhongxingxin Telecommunication Company Limited)”. Change in the registration with industrial and commercial administration authorities in connection with the aforesaid change of name was completed on 16 April 2018.

*Note 2:* 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 3:* 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).

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

Yes  No

**The Company had no preferential shares.**

## § 3 MATERIAL MATTERS

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

*Unit: RMB in thousands*

#### *Balance sheet*

| Item   | 31 March<br>2018 | 31 December<br>2017 | Change    | Analysis of reasons for changes  |
|--|------------------|---------------------|-----------|--|
| Derivative financial assets                  | 368,300          | 116,794             | 215.34%   | Attributable mainly to gains on fair-value re-measurement at the end of the period of USD derivative investments for the reporting period  |
| Factored trade receivables                   | 670,412          | 1,080,449           | (37.95%)  | Attributable mainly to decrease in factored trade receivable business with recourse for the reporting period   |
| Amount due from customers for contract works | 5,258,649        | 9,012,909           | (41.65%)  | Attributable mainly to the write-back of amount due from customers for contract works recognized for the previous year following the implementation of the New ASBE on Revenue for the recognition of revenue for the reporting period   |
| Derivative financial liabilities             | 68,470           | 49,830              | 37.41%    | Attributable mainly to losses on fair-value re-measurement at the end of the period of derivative investments in emerging market currencies for the reporting period   |
| Bank advances on factored trade receivables  | 670,436          | 1,080,472           | (37.95%)  | Attributable mainly to decrease in factored trade receivable business with recourse for the reporting period   |
| Dividends payable                            | 21,222           | 1,322               | 1,505.30% | Attributable mainly to the distribution of dividend by subsidiaries for the reporting period   |
| Deferred income                              | 1,052,472        | 454,891             | 131.37%   | Attributable mainly to the increase in government grants received for the reporting period   |
| Other comprehensive income                   | (1,554,867)      | (723,770)           | (114.83%) | Attributable mainly to the transfer from other comprehensive income to retained earnings at the beginning of the period of cumulative fair-value change of previous equity instruments quoted in an active market and measured at fair value as a result of the implementation of the New ASBEs on Financial Instruments for the period and losses on translation of foreign operations due to exchange rate volatility for the period |

### ***Income Statement (Three months ended 31 March)***

| <b>Item</b>  | <b>Three months ended<br/>31 March<br/>2018</b> | <b>Three months ended<br/>31 March<br/>2017</b> | <b>Change</b> | <b>Analysis of reasons for changes</b>   |
|--|---|---|---------------|--|
| Finance costs  | 185,992   | (15,686)  | 1,285.72%     | Attributable mainly to exchange loss due to exchange rate volatility for the period versus exchange gain due to exchange rate volatility for the same period last year   |
| Gains/(losses) from changes in fair values                                       | 205,749   | (62,194)  | 430.82%       | Attributable mainly to gains on fair-value re-measurement at the end of the period of derivative investments for the reporting period versus losses on fair-value re-measurement for the same period last year   |
| Investment income  | (94,654)  | 60,453  | (256.57%)     | Attributable mainly to the investment loss recognized according to share of loss of certain associates attributable to the Group for the reporting period  |
| Non-operating income   | 42,113  | 92,481  | (54.46%)      | Attributable mainly to the decrease in the reward income for the reporting period  |
| Non-controlling interests  | (13,140)  | (21,136)  | 37.83%        | Attributable mainly to the decrease in losses of subsidiaries for the reporting period   |
| Changes in the fair value of available-for-sale financial assets                 | —   | (1,485)   | 100.00%       | Attributable mainly to the change in the presentation of changes in the fair value of available-for-sale financial assets as a result of the implementation of the New ASBEs on Financial Instruments for the reporting period   |
| Effective portion of hedging instruments   | —   | (3,999)   | 100.00%       | Attributable mainly to the maturity at end of period of the previous year of forward exchange contracts designated as net investment hedging instruments of overseas operations for the reporting period   |
| Exchange differences on translation of foreign operations                        | (392,962)                                       | (38,210)  | (928.43%)     | Attributable mainly to the increase in loss on translation of foreign operations due to exchange rate volatility for the reporting period  |
| Other comprehensive income attributable to non-controlling interests, net of tax | (121)   | (2,304)   | 94.75%        | Attributable mainly to the change in the presentation of changes in fair value of restricted equity interests in listed companies held by subsidiary fund partnerships of Shenzhen ZTE Capital Management Company Limited (“ZTE Capital”) as a result of the implementation of the New ASBEs on Financial Instruments for the reporting period |

### ***Cash Flow Statement (Three months ended 31 March)***

| <b>Item</b>   | <b>Three months ended<br/>31 March<br/>2018</b> | <b>Three months ended<br/>31 March<br/>2017</b> | <b>Change</b> | <b>Analysis of reasons for changes</b>   |
|---|---|---|---------------|--|
| Net cash flows from operating activities                                | (171,149)                                       | (971,165)                                       | 82.38%        | Attributable mainly to the decrease in cash paid for the purchase of goods or services for the reporting period      |
| Net cash flows from investing activities                                | (582,818)                                       | (899,446)                                       | 35.20%        | Attributable mainly to the increase in cash received from the disposal of investments for the reporting period       |
| Net cash flows from financing activities                                | (5,503,636)                                     | (1,266,132)                                     | (334.68%)     | Attributable mainly to the decrease in cash received from borrowings for the reporting period                        |
| Effect of changes in foreign exchange rate on cash and cash equivalents | (185,783)                                       | 36,157  | (613.82%)     | Attributable mainly to loss due to exchange rate volatility for the period versus gain for the same period last year |

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

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

Applicable     N/A

### ***3.2.2 Others***

#### ***3.2.2.1 Matters pertaining to the Shenzhen Bay Super Headquarters Base***

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

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

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

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

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

### *3.2.2.3 Non-public issuance of A shares by the Company*

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

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

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

### *3.2.2.4 Completion of payment for the 2015 Tranche II Medium Term Notes*

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

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

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

### *3.2.2.5 Provision of guarantees by the Company for its subsidiaries*

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

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

The aforesaid matter has been considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors pending consideration at the general meeting. For details, please refer to the “Overseas Regulatory Announcement Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors” and the “Overseas Regulatory Announcement Announcement on the Provision of a Guarantee Amount for Contract Performance for Overseas Wholly-owned Subsidiaries” published on 15 March 2018 by the Company.

2. Provision of guarantee by the Company in respect of the debt financing of ZTE (H.K.) Limited (“ZTE HK”)

With a view to optimising the mix of long/short-term liabilities of the Company and the subsidiaries included in its consolidated financial statements, reduce exposures to assets and liabilities denominated in foreign currencies, and meet the additional working capital requirements of the Company’s medium/long-term development at appropriate finance costs, the Company proposes to seek medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issuance of corporate bonds) with ZTE HK, its wholly-owned subsidiary, as the principal. In view of the current financial conditions and credit rating of ZTE HK, the Company will provide guarantee by way of joint liability assurance for an amount of not more than USD600 million in relation to the aforesaid debt financing of ZTE HK, in order to secure debt financing at favourable costs.

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

*3.2.2.6 Information on the “Share Option Incentive Scheme” of the Company*

The 2017 Share Option Incentive Scheme implemented by the Company aims to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibility of the management and key personnel of the Company and retain talent, so as to facilitate sustainable development of the Company and ensure the realisation of its development targets. The 2017 Share Option Incentive Scheme implemented by the Company has been approved by the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and General Meeting of the Company. The source of shares under the 2017 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. Scheme participants of the 2017 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to the Company’s overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company’s shares or the de facto controller, or their respective spouses and immediate or close family members). Pursuant to the “Resolution on Matters pertaining to the grant of share options under the 2017 Share Option Incentive Scheme” considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors on 6 July 2017, the date of grant was set for 6

July 2017 (Thursday). The Company granted 149,601,200 share options to 1,996 scheme participants. The exercise price of the share options granted shall be RMB17.06 per A share.

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

During the reporting period, the 2017 Share Option Incentive Scheme of the Company was under normal implementation.

### *3.2.2.7 Material litigation and arbitration during the reporting period*

There was no material litigation or arbitration of the Group occurring during the reporting period. For details of the progress in the reporting period of immaterial litigation and arbitration proceedings occurring prior to the reporting period, please refer to the section headed “Material Matters” in the 2017 Annual Report of the Company.

*3.2.2.8* The Company published announcements in relation to the civil penalty decision of the relevant U.S. government departments, relevant updates and settlement on 9 March 2016, 23 March 2016, 28 March 2016, 6 April 2016, 28 June 2016, 19 August 2016, 18 November 2016, 14 February 2017, 24 February 2017, 8 March 2017, 23 March 2017, 24 March 2017 and 29 March 2017, respectively.

BIS has issued an order (the “Order”) that the suspension of a denial order for seven years under the settlement agreement was activated with effect from 15 April 2018 (U.S. time) until 13 March 2025 (U.S. time). The Company is making active communications with relevant parties to seek a solution. For details, please refer to the relevant announcements published by the Company on 17 April 2018, 18 April 2018, 20 April 2018, 22 April 2018 and 25 April 2018, respectively.

### 3.2.2.9 Conduct of continuing connected transactions during the reporting period

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

| Counterparty to connected transaction  | Nature of connection  | Classification                                 | Subject matter  | Pricing principle   | Price (RMB)  | Amount (RMB in ten thousands) | As a percentage of transactions in the same classification (%) | Whether approved cap has been exceeded | Settlement                            | Market price for similar transactions available (RMB) | Domestic announcement date | Domestic announcement index  |
|--|---|--|---|---|--|-------------------------------|--|--|---------------------------------------|---|----------------------------|--|
| Zhongxingin and its subsidiaries and investee companies  | Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above | Purchase of raw materials                      | The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party | Purchase of raw materials by the Company and its subsidiaries from connected parties were conducted at prices determined through arm's length negotiations and on the basis of normal commercial terms. The prices of properties leased to connected parties by the Group were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs. | Cabinets and related accessories: RMB1-RMB300,000 per unit; Cases and related accessories: RMB1-RMB15,000 per unit, depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used. | 9,366.98                      | 0.65%  | No                                     | Commercial acceptance bill            | N/A   | 2015-9-23<br>2017-1-20     | Announcement No. 201548<br>"Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"<br><br>Announcement No. 201703<br>"Announcement on Execution of Supplemental Agreement for the 2016-2018 Purchase Framework Agreement with Zhongxingin, a Connected Party" |
| Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and its subsidiaries* | A company for which a natural person related to the Company acted as chairman and its subsidiaries                          | Purchase of hotel services                     | The purchase of hotel services by the Company from the connected party  |   | The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.   | 930.78                        | 0.06%  | No                                     | Tele-transfer                         | N/A   | 2016-4-29                  | Announcement No. 201635<br>"Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"  |
| Zhongxing Hetai and its subsidiaries*  | A company for which a natural person related to the Company acted as chairman and its subsidiaries                          | Lease of property and equipment and facilities | The lease of property and related equipment and facilities to the connected party by the Company  |   | RMB74/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen;<br>RMB53/sq.m./month for hotel and related equipment and facilities in Nanjing;<br>RMB116/sq.m./month for hotel and related equipment and facilities in Shanghai; and<br>RMB53/sq.m./month for hotel and related equipment and facilities in Xi'an.  | 1,926.05                      | 24.34%   | No                                     | Tele-transfer                         | N/A   | 2016-4-29                  | Announcement No. 201635<br>"Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"  |
| 深圳市航天威華科技發展有限公司 (航天威華)   | A company for which a natural person related to the Company acted as director   | Sale of products                               | The sale of digital communications products and communications products by the Company to the connected party   |   | Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.  | 10,999.48                     | 0.38%  | No                                     | Tele-transfer or bank acceptance bill | N/A   | 2015-9-23                  | Announcement No. 201548<br>"Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"  |
| <b>Total</b>   |   |  |   |   |  | <b>23,223.29</b>              | <b>N/A</b>   | <b>—</b>                               | <b>—</b>                              | <b>—</b>  | <b>—</b>                   | <b>—</b>   |

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

\* As the natural persons related to the Company had ceased to be chairman of Zhongxing Hetai as from 26 September 2017 and directors of Shanghai He'ertai Hotel Investment and Management Company Limited (上海市和而泰酒店投資管理有限公司) and Nanjing Zhongxing Hetai Hotel Management Company Limited (南京中興和泰酒店管理有限公司), subsidiaries of Zhongxing Hetai, as from 20 October 2017, Zhongxing Hetai and its subsidiary Xi'an Zhongxing Hetai Hotel Management Company Limited (西安中興和泰酒店管理有限公司) will cease to be connected parties of the Company as defined under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange as from 26 September 2018, and Shanghai He'ertai Hotel Investment and Management Company Limited (上海市和而泰酒店投資管理有限公司) and Nanjing Zhongxing Hetai Hotel Management Company Limited (南京中興和泰酒店管理有限公司) will cease to be connected parties of the Company as defined under the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange as from 20 October 2018.

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

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

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

### 3.3 Undertakings

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

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

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

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

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

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

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

**3.4 Warnings of and reasons for any projected accumulated net loss or substantial change in accumulated net profit of the Company for the period from the beginning of 2018 to the end of the next reporting period as compared to the same period last year, please refer to the "Important" in this report.**

### 3.5 Other material matters requiring disclosure

#### 3.5.1 Investment in securities

##### 1. Investment in securities as at the end of the reporting period

Unit: RMB in ten thousands

| Type of securities   | Stock code | Stock name                                   | Initial investment | Accounting method      | Book value at the beginning of the period | Gains/loss arising from fair value change for the period | Cumulative fair value change accounted for in equity | Amount purchased during the period | Amount disposed during the period | Gain/loss for the reporting period | Book value at the end of the period | Accounting classification           | Source of funds |
|--|------------|--|--------------------|------------------------|---|--|--|------------------------------------|-----------------------------------|------------------------------------|-------------------------------------|-------------------------------------|-----------------|
| Stock  | 300438     | Great Power <sup>Note 1</sup>                | 169.41             | Fair-value measurement | 1,464.50                                  | (202.63)   | —  | —                                  | 432.09                            | (212.93)                           | 846.87                              | Available-for-sale financial assets | Issue proceeds  |
| Stock  | 300502     | Eoptolink <sup>Note 1</sup>                  | 974.45             | Fair-value measurement | 15,980.16                                 | (2,811.27)   | —  | —                                  | —                                 | (2,811.27)                         | 13,168.89                           | Available-for-sale financial assets | Issue proceeds  |
| Stock  | 603986     | Giga Device <sup>Note 1</sup>                | 1,282.86           | Fair-value measurement | 73,281.66                                 | 11,267.31  | —  | —                                  | 20,560.78                         | 11,982.27                          | 65,837.47                           | Available-for-sale financial assets | Issue proceeds  |
| Stock  | 603633     | Laimu <sup>Note 1</sup>                      | 2,000.00           | Fair-value measurement | 6,016.67                                  | 31.83  | —  | —                                  | 807.33                            | 12.61                              | 5,254.29                            | Available-for-sale financial assets | Issue proceeds  |
| Stock  | 603920     | Olympic Circuit Technology <sup>Note 1</sup> | 2,562.00           | Fair-value measurement | 21,924.37                                 | (3,523.96)   | —  | —                                  | —                                 | (3,523.96)                         | 18,400.41                           | Available-for-sale financial assets | Issue proceeds  |
| Stock  | 002902     | Mentech Optical <sup>Note 1</sup>            | 1,655.50           | Fair-value measurement | 19,688.89                                 | (2,523.62)   | —  | —                                  | —                                 | (2,523.62)                         | 17,165.27                           | Available-for-sale financial assets | Issue proceeds  |
| Stock  | 002036     | Lianchuang Electronic <sup>Note 2</sup>      | 3,266.00           | Fair-value measurement | 10,060.65                                 | 74.39  | —  | —                                  | —                                 | 74.39                              | 10,135.04                           | Available-for-sale financial assets | Issue proceeds  |
| Stock  | 300691     | Union Optech <sup>Note 2</sup>               | 3,498.71           | Fair-value measurement | 20,599.32                                 | (3,156.30)   | —  | —                                  | —                                 | (3,156.30)                         | 17,443.02                           | Available-for-sale financial assets | Issue proceeds  |
| Stock  | ENA: TSV   | Enablance Technologies <sup>Note 3</sup>     | 3,583.26           | Fair-value measurement | 2,168.39                                  | (300.63)   | —  | —                                  | —                                 | (300.63)                           | 1,867.76                            | Available-for-sale financial assets | Internal funds  |
| Other securities investments held at the end of the period |            |  | —                  | —                      | —   | —  | —  | —                                  | —                                 | —                                  | —                                   | —                                   | —               |
| <b>Total</b>   |            |  | <b>18,992.19</b>   | —                      | <b>171,184.61</b>                         | <b>(1,144.88)</b>  | —  | —                                  | <b>21,800.20</b>                  | <b>(459.44)</b>                    | <b>150,119.02</b>                   | —                                   | —               |

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

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

*Note 3:* The initial investment for the acquisition of Enablence Technologies Inc. (“Enablence Technologies”) shares by ZTE HK, a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company’s foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company’s foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD23,343,800, equivalent to approximately RMB18,677,600 based on the Company’s foreign currency statement book exchange rate (HKD1: RMB0.80011) on 31 March 2018.

## **(2) Details in investment in securities**

### **A. Shareholdings in Great Power**

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund, a partnership reported in the consolidated financial statements of the Company. During the first quarter of 2018, Zhonghe Chunsheng Fund transferred 139,600 shares in Great Power (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 353,000 shares in Great Power, accounting for 0.13% of the total share capital of Great Power.

### **B. Shareholdings in Eoptolink**

As at the end of the reporting period, Zhonghe Chunsheng Fund held 5,512,300 shares in Eoptolink (a company listed on the GEM Board of the Shenzhen Stock Exchange), accounting for 2.32% of the total share capital of Eoptolink.

### **C. Shareholdings in Giga Device**

During the first quarter of 2018, Zhonghe Chunsheng Fund transferred 1,147,100 shares in Giga Device (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 3,345,400 shares in Giga Device, accounting for 1.65% of the total share capital of Giga Device.

*D. Shareholdings in Laimu*

During the first quarter of 2018, Zhonghe Chunsheng Fund transferred 440,000 shares in Laimu (a company listed on the Shanghai Stock Exchange) it held. As at the end of the reporting period, Zhonghe Chunsheng Fund held 2,893,300 shares in Laimu, accounting for 2.40% of the total share capital of Laimu.

*E. Shareholdings in Olympic Circuit Technology*

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

*F. Shareholdings in Mentech Optical*

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

*G. Shareholdings in Lianchuang Electronic*

As at the end of the reporting period, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaying Fund, which was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Jiaying Fund held 6,887,600 shares in Lianchuang Electronic, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 1.23% of the total share capital of Lianchuang Electronic.

*H. Shareholdings in Union Optech*

As at the end of the reporting period, Jiaying Fund held 2,763,600 shares in Union Optech, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.16% of the total share capital of Union Optech.

*I. Shareholdings in Enablence Technologies*

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

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

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

During the first quarter of 2018, the Company hosted 5 receptions of investors for research purposes, receiving 17 institutional investors but no individual investor. For details, please refer to the following table. The Company did not disclose, reveal or divulge unpublished material information to such investors.

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

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

### 3.6 Derivative Investments

Unit: RMB in ten thousands

| Name of party operating the derivative investment  | Connected relationship | Whether a connected transaction | Type of derivative investment <sup>Note 1</sup> | Initial investment amount in the derivative investment  |           | Opening balance of investment amount <sup>Note 2</sup> | Purchase during the period | Disposal during the period | Impairment provision (if any) | Closing balance of investment amount | Closing balance of investment amount as a percentage of net assets <sup>Note 3</sup> at the end of the period (%) | Actual profit or loss for the reporting period |                  |
|--|------------------------|---------------------------------|---|---|-----------|--|----------------------------|----------------------------|-------------------------------|--------------------------------------|---|--|------------------|
|  |                        |                                 |   | Start date  | End date  |  |                            |                            |                               |                                      |   |  |                  |
| Financial institution  | N/A                    | No                              | Forward exchange contract                       | —   | 2017/8/31 | 2018/12/31   | 164,356.46                 | 154,208.65                 | 59,575.66                     | —                                    | 258,989.45  | 8.07%  | 5,046.63         |
| Financial institution  | N/A                    | No                              | Forward exchange contract                       | —   | 2017/5/31 | 2018/12/31   | 188,539.03                 | 125,101.67                 | 82,219.45                     | —                                    | 231,421.25  | 7.21%  | 4,509.44         |
| Financial institution  | N/A                    | No                              | Forward exchange contract                       | —   | 2017/5/16 | 2018/12/27   | 105,700.71                 | 58,479.11                  | 17,089.25                     | —                                    | 147,090.57  | 4.59%  | 2,866.19         |
| Other financial institution  | N/A                    | No                              | Forward exchange contract                       | —   | 2017/5/18 | 2018/12/28   | 466,184.49                 | 337,987.40                 | 176,889.99                    | —                                    | 627,281.90  | 19.55%   | 12,223.12        |
| <b>Total</b>   |                        |                                 |   | —   | —         | —  | <b>924,780.69</b>          | <b>675,776.83</b>          | <b>335,774.35</b>             | —                                    | <b>1,264,783.17</b>   | <b>39.42%</b>                                  | <b>24,645.38</b> |
| Source of funds for derivative investment  |                        |                                 |   | Internal funds  |           |  |                            |                            |                               |                                      |   |  |                  |
| Litigation (if applicable)   |                        |                                 |   | Not involved in any litigation  |           |  |                            |                            |                               |                                      |   |  |                  |
| Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)   |                        |                                 |   | “Announcement Resolutions of the Fifteenth Meeting of the Seventh Session of the Board of Directors” and “Announcement on the Application for Derivative Investment Limits for 2017”, both dated 23 March 2017.   |           |  |                            |                            |                               |                                      |   |  |                  |
| Date of announcement of the general meeting in respect of the approval of derivative investments (if any)  |                        |                                 |   | “Announcement on Resolutions of the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017 and the First H Shareholders’ Class Meeting of 2017” dated 20 June 2017.   |           |  |                            |                            |                               |                                      |   |  |                  |
| Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period  |                        |                                 |   | <p>Derivative investments conducted by the Company during the first quarter of 2018 included value-protection derivatives. The major risks and control measures are discussed as follows:</p> <ol style="list-style-type: none"> <li>Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivatives investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date;</li> <li>Liquidity risks: The value-protection derivatives investments of the Company were based on the Company’s budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company’s actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company’s current assets was insignificant;</li> <li>Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks;</li> <li>Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks;</li> <li>Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.</li> </ol> |           |  |                            |                            |                               |                                      |   |  |                  |
| Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives |                        |                                 |   | The Company has recognized gains/losses from investments in derivatives during the reporting period. Total gains recognized for the reporting period amounted to RMB246 million, comprising gains from fair-value change of RMB238 million and recognized investment gains of RMB8 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.  |           |  |                            |                            |                               |                                      |   |  |                  |
| Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period                              |                        |                                 |   | There was no significant change in the Company’s accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.   |           |  |                            |                            |                               |                                      |   |  |                  |
| Specific opinion of Independent Non-executive Directors on the Company’s derivative investments and risk control   |                        |                                 |   | <p>Independent Non-executive Directors’ Opinion:</p> <p>The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. We are of the view that the derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.</p>  |           |  |                            |                            |                               |                                      |   |  |                  |

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

*Note 2:* The investment amount at the beginning of the period represented the amount denominated in the original currency translated at the exchange rate prevailing as at the end of the reporting period;

*Note 3:* Net assets as at the end of the reporting period represented net assets attributable to holders of ordinary shares of the listed company as at the end of the reporting period.

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

#### **§ 4 APPENDICES**

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

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

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

## BALANCE SHEET

*RMB in thousands*

| Assets  | 2018.3.31                   |                        | 2017.12.31                |                      |
|---|-----------------------------|------------------------|---------------------------|----------------------|
|   | Consolidated<br>(Unaudited) | Company<br>(Unaudited) | Consolidated<br>(Audited) | Company<br>(Audited) |
| Current assets:                                 |                             |                        |                           |                      |
| Cash  | 26,512,303                  | 13,046,984             | 33,407,879                | 18,665,112           |
| Derivative financial assets                     | 368,300                     | 4,463                  | 116,794                   | 1,679                |
| Bills receivable                                | 2,550,011                   | 2,294,682              | 2,052,945                 | 1,888,992            |
| Trade receivables                               | 27,218,926                  | 30,760,510             | 24,345,283                | 27,183,075           |
| Factored trade receivables                      | 670,412                     | 601,173                | 1,080,449                 | 704,593              |
| Prepayments                                     | 748,463                     | 66,078                 | 591,664                   | 56,680               |
| Dividend receivable                             | —                           | 103,852                | —                         | 23,753               |
| Other receivables                               | 3,835,743                   | 28,128,602             | 3,629,933                 | 25,363,711           |
| Inventories                                     | 27,433,228                  | 16,092,821             | 26,234,139                | 16,484,640           |
| Amount due from customers for<br>contract works | 5,258,649                   | 2,330,497              | 9,012,909                 | 4,291,058            |
| Other current assets                            | 8,211,292                   | 3,821,996              | 7,758,594                 | 4,313,873            |
| <b>Total current assets</b>                     | <b>102,807,327</b>          | <b>97,251,658</b>      | <b>108,230,589</b>        | <b>98,977,166</b>    |
| Non-current assets:                             |                             |                        |                           |                      |
| Available-for-sale financial assets             | 3,106,068                   | 617,152                | 3,181,668                 | 461,091              |
| Long-term trade receivables                     | 1,243,366                   | 5,543,440              | 1,244,760                 | 5,752,524            |
| Factored long-term trade receivables            | 2,745,452                   | 2,648,442              | 2,608,006                 | 2,491,751            |
| Long-term equity investments                    | 3,812,695                   | 13,575,372             | 3,960,597                 | 13,685,375           |
| Investment properties                           | 2,023,809                   | 1,615,458              | 2,023,809                 | 1,615,458            |
| Fixed assets                                    | 8,578,076                   | 4,850,630              | 8,694,456                 | 4,887,175            |
| Construction in progress                        | 1,729,108                   | 924,409                | 1,472,986                 | 905,876              |
| Intangible assets                               | 4,988,141                   | 1,347,166              | 4,741,615                 | 1,235,751            |
| Deferred development costs                      | 1,853,623                   | 342,924                | 1,902,077                 | 404,145              |
| Goodwill  | 304,550                     | —                      | 308,806                   | —                    |
| Deferred tax assets                             | 1,565,990                   | 586,187                | 1,464,250                 | 566,364              |
| Long-term deferred assets                       | 34,991                      | 34,991                 | 34,983                    | 34,991               |
| Other non-current assets                        | 4,345,506                   | 3,924,163              | 4,093,613                 | 3,417,463            |
| <b>Total non-current assets</b>                 | <b>36,331,375</b>           | <b>36,010,334</b>      | <b>35,731,626</b>         | <b>35,457,964</b>    |
| <b>Total assets</b>                             | <b>139,138,702</b>          | <b>133,261,992</b>     | <b>143,962,215</b>        | <b>134,435,130</b>   |

*RMB in thousands*

| <b>Liabilities and shareholders' equity</b>           | <b>2018.3.31</b>                    |                                | <b>2017.12.31</b>                 |                              |
|---|-------------------------------------|--------------------------------|-----------------------------------|------------------------------|
|   | <b>Consolidated<br/>(Unaudited)</b> | <b>Company<br/>(Unaudited)</b> | <b>Consolidated<br/>(Audited)</b> | <b>Company<br/>(Audited)</b> |
| Current liabilities:                                  |                                     |                                |                                   |                              |
| Short-term loans                                      | 10,556,474                          | 6,302,982                      | 14,719,023                        | 7,158,482                    |
| Derivative financial liabilities                      | 68,470                              | 49,765                         | 49,830                            | 30,078                       |
| Bank advances on factored trade receivables           | 670,436                             | 601,197                        | 1,080,472                         | 704,617                      |
| Bills payable   | 13,221,229                          | 15,137,934                     | 10,848,511                        | 12,981,665                   |
| Trade payables  | 21,233,837                          | 38,977,027                     | 23,614,556                        | 39,405,194                   |
| Amount due to customers for contract works            | 8,317,786                           | 5,788,483                      | 8,050,655                         | 5,584,395                    |
| Advances from customers                               | 6,378,752                           | 4,279,167                      | 8,702,351                         | 6,424,220                    |
| Salary and welfare payables                           | 8,700,600                           | 5,363,021                      | 7,389,544                         | 4,118,982                    |
| Taxes payable   | 1,262,723                           | 178,406                        | 1,263,723                         | 155,820                      |
| Dividends payable                                     | 21,222                              | 225                            | 1,322                             | 225                          |
| Other payables  | 7,972,417                           | 20,383,992                     | 7,070,099                         | 20,730,075                   |
| Deferred income                                       | 1,052,472                           | 591,302                        | 454,891                           | 329,251                      |
| Provisions  | 520,032                             | 282,340                        | 533,126                           | 301,785                      |
| Long-term loans due within one year                   | 4,021,633                           | 74,000                         | 3,816,844                         | 74,000                       |
|   | <u>83,998,083</u>                   | <u>98,009,841</u>              | <u>87,594,947</u>                 | <u>97,998,789</u>            |
|   |                                     |                                |                                   |                              |
| Non-current liabilities:                              |                                     |                                |                                   |                              |
| Long-term loans                                       | 3,220,893                           | 2,369,100                      | 3,002,146                         | 2,121,125                    |
| Bank advances on factored long-term trade receivables | 2,745,452                           | 2,648,442                      | 2,948,006                         | 2,831,751                    |
| Provision for retirement benefits                     | 132,606                             | 132,606                        | 133,191                           | 133,191                      |
| Deferred tax liabilities                              | 281,536                             | —                              | 338,131                           | —                            |
| Deferred income                                       | 1,294,589                           | 202,830                        | 1,224,978                         | 149,260                      |
| Other non-current liabilities                         | 3,342,856                           | 2,781,120                      | 3,340,669                         | 2,781,120                    |
|   | <u>11,017,932</u>                   | <u>8,134,098</u>               | <u>10,987,121</u>                 | <u>8,016,447</u>             |
|   | <u>95,016,015</u>                   | <u>106,143,939</u>             | <u>98,582,068</u>                 | <u>106,015,236</u>           |

*RMB in thousands*

|   | 2018.3.31                   |                        | 2017.12.31                |                      |
|---|-----------------------------|------------------------|---------------------------|----------------------|
|   | Consolidated<br>(Unaudited) | Company<br>(Unaudited) | Consolidated<br>(Audited) | Company<br>(Audited) |
| Shareholders' equity:   |                             |                        |                           |                      |
| Share capital   | 4,192,672                   | 4,192,672              | 4,192,672                 | 4,192,672            |
| Capital reserves  | 11,436,333                  | 9,198,575              | 11,304,854                | 9,067,096            |
| Other comprehensive income  | (1,554,867)                 | 705,883                | (723,770)                 | 706,538              |
| Surplus reserve   | 2,205,436                   | 1,543,680              | 2,205,436                 | 1,543,680            |
| Retained profits  | 15,802,116                  | 3,978,651              | 14,667,683                | 3,588,581            |
| Total equity attributable to ordinary<br>shareholders of the parent | 32,081,690                  | 19,619,461             | 31,646,875                | 19,098,567           |
| Other equity instruments  |                             |                        |                           |                      |
| — perpetual capital instruments                                     | 7,498,592                   | 7,498,592              | 9,321,327                 | 9,321,327            |
| Non-controlling interests   | 4,542,405                   | —                      | 4,411,945                 | —                    |
| <b>Total shareholders' equity</b>                                   | <b>44,122,687</b>           | <b>27,118,053</b>      | <b>45,380,147</b>         | <b>28,419,894</b>    |
| <b>Total liabilities and shareholders' equity</b>                   | <b>139,138,702</b>          | <b>133,261,992</b>     | <b>143,962,215</b>        | <b>134,435,130</b>   |

## INCOME STATEMENT

*RMB in thousands*

| Item   | Three months ended<br>31 March 2018 |                         | Three months ended<br>31 March 2017       |                                      |
|--|-------------------------------------|-------------------------|---|--------------------------------------|
|  | Consolidated<br>(Unaudited)         | Company<br>(Unaudited)  | Consolidated<br>(Unaudited)<br>(Restated) | Company<br>(Unaudited)<br>(Restated) |
| 1. Operating revenue   | 28,879,881                          | 29,750,055              | 25,744,612                                | 25,527,757                           |
| Less: Operating costs  | 19,251,697                          | 23,242,961              | 17,384,211                                | 21,195,626                           |
| Taxes and surcharges   | 235,689                             | 68,697                  | 230,073                                   | 72,679                               |
| Selling and distribution costs   | 2,942,597                           | 1,875,362               | 2,767,742                                 | 1,549,575                            |
| Administrative expenses  | 791,433                             | 561,656                 | 701,954                                   | 407,976                              |
| Research and development costs   | 3,431,274                           | 1,495,855               | 3,079,876                                 | 766,506                              |
| Finance costs  | 185,992                             | 548,597                 | (15,686)                                  | 125,018                              |
| Impairment losses  | 483,370                             | 553,144                 | 509,189                                   | 421,895                              |
| Add: Gains/(Losses) from changes<br>in fair values                               | 205,749                             | (16,304)                | (62,194)                                  | (30,471)                             |
| Investment income  | (94,654)                            | (39,219)                | 60,453                                    | 48,967                               |
| Including: Share of profits<br>and losses of<br>associates and<br>joint ventures | (133,016)                           | (119,939)               | 1,197                                     | —                                    |
| Other income   | 611,406                             | —                       | 592,636                                   | —                                    |
| 2. Operating profit  | <u>2,280,330</u>                    | <u>1,348,260</u>        | <u>1,678,148</u>                          | <u>1,006,978</u>                     |
| Add: Non-operating income  | 42,113                              | 27,463                  | 92,481                                    | 25,067                               |
| Less: Non-operating expenses   | <u>28,017</u>                       | <u>12,664</u>           | <u>38,691</u>                             | <u>7,830</u>                         |
| 3. Total profit  | <u>2,294,426</u>                    | <u>1,363,059</u>        | <u>1,731,938</u>                          | <u>1,024,215</u>                     |
| Less: Income tax   | <u>509,331</u>                      | <u>230,950</u>          | <u>414,485</u>                            | <u>148,127</u>                       |
| 4. Net profit  | <u><u>1,785,095</u></u>             | <u><u>1,132,109</u></u> | <u><u>1,317,453</u></u>                   | <u><u>876,088</u></u>                |
| Attributable to holders of ordinary shares<br>of the parent                      | 1,687,020                           | 1,020,894               | 1,213,607                                 | 751,106                              |
| Attributable to holders of perpetual capital<br>instruments                      | 111,215                             | 111,215                 | 124,982                                   | 124,982                              |
| Non-controlling interests  | (13,140)                            | —                       | (21,136)                                  | —                                    |

*RMB in thousands*

| Item   | Three months ended<br>31 March 2018 |                        | Three months ended<br>31 March 2017       |                                      |
|--|-------------------------------------|------------------------|---|--------------------------------------|
|  | Consolidated<br>(Unaudited)         | Company<br>(Unaudited) | Consolidated<br>(Unaudited)<br>(Restated) | Company<br>(Unaudited)<br>(Restated) |
| 5. Other comprehensive income, net of tax  | (393,083)                           | (655)                  | (45,998)                                  | (3,288)                              |
| Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax            | (392,962)                           | (655)                  | (43,694)                                  | (3,288)                              |
| Other comprehensive income that cannot be reclassified to profit and loss in subsequent accounting periods |                                     |                        |   |                                      |
| Change in net assets (net liabilities) arising from the re-measurement of defined benefit plans            | —                                   | —                      | —   | —                                    |
|  | —                                   | —                      | —   | —                                    |
| Other comprehensive income that will be reclassified to profit and loss in subsequent accounting periods   |                                     |                        |   |                                      |
| Changes in the fair value of available-for-sale financial assets   | —                                   | —                      | (1,485)                                   | —                                    |
| Effective portion of hedging instruments   | —                                   | —                      | (3,999)                                   | (1,833)                              |
| Exchange differences on translation of foreign operations  | (392,962)                           | (655)                  | (38,210)                                  | (1,455)                              |
|  | (392,962)                           | (655)                  | (43,694)                                  | (3,288)                              |
| Other comprehensive income attributable to non-controlling interests, net of tax                           | (121)                               | —                      | (2,304)                                   | —                                    |
| 6. Total comprehensive income  | <u>1,392,012</u>                    | <u>1,131,454</u>       | <u>1,271,455</u>                          | <u>872,800</u>                       |
| Attributable to holders of ordinary shares of the parent   | 1,294,058                           | 1,020,239              | 1,169,913                                 | 747,818                              |
| Attributable to holders of perpetual capital instruments   | 111,215                             | 111,215                | 124,982                                   | 124,982                              |
| Attributable to non-controlling interests  | (13,261)                            | —                      | (23,440)                                  | —                                    |
| 7. Earnings per share  |                                     |                        |   |                                      |
| (1) Basic earnings per share   | RMB0.40                             |                        | RMB0.29                                   |                                      |
| (2) Diluted earnings per share   | RMB0.40                             |                        | RMB0.29                                   |                                      |

## CASH FLOW STATEMENT

*RMB in thousands*

| Item  | Three months ended<br>31 March 2018 |                        | Three months ended<br>31 March 2017 |                        |
|---|-------------------------------------|------------------------|-------------------------------------|------------------------|
|   | Consolidated<br>(Unaudited)         | Company<br>(Unaudited) | Consolidated<br>(Unaudited)         | Company<br>(Unaudited) |
| <b>1. Cash flows from operating activities</b>  |                                     |                        |                                     |                        |
| Cash received from sale of goods or rendering of services   | 23,705,198                          | 24,644,155             | 26,935,766                          | 26,838,631             |
| Refunds of taxes  | 1,366,848                           | 928,102                | 1,424,996                           | 595,049                |
| Cash received relating to other operating activities  | 1,186,550                           | 484,225                | 460,103                             | 269,978                |
| <b>Sub-total of cash inflows</b>  | <b>26,258,596</b>                   | <b>26,056,482</b>      | <b>28,820,865</b>                   | <b>27,703,658</b>      |
| Cash paid for goods and services  | 17,804,153                          | 25,513,429             | 21,511,467                          | 26,934,700             |
| Cash paid to and on behalf of employees   | 3,903,033                           | 1,375,985              | 3,784,224                           | 1,233,203              |
| Cash paid for various types of taxes  | 2,058,966                           | 451,355                | 1,923,441                           | 125,087                |
| Cash paid relating to other operating activities  | 2,663,593                           | 1,025,113              | 2,572,898                           | 1,057,303              |
| <b>Sub-total of cash outflows</b>   | <b>26,429,745</b>                   | <b>28,365,882</b>      | <b>29,792,030</b>                   | <b>29,350,293</b>      |
| <b>Net cash flows from operating activities</b>   | <b>(171,149)</b>                    | <b>(2,309,400)</b>     | <b>(971,165)</b>                    | <b>(1,646,635)</b>     |
| <b>2. Cash flows from investing activities</b>  |                                     |                        |                                     |                        |
| Cash received from sale of investments  | 986,652                             | —                      | 110,511                             | —                      |
| Cash received from return on investment   | 108,045                             | 33,882                 | 37,488                              | 20,453                 |
| Net cash received from the disposal of fixed assets, intangible assets and other long-term assets | 10,170                              | 9,659                  | 14,810                              | 14,353                 |
| Net cash received from the disposal of subsidiaries and other operating units                     | —                                   | —                      | —                                   | 232,400                |
| <b>Sub-total of cash inflows</b>  | <b>1,104,867</b>                    | <b>43,541</b>          | <b>162,809</b>                      | <b>267,206</b>         |
| Cash paid for acquisition of fixed assets, intangible assets and other long-term assets           | 1,007,005                           | 381,113                | 553,566                             | 55,531                 |
| Cash paid for acquisition of investments  | 680,680                             | 141,209                | 508,689                             | 290,316                |
| <b>Sub-total of cash outflows</b>   | <b>1,687,685</b>                    | <b>522,322</b>         | <b>1,062,255</b>                    | <b>345,847</b>         |
| <b>Net cash flows from investing activities</b>   | <b>(582,818)</b>                    | <b>(478,781)</b>       | <b>(899,446)</b>                    | <b>(78,641)</b>        |

*RMB in thousands*

| Item  | Three months ended<br>31 March 2018 |                        | Three months ended<br>31 March 2017 |                        |
|---|-------------------------------------|------------------------|-------------------------------------|------------------------|
|   | Consolidated<br>(Unaudited)         | Company<br>(Unaudited) | Consolidated<br>(Unaudited)         | Company<br>(Unaudited) |
| <b>3. Cash flows from financing activities</b>  |                                     |                        |                                     |                        |
| Cash received from investments  | 180,600                             | —                      | 13,918                              | 13,918                 |
| Including: Capital injection into subsidiaries by minority shareholders                   | 180,600                             | —                      | —                                   | —                      |
| Cash received from borrowings   | <u>6,888,770</u>                    | <u>3,988,863</u>       | <u>9,486,670</u>                    | <u>5,004,846</u>       |
| <b>Sub-total of cash inflows</b>  | <u>7,069,370</u>                    | <u>3,988,863</u>       | <u>9,500,588</u>                    | <u>5,018,764</u>       |
| Cash repayment of borrowings  | 10,380,471                          | 4,023,215              | 9,954,734                           | 5,306,429              |
| Cash paid for perpetual capital instruments   | 1,500,000                           | 1,500,000              | —                                   | —                      |
| Cash payments for distribution of dividends or for interest expenses                      | 692,535                             | 549,580                | 811,986                             | 581,060                |
| Including: Distribution of dividends and profits by subsidiaries to minority shareholders | 33,422                              | —                      | 57,331                              | —                      |
| <b>Sub-total of cash outflows</b>   | <u>12,573,006</u>                   | <u>6,072,795</u>       | <u>10,766,720</u>                   | <u>5,887,489</u>       |
| <b>Net cash flows from financing activities</b>   | <u>(5,503,636)</u>                  | <u>(2,083,932)</u>     | <u>(1,266,132)</u>                  | <u>(868,725)</u>       |
| <b>4. Effect of changes in foreign exchange rate on cash and cash equivalents</b>         | <u>(185,783)</u>                    | <u>(137,766)</u>       | <u>36,157</u>                       | <u>(10,486)</u>        |
| <b>5. Net increase in cash and cash equivalents</b>                                       | <u>(6,443,386)</u>                  | <u>(5,009,879)</u>     | <u>(3,100,586)</u>                  | <u>(2,604,487)</u>     |
| Add: cash and cash equivalents at the beginning of the period                             | <u>30,109,268</u>                   | <u>17,006,734</u>      | <u>30,049,791</u>                   | <u>15,752,732</u>      |
| <b>6. Net balance of cash and cash equivalents at the end of the period</b>               | <u>23,665,882</u>                   | <u>11,996,855</u>      | <u>26,949,205</u>                   | <u>13,148,245</u>      |

By Order of the Board  
**Yin Yimin**  
*Chairman*

Shenzhen, the PRC  
27 April 2018

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