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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 (UPDATED VERSION)

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 Reference is made to the “INSIDE INFORMATION ANNOUNCEMENT AND CONTINUED SUSPENSION OF TRADING”, “2018 FIRST QUARTERLY REPORT”, “INSIDE INFORMATION ANNOUNCEMENT”, “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” and “INSIDE INFORMATION ANNOUNCEMENT” published by ZTE Corporation (“ZTE” or the “Company”) on 20 April 2018, 27 April 2018, 9 May 2018, 12 June 2018 and 15 July 2018, respectively, the Company prepares and discloses the updated 2018 First Quarterly Report.
- 1.2 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of the Company confirm that there are no false information and misleading statements in this quarterly report nor any material omissions therefrom, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of its contents.
- 1.3 There are no Directors, Supervisors and senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of this quarterly report.

- 1.4 This quarterly report has been considered and approved at the Thirty-fourth Meeting of the Seventh Session of the Board of Directors of the Company.
- 1.5 The financial statements contained in this quarterly report are unaudited. The financial information contained in this quarterly report has been prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”).
- 1.6 Mr. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial statements contained in this quarterly report.
- 1.7 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 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 on Changes in Accounting Policies” published by the Company on 27 April 2018.

2.1.2 Major Accounting Data and Financial Indicators of the Group

Item	As at the end of the reporting period (31 March 2018)	As at the end of last year (31 December 2017)	Change as at the end of the reporting period compared with the end of last year
Total assets (<i>RMB in thousands</i>)	137,876,425	143,962,215	(4.23%)
Owners' equity attributable to holders of ordinary shares of the listed company (<i>RMB in thousands</i>)	24,864,603	31,646,875	(21.43%)
Total share capital (<i>thousand shares</i>)	4,192,672	4,192,672	—
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	5.93	7.55	(21.46%)

Item	The reporting period (Three months ended 31 March 2018)	Same period last year (Three months ended 31 March 2017)	Change compared with the same period last year
Operating revenue (RMB in thousands)	27,526,342	25,744,612	6.92%
Net profit attributable to holders of ordinary shares of the listed company (RMB in thousands)	(5,407,237)	1,213,607	(545.55%)
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company (RMB in thousands)	(28,146)	1,069,337	(102.63%)
Net cash flows from operating activities (RMB in thousands)	(171,149)	(971,165)	82.38%
Net cash flows from operating activities per share (RMB/share)	(0.04)	(0.23)	82.61%
Basic earnings per share (RMB/share) <i>Note 1</i>	(1.29)	0.29	(544.83%)
Diluted earnings per share (RMB/share) <i>Note 2</i>	(1.29)	0.29	(544.83%)
Weighted average return on net assets (%)	(19.14%)	4.50%	Decreased by 23.64 percentage point
Weighted average return on net assets after extraordinary items (%)	(0.10%)	3.96%	Decreased by 4.06 percentage 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 0 potentially dilutive ordinary share 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

Extraordinary item	Amount from the beginning of the year to the end of the reporting period
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	6,724,535
Less: Effect of income tax	(949,842)
Less: Effect of non-controlling interests (after tax)	<u>(3,350)</u>
Total	<u><u>(5,379,091)</u></u>

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 HKFRSs.

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”) ^{Note 1}	State-owned corporation	30.34%	1,271,868,333	—	Nil
2. HKSCC Nominees Limited ^{Note 2}	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 ^{Note 3}	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 —Dividend-Personal Dividend —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 Telecom 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 2018	31 December 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	3,761,841	9,012,909	(58.26%)	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
Deferred tax assets	2,315,990	1,464,250	58.17%	Attributable mainly to the recognize of deferred tax assets in respect of deductible losses by the Company
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

Item	31 March 2018	31 December 2017	Change	Analysis of reasons for changes
Other payables	14,389,117	7,070,099	103.52%	Attributable mainly to the provision for USD1 billion penalty as referred in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018
Deferred income	1,052,472	454,891	131.37%	Attributable mainly to the increase in government grants received for the reporting period
Provisions	1,258,142	533,126	135.99%	Attributable mainly to the advanced provision for losses resulting from the suspension of the major operating activities of the Company as referred in “INSIDE INFORMATION ANNOUNCEMENT” published by the Company on 9 May 2018
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)

Item	Three months ended 31 March 2018	Three months ended 31 March 2017	Change	Analysis of reasons for changes
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
Impairment losses	998,839	509,189	96.16%	Attributable mainly to the increase in the provision for inventory impairment for the reporting period
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-operating expenses	6,731,649	38,691	17,298.49%	Attributable mainly to the provision for USD1 billion penalty as referred in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018
Income tax	(240,670)	414,485	(158.06%)	Attributable mainly to the recognize of deferred tax assets in respect of deductible losses by the Company
Non-controlling interests	(13,140)	(21,136)	37.83%	Attributable mainly to the decrease in losses of subsidiaries for the reporting period

Item	Three months ended 31 March 2018	Three months ended 31 March 2017	Change	Analysis of reasons for changes
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)

Item	Three months ended 31 March 2018	Three months ended 31 March 2017	Change	Analysis of reasons for changes
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 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 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 2017 Annual General Meeting of the Company and ending on the date of the Company's 2018 Annual General Meeting. After the general meeting of the Company has considered and approved provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries, the Board of Directors of the Company shall be responsible for the approval of specific guarantees within the limit, and shall fulfill obligations in information disclosure.

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

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

3.2.2.6 Changes In Directors, Supervisors and Senior Management of the Company

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

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

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

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

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

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

3.2.2.7 Information on the “Share Option Incentive Scheme” of the Company

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

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

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

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

3.2.2.8 Material litigation and arbitration during the reporting period

During the reporting period, the Group did not incur any material litigation or arbitration. Other litigation and arbitration proceedings occurring after the reporting period are set out as follows:

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

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

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

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

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

7.2.2.10 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
Zhongxingxin 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 2017-1-20	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201703 "Announcement on Execution of Supplemental Agreement for the 2016-2018 Purchase Framework Agreement with Zhongxingxin, a Connected Party"
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 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries*	A company for which a natural person related to the Company acted as chairman and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		RMB74/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB53/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB116/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB53/sq.m./month for hotel and related equipment and facilities in Xi'an.	1,926.05	24.34%	No	Tele-transfer	N/A	2016-4-29	Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
深圳市航天順華科技發展有限公司 (航天順華)	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 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total						23,223.29	N/A	—	—	—	—	—

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products, services. 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 the year to the end of the next reporting period as compared to the same period last year.

√ Applicable □ N/A

Preliminary announcement of results	Loss From the beginning of the year to the end of the next reporting period (January to June 2018)	Same period of last year (January to June 2017)	Increase/decrease (%)
Net profit attributable to holders of ordinary shares of the listed company (RMB'000)	Loss: 7,000,000–9,000,000	Profit: 2,292,867	Decreased by 405.29%–492.52%
Basic earnings per share (RMB/share)	Loss: 1.67–2.15	Profit: 0.55	Decreased by 403.64%–490.91%
Notes on preliminary announcements of results	<p>The substantial decrease in results for January to June 2018 compared to the same period last year was mainly attributable to:</p> <ol style="list-style-type: none"> 1. The operating losses and provision for losses resulting from the suspension of the major operating activities of the Company as referred in “INSIDE INFORMATION ANNOUNCEMENT” published by the Company on 9 May 2018; 2. The USD1 billion penalty mentioned in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published by the Company on 12 June 2018. 		

Note: The preliminary announcement of results set out above has not been pre-audited by a certified public accountant. For details, please refer to the “Preliminary Results Announcement for the Six Months ended 30 June 2018” published by the Company on 13 July 2018.

3.5 Other material matters requiring disclosure

3.5.1 Investment in securities

3.5.1.1 Investment in securities as at the end of the reporting period

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gains/loss arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed during the period	Gain/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	300438	Great Power ^{Note 1}	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 ^{Note 1}	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 ^{Note 1}	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 ^{Note 1}	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 ^{Note 1}	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 ^{Note 1}	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 ^{Note 2}	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 ^{Note 2}	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	Enablence Technologies ^{Note 3}	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			—	—	—	—	—	—	—	—	—	—	—
Total			18,992.19	—	171,184.61	(1,144.88)	—	—	21,800.20	(459.44)	150,119.02	—	—

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 Jiaxing Xinghe Equity Investment Partnership (Limited Partnership) (“Jiaxing 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 Jiaxing Fund, which was a partnership reported in the consolidated financial statements of the Company. As at the end of the reporting period, Jiaxing Fund held 6,887,600 shares in Lianchuang Electronic, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 1.23% of the total share capital of Lianchuang Electronic.

H. Shareholdings in Union Optech

As at the end of the reporting period, Jiaxing 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
Investors						
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 ^{Note 1}	Initial investment amount in the derivative investment		Opening balance of investment amount ^{Note 2}	Purchase during the period	Disposal during the period	Impairment provision (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets ^{Note 3} 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
Total				—	—	—	924,780.69	675,776.83	335,774.35	—	1,264,783.17	39.42%	24,645.38
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"> 1. 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; 2. 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; 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks; 5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, review procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled. 									
Market prices or fair-value change of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives				The Company has 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 (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (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	26,917,759	15,683,416	26,234,139	16,484,640
Amount due from customers for contract works	3,761,841	2,064,252	9,012,909	4,291,058
Other current assets	8,211,292	3,821,996	7,758,594	4,313,873
Total current assets	100,795,050	96,576,008	108,230,589	98,977,166
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	2,315,990	1,336,187	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
Total non-current assets	37,081,375	36,760,334	35,731,626	35,457,964
Total assets	137,876,425	133,336,342	143,962,215	134,435,130

Legal Representative:
Li Zixue

Chief Financial Officer:
Li Ying

Head of Finance Division:
Xu Jianrui

RMB in thousands

Liabilities	2018.3.31		2017.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
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	7,500,600	4,163,021	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	14,389,117	26,800,692	7,070,099	20,730,075
Deferred income	1,052,472	591,302	454,891	329,251
Provisions	1,258,142	1,020,450	533,126	301,785
Long-term loans due within one year	4,021,633	74,000	3,816,844	74,000
Total current liabilities	89,952,893	103,964,651	87,594,947	97,998,789
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
Total non-current liabilities	11,017,932	8,134,098	10,987,121	8,016,447
Total liabilities	100,970,825	112,098,749	98,582,068	106,015,236

RMB in thousands

Shareholders' equity	2018.3.31		2017.12.31	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Audited)	Company (Audited)
Shareholders' equity:				
Share capital	4,192,672	4,192,672	4,192,672	4,192,672
Capital reserves	11,313,503	9,075,745	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	8,707,859	(1,778,979)	14,667,683	3,588,581
Total equity attributable to ordinary shareholders of the parent	24,864,603	13,739,001	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	—
Total shareholders' equity	36,905,600	21,237,593	45,380,147	28,419,894
Total liabilities and shareholders' equity	137,876,425	133,336,342	143,962,215	134,435,130

INCOME STATEMENT

RMB in thousands

Item	Three months ended 31 March 2018		Three months ended 31 March 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
1. Operating revenue	27,526,342	29,483,810	25,744,612	25,527,757
Less: Operating costs	19,816,145	23,694,139	17,384,211	21,195,626
Taxes and surcharges	235,689	68,697	230,073	72,679
Selling and distribution costs	2,515,748	1,418,513	2,767,742	1,549,575
Administrative expenses	653,009	423,232	701,954	407,976
Research and development costs	2,703,717	768,298	3,079,876	766,506
Finance costs	185,992	548,597	(15,686)	125,018
Impairment losses	998,839	962,549	509,189	421,895
Add: Gains/(Losses) from changes 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 and losses of associates and joint ventures	(133,016)	(119,939)	1,197	—
Other income	611,406	—	592,636	—
2. Operating profit	<u>1,139,704</u>	<u>1,544,262</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>6,731,649</u>	<u>6,716,296</u>	<u>38,691</u>	<u>7,830</u>
3. Total profit	<u>(5,549,832)</u>	<u>(5,144,571)</u>	<u>1,731,938</u>	<u>1,024,215</u>
Less: Income tax	<u>(240,670)</u>	<u>(519,050)</u>	<u>414,485</u>	<u>148,127</u>
4. Net profit	<u><u>(5,309,162)</u></u>	<u><u>(4,625,521)</u></u>	<u><u>1,317,453</u></u>	<u><u>876,088</u></u>

RMB in thousands

Item	Three months ended 31 March 2018		Three months ended 31 March 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
Attributable to holders of ordinary shares of the parent	(5,407,237)	(4,736,736)	1,213,607	751,106
Attributable to holders of perpetual capital instruments	111,215	111,215	124,982	124,982
Non-controlling interests	(13,140)	—	(21,136)	—
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>(5,702,245)</u>	<u>(4,626,176)</u>	<u>1,271,455</u>	<u>872,800</u>

RMB in thousands

Item	Three months ended 31 March 2018		Three months ended 31 March 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited) (Restated)	Company (Unaudited) (Restated)
Attributable to holders of ordinary shares of the parent	(5,800,199)	(4,737,391)	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	RMB(1.29)		RMB0.29	
(2) Diluted earnings per share	RMB(1.29)		RMB0.29	

CASH FLOW STATEMENT

RMB in thousands

Item	Three months ended 31 March 2018		Three months ended 31 March 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
1. Cash flows from operating activities				
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
Sub-total of cash inflows	26,258,596	26,056,482	28,820,865	27,703,658
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
Sub-total of cash outflows	26,429,745	28,365,882	29,792,030	29,350,293
Net cash flows from operating activities	(171,149)	(2,309,400)	(971,165)	(1,646,635)
2. Cash flows from investing activities				
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
Sub-total of cash inflows	1,104,867	43,541	162,809	267,206
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
Sub-total of cash outflows	1,687,685	522,322	1,062,255	345,847
Net cash flows from investing activities	(582,818)	(478,781)	(899,446)	(78,641)

RMB in thousands

Item	Three months ended 31 March 2018		Three months ended 31 March 2017	
	Consolidated (Unaudited)	Company (Unaudited)	Consolidated (Unaudited)	Company (Unaudited)
3. Cash flows from financing activities				
Cash received from investments	180,600	—	13,918	13,918
Including: Capital injection into subsidiaries by minority shareholders	180,600	—	—	—
Cash received from borrowings	6,888,770	3,988,863	9,486,670	5,004,846
Sub-total of cash inflows	7,069,370	3,988,863	9,500,588	5,018,764
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	—
Sub-total of cash outflows	12,573,006	6,072,795	10,766,720	5,887,489
Net cash flows from financing activities	(5,503,636)	(2,083,932)	(1,266,132)	(868,725)
4. Effect of changes in foreign exchange rate on cash and cash equivalents	(185,783)	(137,766)	36,157	(10,486)
5. Net increase in cash and cash equivalents	(6,443,386)	(5,009,879)	(3,100,586)	(2,604,487)
Add: cash and cash equivalents at the beginning of the period	30,109,268	17,006,734	30,049,791	15,752,732
6. Net balance of cash and cash equivalents at the end of the period	23,665,882	11,996,855	26,949,205	13,148,245

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC

27 July 2018

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