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)

2016 ANNUAL 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 2016 annual report (the "Annual 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 Annual Report.

The Annual Report containing all information required to be presented in annual 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.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 Annual Report.

1.3 The Annual Report has been considered and approved at the Fifteenth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Richard Xike Zhang, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Zhu Wuxiang, Independent Non-executive Director, to vote on his behalf. Mr. Bingsheng Teng, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Zhu Wuxiang, Independent Non-executive Director, to vote on his behalf. Mr. Lü Hongbing, 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 respective financial statements of ZTE and its subsidiaries (the "Group") for the year ended 31 December 2016 were prepared in accordance with PRC Accounting Standards for Business Enterprises ("PRC ASBEs") and with Hong Kong Financial Reporting Standards ("HKFRSs") respectively, and had been audited by Ernst & Young Hua Ming LLP and Ernst & Young, and an unqualified auditors' report has been issued by each of them.

1.5 During the year, there was no significant deficiency in internal control in relation to financial reporting of the Company, nor was any significant deficiency in internal control in relation to non-financial reporting identified.

1.6 Mr. Yin Yimin, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in the Annual Report.

1.7 No profit distribution is proposed by the Company for 2016. The aforesaid matter shall require consideration and approval at the general meeting.

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated name of stock	ZTE	
Stock code	000063 (A Shares)	763 (H Shares)
Place of listing	The 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 Representatives**
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 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 year.

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

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

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 broadband, 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 clients in more than 160 countries and regions, the Company enables communication services via multiple means, such as voice, data, multi-media, wireless broadband and wireline broadband for users all over the world.

The Group owns the most 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 business products, we have the flexibility to fulfill 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 communication and information and address ever-changing challenges in the M-ICT era.

4. HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Whether the Company has made retrospective adjustments to or restated accounting data of the previous year because of changes in accounting policies or for the rectification of accounting errors

√ Yes □ No

In December 2016, the PRC Ministry of Finance formulated and announced the "Regulations for the Accounting Treatment of VAT" (Cai Kuai [2016] No. 22) (《增值税會計處理規定》（財會[2016]22號）) (the "Regulations") to govern the accounting treatment of VAT-related businesses and the presentation of relevant items in the financial statements. The Group complied with the aforesaid Regulations in the preparation of the 2016 financial statements in accordance with PRC ASBEs and revised the corresponding accounting policies. Figures for the same period of 2015 were also restated to conform with provisions of the Regulations. Such restatement has affected tax payable and other current assets in the balance sheet, but has had no impact on the income statement. For details, please refer to the section headed "III. Principal Accounting Policies and Accounting Estimates — 30. Changes in accounting policies" in the notes to the financial statements prepared in accordance with PRC ASBEs in the Annual Report.

4.1 Major accounting data and financial indicators of the Group for the past three years prepared in accordance with PRC ASBEs

4.1.1 Major accounting data of the Group for the past three years prepared in accordance with PRC ASBEs

Unit: RMB in millions

Item	**For the year ended 31 December 2016**	For the year ended 31 December 2015	Year-on-year change	For the year ended 31 December 2014
Operating revenue	**101,233.2**	100,186.4	1.04%	81,471.3
Operating profit	**1,165.5**	320.5	263.65%	60.3
Total profit/(loss)	**(767.8)**	4,303.5	(117.84%)	3,538.2
Net profit/(loss) attributable to holders of ordinary shares of the listed company Note 1	**(2,357.4)**	3,207.9	(173.49%)	2,633.6
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company Note 1	**2,130.8**	2,577.9	(17.34%)	2,072.0
Net cash flows from operating activities	**5,260.2**	7,404.7	(28.96%)	2,512.6

Unit: RMB in millions

Item	**As at 31 December 2016**	As at 31 December 2015 (Restated)		Year-on-year change	As at 31 December 2014 (Restated)	
		Before adjustment	After adjustment	(After adjustment)	Before adjustment	After adjustment
Total assets	**141,640.9**	120,893.9	124,831.7	13.47%	106,214.2	110,254.2
Total liabilities	**100,755.8**	77,545.3	81,483.1	23.65%	79,921.7	83,961.7
Owners' equity attributable to holders of ordinary shares of the listed company Note 2	**26,401.2**	29,660.1	29,660.1	(10.99%)	24,878.6	24,878.6
Share capital *(million shares)* Note 3	**4,184.6**	4,150.8	4,150.8	0.81%	3,437.5	3,437.5

Major accounting data for the year analysed by quarter is set out as follows:

Unit: RMB in millions

Item	Three months ended 31 March 2016	Three months ended 30 June 2016	Three months ended 30 September 2016	Three months ended 31 December 2016
Operating revenue	21,858.5	25,898.8	23,806.7	29,669.2
Net profit/(loss) attributable to holders of ordinary shares of the listed company	949.5	816.9	1,092.5	(5,216.3)
Net profit/(loss) after extraordinary items attributable to holders of ordinary shares of the listed company	969.2	704.0	479.1	(21.5)
Net cash flows from operating activities	3,945.5	(1,590.6)	(1,135.6)	4,040.9

The accounting data and the aggregated figures set out above are not significantly different from corresponding data disclosed in the published quarterly reports and interim reports of the Group.

Note 1: The Company completed the issue of Perpetual Medium Term Notes ("perpetual capital instruments") for an amount of RMB9 billion for 2015, which were presented under "Other equity instruments" under "Shareholders' equity" in the balance sheet in the Annual Report. Net loss attributable to holders of ordinary shares of the listed company and net profit after extraordinary items attributable to holders of ordinary shares of the listed company for 2016 have been stated after deducting accruable interests of RMB501.3 million attributable to holders of perpetual capital instruments, and net profit attributable to holders of ordinary shares of the listed company and net profit after extraordinary items attributable to holders of ordinary shares of the listed company for 2015 have been stated after deducting accruable interests of RMB416.6 million attributable to holders of perpetual capital instruments.

Note 2: Owners' equity attributable to holders of ordinary shares of the listed company as at 31 December 2016 has been stated after deducting equity of RMB8,820.0 million and accruable interests of RMB501.3 million attributable to holders of perpetual capital instruments, and owners' equity attributable to holders of ordinary shares of the listed company as at 31 December 2015 has been stated after deducting equity of RMB8,904.7 million and accruable interests of RMB416.6 million attributable to holders of perpetual capital instruments.

Note 3: The total share capital of the Company increased from 4,150,791,215 shares to 4,184,628,172 shares following the exercise of 33,836,957 A share options by scheme participants under the share option incentive scheme of the Company for 2016.

4.1.2 Major financial indicators of the Group for the past three years prepared in accordance with PRC ASBEs

Item	**For the year ended 31 December 2016**	For the year ended 31 December 2015	Year-on-year change	For the year ended 31 December 2014
Basic earnings per share *(RMB/share)* Note 1	**(0.57)**	0.78	(173.08%)	0.64
Diluted earnings per share *(RMB/share)* Note 2	**(0.57)**	0.77	(174.03%)	0.64
Basic earnings per share after extraordinary items *(RMB/share)* Note 1	**0.51**	0.62	(17.74%)	0.50
Weighted average return on net assets Note 3	**(8.40%)**	12.28%	Decreased by 20.68 percentage points	11.10%
Weighted average return on net assets after extraordinary items Note 3	**7.59%**	9.87%	Decreased by 2.28 percentage points	8.74%
Net cash flows from operating activities per share *(RMB/share)* Note 4	**1.26**	1.78	(29.21%)	0.61

Item	**As at 31 December 2016**	As at 31 December 2015 (Restated)		Year-on-year change	As at 31 December 2014 (Restated)	
		Before adjustment	After adjustment	(After adjustment)	Before adjustment	After adjustment
Net asset per share attributable to holders of ordinary shares of the listed company *(RMB/share)* Note 4	**6.31**	7.15	7.15	(11.75%)	6.03	6.03
Gearing ratio	**71.13%**	64.14%	65.27%	Increased by 5.86 percentage points	75.25%	76.15%

Note 1: Basic earnings per share and basic earnings per share after extraordinary items for 2016 and 2015 have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods, basic earnings per share and basic earnings per share after extraordinary items for 2014 have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve.

Note 2: As share options granted by the Company have given rise to 1,473,000, 52,784,000 and 0 potentially dilutive ordinary shares for 2016, 2015 and 2014, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor, diluted earnings per share for 2014 has been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve.

Note 3: Weighted average return on net assets and weighted average return on net assets after extraordinary items for 2016 and 2015 have been arrived at by dividing net profit/loss attributable to holders of ordinary shares of the listed company and net profit after extraordinary items attributable to holders of ordinary shares of the listed company, respectively, by weighted average net assets. Weighted average net assets for 2016 has been stated after deducting equity of RMB8,820.0 million and accruable interests of RMB501.3 million attributable to holders of perpetual capital instruments, and weighted average net assets for 2015 has been stated after deducting equity of RMB8,904.7 million and accruable interests of RMB416.6 million attributable to holders of perpetual capital instruments.

Note 4: Net cash flows from operating activities per share and net assets per share attributable to holders of ordinary shares of the listed company for and as at the end of 2016 and 2015 have been calculated on the basis of the total share capital as at the end of the respective periods, and the same indicators for the same period of 2014 have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve.

4.1.3 *Extraordinary gains or losses items and amounts of the Group for the past three years prepared in accordance with PRC ASBEs*

Unit: RMB in millions

Item	**For the year ended 31 December 2016**	For the year ended 31 December 2015	For the year ended 31 December 2014
Non-operating income	**822.7**	939.2	666.8
Gains/(Losses) from fair value change	**30.0**	(183.7)	148.3
Investment income	**986.1**	452.0	155.4
Less: Losses on disposal of non-current assets	**22.5**	28.9	35.7
Less: Other non-operating expenses	**6,272.3**	431.0	274.1
Less: Effect of income tax	**(185.2)**	112.1	99.1
Less: Effect of non-controlling interests (after tax)	**217.4**	5.5	—
Total	**(4,488.2)**	630.0	561.6

4.2 Major Financial information and financial indicators of the Group for the past five years prepared in accordance with HKFRSs

4.2.1 Major Financial Information Of The Group For The Past Five Years Prepared In Accordance With HKFRSs

Unit: RMB in millions

	Year ended 31 December				
Results	**2016**	2015	2014	2013	2012 (Restated)
Revenue	**101,233.2**	100,186.4	81,471.3	75,233.7	84,118.9
Cost of sales	**(71,609.4)**	(71,093.3)	(57,759.0)	(54,775.1)	(65,545.5)
Gross profit	**29,623.8**	29,093.1	23,712.3	20,458.6	18,573.4
Other income and gains	**7,485.8**	5,419.5	4,561.2	4,905.3	4,609.2
Research and development expenses	**(12,762.1)**	(12,200.5)	(9,008.5)	(7,383.9)	(8,829.2)
Selling and distribution expenses	**(12,622.4)**	(11,941.0)	(10,391.6)	(10,158.5)	(11,340.9)
Administrative expenses	**(2,731.0)**	(2,514.1)	(2,138.1)	(2,258.7)	(2,449.2)
Other expenses	**(8,651.0)**	(2,347.7)	(1,582.3)	(2,119.1)	(706.1)
Profit from operating activities	**343.1**	5,509.3	5,153.0	3,443.7	(142.8)
Finance costs	**(1,156.1)**	(1,269.1)	(1,561.7)	(1,650.4)	(1,888.5)
Share of profit and loss of joint ventures and associates	**45.2**	63.3	(53.0)	34.5	48.1
Profit/(loss) before tax	**(767.8)**	4,303.5	3,538.3	1,827.8	(1,983.2)
Income tax expense	**(640.1)**	(563.2)	(810.6)	(394.2)	(621.4)
Profit/(loss) for the year	**(1,407.9)**	3,740.3	2,727.7	1,433.6	(2,604.6)
Attributable to:					
Non-controlling interests	**(448.2)**	(115.8)	(94.1)	(76.0)	(236.3)
Attributable to:					
Perpetual capital instruments	**(501.3)**	(416.6)	—	—	—
Attributable to:					
Holders of ordinary shares of the parent company	**(2,357.4)**	3,207.9	2,633.6	1,357.6	(2,840.9)

Unit: RMB in millions

Assets and liabilities	**2016**	2015	2014	2013	2012 (Restated)
	As at 31 December				
Total assets	**141,408.2**	124,588.0	110,254.6	102,473.0	109,911.5
Total liabilities	**100,523.1**	81,239.4	83,962.1	78,847.3	87,318.7
Non-controlling interests	**5,162.6**	4,367.2	1,413.9	1,093.0	1,136.3
Perpetual capital instruments	**9,321.3**	9,321.3	—	—	—
Equity attributable to holders of ordinary shares of the parent company	**26,401.2**	29,660.1	24,878.6	22,532.7	21,456.5

4.2.2 *Major financial indicators of the Group for the past five years prepared In accordance with HKFRSs*

Item	**2016**	2015	2014	2013	2012 (Restated)
Basic earnings per share *(RMB/share)* Note 1	**(0.57)**	0.78	0.64	0.33	(0.69)
Net asset per share *(RMB/share)* Note 2	**6.31**	7.15	6.03	5.46	5.20
Fully diluted return on net assets	**(8.93%)**	10.82%	10.59%	6.03%	(13.24%)

Note 1: Basic earnings per share for 2016 and 2015 have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods, basic earnings per share the same periods of the previous years have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve.

Note 2: Net assets per share for 2016 and 2015 have been calculated on the basis of the total share capital as at the end of the respective periods; net assets per share for the same periods of the previous years have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve.

4.3 The amounts of net profit and net assets of the Group for the year ended and as at 31 December 2016 calculated in accordance with PRC ASBEs are entirely consistent with those calculated under HKFRSs.

5. SHAREHOLDINGS OF THE SHAREHOLDERS AND FRAMEWORK OF CONTROL

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 year

	Total number of shareholders
As at 31 December 2016	There were 172,424 shareholders (comprising 172,056 holders of A shares and 368 holders of H shares)
As at 28 February 2017, namely the last day of the preceding month of the date of publication of this announcement	There were 180,332 shareholders (comprising 179,962 holders of A shares and 370 holders of H shares)

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

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/ decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen (shares)
1. Shenzhen Zhongxingxin Telecommunications Equipment Company Limited ("Zhongxingxin")	State-owned corporation	30.35%	1,269,830,333	—	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	18.02%	754,001,718	–80,032	—	Unknown
3. China Securities Finance Corporation Limited	General domestic corporation	2.53%	105,947,520	–1,196,852	—	Unknown
4. Central Huijin Asset Management Ltd.	State-owned corporation	1.26%	52,519,600	—	—	Unknown
5. Hunan Nantian (Group) Co., Ltd.	State-owned corporation	1.02%	42,657,008	–183,000	—	Unknown
6. NSSF Portfolio #103	Others	0.86%	36,002,514	–3,996,941	—	Unknown
7. Tibet Ziguang Chunhua Investment Limited	General domestic corporation	0.68%	28,567,034	+28,567,034	—	Unknown
8. New China Life Insurance Company Ltd. — Dividend — Individual Dividend — 018L-FH002 Shen	Others	0.60%	25,170,442	—	—	Unknown
9. Bank of China Limited — China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	Others	0.52%	21,965,903	—	—	Unknown
10. NSSF Portfolio #401	Others	0.50%	20,999,951	+20,999,951	—	Unknown

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

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,269,830,333	A share
2. HKSCC Nominees Limited	754,001,718	H share
3. China Securities Finance Corporation Limited	105,947,520	A share
4. Central Huijin Asset Management Ltd.	52,519,600	A share
5. Hunan Nantian (Group) Co., Ltd.	42,657,008	A share
6. NSSF Portfolio #103	36,002,514	A share
7. Tibet Ziguang Chunhua Investment Limited	28,567,034	A share
8. New China Life Insurance Company Ltd. — Dividend — Individual Dividend — 018L-FH002 Shen	25,170,442	A share
9. Bank of China Limited-China Merchants Feng Qing Flexible Allocation Hybrid Promotion Stock Fund	21,965,903	A share
10. NSSF Portfolio #401	20,999,951	A share

Descriptions of any connected party relationships or concerted party relationships among the above shareholders	1. Zhongxingxin was neither a connected party nor a concerted party of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.
Description of involvement in financing and securities lending businesses of top 10 shareholders (if any)	N/A

Note 1: During the year, no strategic investors or ordinary legal persons were required to hold shares for a designated period under the placing of new shares by the Company.

Note 2: Shareholders holding 5% or above of the Company's shares — Changes in the shareholding of Zhongxingxin, controlling shareholder of the Company interested in 30.35% of the Company's shares, during the year are as follows:

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

Whether the top ten shareholders and the top ten 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 Controlling shareholder of the Company

During the year, there was no change in the Company's controlling shareholder, details of which are as follows:

Name of controlling shareholder:	Zhongxingxin
Legal representative:	Yin Yimin
Date of incorporation:	29 April 1993
Standardised social credit code:	914403001922245l8G
Registered capital:	RMB100 million
Scope of business:	Production of SPC switch cabinets, telephones and related parts and components, electronic products; import and export operations (in accordance with the requirements under document Shen Mao Guan Shen Zheng Zi No. 727); treatment of waste water, toxic fumes and noise and related technical services, research and technical development of environmental protection equipment; production of continuous monitoring smoke systems; manufacturing of mining equipment; manufacturing of power transmission and distribution and control equipment; computer systems integration; development of digital processing system technologies and technological research and development for related technical services.

As at the date of this announcement, Zhongxingxin's 2016 annual audit work has yet to be completed. Unaudited data are as follows: For 2016, operating revenue, net profit and net cash flows from operating activities of Zhongxingxin amounted to approximately RMB384 million, RMB651 million and RMB52 million, respectively. As at 31 December 2016, total assets of Zhongxingxin amounted to approximately RMB6,580 million, while total liabilities amounted to approximately RMB1,212 million. In future, Zhongxingxin will build an innovative investment group company engaged in diversified capital applications with a primary focus on innovative technologies and services in close tandem with principal economic activities in China.

During the year, Zhongxingxin did not hold any controlling or non-controlling stakes in other domestic or international listed companies.

5.3 The shareholders (or de facto controllers) of the Company's controlling shareholder as at the end of the year

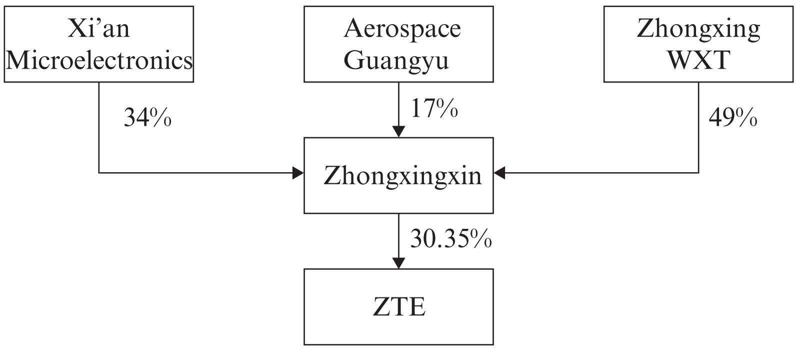
Zhongxingxin, the controlling shareholder of the Company, was jointly formed by Xi'an Microelectronics Technology Research Institute ("Xi'an Microelectronics"), Shenzhen Aerospace Guangyu Industrial Company Limited ("Aerospace Guangyu") and Shenzhen Zhongxing WXT Equipment Company Limited ("Zhongxing WXT"), each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of Zhongxingxin, respectively. Therefore, no shareholder of Zhongxingxin has the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. Details of these three shareholders are as follows:

Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tian Dongfang and its organisation number is H0420141-X. It is the only specialised research institute in China which integrates on a complementary basis the research, development and production of semi-conductor integrated circuits, hybrid integrated circuits and computers.

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a wholly state-owned enterprise established on 17 August 1989. The legal representative is Cui Yuping and the registered capital amounts to RMB17,950,000. Its standardised social credit code is 91440300192175031U. The scope of business includes aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile, sales of automobile; domestic trade; import and export operations; trade brokerage and agency; lease of owned properties; wholesale of aqua-products; sales of mining products (other than mining products required to be centrally purchased by entities designated by the State) and timber; sales and goldware and silverware (other than items prohibited under laws, administrative regulations or State Council decisions and subject to the obtaining of relevant permits for restricted items); wholesale of pre-packaged products; wholesale of agricultural by-products; sales of coal products; sales of pre-packaged food (including refrigerated food), sales of bulk food (including refrigerated food).

Zhongxing WXT is a private enterprise incorporated on 23 October 1992. Its legal representative is Hou Weigui and its registered capital amounts to RMB10 million. Its standardised social credit code is 9144030027941498XF. The scope of business includes the development and production of telecommunications and transmission equipment, ancillary equipment, computer and peripheral equipment (excluding restricted projects); investment in industrial operations (subject to separate applications for specific projects).

The following diagram shows the shareholding and controlling relationships between the Company and its shareholders as at 31 December 2016:



5.4 Purchase, sale and redemption of securities

During the year, 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 shareholdings and share options of and annual remuneration of the Company's Directors, Supervisors and senior management

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on [Note 1]	Term of office ending on [Note 1]	Number of A shares held 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	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands)	Whether remuneration is received from related parties [Note 2]
Directors of the Company [Note 3]														
1	Hou Weigu	Male	75	Chairman	Resigned	3/2013	3/2016	1,556,967	—	—	1,556,967	—	73.0	No
2	Yin Yimin	Male	53	Chairman	Note 6	3/2017	3/2019	759,400	—	—	759,400	—	190.4	No
				Director	Incumbent	3/2016	3/2019							
3	Zhao Xianming [Note 5]	Male	50	Chairman	Note 6	3/2016	3/2017	391,515	260,000	—	651,515	Note 10	733.9	No
				Director	Incumbent	3/2016	3/2019							
				President	Incumbent	4/2016	3/2019							
4	Zhang Jianheng	Male	55	Vice Chairman	Incumbent	3/2016	3/2019	—	—	—	—	—	10.0	Yes
5	Luan Jubao	Male	54	Vice Chairman	Incumbent	3/2016	3/2019	—	—	—	—	—	10.0	Yes
6	Shi Lirong	Male	52	Director	Note 7	3/2016	2/2017	660,613	—	—	660,613	—	122.6	No
7	Wang Yawen	Male	53	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	10.0	Yes
8	Tian Dongfang	Male	56	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	10.0	Yes
9	Zhan Yichao	Male	53	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	10.0	Yes
10	Wei Zaisheng [Note 5]	Male	54	Director	Incumbent	3/2016	3/2019	439,677	—	—	439,677	—	333.5	No
				Executive Vice President and Chief Financial Officer	Incumbent	4/2016	3/2019							
11	Richard Xike Zhang [Note 8]	Male	46	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	13.0	Yes
12	Chen Shaohua [Note 8]	Male	55	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	13.0	Yes
13	Lü Hongbing [Note 8]	Male	50	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	13.0	Yes
14	Bingsheng Teng [Note 8]	Male	46	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	13.0	Yes
15	Zhu Wuxiang [Note 8]	Male	51	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	9.8	Yes
16	Tan Zhenhui [Note 8]	Male	72	Independent Non-executive Director	Resigned	3/2013	3/2016	—	—	—	—	—	3.3	Yes
Supervisors of the Company [Note 4]														
17	Xie Daxiong	Male	53	Chairman of Supervisory Committee	Incumbent	3/2016	3/2019	495,803	—	—	495,803	—	310.0	No
18	Zhou Huidong	Male	40	Supervisor	Incumbent	3/2016	3/2019	70,342	—	—	70,342	—	83.0	No
19	Xu Weiyan	Female	54	Supervisor	Incumbent	3/2016	3/2019	11,039	—	—	11,039	—	65.7	No
20	Wang Junfeng	Male	50	Supervisor	Incumbent	3/2016	3/2019	—	—	—	—	—	—	Yes
21	Xia Xiaoyue	Female	41	Supervisor	Incumbent	3/2016	3/2019	50,927	—	—	50,927	—	38.9	No
22	Chang Qing	Male	61	Supervisor	Resigned	3/2013	3/2016	—	—	—	—	—	—	Yes
Senior management of the Company [Note5]														
23	Xu Huijun	Male	43	Executive Vice President	Incumbent	4/2016	3/2019	630,851	—	—	630,851	—	544.5	No
24	Zhang Zhenhui	Male	43	Executive Vice President	Incumbent	4/2016	3/2019	148,200	70,200	—	218,400	Note 10	606.9	No
25	Pang Shengqing	Male	48	Executive Vice President	Incumbent	4/2016	3/2019	571,682	162,000	—	733,682	Note 10	233.4	No
26	Zeng Xuezhong	Male	43	Executive Vice President	Incumbent	4/2016	3/2019	552,840	—	138,210	414,630	Note 10	212.6	No
27	Xiong Hui	Male	47	Executive Vice President	Note 9	1/2017	3/2019	51,700	184,600	226,300	10,000	Note 10	350.5	No
28	Fan Qingfeng	Male	48	Executive Vice President	Note 9	4/2016	1/2017	505,687	180,000	—	685,687	Note 10	258.1	No
29	Chen Jianzhou	Male	46	Executive Vice President	Note 9	4/2016	1/2017	167,769	82,000	62,442	187,327	Note 10	207.7	No
30	Tian Wenguo	Male	47	Executive Vice President	Resigned	4/2013	3/2016	256,390	70,000	184,390	142,000	Note 10	212.2	No
31	Qiu Weizhao	Male	53	Executive Vice President	Resigned	4/2013	3/2016	440,537	134,000	—	574,537	Note 10	219.4	No
32	Chen Jie	Female	58	Senior Vice President	Note 5	4/2013	3/2016	745,599	—	—	745,599	—	184.4	No
33	Ye Weimin	Male	50	Senior Vice President	Note 5	4/2013	3/2016	474,523	144,000	290,223	328,300	Note 10	213.7	No
34	Zhu Jinyun	Male	44	Senior Vice President	Note 5	4/2013	3/2016	596,213	162,000	110,000	648,213	Note 10	296.7	No
35	Zhang Renjun	Male	47	Senior Vice President	Note 5	4/2013	3/2016	—	126,000	—	126,000	Note 10	202.8	No
36	Cheng Lixin	Male	50	Senior Vice President	Note 5	4/2013	3/2016	75,600	10,000	40,600	45,000	Note 10	562.7	No
37	Huang Dabin	Male	45	Senior Vice President	Note 5	8/2015	3/2016	90,000	90,000	135,000	45,000	Note 10	231.0	No
38	Cao Wei	Female	40	Secretary to the Board	Incumbent	4/2016	3/2019	25,200	—	25,200	—	Note 10	67.9	No
39	Feng Jianxiong	Male	42	Secretary to the Board	Resigned	4/2013	3/2016	391,500	—	112,000	279,500	Note 10	65.3	No
40	Others [Note 11]	—	—	—	—	—	—	82,600	—	—	82,600	—	—	—
—	Total	—	—	—	—	—	—	10,243,174	1,674,800	1,324,365	10,593,609	—	6,735.9	—

Note 1: The starting and ending dates of the term of office set out in this table are the starting and ending dates of the term of office of the Directors of the Seventh Session of the Board of Directors, Supervisors of the Seventh Session of the Supervisory Committee and senior management of the Company appointed by the Seventh Session of the Board of Directors. For the starting dates of their first appointments with the Company and changes in the appointments of the Directors, Supervisors and senior management of the Company, please refer to the section headed "Directors, Supervisors, Senior Management and Employees — (I) Brief Biographies of the Company's Directors, Supervisors and Senior Management" in the Annual Report.

Note 2: Pursuant to Rule 10.1.3 (III) of the Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, legal entities or other entities in which the Directors, Supervisors and senior management of a listed company act as directors and senior management (other than the said listed company and its subsidiaries) are deemed as connected parties of such listed company.

Note 3: The term of office of the Sixth Session of the Board of Directors of the Company concluded on 29 March 2016. At the First Extraordinary General Meeting of 2016 of the Company held on 3 March 2016, Mr. Zhang Jianheng, Mr. Luan Jubao, Mr. Shi Lirong, Mr. Wang Yawen, Mr. Tian Dongfang and Mr. Zhan Yichao were elected Non-executive Directors of the Seventh Session of the Board of Directors of the Company; Mr. Zhao Xianming, Mr. Yin Yimin and Mr. Wei Zaisheng were elected Executive Directors of the Seventh Session of the Board of Directors of the Company; and Mr. Richard Xike Zhang, Mr. Chen Shaohua, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang were elected Independent Non-executive Directors of the Seventh Session of the Board of Directors of the Company. The term of office of the Seventh Session of the Board of Directors of the Company shall commence on 30 March 2016 and end on 29 March 2019. At the First Meeting of the Seventh Session of the Board of Directors of the Company held on 5 April 2016, Mr. Zhao Xianming was elected Chairman of the Company, and Mr. Zhang Jianheng and Mr. Luan Jubao were each elected Vice Chairman of the Company.

Note 4: The term of office of the Sixth Session of Supervisory Committee of the Company concluded on 29 March 2016. At the First Extraordinary General Meeting of 2016 of the Company held on 3 March 2016, Ms. Xu Weiyan and Mr. Wang Junfeng were elected Shareholders' Representative Supervisors of the Seventh Session of the Supervisory Committee of the Company. On 17 February 2016, Mr. Xie Daxiong, Mr. Zhou Huidong and Ms. Xia Xiaoyue were elected Staff Representative Supervisors of the Seventh Session of the Supervisory Committee of the Company through democratic elections by the staff representatives of the Company. The term of office of the Seventh Session of the Supervisory Committee of the Company shall commence on 30 March 2016 and end on 29 March 2019. At the First Meeting of the Seventh Session of the Supervisory Committee of the Company held on 6 April 2016, Mr. Xie Daxiong was elected Chairman of the Supervisory Committee of the Company.

Note 5: The term of office of the senior management appointed by the Sixth Session of the Board of Directors of the Company concluded on 29 March 2016. At the First Meeting of the Seventh Session of the Board of Directors of the Company held on 5 April 2016, Mr. Zhao Xianming was appointed President of the Company; Mr. Wei Zaisheng, Mr. Fan Qingfeng, Mr. Zeng Xuezhong, Mr. Xu Huijun, Mr. Pang Shengqing, Mr. Zhang Zhenhui and Mr. Chen Jianzhou were each appointed Executive Vice President of the Company; Mr. Wei Zaisheng was concurrently appointed Chief Financial Officer of the Company; and Ms. Cao Wei was appointed Secretary to the Board of Directors of the Company and removed from the position of securities affairs representative of the Company. The term of office of the aforesaid new session of senior management shall commence on the date on which the appointment was considered and approved at the said meeting of the Board of Directors and end on the date of conclusion of the term of office of the Seventh Session of the Board of Directors (namely, 29 March 2019).

Note 6: 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 7: 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 8: Mr. Richard Xike Zhang has been Independent Non-executive Director of the Company since 30 June 2013. Mr. Chen Shaohua, Mr. Lü Hongbing and Mr. Bingsheng Teng have been Independent Non-executive Directors of the Company since 22 July 2015. Mr. Zhu Wuxiang has been Independent Non-executive Director of the Company since 30 March 2016. Mr. Tan Zhenhui was Independent Non-executive Director of the Company from 30 March 2010 to 29 March 2016.

Note 9: 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 10: 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.

Note 11: As disclosed in the "Further Announcement on the Fulfillment and Completion of Undertaking of Directors and Senior Management to Increase Shareholdings in the Company" published by the Company on 26 August 2015, then Director Mr. He Shiyou and then senior management members Mr. Zhang Zhenhui, Mr. Qiu Weizhao, Mr. Chen Jianzhou, Mr. Fan Qingfeng, Mr. Pang Shengqing, Mr. Zhang Renjun, Mr. Ye Weimin, Mr. Xiong Hui and Mr. Feng Jianxiong had undertaken to increase shareholdings in the Company, and increased their shareholdings in the Company by 82,600 A shares indirectly through an asset management plan. Such shares are not included in the shareholdings of the senior management in the A shares of the Company set out in the above table.

Note 12: As at the end of the year, Mr. Wei Zaisheng and Mr. Huang Dabin held 30,000 H shares and 63,600 H shares, respectively, of the Company. Save as the above, no other Directors, Supervisors or senior management of the Company held any H shares in the issued share capital of the Company.

No share options had been granted to the Directors and senior management of the Company during the year.

For details of the share options of A shares of the Company held by the Directors and senior management of the Company during the year, please refer to the section headed "Material Matters — (VI) Implementation and Impact of the Company's Share Option Incentive Scheme" in the Annual Report.

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

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 31 December 2016 are set out in the section of this announcement headed "6.1 Changes in the shareholdings and share options of and annual remuneration of the Company's Directors, Supervisors and senior management".

Save as disclosed above, as at 31 December 2016, 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 Securities and Futures Ordinance ("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 31 December 2016, 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 Business review for 2016

(1) Overview of the domestic telecommunications industry for 2016

The data business became an important source of revenue in 2016 as domestic carriers continued to expand the geographic coverage of their 4G networks. In the meantime, the growth in cloud computing and big data services, development of big video and big bandwidth services, ongoing advance of the Broadband China Strategy and continuous growth in network data flow have compelled carriers to cope with the pressure of increasing data flow and achieve transformation and upgrade by making vigorous efforts to drive virtualisation, broadband transmission, smart application and centralised operation in connection with their networks, with a view to technological innovation and network coordination.

(2) Overview of the global telecommunications industry for 2016

Investment in equipment by the global telecommunications industry remained stable in 2016. Network capacity expansion and technological upgrades became necessary under increasing data flow. Spendings were focused on 4G network, optical transmission and broadband access although a certain degree of regional disparity existed. Meanwhile, multi-application scenarios were driving faster progress in the formulation of 5G standards. The latest areas of interest in the industry included, among others, virtual reality/augment reality, artificial intelligence, 5G, IOT, cloudification and virtualisation, which would present market opportunities for innovative development in the telecommunications industry.

(3) Operating results of the Group for 2016

For 2016, the Company reported operating revenue of RMB101.23 billion, representing growth of 1.0% as compared to the previous year which mainly reflected slight growth in operating revenue from carriers' networks and consumer business. Operating profit surged 263.7% to RMB1.17 billion, attributable mainly to relatively strong exchange gains thanks to flexible management of foreign exchange risk exposures, substantial decrease in net interest expense under an optimised structure for interest-bearing liabilities, and substantial growth in investment income generated through equity transactions. For 2016, the Group reported net loss attributable to holders of ordinary shares of the listed company of RMB2.36 billion, which were primarily attributable to a provision for relating losses amounting to approximately USD892 million in respect of post-balance sheet date events in accordance with accounting standards in relation to the agreements reached by the Company with the Bureau of Industry and Security of the United States Department of Commerce, the United States Department of Justice and the Office of Foreign Assets Control of the United States Department of Treasury ("Relevant U.S. Authorities") (the details of which are set out in the announcement headed "Inside information — Updated information in relation to the export restrictions by the United States Department of Commerce" published by the Company on 8 March 2017). Excluding the effect of the aforesaid provision for losses, the Company would have reported net profit attributable to holders of ordinary shares of the listed company of RMB3.83 billion, representing a year-on-year increase of 19.2%.

A. By market

The domestic market

During the year, the Group's operating revenue from the domestic market amounted to RMB58.55 billion, accounting for 57.8% of the Group's overall operating revenue. The Group sustained stable market shares with stronger customer approval and satisfaction on the back of proactive efforts supporting the network construction requirements of domestic carriers. Comprehensive solutions built upon the core smart city strategy were provided to government and corporate clients, with a special focus on the government, transportation, energy, finance and education sector, etc. Innovations were introduced on an ongoing basis to improve user's experience in consumer business, as well as to enhance our brand image, recognition, reputation and influence.

The international market

During the year, the Group's operating revenue from the international market amounted to RMB42.68 billion, accounting for 42.2% of the Group's overall operating revenue. The Group achieved new breakthroughs in certain regions and started to reshape market distribution as it persisted in the strategy of focusing on populous nations and mainstream carriers. Through the provision of creative product solutions, the Group assisted global carriers to improve their network quality, provide innovative services to end-users and eventually achieve effective transformation, at a time when data flow grew rapidly while 5G was not yet ready for commercial application. The Group offered extensive services to government and corporate customers to meet their requirements for informatisation services and IT services. Moreover, the Group has built a positive brand image and snatched new market shares with the launch of boutique smart terminal products designed to enhance user's experience.

B. By business segment

During the year, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB58.88 billion, RMB8.90 billion and RMB33.45 billion, respectively.

Carriers' networks

In connection with wireless products, the Group's technological innovation and enhanced competitiveness of its products effectively positioned the Group as a forerunner in the 4G era, as it ranked top in terms of domestic market shares while assuring continuous development in the overseas markets. In connection with wireless communications for the future, a range of Pre-5G products were being put to commercial application with strong market recognition, as they provided global carriers with an option for enhanced network performance at lower costs prior to the official commercial launch of 5G. Our Pre-5G Massive MIMO solution won the "Best Mobile Technology Breakthrough Award" and the "Outstanding Overall Mobile Technology — The CTO's Choice 2016" at the Mobile World Congress. The Group also made breakthroughs for the current stage in its participation in 5G standard formulation. Meanwhile, we entered into agreements with a number of carriers, including the big-three operators of China, Deutsche Telekom, Telefonica, Softbank of Japan and KT of Korea, for cooperation in the joint development of 5G technologies and market applications.

In connection with wireline and optical communications products, the Group provided solutions with superior worth meeting requirements of different regions and stages of development to serve carriers across the globe, in tandem with the Broadband China Strategy and the broadband construction plans of other countries. At the same time, we continued to make key investments in new technologies in relation to areas with potential for development, such as mobile bearer, big video service bearer and data centre virtualisation, with a view to sustainable development.

In connection with cloud computing and IT products, the Group led the industry with the launch of the big video 4K+ end-to-end solution and the publication of the white paper for big video. A number of cases in the commercial application of LoRa and NB-IoT were established. Moreover, the big-data platform and distributed database developed by the Group were capable of serving as an end-to-end data service platform for financial institutions, carriers, smart cities and public security departments.

Government and corporate business

The Group completed upgrades of its smart city solution in relation to three dimensions: innovation in technological structure, management model innovation and business model innovation, and pioneered in the proposition of the concept and design of "Smart City 3.0". Prototype models of the sophisticated version of smart city were created for Qinhuangdao, Yinchuan and Shenyang, as we enhanced our domestic market position while securing stable operations in the overseas market.

Consumer business

In connection with handset terminals, the Group was focused on the development of boutique products, quality upgrades, making breakthroughs in key country markets and increasing brand recognition. Flagship products AXON 7 and mainstream model Blade A2 were launched to snatch up increasing shares in both domestic and international markets. In connection with the home media centre, the Group reported rapid growth on the back of a stable supply chain meeting dispatch requirements as it responded to the rapid growth in demand in the domestic and international markets for home videos. In connection with fixed-network broadband terminals, the Group launched the big-video home terminal bearer solution that offered protection to video bandwidth and delay. An integrated gateway product combining smart gateway and set-top box was also launched.

For financial results of the year analysed by major financial indicators adopted by the Group, please refer to section headed "7.2 Discussion and analysis of operations under PRC ASBEs" and section headed "7.3 Management discussion and analysis under HKFRSs" in this announcement.

For details of the Group's environmental policy and performance of corporate social responsibilities, please refer to the section headed "Material Matters (XXVII) Performance of corporate social responsibility by the Company" in the Annual Report.

7.2 Discussion and analysis of operations under PRC ASBEs

The financial data below are extracted from the Group's audited financial statements prepared in accordance with PRC ASBEs. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Ernst & Young Hua Ming LLP and the accompanying notes thereto set out in the Annual Report.

7.2.1 *Breakdown of indicators by industry, business segment and region as compared to the previous year*

RMB in millions

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	101,233.2	100%	70,100.7	30.75%	1.04%	1.45%	(0.28)
Total	**101,233.2**	**100%**	**70,100.7**	**30.75%**	**1.04%**	**1.45%**	**(0.28)**
II. By business segment							
Carriers' networks	58,880.5	58.16%	35,847.8	39.12%	2.90%	(0.47%)	2.06
Government and corporate business	8,903.7	8.80%	5,601.5	37.09%	(15.18%)	(10.10%)	(3.55)
Consumer business	33,449.0	33.04%	28,651.4	14.34%	3.02%	6.70%	(2.95)
Total	**101,233.2**	**100%**	**70,100.7**	**30.75%**	**1.04%**	**1.45%**	**(0.28)**
III. By region							
The PRC	58,550.1	57.84%	38,956.8	33.46%	10.25%	13.13%	(1.70)
Asia (excluding the PRC)	14,564.6	14.39%	10,499.4	27.91%	(1.73%)	(5.30%)	2.72
Africa	5,751.2	5.68%	3,229.2	43.85%	(17.60%)	(20.57%)	2.10
Europe, Americas and Oceania	22,367.3	22.09%	17,415.3	22.14%	(11.52%)	(10.75%)	(0.66)
Total	**101,233.2**	**100%**	**70,100.7**	**30.75%**	**1.04%**	**1.45%**	**(0.28)**

(1) Analysis of change in revenue

The Group reported RMB101,233.2 million in operating revenue for 2016, increasing by 1.04% as compared with last year. Operating revenue generated from the domestic business amounted to RMB58,550.1 million, increasing by 10.25% as compared with last year. Operating revenue generated from the international business decreased by 9.34% to RMB42,683.1 million.

Analysed by business segment, year-on-year growth in the Group's operating revenue reflected mainly slight year-on-year growth in operating revenue from carriers' networks and consumer business. The 2.90% year-on-year increase in operating revenue from the Group's carriers' networks for 2016 reflected mainly the increase in operating revenue from 4G system products and optical transmission products in the domestic and international markets. The 3.02% year-on-year increase in operating revenue from the Group's consumer business for 2016 mainly reflected the year-on-year increase in operating revenue from handset products and home terminals in the domestic markets.

(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 millions

2016			2015 [Note]					
Operating revenue	**Operating costs**	**Gross profit margin**	Operating revenue	Operating costs	Gross profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in gross profit margin (percentage points)
101,233.2	**70,100.7**	**30.75%**	100,031.4	68,977.4	31.04%	1.20%	1.63%	(0.29)

Note: Figures of operating revenue and operating costs for 2015 have excluded operating revenue and operating costs of subsidiaries deconsolidated in 2016.

Newinfo Holdings Limited ("Newinfo"), a wholly-owned subsidiary of ZTE (H.K.) Limited ("ZTE HK"), which is in turn a wholly-owned subsidiary of the Company, completed the disposal of 51% equity interests in LiveCom Limited ("LiveCom") in January 2016 and LiveCom had been excluded from the consolidated statements of the Group as from February 2016. The Company completed the disposal of 84.86% equity interests in 天津中興智聯科技有限公司 ("Tianjin Zhilian") in July 2016 and Tianjin Zhilian had been excluded from the consolidated statements of the Group as from August 2016. Shenzhen Zhongxing Software Company Limited ("Zhongxing Software"), a wholly-owned subsidiary of the Company, completed the disposal of 90% equity interests in 深圳市訊聯智付網絡有限公司 ("Xunlian Zhifu") in August 2016 and Xunlian Zhifu had been excluded from the consolidated statements of the Group as from September 2016. Nubia Technology Limited ("Nubia"), a subsidiary of the Group, completed the disposal of 85.50% equity interests in Shenzhen ZTE We Link Technology Company Limited ("ZTE We Link") on 8 December 2016 and ZTE We Link had been excluded from the consolidated statements of the Group as from 8 December 2016. Excluding the operating revenue and operating costs of LiveCom, Tianjin Zhilian, Xunlian Zhifu and ZTE We Link for the corresponding period of 2015, the operating revenue and operating costs of the Group for 2016 grew by 1.20% and 1.63%, respectively, as compared to the same period last year, while gross profit margin dropped by 0.29 percentage points, year-on-year.

(3) During the year, the Company did not enter into any material contracts requiring disclosure. Progress during the year of material contracts entered into prior to the year is set out as in the section headed "Material Matters — (XIII) Material Contracts and Their Performance" in the Annual Report.

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

(1) There was no substantial change in the principal business and its structure during the year as compared to the previous year.

(2) Changes in the profit mix during the year as compared to the previous year are set out as follows:

The Group's operating profit for 2016 amounted to RMB1,165.5 million, representing year-on-year growth of 263.65% which reflected mainly the increase in revenue, decrease in financial expenses and increase in investment income. Operating revenue amounted to RMB101,233.2 million, representing year-on-year growth of 1.04%, which reflected mainly slight year-on-year growth in operating revenue from carriers' networks and consumer business. Investment income amounted to RMB1,640.3 million, an increase by 135.81% as compared to the same period last year reflecting mainly investment income from the disposals of subsidiaries Xunlian Zhifu, Tianjin Zhilian and ZTE We Link during the period. Financial expenses decreased by 85.48% to RMB207.8 million, attributable mainly to lower interest expense as a result of the optimised mix of interest-bearing liabilities, as well as to exchange gains reported for the period versus exchange losses for the same period last year. The net amount of non-operating income/expense was RMB-1,933.3 million, which was attributable mainly to the provision for related losses amounting to RMB6,182.5 million by the Group for the reporting period in respect of the post-balance sheet date event in accordance with accounting standards in relation to the agreements reached by the Company with Relevant U.S. Authorities.

(3) Changes in the profitability (gross profit margin) of the principal business during the year as compared to the previous year are set out as follows:

The Group's gross profit margin for 2016 was 30.75%, which was largely unchanged compared to the previous year.

7.3 Management discussion and analysis under HKFRSs

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

Unit: RMB in millions

Consolidated statement of profit or loss and other comprehensive income	**2016**	2015
Operating revenue:		
Carriers' networks	**58,880.5**	57,222.7
Government and corporate business	**8,903.7**	10,496.7
Consumer business	**33,449.0**	32,467.0
Total revenue	**101,233.2**	100,186.4
Cost of sales	**(71,609.4)**	(71,093.3)
Gross profit	**29,623.8**	29,093.1
Other income and gains	**7,485.8**	5,419.5
Research and development costs	**(12,762.1)**	(12,200.5)
Selling and distribution expenses	**(12,622.4)**	(11,941.0)
Administrative expenses	**(2,731.0)**	(2,514.1)
Other expenses	**(8,651.0)**	(2,347.7)
Profit from operating activities	**343.1**	5,509.3
Finance costs	**(1,156.1)**	(1,269.1)
Share of profits and losses of joint ventures and associates	**45.2**	63.3
Profit/(loss) before tax	**(767.8)**	4,303.5
Income tax expense	**(640.1)**	(563.2)
Profit/(loss) for the year	**(1,407.9)**	3,740.3
Attributable to:		
Non-controlling interests	**(448.2)**	(115.8)
Attributable to:		
Perpetual capital instruments	**(501.3)**	(416.6)
Attributable to:		
Ordinary shares of the parent company	**(2,357.4)**	3,207.9
Other comprehensive income	**(5.1)**	327.6
Comprehensive income	**(1,413.0)**	4,067.9
Dividend	**—**	1,038.4
Earnings per share — Basic	**RMB(0.57)**	RMB0.78
— Diluted	**RMB(0.57)**	RMB0.77

REVENUE ANALYSIS BY BUSINESS SEGMENT AND REGION

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	**2016**		2015	
	Revenue	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
Carriers' networks	**58,880.5**	**58.2%**	57,222.7	57.1%
Government and corporate business	**8,903.7**	**8.8%**	10,496.7	10.5%
Consumer business	**33,449.0**	**33.0%**	32,467.0	32.4%
Total	**101,233.2**	**100.0%**	100,186.4	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

Regions	**2016**		2015	
	Revenue	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
The PRC	**58,550.1**	**57.8%**	53,108.5	53.0%
Asia (excluding the PRC)	**14,564.6**	**14.4%**	14,820.3	14.8%
Africa	**5,751.2**	**5.7%**	6,979.5	7.0%
Europe, the Americas and Oceania	**22,367.3**	**22.1%**	25,278.1	25.2%
Total	**101,233.2**	**100.0%**	100,186.4	100.0%

The Group reported RMB101,233.2 million in operating revenue for 2016, improving by 1.0% as compared with the same period last year. Operating revenue generated from the domestic business increased by 10.2% to RMB58,550.1 million, while operating revenue generated from the international business decreased by 9.3% to RMB42,683.1 million, as compared with the same period last year.

Analysed by business segment, year-on-year growth in the Group's operating revenue reflected mainly slight year-on-year growth in operating revenue from carriers' networks and consumer business. The 2.9% year-on-year increase in operating revenue from the Group's carriers' networks for 2016 reflected mainly the increase in operating revenue from 4G system products and optical transmission products in the domestic and international markets. The 3.0% year-on-year increase in operating revenue from the Group's consumer business for 2016 mainly reflected the year-on-year increase in operating revenue from handset products and home terminals in the domestic markets.

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	2016		2015	
	Cost of sales	**As a percentage of business segment revenue**	Cost of sales	As a percentage of business segment revenue
Carriers' networks	**36,933.2**	**62.7%**	37,472.1	65.5%
Government and corporate business	**5,759.3**	**64.7%**	6,446.9	61.4%
Consumer business	**28,916.9**	**86.5%**	27,174.3	83.7%
Total	**71,609.4**	**70.7%**	71,093.3	71.0%

Unit: RMB in millions

Business segment	2016		2015	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
Carriers' networks	**21,947.3**	**37.3%**	19,750.6	34.5%
Government and corporate business	**3,144.4**	**35.3%**	4,049.8	38.6%
Consumer business	**4,532.1**	**13.5%**	5,292.7	16.3%
Total	**29,623.8**	**29.3%**	29,093.1	29.0%

Cost of sales of the Group for 2016 increased by 0.7% as compared to last year to RMB71,609.4 million. The Group's overall gross profit margin of 29.3% for 2016 was 0.3 percentage point higher as compared to the same period last year, reflecting mainly higher gross profit margin for carriers' networks.

Cost of sales of the Group's carriers' networks for 2016 amounted to RMB36,933.2 million, a 1.4% decrease compared to the same period last year. Gross profit margin was 37.3% compared to 34.5% for the same period last year. The gross profit margin of carriers' networks increased primarily in tandem with the growth in the gross profit margin of wireless products in the domestic and international markets.

Cost of sales of the Group's government and corporate business for 2016 amounted to RMB5,759.3 million, a decrease of 10.7% compared to the same period last year. The relevant gross profit margin was 35.3% versus 38.6% for the same period last year. The decline in gross profit margin for the government and corporate business reflected mainly the decline in gross profit margin for the government and corporate projects in the domestic market.

Cost of sales of the Group's consumer business for 2016 amounted to RMB28,916.9 million, increasing by 6.4% compared to the same period last year. The relevant gross profit margin was 13.5%, compared to 16.3% for the same period last year. The decline in gross profit margin for the consumer business was mainly attributable to the lower gross profit margin for handset products in the domestic and international markets.

OTHER INCOME AND GAINS

Other income and gains of the Group for 2016 amounted to RMB7,485.8 million, representing an 38.1% increase compared to RMB5,419.5 million for 2015, which was mainly attributable to exchange gains reported by the Group for the period versus exchange losses for the same period last year, as well as investment income from the disposals of subsidiaries Xunlian Zhifu, Tianjin Zhilian and ZTE We Link during the period.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2016 increased by 4.6% to RMB12,762.1 million from RMB12,200.5 million for 2015, and rose by 0.4 percentage point from 12.2% for 2015 to 12.6% for 2016 as a percentage of operating revenue, attributable mainly to the continuous 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 chips for the period.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses for 2016 increased by 5.7% to RMB12,622.4 million from RMB11,941.0 million for 2015, reflecting mainly increased investments in market development and staff expenses. Selling and distribution expenses as a percentage of operating revenue increased by 0.6 percentage point to 12.5%, compared to 11.9% for 2015.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for 2016 increased by 8.6% to RMB2,731.0 million, as compared to RMB2,514.1 million for 2015, which was mainly attributable to the increase in the Group's staff expenses during the period. Administrative expenses as a percentage of operating revenue increased by 0.2 percentage point to 2.7%, as compared to 2.5% for 2015.

OTHER EXPENSES

Other expenses primarily include loss on impairment of assets (which includes bad debt provision on accounts receivables), loss on foreign exchange and non-operating expenses. Other expenses of the Group for 2016 was RMB8,651.0 million, representing an increase of 268.5% from RMB2,347.7 million in 2015, primarily due to the provision for related losses amounting to RMB6,182.5 million by the Group for the period in respect of the post-balance sheet date event in accordance with accounting standards in relation to the agreements reached by the Company with Relevant U.S. Authorities.

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2016 amounted to RMB343.1 million, as compared to RMB5,509.3 million for 2015, while operating profit margin was 0.3% as compared to 5.5% for 2015, reflecting mainly to the provision for related losses amounting to RMB6,182.5

million by the Group for the period in respect of the post-balance sheet date event in accordance with accounting standards in relation to the agreements reached by the Company with Relevant U.S. Authorities.

FINANCE COSTS

Finance costs of the Group for 2016 decreased by 8.9% to RMB1,156.1 million compared to RMB1,269.1 million for 2015. The decrease was attributable mainly to lower interest expenses following the Group's effort to optimise the mix of interest-bearing liabilities.

INCOME TAX EXPENSE

The Group's income tax expense for 2016 was RMB640.1 million, which was 13.6% higher as compared to RMB563.2 million for 2015, reflecting mainly increased profit of the subsidiaries of the Group for the period.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The Group's profit attributable to non-controlling interests for 2016 amounted to RMB448.2 million, representing an increase of RMB332.4 million over RMB115.8 million for 2015, which was mainly attributable to substantial gain from the disposal of equity interests by the fund partnership under Shenzhen ZTE Capital Management Company Limited ("ZTE Capital").

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for 2016 amounted to RMB-5.1 million, compared to RMB327.6 million for 2015, mainly reflecting losses arising from cash flow hedging incurred by the Group for the period versus gains for the same period last year and the decrease in gains arising from change in the fair value of available-for-sale financial assets of Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I.

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 2016 was 38.6%, increasing by 1.6 percentage points as compared to 37.0% for 2015.

LIQUIDITY AND CAPITAL RESOURCES

In 2016, the Group's development funds were financed mainly by cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other contingent cash requirements. The Group has adopted an appropriate capital management policy and sufficient funds are in place to meet its debt repayment obligations as due, capital expenditure and the requirements of normal production operations.

Cash and cash equivalents of the Group as of 31 December 2016 amounted to RMB30,049.8 million held mainly in RMB and to a smaller extent in USD, EUR, HKD and other currencies.

CASH FLOW DATA

Unit: RMB in millions

Item	**2016**	2015
Net cash inflow from operating activities	**3,092.7**	5,640.4
Net cash outflow from investing activities	**(3,654.0)**	(1,868.8)
Net cash inflow from financing activities	**4,029.1**	5,639.6
Net increase in cash and cash equivalents	**3,467.8**	9,411.2
Cash and cash equivalents at year-end	**30,049.8**	26,617.0

OPERATING ACTIVITIES

The Group reported net cash inflow from operating activities of RMB3,092.7 million for 2016, compared to RMB5,640.4 million for 2015, mainly reflecting year-on-year increase in cash received from sales of goods and provision of services by RMB6,312.4 million, decrease in other cash receipts relating to operating activities by RMB153.1 million, increase in tax refund received by RMB208.9 million, increase in cash paid for the purchase of goods and services by RMB5,763.9 million, increase in cash payments to and on behalf of employees by RMB2,132.5 million, increase in payments of tax expenses by RMB462.5 million, and increase in other cash payments relating to operating activities by RMB153.8 million.

INVESTING ACTIVITIES

The Group's net cash outflow from investing activities was RMB3,654.0 million for 2016, compared to RMB1,868.8 million for 2015, reflecting mainly the increase in cash paid for the period in connection with investments by ZTE Capital.

FINANCING ACTIVITIES

The Group's net cash inflow from financing activities for 2016 was RMB4,029.1 million, compared to net cash inflow of RMB5,639.6 million for 2015, reflecting mainly the issue of perpetual capital instruments in the same period last year.

CAPITAL EXPENDITURE

The Group's capital expenditure for 2016 amounted to RMB4,810.2 million, compared to RMB3,132.1 million in 2015, which was mainly applied in the completion of the staff quarters project, Heyuan Production, R&D and Training Base and Changsha R&D and Training Base, equipment installation and purchase of machinery and equipment.

INDEBTEDNESS

Unit: RMB in millions

Item	**31 December**	
	2016	2015
Secured bank loans	**48.8**	524.7
Unsecured bank loans	**22,033.6**	18,016.8

Unit: RMB in millions

Item	31 December **2016**	2015
Short-term bank loans	**17,064.1**	12,525.2
Long-term bank loans	**5,018.3**	6,016.3

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. The Group's RMB short-term and long-term bank loans subject to fixed interest rates were RMB6,315.0 million and RMB703.7 million respectively, while USD and EUR short-term bank loans subject to fixed interest rates were equivalent to approximately RMB2,700.0 million and the remaining USD and EUR loans were subject to floating interest rates. The Group's borrowings were mainly denominated in USD and EUR, apart from certain RMB loans.

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 fluctuations in the exchange rates of such currencies. The Group seeks to mitigate the impact of exchange rate volatility on its operations on an ongoing basis through business strategy guidance, internal settlement management, financing mix adjustment and application of derivative financial instruments with the maintenance of favourable exposures as appropriate and stringent control over unfavourable exposures with apparent adverse trends or unfavourable exposures without value preservation products, based on the principle of prudent exposure management. The Company also facilitates the pricing and settlement of its overseas projects in RMB, so as to lower the Group's exchange risks in the long term.

The Group's bank loans in 2016 increased by RMB3,540.9 million over the previous year mainly as a result of the increase in short-term loans for the repayment of super and short-term commercial paper.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

Item	31 December 2016 **Total**	Less than 1 year	2–5 years	More than 5 years
Bank loans	**22,082.4**	17,064.1	4,958.3	60.0
Operating lease obligation	**560.6**	307.7	174.3	78.6

CONTINGENT LIABILITIES

Unit: RMB in millions

Item	31 December **2016**	2015
Guarantees given to banks in connection with borrowings to customers	—	50.0
Guarantees given to banks in respect of performance bonds	**8,400.9**	7,656.1
Total	**8,400.9**	7,706.1

CAPITAL COMMITMENTS

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

Unit: RMB in millions

Item	**31 December 2016**	2015
Land and buildings:		
Contracted, but not provided for	**1,052.8**	904.4
Investment in associates:		
Contracted, but not provided for	**128.4**	28.6

DETAILS OF THE SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES OF THE GROUP

Details of the subsidiaries of the Group as at 31 December 2016 are set out in the section headed "Report of the Board of Directors — (II) 11. Analysis of principal subsidiaries and investee companies" in the Annual Report.

Details of the associates and joint ventures of the Group as at 31 December 2016 are set out in Notes 19 and 20 to the financial statements prepared in accordance with HKFRSs in the Annual Report.

MATERIAL ACQUISITIONS AND DISPOSALS RELATED TO SUBSIDIARIES, ASSOCIATES AND JOINT VENTURES

The Group did not conduct any significant acquisitions or disposals related to subsidiaries, associates and joint ventures in 2016. Details of progress of acquisitions and disposals related to subsidiaries, associates and joint ventures commenced by the Company in previous years and 2016 are set out in the section headed "Material Matters — (V) Asset Transactions" in the Annual Report.

PROSPECTS FOR NEW BUSINESS

Details of the prospects for new business of the Group are set out in the section headed "Chairman's Statement — Future Prospects" in the Annual Report.

EMPLOYEES

Details of the number of employees, training programmes, remuneration, remuneration policy, bonus and the share option scheme of the Group as at 31 December 2016 are set out in the sections headed "Directors, Supervisors, Senior Management and Employees," "Corporate Governance Structure" and "Material Matters —(VI) Implementation and Impact of the Company's Share Option Incentive Scheme" in the Annual Report.

CHARGES ON ASSETS

Details of the Group's charges on assets as at 31 December 2016 are set out in Note 31 to the financial statements prepared under HKFRSs in the Annual Report.

PLANS FOR INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

Details of the Group's investments and their performance and prospects as at 31 December 2016 are set out in the sections headed "Report of the Board of Directors — (II) 9. Analysis of Investments" and "Material Matters — (V) Asset Transactions and (VII) External Investments" in the Annual Report.

Details of future plans for investments or acquisition of capital assets are set out in the section headed "Report of the Board of Directors" in the Annual Report.

MARKET RISKS

For details of the Group's exposure to market risks, please refer to the section 7.5.2 of this announcement.

EVENTS AFTER THE REPORTING PERIOD

The Company has reached agreements (collectively the "Agreements") with the Bureau of Industry and Security of the United States Department of Commerce ("BIS"), the United States Department of Justice ("DOJ") and the Office of Foreign Assets Control of the United States Department of Treasury ("OFAC") in relation to investigations regarding the Company's compliance with U.S. Export Administration Regulations (the "EAR") and U.S. sanctions laws. Due to violations of U.S. export controls laws and U.S. rules and regulations in relation to the provision of information and other conduct during the investigations, the Company has agreed to plead guilty and pay a total of USD892,360,064, with a further USD300,000,000 to BIS, which is suspended for a period of seven years on the condition that the Company complies with the requirements in the agreement with BIS. While the agreement with OFAC takes effect immediately, the agreement with DOJ is pending approval from the United States District Court for the Northern District of Texas ("Court"). Similarly, Court approval of the DOJ agreement is a prerequisite before BIS will issue its settlement Order. In the meantime, BIS will recommend that ZTE be removed from the Entity List, conditioned on court approval of the DOJ agreement, entry of the plea, and the issuance of Assistant Secretary's Order.

The Company will be continuously taking an overhaul of its organization and structure, business procedures and internal control, and necessary measures to ensure the Company's compliance with U.S. export control laws and performance of its obligations under the Agreements.

7.4 Proposal for profit distribution and conversion of capital reserve of 2016

No profit distribution is proposed by the Company for 2016. The aforesaid matter shall be subject to consideration and approval at the general meeting.

7.5 Business outlook of 2017 and risk exposures

7.5.1 Business outlook of 2017

The Group will see new opportunities for development in 2017 as the ICT industry is expected to sustain strong momentum, with artificial intelligence, virtual reality, 5G, cloudification, virtualisation and smart city taking turns to drive market developments, while network data flow will also sustain rapid growth. However, the Group will also face challenges arising from the complex political and economic conditions in the world, as well as the expected decline in the overall revenue for global carriers, who will be actively seeking new profit and business models as the old practices are subject to the impact of new ventures and models.

In connection with carriers' networks, broadband and ultra-broadband services will drive the rapid growth of data flow over the network, presenting opportunities for the rapid development of the wireless, fixed-line, transmission, data centre, CDN and big video businesses. The Group will work vigorously to support global carriers' requirements in network construction and operational reforms with a view to co-development.

In connection with government and corporate business, the Group will help government and corporate clients to step up with their deployment and application of new products and solutions.

In connection with the consumer business, the Group will continue to develop in depth the global operators markets. The Group will also expand operational ability in open markets and promote consumer branding status while enhancing profitability.

In 2017, the Group will persist in active and prudent operations while attempting to explore new prospects with persistent research and development efforts complemented by stronger commitment to innovation and more stringent project management, as it seeks mutual growth with its customers, partners and other stakeholders and the creation of a positive ecosystem for the industry.

7.5.2 ***Risk Exposures***

(1) Country risk

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 relatively 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 risks

The Group's consolidation 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 fluctuations in the exchange rates of such currencies. The Group seeks to mitigate the impact of exchange rate volatility on its operations on an ongoing basis through business strategy guidance, internal settlement management, financing mix adjustment and application of derivative financial instruments with the maintenance of favourable exposures as appropriate and stringent control over unfavourable exposures with apparent adverse trends or unfavourable exposures without value preservation products, based on the principle of prudent exposure management. The Company also facilitates the pricing and settlement of its overseas projects in RMB, so as to lower the Group's exchange risks in the long term.

(4) Interest rate risk

The interest rate risk of the Group is mainly associated with interest-bearing liabilities. Fluctuations in the interest rates of RMB or foreign currencies will result in changes in the total amount of interest payable by the Group and will therefore affect the Group's profitability. The Group seeks to lower its interest rate risk mainly by managing the total amount and structure of its interest-bearing liabilities. Control over the total amount of interest-bearing liabilities is mainly achieved by improving the cash turnover efficiency and increasing the free cash flow of the Group. Structural management of interest-bearing liabilities is achieved mainly through portfolio control with 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, taking into account changes in the market environment while exploring low-cost financing opportunities in the global market.

(5) Credit risk

The Group provides one-stop communications and information 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 development will inevitably be affected by the varied credit profiles of these customers. The Group seeks to reduce the aforesaid impact by identifying and managing credit risks through internal credit management measures, such as credit search, credit rating, credit limit management, overall credit risk assessment and stringent credit control against customers with faulty payment records, as well as 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 31 December 2016, 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.

From 5 April 2016 to 14 March 2017, the office of the Chairman and the office of the President have been concurrently assumed by Mr. Zhao Xianming. The Company is 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 will be able to ensure that the checks and balances between the Board and the management will remain unaffected.

In order to enhance corporate governance and separate the roles of the chairman and the chief executive officer, Mr. Zhao Xianming, Chairman and President of the Company, has tendered his resignation from the office of Chairman of the Seventh Session of the Board of Director. Following his resignation, Mr. Zhao Xianming will continue to serve as Executive Director and President of the Company. At the Fourteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 14 March 2017, Mr. Yin Yimin was elected Chairman of the Seventh Session of the Board of Directors, and in replacement as Member of the Nomination Committee and Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors for a term commencing on 14 March 2017 and ending on the date on which the Seventh Session of the Board of Directors 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 has adopted the Model Code. Upon due enquiry with all Directors and Supervisors of the Company, the Company is not aware of any information that reasonably indicates non-compliance with code provisions set out in the Model Code by Director or Supervisor during the year.

9. FINANCIAL REPORTS

9.1 The Audit Committee of the Company has reviewed, in association with the management, the accounting principles and standards adopted by the Group, and has investigated issues relating to auditing, risk management and internal control and financial reporting, including the review of the consolidated and company balance sheets at 31 December 2016 and the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2016 prepared by the Group in accordance with PRC ASBEs and the consolidated and company statement of financial position at 31 December 2016 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2016 prepared in accordance with HKFRSs.

9.2 Audit opinion

The consolidated and company balance sheets as at 31 December 2016, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2016 prepared by the Group in accordance with PRC ASBEs have been audited by Ernst & Young Hua Ming LLP, who has issued a standard auditors' report with unqualified opinion (Ernst & Young Hua Ming (2017) SHENZI NO. 60438556_H01).

Ernst & Young issued an unqualified auditors' report following auditing in connection with the consolidated statement of financial position as at 31 December 2016, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2016 prepared by the Group in accordance with HKFRSs.

9.3 Comparative financial statements

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

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

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

√ Applicable ☐ N/A

The related explanatory statement is set out in the section 4 in this announcement.

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

☐ Applicable √ N/A

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

New subsidiaries established during 2016 included: tier-one subsidiaries 中興飛流信息科技有限公司, ZTE Gaoneng Technology Company Limited* (中興高能技術有限責任公司), Jiyuan ZTE Smart Technology Industries Company Limited* (濟源中興智慧科技產業有限公司), Shenyang (ZTE) Big Data Research Company Limited* (瀋陽(中興)大數據研究有限公司), ZTE Smart Auto Company Limited, Shijiazhuang Smart City Research Institute Company Limited* (石家莊智慧城市研究院有限責任公司), 中興光電子技術有限公司, ZTE (Yiwu) Research Institute Company Limited* (中興通訊(義烏)研究院有限公司) and ZTE Group Finance Holdings (Hangzhou) Limited, tier-two subsidiaries ZTE MOZAMBIQUE LDA, Shanghai Xingxin New Energy Auto Company Limited* (上海興新新能源汽車有限公司), Shenzhen ZTE Jingyun Technology Company Limited, ZTESOFT TECHNOLOGY INDIA PRIVATE LIMITED, ZTE Cameroon Sarl, ZTE Telecommunications Limited, Shenzhen ZTE Gaoda Communications Technology Company Limited* (深圳市中興高達通信技術有限公司), Changshu Changxing Capital Investment Management Company Limited, 安徽皖興通信息技術有限公司, ZTE HK (VIETNAM) CO., LTD, Foshan ZTE Gaojian New Energy Technology Company Limited* (佛山市中興高建新能源技術有限公司), Xi'an Cruise Semiconductor Technology Company Limited, Hunan ZTE Supply Chain Company Limited* (湖南中興供應鏈有限公司), ZTE BENIN SRAL, Nubia (Hong Kong) Limited, Nanjing ZTEsoft Smart Data Technology Company Limited* (南京中興軟創智慧數據科技有限公司), ZTE (Liaoyuan) Smart City Development Company Limited* (中興(遼源)智慧城市發展有限公司) and ZTE ARMENIA, tier three subsidiaries Shenzhen Hengdian New Energy Technology Company Limited* (深圳市恒電新能源科技有限責任公司), Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership), Foshan ZTE ICT Company Limited* (佛山中興網信科技有限公司), Dalian Zhongwang Real Estate Company

Limited* (大連中網置業有限公司) and Hong Kong Green Pea Technology Limited* (香港青豆科技有限公司). New tier-one subsidiary acquired during 2016 was Zhuhai Guangtong Bus Service Company Limited* (珠海市廣通客車有限公司).

Newinfo, a wholly-owned subsidiary of ZTE HK, which is in turn a wholly-owned subsidiary of the Company, completed the disposal of 51% equity interests in LiveCom in January 2016 and LiveCom had been excluded from the consolidated statements of the Group as from February 2016. The Company completed the disposal of 84.86% equity interests in Tianjin Zhilian in July 2016 and Tianjin Zhilian had been excluded from the consolidated statements of the Group as from August 2016. Zhongxing Software, a wholly-owned subsidiary of the Company, completed the disposal of 90% equity interests in Xunlian Zhifu in August 2016 and Xunlian Zhifu had been excluded from the consolidated statements of the Group as from September 2016. Nubia, a subsidiary of the Group, completed the disposal of 85.50% equity interests in ZTE We Link on 8 December 2016 and ZTE We Link had been excluded from the consolidated statements of the Group as from 8 December 2016.

9.7 Explanatory statement from the Board of Directors, the Supervisory Committee and the Independent Non-executive Directors of the Company on the accountant's "qualified opinion" for the year

□ Applicable √ N/A

By Order of the Board
Yin Yimin
Chairman

Shenzhen, the PRC
23 March 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; five non-executive directors, Zhang Jianheng, Luan Jubao, Wang Yawen, Tian Dongfang and Zhan Yichao; and five independent non-executive directors, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang.

* *for identification purposes only*

CONSOLIDATED BALANCE SHEET

31 December 2016

		RMB'000
Assets	**2016**	2015 (Restated)
Current assets		
Cash	**32,349,914**	28,025,009
Derivative financial assets	**54,857**	10,110
Bills receivable	**1,984,493**	3,463,358
Trade receivables	**25,998,188**	25,251,287
Factored trade receivables	**2,261,280**	1,272,068
Other receivables	**4,430,072**	2,970,258
Prepayments	**1,739,691**	640,113
Inventories	**26,810,568**	19,731,741
Amount due from customers for contract works	**9,345,123**	13,928,446
Other current assets	**7,877,874**	3,937,776
Total current assets	**112,852,060**	99,230,166
Non-current assets		
Available-for-sale financial assets	**2,659,667**	2,381,467
Long-term trade receivables	**1,376,563**	362,831
Factored long-term trade receivables	**1,391,746**	1,593,528
Long-term equity investments	**665,876**	560,939
Investment properties	**2,016,470**	2,010,396
Fixed assets	**7,516,241**	7,692,175
Construction in progress	**1,729,450**	643,789
Intangible assets	**4,354,096**	4,224,446
Deferred development costs	**1,365,890**	789,815
Goodwill	**186,206**	—
Deferred tax assets	**1,604,575**	1,434,143
Long-term deferred assets	**34,953**	32,790
Other non-current assets	**3,887,117**	3,875,188
Total non-current assets	**28,788,850**	25,601,507
TOTAL ASSETS	**141,640,910**	124,831,673

CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2016

Liabilities	2016	*RMB'000* 2015 (Restated)
Current liabilities		
Short-term loans	**15,132,120**	7,907,572
Bank advances on factored trade receivables	**2,263,015**	1,273,346
Derivative financial liabilities	**40,148**	19,840
Bonds payable	—	4,000,000
Bills payable	**11,689,957**	9,885,129
Trade payables	**25,243,881**	22,932,866
Amount due to customers for contract works	**5,876,790**	4,423,103
Advances from customers	**8,092,164**	4,035,638
Salary and welfare payables	**5,169,051**	3,644,694
Taxes payable	**997,189**	1,607,890
Dividends payable	**50,317**	7,418
Other payables	**13,660,418**	6,005,130
Deferred income	**712,657**	438,920
Provisions	**887,366**	776,682
Long-term loans due within one year	**1,932,025**	4,617,604
Total current liabilities	**91,747,098**	71,575,832
Non-current liabilities		
Long-term loans	**5,018,276**	6,016,254
Bank advances on factored long-term trade receivables	**1,391,746**	1,593,528
Provision for retirement benefits	**146,106**	144,280
Deferred tax liabilities	**98,380**	52,769
Deferred income	**790,223**	759,394
Other non-current liabilities	**1,563,991**	1,341,011
Total non-current liabilities	**9,008,722**	9,907,236
Total liabilities	**100,755,820**	81,483,068

CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2016

		RMB'000
Shareholder's equity	**2016**	2015
Shareholders' equity		
Share capital	**4,184,628**	4,150,791
Capital reserves	**10,734,300**	10,493,439
Other comprehensive income	**(822,724)**	(685,067)
Surplus reserve	**2,022,709**	2,022,709
Retained profits	**10,282,238**	13,678,222
Total equity attributable to holders of ordinary shares of the parent	**26,401,151**	29,660,094
Other equity instruments		
Including: perpetual capital instruments	**9,321,327**	9,321,327
Non-controlling interests	**5,162,612**	4,367,184
Total shareholders' equity	**40,885,090**	43,348,605
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**141,640,910**	124,831,673

Legal representative	*Chief Financial Officer*	*Head of Finance Division*
Yin Yimin	**Wei Zaisheng**	**Shi Chunmao**

CONSOLIDATED INCOME STATEMENT

2016

		RMB'000
	2016	2015
Operating revenue	**101,233,182**	100,186,389
Less: Operating costs	**70,100,658**	69,100,447
Taxes and surcharges	**868,208**	1,303,580
Selling and distribution costs	**12,458,152**	11,771,666
Administrative expenses	**2,487,918**	2,383,355
Research and development costs	**12,762,055**	12,200,542
Finance expenses	**207,773**	1,430,794
Impairment losses	**2,853,127**	2,187,471
Add: Gains/(losses) from changes in fair values	**29,978**	(183,682)
Investment income	**1,640,279**	695,619
Including: Share of profits/(losses) of associates and joint ventures	**45,166**	63,278
Operating profit	**1,165,548**	320,471
Add: Non-operating income	**4,361,548**	4,442,945
Less: Non-operating expenses	**6,294,847**	459,884
Including: Loss on disposal of non-current assets	**22,514**	28,874
Total profit/(loss)	**(767,751)**	4,303,532
Less: Income tax	**640,118**	563,262
Net profit/(loss)	**(1,407,869)**	3,740,270
Attributable to:		
Holders of ordinary shares of the parent	**(2,357,418)**	3,207,885
Holders of perpetual capital instruments	**501,300**	416,627
Non-controlling interests	**448,249**	115,758

		RMB'000
	2016	2015
Other comprehensive income, net of tax	**(5,158)**	327,656
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	**(137,657)**	(220,792)
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods		
Change in net liabilities arising from the re-measurement of defined benefit plans	**743**	(26,066)
	743	(26,066)
Other comprehensive income that will be reclassified to profit and loss in subsequent periods		
Changes in the fair value of available-for-sale financial assets	**58,780**	163,724
Effective portion of hedging instruments	**(57,047)**	8,499
Exchange differences on translation of foreign operations	**(140,133)**	(366,949)
	(138,400)	(194,726)
Other comprehensive income attributable to non-controlling interests, net of tax	**132,499**	548,448
Total comprehensive income	**(1,413,027)**	4,067,926
Attributable to:		
Holders of ordinary shares of the parent	**(2,495,075)**	2,987,093
Holders of perpetual capital instruments	**501,300**	416,627
Non-controlling interests	**580,748**	664,206
Earnings per share *(RMB/share)*		
Basic	**RMB(0.57)**	RMB0.78
Diluted	**RMB(0.57)**	RMB0.77

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2016

RMB'000

	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	**Capital reserve**	**Other comprehensive income**	**Surplus reserve**	**Retained profit**	**Sub-total**	**Including: perpetual capital instruments**	**Minority interests**	**Total shareholders' equity**
I. Current year'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 year									
(I) Total comprehensive income	—	—	**(137,657)**	—	**(2,357,418)**	**(2,495,075)**	**501,300**	**580,748**	**(1,413,027)**
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	**33,837**	**338,223**	—	—	—	**372,060**	—	**1,081,690**	**1,453,750**
2. Equity settled share expenses charged to equity	—	**(97,362)**	—	—	—	**(97,362)**	—	—	**(97,362)**
3. Capital reduction by shareholders	—	—	—	—	—	—	—	**(431,987)**	**(431,987)**
4. Acquisition of non-controlling shareholders	—	—	—	—	—	—	—	**(229,351)**	**(229,351)**
(III) Profit appropriation									
1. Distribution to shareholders	—	—	—	—	**(1,038,566)**	**(1,038,566)**	**(501,300)**	**(205,672)**	**(1,745,538)**
III. Current year's closing 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**

RMB'000

2015

	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capita	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total	Including: perpetual capital instruments	Minority interests	Total shareholders' equity
I. Current year's opening balance	3,437,541	8,724,754	(464,275)	1,769,012	11,411,542	24,878,574	—	1,413,930	26,292,504
II. Changes during the year									
(I) Total comprehensive income	—	—	(220,792)	—	3,207,885	2,987,093	416,627	664,206	4,067,926
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	25,742	2,289,364	—	—	—	2,315,106	—	2,487,591	4,802,697
2. Capital injection from other equity instrument holders	—	—	—	—	—	—	8,904,700	—	8,904,700
3. Equity settled share expenses charged to equity	—	166,829	—	—	—	166,829	—	—	166,829
4. Capital reduction by shareholders	—	—	—	—	—	—	—	(184,575)	(184,575)
(III) Profit appropriation									
1. Appropriation to surplus reserves	—	—	—	253,697	(253,697)	—	—	—	—
2. Distribution to shareholders	—	—	—	—	(687,508)	(687,508)	—	(13,968)	(701,476)
(IV) Internal transfer of shareholders' equity									
1. Conversion of capital reserve into share capital	687,508	(687,508)	—	—	—	—	—	—	—
III. Current year's closing 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

CONSOLIDATED CASH FLOW STATEMENT

2016

RMB'000

		2016	2015
I.	**Cash flows from operating activities**		
	Cash received from sale of goods or rendering of services	**113,551,944**	107,239,530
	Refunds of taxes	**7,448,038**	7,239,108
	Cash received relating to other operating activities	**3,230,598**	3,383,673
	Sub-total of cash inflows	**124,230,580**	117,862,311
	Cash paid for goods and services	**84,325,441**	78,561,538
	Cash paid to and on behalf of employees	**17,651,948**	15,519,405
	Cash paid for all types of taxes	**7,906,466**	7,444,009
	Cash paid relating to other operating activities	**9,086,519**	8,932,694
	Sub-total of cash outflows	**118,970,374**	110,457,646
	Net cash flows from operating activities	**5,260,206**	7,404,665
II.	**Cash flows from investing activities**		
	Cash received from sale of investments	**2,324,577**	1,609,118
	Cash received from return on investment	**683,483**	654,663
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	**98,620**	23,734
	Net cash received from the disposal of subsidiaries and other operating units	**964,261**	12,227
	Sub-total of cash inflows	**4,070,941**	2,299,742
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets	**4,002,460**	2,469,110
	Cash paid for acquisition of investments	**3,087,455**	1,405,987
	Sub-total of cash outflows	**7,089,915**	3,875,097
	Net cash flows from investing activities	**(3,018,974)**	(1,575,355)

		RMB'000
	2016	2015
III. Cash flows from financing activities		
Cash received from capital injection	**2,532,627**	3,008,502
Including: Capital injection into subsidiaries by minority shareholders	**2,160,567**	2,719,680
Cash received from the issuance of perpetual capital instruments	—	8,904,700
Cash received from borrowings	**30,425,813**	17,736,335
Sub-total of cash inflows	**32,958,440**	29,649,537
Cash repayment of borrowings	**28,929,382**	23,835,552
Cash payments for distribution of dividends, profits and for interest expenses	**2,802,549**	2,057,624
Including: Distribution of dividends, profits by subsidiaries to minority shareholders	**25,613**	14,663
Cash paid in relation to other financing activities	—	174,400
Sub-total of cash outflows	**31,731,931**	26,067,576
Net cash flows from financing activities	**1,226,509**	3,581,961
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**(34,946)**	(24,415)
V. Net increase in cash and cash equivalents	**3,432,795**	9,386,856
Add: cash and cash equivalents at beginning of year	**26,616,996**	17,230,140
VI. Net balance of cash and cash equivalents at the end of year	**30,049,791**	26,616,996

BALANCE SHEET
31 December 2016

		RMB'000
Assets	**2016**	2015 (Restated)
Current assets		
Cash	**15,894,744**	17,708,219
Derivative financial assets	**15,457**	3,234
Bills receivable	**1,200,607**	1,461,254
Trade receivables	**40,132,425**	36,128,987
Factored trade receivables	**498,052**	445,819
Prepayments	**50,697**	28,871
Dividend receivable	**3,700,188**	3,473,753
Other receivables	**13,157,923**	8,659,093
Inventories	**17,993,566**	13,315,871
Amount due from customers for contract works	**4,904,060**	9,580,171
Other current assets	**5,177,219**	2,870,709
Total current assets	**102,724,938**	93,675,981
Non-current assets		
Available-for-sale financial assets	**458,091**	366,724
Long-term trade receivables	**6,154,837**	5,908,497
Factored long-term trade receivables	**1,249,292**	1,282,435
Long-term equity investments	**10,707,480**	7,350,908
Investment properties	**1,608,900**	1,603,107
Fixed assets	**4,508,652**	4,340,067
Construction in progress	**698,944**	270,243
Intangible assets	**1,153,375**	1,176,400
Deferred development costs	**191,977**	166,417
Deferred tax assets	**788,372**	671,519
Long-term deferred assets	**34,991**	32,388
Other non-current assets	**3,581,621**	3,745,208
Total non-current assets	**31,136,532**	26,913,913
TOTAL ASSETS	**133,861,470**	120,589,894

BALANCE SHEET (CONTINUED)

31 December 2016

RMB'000

Liabilities and shareholders' equity	2016	2015 (Restated)
Current liabilities		
Short-term loans	**9,733,700**	5,710,313
Derivative financial liabilities	**3,878**	6,421
Bank advances on factored trade receivables	**499,386**	446,283
Bonds payable	**—**	4,000,000
Bills payable	**14,382,695**	13,366,928
Trade payables	**40,201,805**	35,274,224
Amount due to customers for contract works	**3,540,132**	3,016,655
Advances from customers	**5,498,427**	3,761,156
Salary and welfare payables	**2,274,908**	1,253,431
Taxes payable	**191,128**	851,751
Dividends payable	**225**	184
Other payables	**30,533,249**	19,557,447
Deferred income	**344,610**	179,198
Provisions	**554,485**	448,459
Long-term loans due within one year	**1,906,025**	1,700,000
Total current liabilities	**109,664,653**	89,572,450
Non-current liabilities		
Long-term loans	**480,000**	1,469,570
Bank advances on factored long-term trade receivables	**1,249,292**	1,282,435
Provision for retirement benefits	**146,106**	144,280
Deferred income	**36,674**	109,026
Other non-current liabilities	**1,055,711**	1,290,829
Total non-current liabilities	**2,967,783**	4,296,140
Total liabilities	**112,632,436**	93,868,590
Shareholders' equity		
Share capital	**4,184,628**	4,150,791
Capital reserves	**8,723,945**	8,483,084
Other comprehensive income	**691,947**	694,904
Surplus reserve	**1,360,953**	1,360,953
Retained profits	**(3,053,766)**	2,710,245
Shareholders' equity attributable holders of ordinary shares	**11,907,707**	17,399,977
Other equity instruments		
Including: perpetual capital instruments	**9,321,327**	9,321,327
Total shareholders' equity	**21,229,034**	26,721,304
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**133,861,470**	120,589,894

INCOME STATEMENT

2016

RMB'000

	2016	2015
Operating revenue	**90,890,478**	89,765,707
Less: Operating costs	**76,053,148**	74,906,434
Taxes and surcharges	**202,391**	700,642
Selling and distribution costs	**7,536,103**	7,191,037
Administrative expenses	**1,597,395**	1,459,750
Research and development costs	**3,375,265**	3,306,787
Finance expenses	**(89,762)**	578,649
Impairment losses	**1,787,003**	1,403,434
Add: Gains/(losses) from changes in fair values	**21,494**	(33,803)
Investment income	**496,266**	1,361,581
Including: Share of profits of associates and jointly-controlled entities	**52,082**	82,206
Operating profit	**946,695**	1,546,752
Add: Non-operating income	**976,275**	1,245,749
Less: Non-operating expenses	**6,190,693**	237,841
Including: Loss on disposal of non-current assets	**9,362**	14,508
Total profit/(loss)	**(4,267,723)**	2,554,660
Less: Income tax	**(43,578)**	17,694
Net profit/(loss)	**(4,224,145)**	2,536,966
Attributable to holders of ordinary shares	**(4,725,445)**	2,120,339
Attributable to holders of perpetual capital instruments	**501,300**	416,627
Other comprehensive income, net of tax		
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods		
Change in net liabilities arising from the re-measurement of defined benefit plans	**743**	(26,066)
Other comprehensive income will be reclassified to profit and loss in subsequent periods		
Effective portion of hedging instruments	**(4,346)**	—
Exchange differences on translation of foreign operations	**646**	17
Other comprehensive income, net of income tax effect on respective items	**(2,957)**	(26,049)
Total comprehensive income Attributable to:	**(4,277,102)**	2,510,917
Common shareholders	**(4,728,402)**	2,094,290
Holders of perpetual capital instruments	**501,300**	416,627

STATEMENT OF CHANGES IN EQUITY

2016

RMB'000

	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit/	Total common shareholders' equity	Other equity instruments — Perpetual capital instruments	Total shareholders' equity
I. Current year'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 year								
(I) Total comprehensive income	**—**	**—**	**(2,957)**	**—**	**(4,725,445)**	**(4,728,402)**	**501,300**	**(4,227,102)**
(II) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	**33,837**	**338,223**	**—**	**—**	**—**	**372,060**	**—**	**372,060**
2. Equity settled share expenses charged to equity	**—**	**(97,362)**	**—**	**—**	**—**	**(97,362)**	**—**	**(97,362)**
(III) Profit appropriation								
1. Distribution to shareholders	**—**	**—**	**—**	**—**	**(1,038,566)**	**(1,038,566)**	**(501,300)**	**(1,539,866)**
III. Current year's closing balance	**4,184,628**	**8,723,945**	**691,947**	**1,360,953**	**(3,053,766)**	**11,907,707**	**9,321,327**	**21,229,034**

2015

RMB'000

	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit/	Total common shareholders' equity	Other equity instruments — Perpetual capital instruments	Total shareholders' equity
I. Current year's opening balance	3,437,541	8,740,683	720,953	1,107,256	1,531,111	15,537,544	—	15,537,544
II. Changes during the year								
(I) Total comprehensive income	—	—	(26,049)	—	2,120,339	2,094,290	416,627	2,510,917
(II) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	25,742	263,080	—	—	—	288,822	—	288,822
2. Equity settled share expenses charged to equity	—	166,829	—	—	—	166,829	—	166,829
3. Disposal of fractional shares	—	—	—	—	—	—	8,904,700	8,904,700
(III) Profit appropriation								
1. Appropriation to surplus reserves	—	—	—	253,697	(253,697)	—	—	—
2. Distribution to shareholders	—	—	—	—	(687,508)	(687,508)	—	(687,508)
(IV) Internal transfer of shareholders' equity								
1. Conversion of capital reserve into share capita	687,508	(687,508)	—	—	—	—	—	—
III. Current year's closing balance	4,150,791	8,483,084	694,904	1,360,953	2,710,245	17,399,977	9,321,327	26,721,304

CASH FLOW STATEMENT
2016

		RMB'000	
		2016	2015
I.	**Cash flows from operating activities**		
	Cash received from sale of goods or rendering of services	**99,705,900**	96,311,330
	Refunds of taxes	**4,669,152**	4,569,644
	Cash received relating to other operating activities	**2,641,022**	2,731,865
	Sub-total of cash inflows	**107,016,074**	103,612,839
	Cash paid for goods and services	**88,470,463**	85,230,933
	Cash paid to and on behalf of employees	**6,418,846**	5,182,813
	Cash paid for all types of taxes	**1,006,894**	887,274
	Cash paid relating to other operating activities	**6,573,185**	6,491,762
	Sub-total of cash outflows	**102,469,388**	97,792,782
	Net cash flows from operating activities	**4,546,686**	5,820,057
II.	**Cash flows from investing activities**		
	Cash received from sale of investments	**241,385**	88,074
	Cash received from return on investments	**28,098**	188,473
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	**19,317**	13,832
	Net cash received from the disposal of subsidiaries	**139,743**	81,582
	Sub-total of cash inflows	**428,543**	371,961
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets	**1,387,509**	879,654
	Cash paid for acquisition of investments	**3,680,606**	447,603
	Sub-total of cash outflows	**5,068,115**	1,327,257
	Net cash flows from investing activities	**(4,639,572)**	(955,296)

CASH FLOW STATEMENT (CONTINUED)

2016

	2016	2015
		RMB'000
III. Cash flows from financing activities		
Cash received from investment	**372,060**	288,822
Cash received from the issuance of perpetual capital instruments	**—**	8,904,700
Cash received from borrowings	**15,986,007**	10,698,953
Sub-total of cash inflows	**16,358,067**	19,892,475
Cash repayment of borrowings	**15,558,652**	15,600,702
Cash payments for distribution of dividends, profits and for interest expenses	**2,577,717**	1,669,644
Sub-total of cash outflows	**18,136,369**	17,270,346
Net cash flows from financing activities	**(1,778,302)**	2,622,129
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**298,170**	122,991
V. Net increase in cash and cash equivalents	**(1,573,018)**	7,609,881
Add: cash and cash equivalents at beginning of year	**17,325,750**	9,715,869
VI. Net balance of cash and cash equivalents at the end of year	**15,752,732**	17,325,750

APPENDIX 2: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH HKFRSs AND NOTES THERE TO

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
REVENUE	**101,233,182**	100,186,389
Cost of sales	**(71,609,374)**	(71,093,321)
Gross profit	**29,623,808**	29,093,068
Other income and gains	**7,485,751**	5,419,489
Research and development costs	**(12,762,055)**	(12,200,542)
Selling and distribution expenses	**(12,622,371)**	(11,940,953)
Administrative expenses	**(2,730,950)**	(2,514,135)
Other expenses	**(8,650,966)**	(2,347,593)
Finance costs	**(1,156,134)**	(1,269,080)
Share of profits and losses of:		
Joint ventures	**(4,984)**	(5,281)
Associates	**50,150**	68,559
PROFIT/(LOSS) BEFORE TAX	**(767,751)**	4,303,532
Income tax expense	**(640,118)**	(563,262)
PROFIT/(LOSS) FOR THE YEAR	**(1,407,869)**	3,740,270
Attributable to:		
Ordinary equity holders of the parent	**(2,357,418)**	3,207,885
Perpetual capital instruments	**501,300**	416,627
Non-controlling interests	**448,249**	115,758
	(1,407,869)	3,740,270

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2016

	2016	2015
	RMB'000	*RMB'000*
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 arising during the year	**(57,047)**	8,499
Changes in fair value of available-for-sale investments, net of tax	**187,275**	712,418
Exchange differences on translation of foreign operations	**(136,129)**	(367,195)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**(5,901)**	353,722
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Actuarial loss on defined benefit plans	**743**	(26,066)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	**743**	(26,066)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**(5,158)**	327,656
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(1,413,027)**	4,067,926
Attributable to:		
Ordinary equity holders of the parent	**(2,495,075)**	2,987,093
Perpetual capital instruments	**501,300**	416,627
Non-controlling interests	**580,748**	664,206
	(1,413,027)	4,067,926
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	**RMB(0.57)**	RMB0.78
Diluted	**RMB(0.57)**	RMB0.77

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2016

	31 December 2016	31 December 2015
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**9,280,644**	8,368,754
Investment properties	**2,016,470**	2,010,396
Prepaid land lease payments	**1,237,174**	1,214,106
Goodwill	**186,206**	—
Other intangible assets	**4,454,427**	3,772,451
Investments in joint ventures	**64,322**	77,341
Investments in associates	**601,554**	483,598
Available-for-sale investments	**2,659,667**	2,381,467
Long-term trade receivables	**1,376,563**	362,831
Factored long-term trade receivables	**1,391,746**	1,593,528
Deferred tax assets	**1,604,575**	1,434,143
Pledged deposits	**3,258,533**	3,515,601
Long-term prepayments, deposits and other receivables	**628,584**	359,587
Total non-current assets	**28,760,465**	25,573,803
CURRENT ASSETS		
Prepaid land lease payments	**28,385**	27,704
Inventories	**26,810,568**	19,731,741
Amount due from customers for contract works	**9,345,123**	13,928,446
Trade and bills receivables	**27,982,681**	28,714,645
Factored trade receivables	**2,261,280**	1,272,068
Prepayments, deposits and other receivables	**13,814,908**	7,304,441
Derivative financial instruments	**54,857**	10,110
Pledged deposits	**1,213,920**	1,202,984
Time deposits with original maturity of over three months	**1,086,203**	205,029
Cash and cash equivalents	**30,049,791**	26,616,996
Total current assets	**112,647,716**	99,014,164

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2016

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
CURRENT LIABILITIES		
Trade and bills payables	**36,933,838**	32,817,995
Amount due to customers for contract works	**5,876,790**	4,423,103
Other payables and accruals	**27,873,988**	15,003,939
Derivative financial instruments	**40,148**	19,840
Interest-bearing bank borrowings	**17,064,145**	12,525,176
Bank advances on factored trade receivables	**2,263,015**	1,273,346
Tax payable	**524,762**	484,627
Dividends payable	**50,317**	7,418
Bonds payable	**—**	4,000,000
Provision	**887,366**	776,682
Total current liabilities	**91,514,369**	71,332,126
NET CURRENT ASSETS	**21,133,347**	27,682,038

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2016

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**49,893,812**	53,255,841
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**5,018,276**	6,016,254
Bank advances on factored long-term trade receivables	**1,391,746**	1,593,528
Financial guarantee contract	—	3,689
Deferred tax liabilities	**98,380**	52,769
Provision for retirement benefits	**146,106**	144,280
Other non-current liabilities	**2,354,214**	2,096,716
Total non-current liabilities	**9,008,722**	9,907,236
Net assets	**40,885,090**	43,348,605
EQUITY		
Equity attributable to ordinary equity holders of the parent		
Issued capital	**4,184,628**	4,150,791
Reserves	**22,216,523**	25,509,303
	26,401,151	29,660,094
Perpetual capital instruments	**9,321,327**	9,321,327
Non-controlling interests	**5,162,612**	4,367,184
Total equity	**40,885,090**	43,348,605

Yin Yimin	**Zhao Xianming**
Director	*Director*

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, investment properties and certain equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2016. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arranges; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to the ordinary equity holders of the parent of the Group and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	*Investment Entities: Applying the Consolidation Exception*
Amendments to HKFRS 11	*Accounting for Acquisitions of Interests in Joint Operations*
HKFRS 14	*Regulatory Deferral Accounts*
Amendments to HKAS 1	*Disclosure Initiative*
Amendments to HKAS 16 and HKAS 38	*Clarification of Acceptable Methods of Depreciation and Amortisation*
Amendments to HKAS 27 (2011)	*Equity Method in Separate Financial Statements*
Annual Improvements 2012–2014 Cycle	*Amendments to a number of HKFRSs*

Except for the amendments to HKFRS 14, amendments to HKAS 16 and HKAS 41 and certain amendments included in the Annual Improvements 2012-2014 Cycle, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the amendments are described below:

(a) Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) *Investment Entities: Applying the Consolidation Exception*

Amendments to HKFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value. The amendments to HKFRS 10 also clarify that only a subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. Consequential amendments were made to HKFRS 12 to require an investment entity that prepares financial statements in which all of its subsidiaries are measured at fair value through profit or loss in accordance with HKFRS 9 to present the disclosures in respect of investment entities in accordance with HKFRS 12. HKAS 28 (2011) was also amended to allow an investor that is not itself an investment entity, and has an interest in an investment entity associate or joint venture, to retain the fair value measurement applied by the investment entity associate or joint venture to the interest in its subsidiaries. The amendments have had no impact on the Group as the consolidation exemption does not apply to a listed entity.

(b) Amendments to HKFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

Amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are applied prospectively. The amendments have had no impact on the Group as there has been no interest acquired in a joint operation during the year.

(c) Amendments to HKAS 1 include narrow-focus improvements in respect of the presentation and disclosure in financial statements. The amendments clarify:

(i) the materiality requirements in HKAS 1;

(ii) that specific line items in the statement of profit or loss and the statement of financial position may be disaggregated;

(iii) that entities have flexibility as to the order in which they present the notes to financial statements; and

(iv) that the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement of profit or loss. The amendments have had no significant impact on the Group's financial statements.

(d) Amendments to HKAS 16 and HKAS 38 clarify the principle in HKAS 16 and HKAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through the use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively. The amendments have had no impact on the financial position or performance of the Group as the Group has not used a revenue-based method for the calculation of depreciation of its non-current assets.

(e) Amendments to HKAS 27 (2011) *Equity Method in Separate Financial Statements*

The HKAS 27 (2011) Amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying HKFRSs and electing to change to the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements are required to apply the change retrospectively. The amendments are not applicable to the Group's consolidated financial statements.

(f) Details of Amendments under *Annual Improvements to HKFRSs 2012-2014 Cycle*

(i) HKAS 19 *Employee Benefits*: Clarifies that market depth of high quality corporate bonds used for discounting the post-employment benefit obligation for defined benefit plans is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. The amendment has had no impact on the Group as the currency in which the post-employment benefit obligation is denominated is CNY and government bond rates have been used in prior years.

(ii) HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*: Clarifies that changes to a plan of sale or a plan of distribution to owners should not be considered to be a new plan of disposal, rather it is a continuation of the original plan. Accordingly, there is no change in the application of the requirements in HKFRS 5. The amendments also clarify that changing the disposal method does not change the date of classification of the non-current assets or disposal group held for sale. The amendments are to be applied prospectively. The amendments have had no impact on the Group as the Group did not have any change in the plan of sale or disposal method in respect of the disposal group held for sale during the year.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 2	*Classification and Measurement of Share-based Payment Transactions*[2]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[2]
HKFRS 9	*Financial Instruments*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 15	*Revenue from Contracts with Customers*[2]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[3]
Amendments to HKAS 7	*Disclosure Initiative*[1]
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*[1]

1 Effective for annual periods beginning on or after 1 January 2017
2 Effective for annual periods beginning on or after 1 January 2018
3 Effective for annual periods beginning on or after 1 January 2019
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is as follows:

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet the employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group expects to adopt HKFRS 9 from 1 January 2018. The Group expects expected impact that the adoption of HKFRS 9 will have an impact on the classification and measurement of Group's financial assets. Further information about the impact will be available nearer the implementation date of the standard.

The amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for application now.

The amendments to HKFRS 11 require that an acquirer of an interest in a joint operation in which the activity of the joint operation constitutes a business must apply the relevant principles for business combinations in HKFRS 3. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to HKFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party. The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation. The amendments are not expected to have any impact on the financial position or performance of the Group upon adoption on 1 January 2016.

HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group expects to adopt HKFRS 15 on 1 January 2018 and is currently assessing the impact of HKFRS 15 upon adoption.

HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments will result in additional disclosure to be provided in the financial statements. The Group expects to adopt the amendments from 1 January 2017.

Amendments to HKAS 12 were issued with the purpose of addressing the recognition of deferred tax assets for unrealised losses related to debt instruments measured at fair value, although they also have a broader application for other situations. The amendments clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The Group expects to adopt the amendments from 1 January 2017.

4. 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, 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 broadband, 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, proving top-level design and consultation services as well as implementation, operation and maintenance of integrated informatisation solutions for the government and corporate informatisation projects through the application of Cloud Computing, communications networks, Internet of Things, Big Data technologies and related core M-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 the measurement.

Segment assets exclude derivative financial instruments, deferred tax assets, pledged deposits, cash and cash equivalents, investments in 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.

Year ended 31 December 2016	Carriers' Networks *RMB'000*	Consumer Business *RMB'000*	Government & Corporate Business *RMB'000*	Total *RMB'000*
Segment revenue:				
Sales to external customers	**58,880,434**	**33,449,039**	**8,903,709**	**101,233,182**
	58,880,434	**33,449,039**	**8,903,709**	**101,233,182**
Segment results	**15,281,609**	**394,421**	**2,130,134**	**17,806,164**
Bank and other interest income				**740,988**
Dividend income and unallocated gains				**6,744,763**
Corporate and other unallocated expenses				**(24,948,698)**
Finance costs				**(1,156,134)**
Share of profits and losses of associates and joint ventures				**45,166**
Loss before tax				**(767,751)**
Segment assets	**42,979,978**	**19,688,690**	**6,499,293**	**69,167,961**
Investments in joint ventures				**64,322**
Investments in associates				**601,554**
Corporate and other unallocated assets				**71,574,344**
Total assets				**141,408,181**
Segment liabilities	**12,073,774**	**3,724,184**	**1,825,757**	**17,623,715**
Corporate and other unallocated liabilities				**82,899,376**
Total liabilities				**100,523,091**
Other segment information:				
Impairment losses recognised in profit or loss	**1,659,469**	**942,718**	**250,940**	**2,853,127**
Depreciation and amortisation	**1,434,600**	**814,973**	**216,935**	**2,466,508**
Capital expenditure*	**2,797,793**	**1,589,381**	**423,073**	**4,810,247**

* Capital expenditure consists of additions to property, plant and equipment, intangible assets, prepaid land lease payments and investment properties.

Year ended 31 December 2015	Carriers' Networks *RMB'000*	Consumer Business *RMB'000*	Government & Corporate Business *RMB'000*	Total *RMB'000*
Segment revenue:				
Sales to external customers	57,222,754	32,466,961	10,496,674	100,186,389
	57,222,754	32,466,961	10,496,674	100,186,389
Segment results	13,738,093	1,376,493	2,896,110	18,010,696
Bank and other interest income				527,886
Dividend income and unallocated gains				4,891,603
Corporate and other unallocated expenses				(17,920,851)
Finance costs				(1,269,080)
Share of profits and losses of associates and joint ventures				63,278
Profit before tax				4,303,532
Segment assets	40,619,357	17,396,973	7,586,929	65,603,259
Investments in joint ventures				77,341
Investments in associates				483,598
Corporate and other unallocated assets				58,423,769
Total assets				124,587,967
Segment liabilities	7,800,164	2,068,528	1,456,923	11,325,615
Corporate and other unallocated liabilities				69,913,747
Total liabilities				81,239,362
Other segment information:				
Impairment losses recognised in profit or loss	1,249,402	708,884	229,185	2,187,471
Depreciation and amortisation	1,207,306	685,000	221,463	2,113,769
Capital expenditure*	1,788,954	1,015,015	328,158	3,132,127

Geographical information

(a) Revenue from external customers

	2016 *RMB'000*	2015 *RMB'000*
The PRC (place of domicile)	**58,550,056**	53,108,499
Asia (excluding the PRC)	**14,564,608**	14,820,285
Africa	**5,751,221**	6,979,537
Europe, Americas and Oceania	**22,367,297**	25,278,068
	101,233,182	100,186,389

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

(b) Non-current assets

	2016 *RMB'000*	2015 *RMB'000*
The PRC (place of domicile)	**14,446,199**	12,680,987
Asia (excluding the PRC)	**1,019,306**	1,329,223
Africa	**360,132**	354,310
Europe, Americas and Oceania	**1,163,078**	1,001,187
	16,988,715	15,365,707

The non-current asset information 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

5. REVENUE

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

An analysis of revenue is as follows:

	2016 *RMB'000*	2015 *RMB'000*
Revenue		
Telecommunications system contracts	**63,483,211**	65,497,286
Sale of goods and services	**37,619,825**	34,557,773
Rental income	**130,146**	131,330
	101,233,182	100,186,389

6. LOSS/PROFIT BEFORE TAX

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

	2016 *RMB'000*	2015 *RMB'000*
Cost of goods and services	**66,686,236**	63,887,788
Depreciation	**1,285,360**	1,131,453
Amortisation of land lease payments	**32,064**	26,484
Amortisation of intangible assets other than deferred development costs	**163,102**	74,981
Research and development costs:		
Deferred development costs amortised	**985,982**	880,851
Current year expenditure	**13,223,420**	12,140,600
Less: Deferred development costs	**(1,447,347)**	(820,909)
	12,762,055	12,200,542
Fair value (gains)/losses, net*:		
Derivative instruments	**(23,904)**	189,614
Investment properties	**(6,074)**	(5,931)
Impairment of trade receivables*	**2,110,620**	1,602,446
Impairment of amount due from customers for contract works*	**61,076**	—
Provision for warranties**	**1,052,162**	758,863
Provision for legal obligation*	**39,740**	120,882
Costs related to the comprehensive settlement with US authorities*	**6,182,452**	—
Write-down of inventories to net realisable value**	**636,161**	567,014
Impairment of a long term equity investment*	**—**	4,764
Impairment of items of property, plant and equipment*	**45,270**	13,247
Minimum lease payments under operating leases on land and buildings	**660,860**	629,481
Contingent rental income in respect of operating leases	**(47,832)**	(47,113)
Auditor's remuneration	**8,291**	7,337
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	**17,724,261**	14,522,965
Equity-settled share option expense	**(97,362)**	166,829
Retirement benefit scheme contributions:		
Defined benefit pension scheme	**4,599**	4,538
Defined contribution pension schemes	**1,053,473**	1,086,682
	18,684,971	15,781,014
Foreign exchange (gain)/loss*	**(618,972)**	267,254
Loss on disposal of items of property, plant and equipment*	**22,514**	28,874
Gain on disposal of subsidiaries*	**(1,151,046)**	(9,789)
(Gain)/loss on disposal of derivative financial instruments	**139,152**	(299,573)
Gain on disposal of available-for-sale investments	**(553,228)**	(297,974)

* The impairment of trade receivables, impairment of amount due from customers for contract works, impairment of a long term equity investment, impairment of items of property, plant and equipment, provision for legal obligation, costs related to the comprehensive settlement with US authorities, 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.

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2016	2015
	RMB'000	*RMB'000*
Interest on bank loans and other loans	**751,520**	883,609
Total interest expense on financial liabilities not at fair value through profit or loss	**751,520**	883,609
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	**404,614**	385,471
	1,156,134	1,269,080

8. INCOME TAX

	2016	2015
	RMB'000	*RMB'000*
Current — Hong Kong	**15,076**	8,300
Current — Mainland China	**438,610**	547,478
Current — Overseas	**329,191**	350,130
Deferred	**(142,759)**	(342,646)
Total tax charge for the year	**640,118**	563,262

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. 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 year 2014 to 2016 as a national-grade hi-tech enterprise incorporated in Shenzhen.

9. DIVIDEND

	2016 *RMB'000*	2015 *RMB'000*
Proposed final — RMB0 (2015: RMB0.25) per ordinary share	**—**	1,038,368

The profit distribution proposal is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

10. 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 year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 4,159,663,000 (2015: 4,127,352,000) in issue during the year.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) 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 effect of shares assumed to have been issued at no consideration has been excluded from the computation of diluted loss per share for the years ended December 31, 2016 as its effects would be anti-dilutive.

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

	2016 *RMB'000*	2015 *RMB'000*
Earnings		
Profit/(Loss) for the year attributable to ordinary equity holders of the parent	**(2,357,418)**	3,207,885

	Number of shares	
	2016 *'000*	2015 *'000*
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	**4,159,663**	4,127,352
Effect of dilution — weighted average number of ordinary shares:		
Share options	**—**	52,784
Adjusted weighted average number of ordinary shares in issue	**4,159,663**	4,180,136

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

	2016	2015
	RMB'000	*RMB'000*
Trade and bills receivables	**37,146,137**	34,879,664
Impairment	**(7,786,893)**	(5,802,188)
	29,359,244	29,077,476
Current portion	**(27,982,681)**	(28,714,645)
Long-term portion	**1,376,563**	362,831

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 generally 90 days and is extendable up to one year depending on customers' creditworthiness except for certain overseas 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 as follows:

	2016	2015
	RMB'000	*RMB'000*
Within 6 months	**22,941,253**	24,060,630
7 to 12 months	**3,872,562**	2,716,472
1 to 2 years	**2,288,234**	2,106,596
2 to 3 years	**257,195**	193,778
	29,359,244	29,077,476
Current portion of trade and bills receivables	**(27,982,681)**	(28,714,645)
Long-term portion	**1,376,563**	362,831

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

	2016 *RMB'000*	2015 *RMB'000*
At 1 January	**5,802,188**	4,396,591
Impairment losses recognised	**2,261,577**	1,820,368
Impairment losses reversed	**(150,957)**	(217,922)
Amount written off as uncollectible	**(232,680)**	(162,011)
Fluctuation in exchange	**106,765**	(34,838)
At 31 December	**7,786,893**	5,802,188

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB634,799,000 (2015: RMB503,123,000) with a carrying amount before provision of RMB634,799,000 (2015: RMB503,123,000). 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:

	2016 *RMB'000*	2015 *RMB'000*
Neither past due nor impaired	**4,569,867**	4,228,313
Less than one year past due	**21,906,738**	22,009,510
	26,476,605	26,237,823

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 as follows:

	2016 *RMB'000*	2015 *RMB'000*
The controlling shareholder	**150**	1,425
Joint ventures	**127,434**	70,990
Associates	**14,830**	20,332
Other related companies	**315,394**	300,287
	457,808	393,034

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

The Group has neither pledged trade receivables nor bills receivables (2015: none and RMB106,892,000) to secure the bank borrowings.

12. TRADE AND BILLS PAYABLES

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

	2016	2015
	RMB'000	*RMB'000*
Within 6 months	**36,097,084**	32,391,107
7 to 12 months	**459,023**	264,027
1 to 2 years	**286,434**	123,011
2 to 3 years	**57,892**	10,327
Over 3 years	**33,405**	29,523
	36,933,838	32,817,995

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

	2016	2015
	RMB'000	*RMB'000*
The controlling shareholder	**50,126**	61,007
Joint ventures	**6,080**	11,973
Associates	**194**	1,650
Other related companies	**180,974**	105,262
	237,374	179,892

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

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

13. EVENTS AFTER THE REPORTING PERIOD

The Company has reached agreements (collectively the "Agreements") with the Bureau of Industry and Security of the United States Department of Commerce ("BIS"), the United States Department of Justice ("DOJ") and the Office of Foreign Assets Control of the United States Department of Treasury ("OFAC") in relation to investigations regarding the Company's compliance with U.S. Export Administration Regulations (the "EAR") and U.S. sanctions laws. Due to violations of U.S. export controls laws and U.S. rules and regulations in relation to the provision of information and other conduct during the investigations, the Company has agreed to plead guilty and pay a total of USD892,360,064, with a further USD300,000,000 to BIS, which is suspended for a period of seven years on the condition that the Company complies with the requirements in the agreement with BIS. While the agreement with OFAC takes effect immediately, the agreement with DOJ is pending approval from the United States District Court for the Northern District of Texas ("Court"). Similarly, Court approval of the DOJ agreement is a prerequisite before BIS will issue its settlement Order. In the meantime, BIS will recommend that ZTE be removed from the Entity List, conditioned on court approval of the DOJ agreement, entry of the plea, and the issuance of Assistant Secretary's Order.

The Company will be continuously taking an overhaul of its organization and structure, business procedures and internal control, and necessary measures to ensure the Company's compliance with U.S. export control laws and performance of its obligations under the Agreements.