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ZTE

ZTE CORPORATION
中興通訊股份有限公司

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

2017 INTERIM REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1. IMPORTANT

1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) confirm that the 2017 interim report (the “Interim Report”) does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents of the Interim Report.

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

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

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

1.4 The interim financial reports of ZTE and its subsidiaries (the “Group”) for the six months ended 30 June 2017 were unaudited.

1.5 Mr. Yin Yimin, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in the Interim Report.

1.6 No profit distribution will be implemented in respect of the interim period of 2017.

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated name of stock	ZTE
Stock code	000063 (A Shares) 763 (H Shares)
Place of listing	Shenzhen Stock Exchange The Stock Exchange of Hong Kong Limited
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People's Republic of China
Postal code	518057
Principal place of business in Hong Kong	36/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Website	http://www.zte.com.cn
E-mail	IR@zte.com.cn

2.2 Contact persons and correspondence

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

3. SUMMARY OF THE COMPANY'S BUSINESS

3.1 Principal businesses

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

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

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

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

3.2 The industry in which we operates

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

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

4. HIGHLIGHTS OF ACCOUNTING AND FINANCIAL INDICATORS

Statement on retrospective adjustments to or restatement of accounting data of the previous year by the Company as a result of changes in accounting policies or for the rectification of accounting errors

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

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

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

Hong Kong Financial Reporting Standards (“HKFRSs”)

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

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

Unit: RMB in thousands

Item	End of the reporting period (30 June 2017)	End of last year (31 December 2016)	Change as at the end of the reporting period compared with the end of last year
Total assets	144,670,317	141,640,910	2.14%
Owners’ equity attributable to holders of ordinary shares of the listed company	28,989,974	26,401,151	9.81%
Share capital (<i>thousand shares</i>) ^{Note 1}	4,190,015	4,184,628	0.13%
Net assets per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>)	6.92	6.31	9.67%
Gearing ratio (%)	70.15%	71.13%	Decreased by 0.98 percentage point

Unit: RMB in thousands

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

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

Note 2: Basic earnings per share and basic earnings per share after extraordinary items for the reporting period and for the same period last year have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods;

Note 3: As the 2013 share options granted by the Company have given rise to 1,009,000 and 13,420,000 potentially dilutive ordinary shares, respectively, for the reporting period and the same period last year, dilutive earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

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

Unit: RMB in thousands

Extraordinary item	Amount
Non-operating income and others	499,648
Gains/(Losses) from fair value change	(58,055)
Investment income	46,421
Less: Losses/(Gains) on disposal of non-current assets	26,356
Less: Other non-operating expenses	52,268
Less: Effect of income tax	61,409
Less: Effect of non-controlling interests (after tax)	6,622
Total	341,359

4.3 Major financial indicators prepared in accordance with HKFRSs

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

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

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

4.4 The amounts of net profit and shareholders' equity of the Group for the six months ended and as at 30 June 2017 calculated in accordance with PRC ASBEs are fully consistent with those calculated under HKFRSs.

5. SHAREHOLDINGS OF THE SHAREHOLDERS

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

Total number of shareholders

As at 30 June 2017

There were 160,535 shareholders (comprising 160,171 holders of A shares and 364 holders of H shares)

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

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen
1. Shenzhen Zhongxingxin Telecommunications Equipment Company Limited (“Zhongxingxin”)	State-owned corporation	30.35%	1,271,868,333	+2,038,000	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.00%	754,017,396	+15,678	—	Unknown
3. China Securities Finance Corporation Limited	General domestic corporation	2.30%	96,291,741	-9,655,779	—	Nil
4. Sun Huigang (孫惠剛)	Domestic natural person	1.57%	65,798,298	+65,798,298	—	Nil
5. Central Huijin Asset Management Ltd.	State-own corporation	1.25%	52,519,600	—	—	Nil
6. Hunan Nantian (Group) Co., Ltd.	State-own corporation	1.02%	42,657,008	—	—	Nil
7. NSSF Portfolio #401	Others	0.62%	26,000,057	+5,000,106	—	Nil
8. Bank of China Limited-China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	Others	0.52%	21,965,903	—	—	Nil
9. China Mobile No. 7 Research Institute	State-own corporation	0.46%	19,073,940	—	—	Nil
10. Zhong Ou AMC — Agricultural Bank of China — Zhong Ou Zhong Zheng Financial Asset Management Plan	Others	0.38%	15,849,000	—	—	Nil

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

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

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

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

Sun Huigang (孫惠剛), the 4th ranking shareholder among the top 10 shareholders, held 25,798,298 A shares in the Company through a common securities account and 40,000,000 A shares in the Company through a credit securities account.

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

Note 2: Shareholders holding 5% or above of the Company's shares — Zhongxingxin, controlling shareholder of the Company, acquired 2,038,000 H shares in the Company through the Shenzhen-Hong Kong mutual market access programme during the reporting period. As at the end of the reporting period, Zhongxingxin was interested in 1,271,868,333 shares in the Company in aggregate, accounting for 30.35% of the Company's total share capital. Changes in the shareholdings of Zhongxingxin during the reporting period are set out as follows.

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

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

Yes No

The Company had no preferential shares.

5.2 Changes in controlling shareholder or de facto controller of the Company

Applicable N/A

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

5.3 Purchase, sale and redemption of securities

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

6. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

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

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

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

- Note 2:* Mr. Zhao Xianming tendered his resignation from the position of Chairman of the Company in March 2017. At the Fourteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 14 March 2017, Mr. Yin Yimin was elected Chairman of the Company.
- Note 3:* At the 2016 Annual General Meeting of the Company held on 20 June 2017, Mr. Zhai Weidong was elected as a non-independent and non-executive director of the Seventh Session of the Board of Directors of the Company.
- Note 4:* Mr. Shi Lirong tendered his resignation from the positions of Non-executive Director and member of the Remuneration and Evaluation Committee and the Nomination Committee of the Company in February 2017.
- Note 5:* Mr. Zhou Huidong resigned as Staff Representative Supervisor of the Company in August 2017.
- Note 6:* At the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, it was approved that Mr. Xiong Hui be appointed Executive Vice President of the Company and the appointment of each of Mr. Fan Qingfeng and Mr. Chen Jianzhou as Executive Vice President be discontinued.
- Note 7:* Mr. Zeng Xuezhong resigned the position of Executive Vice President in April 2017.
- Note 8:* As at the end of the reporting period, Mr. Wei Zaisheng held 30,000 H shares of the Company. Save as that, no other Directors, Supervisors or senior management of the Company held any H shares in the issued share capital of the Company.
- Note 9:* Reduction or increase of shareholdings in accordance with “Rules Governing the Holding of Shares in the Company by Directors, Supervisors and Senior Management of Listed Companies and Changes Thereof”, including the exercise of share options of A shares.

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

For details of the share options of A shares of the Company held by Directors and senior management of the Company during the reporting period and details of share options granted after the close of the reporting period, please refer to the section headed “Material Matters — (VII) Information on the Share Option Incentive Scheme of the Company” in the Interim Report.

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

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 30 June 2017 are set out in the section of this chapter headed “6.1 Changes in the holdings of shares and share options in the Company by the Company’s Directors, Supervisors and senior management”.

Save as disclosed above, as at 30 June 2017, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 30 June 2017, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

7. REPORT OF THE BOARD OF DIRECTORS

7.1 Review of business in the first half of 2017

(1) Overview of the domestic telecommunications industry for the first half of 2017

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

(2) Overview of the global telecommunications industry for the first half of 2017

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

(3) Operating results of the Group for the first half of 2017

For the first half of 2017, the Group reported operating revenue of RMB54.011 billion, representing year-on-year growth of 13.09%. In connection with carriers' networks, growth was reported in operating revenue and gross profit for wireless communications as well as fixed-line and bearer systems, as domestic carriers continued to invest in 4G network transmission and access systems. In the consumer business, growth was also reported in operating revenue and gross profit generated by handset products in line with the development of overseas markets.

For the six months ended 30 June 2017, the Group's net profit attributable to holders of ordinary shares of the listed company amounted to RMB2.293 billion, representing year-on-year growth of 29.80%. Basic earnings per share amounted to RMB0.55.

A. By market

The domestic market

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

The international market

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

B. By business segment

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

Carriers' networks

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

In connection with wireline and optical communications products, the Group maintained its leading position in the market for optical access products as it continued to lead the way in innovation in this category. The Group enhanced the marketing of its solutions for bearer products by capitalising on opportunities relating to 4G/Pre-5G/5G bearers, big video business bearer, data centre virtualisation bearer, OTN network upgrade and conversion, and bearer for

IP and optical integration. Leveraging our overall superiority in products, we have established a reasonable presence in the global markets. Meanwhile, the Group continued to strengthen its product competitiveness in SDN/NFV, 5G bearer, high-end router and switch in full support of the changing profile of its bearer products.

Government and corporate business

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

Consumer business

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

7.2 Discussion and analysis of operations under PRC ASBEs

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

7.2.1 Breakdown of indicators for the reporting period by industry, business and region segments and comparison with the same period last year

Unit: RMB in thousands

Revenue mix	Operating revenue	As a percentage of operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
I. By industry							
Manufacturing of communication equipment	54,010,596	100%	36,447,741	32.52%	13.09%	14.53%	(0.84)
Total	54,010,596	100%	36,447,741	32.52%	13.09%	14.53%	(0.84)
II. By business							
Carriers' networks	32,351,248	59.90%	18,832,801	41.79%	12.58%	11.81%	0.41
Government and corporate business	3,765,334	6.97%	2,444,906	35.07%	(18.27%)	(10.90%)	(5.37)
Consumer business	17,894,014	33.13%	15,170,034	15.22%	24.13%	23.97%	0.11
Total	54,010,596	100.00%	36,447,741	32.52%	13.09%	14.53%	(0.84)
III. By region							
The PRC	32,318,969	59.84%	20,058,985	37.93%	16.24%	13.77%	1.35
Asia (excluding the PRC)	8,051,823	14.91%	5,430,707	32.55%	11.29%	(0.55%)	8.03
Africa	1,634,316	3.03%	1,377,147	15.74%	(47.28%)	(16.66%)	(30.96)
Europe, Americas and Oceania	12,005,488	22.22%	9,580,902	20.20%	24.81%	35.33%	(6.20)
Total	54,010,596	100.00%	36,447,741	32.52%	13.09%	14.53%	(0.84)

(1) Analysis of change in revenue

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

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

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

Unit: RMB in thousands

Six months ended 30 June 2017			Six months ended 30 June 2016 ^{Note}			Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin			
54,010,596	36,447,741	32.52%	47,410,242	31,483,198	33.59%	13.92%	15.77%	(1.07)

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

The Company completed the disposal of 85% equity interests in ZTE Supply Chain Co., Ltd. (“ZTE Supply Chain”) in April 2017 and ZTE Supply Chain had been excluded from the consolidated statements of the Group as from May 2017. Operating revenue and operating cost of ZTE Supply Chain included in the consolidated financial statements for the period from May to June 2016 amounted to RMB347,060,000 and RMB341,189,000, respectively. Excluding operating revenue and operating costs of ZTE Supply Chain for the period from May to June 2016, the Group’s operating revenue and operating costs for the first six months of 2017 would have increased by 13.92% and 15.77%, respectively, over the same period last year, while gross profit margin would have been 1.07 percentage points lower as compared to the same period last year.

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

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

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

100.42%, which was mainly attributable to the modified structure of presentation for government grants in line with the revised accounting standard relating to government grants for the period.

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

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

7.3 Management discussion and analysis prepared in accordance with HKFRSs

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

Revenue

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

Unit: RMB in millions

Business segment	For the six months ended 30 June 2017		For the six months ended 30 June 2016	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	32,351.3	59.9%	28,735.0	60.2%
Government and corporate business	3,765.3	7.0%	4,607.3	9.6%
Consumer business	17,894.0	33.1%	14,415.0	30.2%
Total	54,010.6	100.0%	47,757.3	100.0%

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

Unit: RMB in millions

Region	For the six months ended 30 June 2017		For the six months ended 30 June 2016	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	32,319.0	59.9%	27,803.0	58.2%
Asia (excluding the PRC)	8,051.8	14.9%	7,234.9	15.2%
Africa	1,634.3	3.0%	3,100.1	6.5%
Europe, the Americas and Oceania	12,005.5	22.2%	9,619.3	20.1%
Total	54,010.6	100.0%	47,757.3	100.0%

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

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

Cost of Sales and Gross Profit

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

Other Income and Gains

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

Research and Development Costs

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

Selling and Distribution Expenses

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

Administrative Expenses

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

Other Expenses

Other expenses comprise mainly asset impairment losses, exchange losses and non-operating expenses. Other expenses of the Group for the first six months of 2017 increased by 5.7% to RMB964.2 million, as compared to RMB912.3 million for the first six months of 2016. The

increase was mainly attributable to the Group's exchange losses for the period included in "Other Expenses" versus exchange gains for the same period last year included in "Other Income and Gains" arising from exchange rate volatility.

Profit from Operating Activities

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

Finance Costs

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

Income Tax Expense

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

Profit Attributable to Non-Controlling Interests

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

Other Comprehensive Income

Other comprehensive income of the Group for the first six months of 2017 amounted to RMB221.1 million, compared to other comprehensive loss amounted to RMB673.7 million for the first six months of 2016, which was mainly attributable to gains on translation of the Group's statements denominated in foreign currencies for the period owing to exchange rate volatility versus translation losses for the same period last year.

Debt-Equity Ratio and the Basis of Calculation

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

The Group's debt-equity ratio for the first six months of 2017 was 41.2%, increasing by 2.6 percentage points as compared to 38.6% for 2016. The increase was mainly attributable to the increase in the Group's interest-bearing bank loans during the period.

Cash Flow Data

Unit: RMB in millions

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

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

Operating Activities

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

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

Investing Activities

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

Financing Activities

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

Indebtedness

Unit: RMB in millions

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

Unit: RMB in millions

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

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. The Group's short-term RMB bank loan with an amount of RMB8,340.4 million and long-term bank loan with an amount of RMB922.8 million were subject to fixed interest rates, while short-term USD bank loans and short-term EUR bank loans subject to fixed interest rates amounted to approximately RMB1,044.5 million. The remaining USD and EUR loans were subject to floating interest rates. The Group's bank loans were mainly denominated in USD and EUR, apart from RMB loans.

The balance of the Group's bank loans as at 30 June 2017 increased by RMB1,628.6 million versus 31 December 2016. The new loans were mainly applied as additional working capital.

Contractual obligations

Unit: RMB in millions

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

Capital Commitments

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

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

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

Details of acquisitions and disposals of subsidiaries, associates and joint ventures conducted by the Company in the first half of 2017 and in previous periods are set out in the section headed “Material Matters — (VI) Asset Transactions” in the Interim Report.

Disclosure required under the Hong Kong Listing Rules

In accordance with paragraph 40 (2) of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company from the information disclosed in the 2016 Annual Report of the Company in relation to matters set out in paragraph 32 of Appendix 16.

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

Applicable N/A

7.5 Business outlook for the second half of 2017 and risk exposures

7.5.1 Business outlook for the second half of 2017

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

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

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

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

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

7.5.2 Risk Exposures

(1) Country risks

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

(2) Risk associated with intellectual property rights

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

(3) Exchange rate risks

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates. The Group seeks to mitigate the impact of foreign exchange risks on its operations on an ongoing basis through the use of measures such as the business strategic guidance, internal settlement management, adjustment of financing structure, internal exchange settlement and derivative financial instruments based on the principle of prudent exposure management, aiming to retain favourable exposures as appropriate, strictly control unfavourable exposures subject to apparent adverse developments or which are without value protection features. The Group will also actively explore foreign exchange sources in countries practicing exchange control, strengthen liquidity management and facilitate RMB pricing and settlement for overseas projects to lower its exchange rate risks in the long run.

(4) Interest rate risk

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

(5) Credit risk

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

8. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

8.1 Compliance of the Corporate Governance Code

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

Code Provision A.2.1

Code Provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

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

In order to enhance corporate governance and separate the roles of the chairman and the chief executive officer, Mr. Zhao Xianming has tendered his resignation from the office of Chairman of the Seventh Session of the Board of Director. Following his resignation from the office of Chairman, Mr. Zhao Xianming will continue to serve as Executive Director and President of the Company. At the Fourteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 14 March 2017, Mr. Yin Yimin was elected Chairman of the Seventh Session of the Board of Directors for a term commencing on 14 March 2017 and ending on the date on which the Seventh Session of the Board of Directors is concluded (namely, 29 March 2019). The Company has fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules since 14 March 2017.

8.2 Securities transactions by Directors and Supervisors

The Directors and Supervisors of the Company confirmed that the Company had adopted the Model Code as set out in Appendix 10 to the Hong Kong Listing Rules. Having made due enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements in the Model Code during the reporting period.

9. FINANCIAL REPORTS

9.1 The Audit Committee

The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also discussed and reviewed the Interim Report, including the financial statements of the Group for the six months ended 30 June 2017.

9.2 Audit opinion

√ Unaudited Audited

9.3 Comparative financial statements

9.3.1 Financial statements prepared in accordance with PRC ASBEs (Unaudited)

(Please see Appendix I)

9.3.2 Financial statements prepared in accordance with HKAS 34 (Unaudited) and notes thereto

(Please see Appendix II)

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

Applicable N/A

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

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

Applicable N/A

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

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

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

By Order of the Board

Yin Yimin

Chairman

Shenzhen, the PRC

24 August 2017

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

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

CONSOLIDATED BALANCE SHEET

Currency: RMB'000

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

Currency: RMB'000

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

CONSOLIDATED BALANCE SHEET (CONTINUED)*Currency: RMB'000*

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

Yin Yimin*Legal representative***Wei Zaisheng***Chief Financial Officer***Xu Jianrui***Head of Finance Division*

CONSOLIDATED INCOME STATEMENT

Currency: RMB'000

	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
Operating revenue	54,010,596	47,757,302
Less: Operating costs	36,447,741	31,824,387
Taxes and surcharges	533,300	371,198
Selling and distribution costs	5,676,552	5,978,607
Administrative expenses	1,427,749	1,393,985
Research and development costs	6,676,679	7,059,164
Finance expenses	289,157	(95,058)
Impairment losses	1,025,756	1,051,218
Add: Losses from changes in fair values	(58,055)	(36,350)
Investment income	51,996	357,965
Including: Share of losses of associates and joint ventures	(3,507)	(19,517)
Other income	1,369,018	—
Operating profit	3,296,621	495,416
Add: Non-operating income	69,403	2,263,730
Less: Non-operating expenses	78,624	51,365
Including: losses on disposal of non-current assets	26,356	4,659
Total profit	3,287,400	2,707,781
Less: Income tax	744,184	519,427
Net profit	2,543,216	2,188,354
Attributable to:		
Holders of ordinary shares of the parent	2,292,867	1,766,397
Holders of perpetual capital instruments	249,963	249,963
Non-controlling interests	386	171,994

CONSOLIDATED INCOME STATEMENT (CONTINUED)

Currency: RMB'000

	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
Other comprehensive income, net of tax	<u>221,114</u>	<u>(673,746)</u>
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	<u>236,867</u>	<u>(528,353)</u>
Other comprehensive income that will be reclassified to profit or loss in subsequent accounting periods		
Changes in the fair value of available-for-sale financial assets	(7,781)	(55,474)
Effective portion of hedging instruments	(10,655)	(59,507)
Exchange differences on translation of foreign operations	<u>255,303</u>	<u>(413,372)</u>
	<u>236,867</u>	<u>(528,353)</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>(15,753)</u>	<u>(145,393)</u>
Total comprehensive income	<u><u>2,764,330</u></u>	<u><u>1,514,608</u></u>
Attributable to:		
Holders of ordinary shares of the parent	<u><u>2,529,734</u></u>	<u><u>1,238,044</u></u>
Holders of perpetual capital instruments	<u><u>249,963</u></u>	<u><u>249,963</u></u>
Non-controlling interests	<u><u>(15,367)</u></u>	<u><u>26,601</u></u>
Earnings per share (RMB/share)		
Basic	<u><u>RMB0.55</u></u>	<u><u>RMB0.43</u></u>
Diluted	<u><u>RMB0.55</u></u>	<u><u>RMB0.42</u></u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Currency: RMB'000

Six months ended 30 June 2017 (unaudited)									
Equity attributable to holders of ordinary shares of the parent							Other equity instruments		
Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total		Including: Perpetual capital instruments	Non-controlling interests	Total shareholders' equity
I. Current period's opening balance	4,184,628	10,734,300	(822,724)	2,022,709	10,282,238	26,401,151	9,321,327	5,162,612	40,885,090
II. Changes during the period									
(I) Total comprehensive income	—	—	236,867	—	2,292,867	2,529,734	249,963	(15,367)	2,764,330
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	5,387	53,702	—	—	—	59,089	—	9,700	68,789
2. Capital reduction by shareholders	—	—	—	—	—	—	—	(97,646)	(97,646)
(III) Profit appropriation									
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(8,550)	(442,499)
III. Current period's closing balance	<u>4,190,015</u>	<u>10,788,002</u>	<u>(585,857)</u>	<u>2,022,709</u>	<u>12,575,105</u>	<u>28,989,974</u>	<u>9,137,341</u>	<u>5,050,749</u>	<u>43,178,064</u>

Currency: RMB'000

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

CONSOLIDATED CASH FLOW STATEMENT

Currency: RMB'000

	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	56,882,180	61,319,410
Refunds of taxes	3,001,619	4,590,398
Cash received relating to other operating activities	1,568,458	1,324,641
Sub-total of cash inflows	61,452,257	67,234,449
Cash paid for goods and services	41,012,409	46,951,860
Cash paid to and on behalf of employees	10,717,716	9,176,859
Cash paid for various types of taxes	3,902,844	4,282,243
Cash paid relating to other operating activities	10,025,840	4,468,556
Sub-total of cash outflows	65,658,809	64,879,518
Net cash flows from operating activities	(4,206,552)	2,354,931
II. Cash flows from investing activities		
Cash received from sale of investments	462,375	947,529
Cash received from return on investment	31,808	46,777
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	15,986	14,646
Net cash received from the disposal of subsidiaries and other operating units	—	54,542
Sub-total of cash inflows	510,169	1,063,494
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	1,956,715	1,596,103
Cash paid for acquisition of investments	916,581	373,273
Sub-total of cash outflows	2,873,296	1,969,376
Net cash flows from investing activities	(2,363,127)	(905,882)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

Currency: RMB'000

	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	68,789	1,789,105
Including: Capital injection into subsidiaries by minority shareholders	9,700	1,750,386
Cash received from borrowings	15,972,887	13,388,122
Sub-total of cash inflows	16,041,676	15,177,227
Cash repayment of borrowings	12,401,660	13,438,324
Cash payments for distribution of dividends and profits or for interest expenses	1,135,359	1,125,775
Including: Distribution of dividends and profits by subsidiaries to minority shareholders	57,671	25,613
Other cash paid relating to financing activities	—	412,620
Sub-total of cash outflows	13,537,019	14,976,719
Net cash flows from financing activities	2,504,657	200,508
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	(76,779)	(335,180)
V. Net (decrease)/increase in cash and cash equivalents	(4,141,801)	1,314,377
Add: cash and cash equivalents at the beginning of period	30,049,791	26,616,996
VI. Net balance of cash and cash equivalents at the end of period	25,907,990	27,931,373

BALANCE SHEET

Currency: RMB'000

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

BALANCE SHEET (CONTINUED)*Currency: RMB'000*

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

INCOME STATEMENT

Currency: RMB'000

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

STATEMENT OF CHANGES IN EQUITY

Currency: RMB'000

Six months ended 30 June 2017 (unaudited)								
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Other equity instruments Including: Perpetual capital instruments	Total shareholders' equity
I. Current period's opening balance	4,184,628	8,723,945	691,947	1,360,953	(3,053,766)	11,907,707	9,321,327	21,229,034
II. Changes during the period								
(I) Total comprehensive income	—	—	(217)	—	1,221,952	1,221,735	249,963	1,471,698
(II) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	5,387	53,702	—	—	—	59,089	—	59,089
(III) Profit appropriation								
1. Distribution to shareholders	—	—	—	—	—	—	(433,949)	(433,949)
III. Current period's closing balance	4,190,015	8,777,647	691,730	1,360,953	(1,831,814)	13,188,531	9,137,341	22,325,872

Currency: RMB'000

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

CASH FLOW STATEMENT

Currency: RMB'000

	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	55,190,277	53,714,208
Refunds of taxes	1,710,252	3,021,064
Cash received relating to other operating activities	978,445	768,904
Sub-total of cash inflows	57,878,974	57,504,176
Cash paid for goods and services	50,139,071	49,610,554
Cash paid to and on behalf of employees	3,851,574	3,118,996
Cash paid for various types of taxes	265,031	582,903
Cash paid relating to other operating activities	8,898,081	3,319,720
Sub-total of cash outflows	63,153,757	56,632,173
Net cash flows from operating activities	(5,274,783)	872,003
II. Cash flows from investing activities		
Cash received from sale of investments	19,800	266,934
Cash received from return on investment	124,481	39,049
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	148,928	5,190
Net cash received from the disposal of subsidiaries	236,650	850
Sub-total of cash inflows	529,859	312,023
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	1,173,198	703,848
Cash paid for acquisition of investments	1,074,871	1,032,645
Sub-total of cash outflows	2,248,069	1,736,493
Net cash flows from investing activities	(1,718,210)	(1,424,470)

CASH FLOW STATEMENT (CONTINUED)*Currency: RMB'000*

	Six months ended 30 June 2017 (unaudited)	Six months ended 30 June 2016 (unaudited)
III. Cash flows from financing activities		
Cash received from capital injection	59,089	38,719
Cash received from borrowings	<u>12,340,875</u>	<u>8,645,637</u>
Sub-total of cash inflows	<u>12,399,964</u>	<u>8,684,356</u>
Cash repayment of borrowings	7,872,829	10,839,961
Cash payments for distribution of dividends, profits and for interest expenses	<u>902,054</u>	<u>982,618</u>
Sub-total of cash outflows	<u>8,774,883</u>	<u>11,822,579</u>
Net cash flows from financing activities	<u>3,625,081</u>	<u>(3,138,223)</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>(55,776)</u>	<u>125,190</u>
V. Net decrease in cash and cash equivalents	(3,423,688)	(3,565,500)
Add: cash and cash equivalents at the beginning of period	<u>15,752,732</u>	<u>17,325,750</u>
VI. Net balance of cash and cash equivalents at the end of period	<u><u>12,329,044</u></u>	<u><u>13,760,250</u></u>

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June 2017 (unaudited) RMB'000	Six months ended 30 June 2016 (unaudited) RMB'000 (Restated)
Revenue	54,010,596	47,757,302
Cost of Sales	<u>(37,345,221)</u>	<u>(32,629,903)</u>
Gross Profit	16,665,375	15,127,399
Other income and gains	2,085,519	2,906,552
Research and development costs	(6,676,679)	(6,284,269)
Selling and distribution expenses	(5,754,014)	(6,052,152)
Administration expenses	(1,498,668)	(1,454,669)
Other expenses	(964,196)	(912,331)
Financial costs	(566,430)	(603,232)
Share of profits and losses of:		
Joint ventures	(1,935)	1,533
Associates	(1,572)	(21,050)
Profit before tax	3,287,400	2,707,781
Income tax expense	<u>(744,184)</u>	<u>(519,427)</u>
Profit for the year	2,543,216	2,188,354
Attributable to:		
Ordinary equity holders of the parent	2,292,867	1,766,397
Perpetual capital instruments	249,963	249,963
Non-controlling interests	386	171,994
	<u>2,543,216</u>	<u>2,188,354</u>
Other comprehensive income		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		
Hedges-effective portion of changes in fair value of hedging instruments	(10,655)	(59,507)
Changes in fair value of available-for-sale investments	(27,243)	(198,699)
Exchange differences on translation of foreign operations	259,012	(415,540)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	<u>221,114</u>	<u>(673,746)</u>
Other comprehensive income/(loss) for the period, net of tax	<u>221,114</u>	<u>(673,746)</u>
Total comprehensive income for the period	<u><u>2,764,330</u></u>	<u><u>1,514,608</u></u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

	Six months ended 30 June 2017 (unaudited) <i>RMB'000</i>	Six months ended 30 June 2016 (unaudited) <i>RMB'000</i> (Restated)
Attributable to:		
Ordinary equity holders of the parent	2,529,734	1,238,044
Perpetual capital instruments	249,963	249,963
Non-controlling interests	(15,367)	26,601
	<u>2,764,330</u>	<u>1,514,608</u>
Earnings per share attributable to ordinary equity holders of the parent		
Basic	<u>RMB0.55</u>	<u>RMB0.43</u>
Diluted	<u>RMB0.55</u>	<u>RMB0.42</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	30 June 2017 (unaudited) <i>RMB'000</i>	31 December 2016 (audited) <i>RMB'000</i>
Non-current assets		
Property, plant and equipment	9,449,809	9,280,644
Prepaid land lease payments	1,286,121	1,237,174
Goodwill	219,706	186,206
Other intangible assets	4,639,427	4,454,427
Investment properties	2,019,957	2,016,470
Investments in joint ventures	62,386	64,322
Investments in associates	695,227	601,554
Available-for-sale investments	2,812,715	2,659,667
Long-term trade receivables	1,302,666	1,376,563
Factored long-term trade receivables	1,588,556	1,391,746
Deferred tax assets	1,292,240	1,604,575
Pledged deposits	2,917,401	3,258,533
Long-term prepayments, deposits and other receivables	1,334,201	628,584
	29,620,412	28,760,465
Current assets		
Prepaid land lease payments	29,630	28,385
Inventories	25,879,956	26,810,568
Amount due from customers for contract works	9,978,860	9,345,123
Trade and bills receivables	30,488,919	27,982,681
Factored trade receivables	5,010,441	2,261,280
Prepayments, deposits and other receivables	16,074,270	13,814,908
Derivative financial assets	17,864	54,857
Pledged deposits	1,503,788	1,213,920
Time deposits with original maturity of over three months	158,187	1,086,203
Cash and cash equivalents	25,907,990	30,049,791
	115,049,905	112,647,716

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	30 June	31 December
	2017	2016
	(unaudited)	(audited)
	RMB'000	RMB'000
Current liabilities		
Trade and bills payables	34,809,619	36,933,838
Amount due to customers for contract works	9,335,024	5,876,790
Other payables and accruals	23,430,667	27,873,988
Provisions	779,741	887,366
Derivative financial instruments	65,893	40,148
Interest-bearing bank borrowings	19,333,566	17,064,145
Bank advances on factored trade receivables	5,013,252	2,263,015
Tax payable	282,153	524,762
Dividends payable	1,196	50,317
	<hr/>	<hr/>
Total current liabilities	93,051,111	91,514,369
	<hr/>	<hr/>
Net current assets	21,998,794	21,133,347
	<hr/>	<hr/>
Total assets less current liabilities	51,619,206	49,893,812
	<hr/>	<hr/>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	30 June 2017 (unaudited) RMB'000	31 December 2016 (audited) RMB'000
Total assets less current liabilities	51,619,206	49,893,812
Non-current liabilities		
Interest-bearing bank borrowings	4,377,412	5,018,276
Bank advances on factored long-term trade receivables	1,588,556	1,391,746
Deferred tax liabilities	105,899	98,380
Provision for retirement benefits	145,192	146,106
Other non-current liabilities	2,224,083	2,354,214
Total non-current liabilities	8,441,142	9,008,722
Net assets	43,178,064	40,885,090
Equity		
Equity attributable to ordinary equity holders of the parent		
Issued capital	4,190,015	4,184,628
Reserves	24,799,959	22,216,523
	28,989,974	26,401,151
Perpetual capital instruments	9,137,341	9,321,327
Non-controlling interests	5,050,749	5,162,612
Total equity	43,178,064	40,885,090

Yin Yimin
Director

Zhao Xianming
Director

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

1.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with HKAS 34: Interim Financial Reporting.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2016.

1.2 Changes in accounting policies and disclosures

The Group has changed the presentation of government grant. The government grant related to income should be presented either as: (a) credit in the income statement, either separately or under a general heading such as "other income and gains"; or (b) a deduction in reporting the related expense. Both methods are regarded as acceptable for the presentation of grants related to income.

To more accurately reflect the substance, enhance the comparability of financial information with the peers and provide more relevant information to the users of its financial statements, and given that the election between the two methods of presentation described above is also permitted under the newly revised "ASBE 16 — Government Grants", the Group chose to present the government grant related to income as a deduction in reporting the related expense.

The Group has adopted this change in accounting policy retrospectively and the effects on the consolidated statement of comprehensive income are disclosed below.

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Decrease in:		
Research and development costs	708,719	774,895
Cost of sales	138,140	—
Other income and gains	846,859	774,895

1.3 New and revised standards and interpretations adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the period ended 31 December 2016, except for the adoption of new standards and interpretations effective as of 1 January 2017. The adoption of the new standards and amendments does not have a material impact on the accounting policies of the Group, and the amounts reported for the current period and prior periods. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

2. OPERATING SEGMENT INFORMATION

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

- (a) The Carriers' Networks are focused on meeting the demands of carriers by providing wireless networks, wireline networks, core networks, IT systems and products, telecommunication software systems and services and other innovative technologies and product solutions.
- (b) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the demands of industry and corporate clients through the development, production and sale of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, wearable devices, as well as the provision of related software application and value-added services.
- (c) The Government and Corporate Business is focused on meeting the demands of government and corporate clients, providing top-level design and consultation services and integrated informatisation solutions for the government and corporate informatisation projects through the application of Communications Networks, Internet of Things, Big Data technologies, Cloud Computing and related core ICT products.

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

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

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

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

	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Six months ended 30 June 2017				
Segment revenue:				
Revenue from external customers	<u>32,351,248</u>	<u>17,894,014</u>	<u>3,765,334</u>	<u>54,010,596</u>
	<u>32,351,248</u>	<u>17,894,014</u>	<u>3,765,334</u>	<u>54,010,596</u>
Segment results	9,798,872	666,621	887,510	11,353,003
Bank and other interest income				529,632
Dividend income and unallocated gains				1,555,887
Corporate and other unallocated expenses				(9,581,185)
Finance costs				(566,430)
Share of profits and losses of:				
Joint ventures				(1,935)
Associates				(1,572)
Profit before tax				<u><u>3,287,400</u></u>
30 June 2017				
Segment assets	47,478,911	21,244,458	5,526,029	74,249,398
Investment in joint ventures				62,386
Investment in associates				695,227
Corporate and other unallocated assets				<u>69,663,306</u>
Total assets				<u><u>144,670,317</u></u>
Segment liabilities	15,763,539	4,247,520	1,834,705	21,845,764
Corporate and other unallocated liabilities				<u>79,646,489</u>
Total liabilities				<u><u>101,492,253</u></u>
Six months ended 30 June 2017				
Other segment information:				
Impairment losses recognised in profit or loss	614,407	339,839	71,510	1,025,756
Depreciation and amortisation	654,280	361,893	76,151	1,092,324
Capital expenditure*	<u>1,104,415</u>	<u>610,870</u>	<u>128,542</u>	<u>1,843,827</u>

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

	Carriers' Networks <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government & Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended 30 June 2016				
Segment revenue:				
Revenue from external customers	28,734,974	14,415,057	4,607,271	47,757,302
	<u>28,734,974</u>	<u>14,415,057</u>	<u>4,607,271</u>	<u>47,757,302</u>
Segment results	8,070,444	261,906	1,250,760	9,583,110
Bank and other interest income				442,372
Dividend income and unallocated gains				2,464,180
Corporate and other unallocated expenses				(9,159,132)
Finance costs				(603,232)
Share of profits and losses of:				
Joint ventures				1,533
Associates				(21,050)
Profit before tax				<u>2,707,781</u>
31 December 2016				
Segment assets	42,979,978	19,688,690	6,499,293	69,167,961
Investment in joint ventures				64,322
Investment in associates				601,554
Corporate and other unallocated assets				<u>71,574,344</u>
Total assets				<u>141,408,181</u>
Segment liabilities	12,073,774	3,724,184	1,825,757	17,623,715
Corporate and other unallocated liabilities				<u>82,899,376</u>
Total liabilities				<u>100,523,091</u>
Six months ended 30 June 2016				
Other segment information:				
Impairment loss recognised in profit or loss	632,505	317,299	101,414	1,051,218
Depreciation and amortisation	766,677	384,608	122,927	1,274,212
Capital expenditure	<u>1,106,100</u>	<u>554,882</u>	<u>177,349</u>	<u>1,838,331</u>

Geographic information

(a) Revenue from external customers

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
The PRC	32,318,969	27,803,026
Asia (excluding the PRC)	8,051,823	7,234,938
Africa	1,634,316	3,100,051
Europe, Americas and Oceania	12,005,488	9,619,287
Total	<u>54,010,596</u>	<u>47,757,302</u>

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

(b) Non-current assets

	30 June 2017 RMB'000	31 December 2016 RMB'000
The PRC	15,154,605	14,446,199
Asia (excluding the PRC)	1,081,849	1,019,306
Africa	216,567	360,132
Europe, Americas and Oceania	942,293	1,163,078
Total	<u>17,395,314</u>	<u>16,988,715</u>

Figures for non-current assets set out above is based on the locations of the assets and excludes financial instruments, deferred tax assets, investments in joint ventures, investments in associates and other non-current assets.

3. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts; an appropriate proportion of contract revenue of construction contracts and the value of services rendered during the period. All significant intra-group transactions have been eliminated on consolidation.

An analysis of revenue is set out as follows:

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Revenue		
Telecommunications system contracts	34,873,534	31,675,335
Sale of goods and services	19,071,637	16,014,399
Rental income	65,425	67,568
	<u>54,010,596</u>	<u>47,757,302</u>

4. PROFIT BEFORE TAX

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

	Six months ended 30 June 2017 <i>RMB'000</i>	Six months ended 30 June 2016 <i>RMB'000</i> (Restated)
Cost of goods and services	32,597,687	27,345,822
Depreciation	535,339	688,475
Amortisation of land lease payments	14,098	13,013
Amortisation of intangible assets other than deferred development costs	96,086	58,830
Research and development costs:		
Deferred development costs amortised	446,801	513,894
Current period expenditure	6,894,430	6,273,150
Less: deferred development costs	<u>(664,552)</u>	<u>(502,775)</u>
	<u>6,676,679</u>	<u>6,284,269</u>
Fair value (gain)/loss, net*:		
Derivative instruments	61,542	38,566
Investment properties	(3,487)	(2,216)
Impairment of trade receivables*	725,020	682,112
Impairment of amount due from customers for contract works*	(16,204)	—
Provision for warranties**	399,613	623,541
Provision for legal obligation*	6,896	24,235
Write-down of inventories to net realisable value**	316,940	369,106
Minimum lease payments under operating leases on land and buildings	380,915	341,940
Contingent rental income in respect of operating leases	(16,333)	(2,854)
Auditors' remuneration	670	600
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	11,588,263	10,600,021
Equity-settled share option expense	—	54,884
Retirement benefit scheme contributions:		
Defined contribution pension schemes	<u>538,441</u>	<u>582,408</u>
	<u>12,126,704</u>	<u>11,237,313</u>

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Foreign exchange loss/(gain)*	56,738	(455,359)
Loss on disposal of items of property, plant and equipment*	26,356	4,659
(Gain)/Loss on disposal of subsidiaries	(56,187)	(18,814)
(Gain)/Loss on disposal of interest in an associate	(48,710)	(17,984)
Loss on disposal of derivative financial instruments*	58,476	140,289
Gain on disposal of available-for-sale investments	(2,609)	(455,200)

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

** Provision for warranties and write-down of inventories to net realisable value are included in “Cost of sales” on the face of the consolidated statement of profit or loss and other comprehensive income.

5. FINANCE COSTS

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Interest on bank loans wholly repayable within five years	345,490	332,979
Interest on bonds payable	—	58,222
Total interest expense on financial liabilities not at fair value through profit or loss	345,490	391,201
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	220,940	212,031
	566,430	603,232

6. INCOME TAX

	Six months ended 30 June 2017 <i>RMB'000</i>	Six months ended 30 June 2016 <i>RMB'000</i>
The Group:		
Current — Hong Kong	4,435	242
Current — Mainland China	250,243	405,982
Current — Overseas	166,852	74,163
Deferred	322,654	39,040
Total tax charge for the period	<u>744,184</u>	<u>519,427</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

7. DIVIDEND

The Directors do not recommend any payment of interim dividend for the six months ended 30 June 2017 (Same period in 2016: nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic earnings per share amount is computed by dividing the profit for the period attributable to holders of ordinary shares of the Company by the weighted average number of ordinary shares in issue.

The calculation of the diluted earnings per share amount is based on the profit for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

	Six months ended 30 June 2017 RMB'000	Six months ended 30 June 2016 RMB'000
Earnings		
Profit for the period attributable to ordinary equity holders of the parent	<u>2,292,867</u>	<u>1,766,397</u>
	Six months ended 30 June 2017 '000	Six months ended 30 June 2016 '000
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation (Note 1)	4,187,322	4,153,594
Effect of dilution — weighted average number of ordinary shares:	<u>1,009</u>	<u>13,420</u>
Adjusted weighted average number of ordinary shares in issue	<u>4,188,331</u>	<u>4,167,014</u>

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

The 2013 share options granted by the Company have given rise to 1,009,000 potentially dilutive ordinary shares for the reporting period.

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade and bills receivables	39,734,621	37,146,137
Impairment	<u>(7,943,036)</u>	<u>(7,786,893)</u>
	<u>31,791,585</u>	<u>29,359,244</u>
Current portion	<u>(30,488,919)</u>	<u>(27,982,681)</u>
Long-term portion	<u>1,302,666</u>	<u>1,376,563</u>

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

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within 6 months	26,665,852	22,941,253
7 to 12 months	2,957,634	3,872,562
1 to 2 years	1,857,047	2,288,234
2 to 3 years	311,052	257,195
	31,791,585	29,359,244
Less: Current portion of trade and bills receivables	(30,488,919)	(27,982,681)
Long-term portion	1,302,666	1,376,563

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Opening balance	7,786,893	5,802,188
Impairment losses recognized	1,036,064	2,261,577
Impairment losses reversed	(311,044)	(150,957)
Amount written off	(550,112)	(232,680)
Exchange rate changes	(18,765)	106,765
Closing balance	7,943,036	7,786,893

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB375,585,000 (31 December 2016: RMB634,799,000) with a carrying amount before provision of RMB375,585,000 (31 December 2016: RMB634,799,000). The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Neither past due nor impaired	5,734,179	4,569,867
Less than one year past due	<u>22,304,024</u>	<u>21,906,738</u>
	<u>28,038,203</u>	<u>26,476,605</u>

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

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

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
The controlling shareholder	—	150
Joint ventures	50,118	127,434
Associates	12,713	14,830
Other related companies	<u>408,469</u>	<u>315,394</u>
	<u>471,300</u>	<u>457,808</u>

The balances are unsecured, non-interest-bearing, repayable on demand and on credit terms similar to those offered to the major customers of the Group.

10. TRADE AND BILLS PAYABLES

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Within 6 months	33,876,265	36,097,084
7 to 12 months	458,327	459,023
1 to 2 years	207,161	286,434
2 to 3 years	186,686	57,892
Over 3 years	81,180	33,405
Total	<u>34,809,619</u>	<u>36,933,838</u>

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
The controlling shareholder	27,858	50,126
Joint ventures	11,495	6,080
Associates	84	194
Other related companies	64,708	180,974
Total	<u>104,145</u>	<u>237,374</u>

The balances are unsecured, non-interest-bearing and repayable on demand.

Trade payables are non-interest-bearing and are normally settled on within 180 days.

11. EVENTS AFTER THE REPORTING PERIOD

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

- (b) Union Optech Co., Ltd. (“Union Optech”), an investee of Jiaxing Xinghe Equity Investment Partnership (Limited Partnership) (“Jiaxing Fund”), was listed on the GEM Board of the Shenzhen Stock Exchange on 11 August 2017 with the issue of 21.40 million shares at an issue price of RMB15.96/share. Jiaxing Fund held 2,763,600 shares in Union Optech, accounting for 3.23% of the total number of shares in Union Optech following the issue. As at 30 June 2017, the equity investment of Jiaxing Fund in Union Optech was accounted for as available-for-sale financial assets and valued at RMB34,987,000 based on the cost method. Subsequent to the listing of the Union Optech, the item has been measured at fair value.
- (c) On 12 July 2017, the Company received a notice of arbitration filed with the London Court for International Arbitration (LCIA) against the Company by a Sudanese carrier and its Mauritanian subsidiary. On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by the said Mauritanian subsidiary. The Sudanese carrier and its Mauritanian subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31.80 million in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

On 10 August 2017, the Company submitted its written defences to LCIA and DIFC-LCIA, respectively, for the aforementioned arbitrations. In the meantime, the Company filed counter-arbitration petitions against the said Mauritanian subsidiary for an aggregate amount of approximately USD22,711,900.

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

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

- (e) Based on considerations in relation to the strategic development of Nubia Technology Limited (“Nubia”), the Company, Pingxiang Yingcai Investment Consulting Company Limited, Suning Commerce Group Co., Ltd., Nanjing Hengmian Enterprise Management Partnership (Limited Partnership), Nanchang Gaoxin New Industry Investment Co., Ltd. (“Nanchang Gaoxin”) and Nubia entered into the Sale and Purchase Agreement in Nubia Technology Limited (“Sale and Purchase Agreement”) and Nubia Technology Limited Shareholders’ Agreement on 27 July 2017. Pursuant to the Sale and Purchase Agreement, the Company transferred 10.1% equity interests in subsidiary Nubia to Nanchang Gaoxin for a consideration of RMB727.2 million. Following the completion of the aforesaid transfer, the Company held 49.9% equity interests in Nubia, and Nubia was excluded from the Company’s consolidated statements.
- (f) In order to further refine the Company’s structure of corporate governance, improve its incentive mechanism and enhance the sense of responsibility and mission on the part of the management team and key personnel in relation to its sustainable and healthy development so as to ensure the realisation of its development targets, the Company has formulated prepared the “2017 Share Option Incentive Scheme (Draft) of ZTE Corporation” (the “2017 Share Option Incentive Scheme (Draft)”) in accordance with relevant laws and regulations. The 2017 Share Option Incentive Scheme (Draft) was considered and approved by the 2016 Annual General Meeting, the First A Shareholders’ Class Meeting of 2017 and the First H Shareholders’ Class Meeting of 2017 convened on 20 June 2017. Pursuant to the “Resolution on Matters pertaining to the Grant of Share Options under the 2017 Share Option Incentive Scheme of the Company” and the “Resolution on Adjustments to the List of Participants and the Number of Share Options to be Granted under the 2017 Share Option Incentive Scheme of the Company” considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors of the Company held on 6 July 2017, the date of grant was set for 6 July 2017 (Thursday), on which 149,601,200 share options were granted to 1,996 scheme participants. The exercise price for the share options granted was RMB17.06 per A share. The number of options granted is set out in the following table:

Name of participant	Position of participant	Number of Options granted
Zhang Jianheng	Non-executive Director	50,000
Luan Jubao	Non-executive Director	50,000
Zhao Xianming	Executive Director and President	800,000
Wang Yawen	Non-executive Director	50,000
Tian Dongfang	Non-executive Director	50,000
Zhan Yichao	Non-executive Director	50,000
Xu Huijun	Executive Vice President	550,000
Zhang Zhenhui	Executive Vice President	550,000
Pang Shengqing	Executive Vice President	450,000
Xiong Hui	Executive Vice President	450,000
Cao Wei	Secretary to the Board	200,000
Other participants	1,985 persons	146,351,200
Total	1,996 persons	149,601,200

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

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