ZTE CORPORATION
中興通訊股份有限公司

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

(Stock Code: 763)

2017 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 2017 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 Twenty-eighth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the meeting due to work reasons and has authorised Mr. Luan Jubao, Vice Chairman, to vote on his behalf. Mr. Wang Yawen, Director, was unable to attend the meeting due to work reasons and has authorised Mr. Tian Dongfang, Director, to vote on his behalf. Mr. Richard Xike Zhang, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Bingsheng Teng, 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. Mr. Zhu Wuxiang, 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 2017 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. Shao Weilin, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in the Annual Report.

1.7 In view of the state of affairs of the Company, the proposal for profit distribution for 2017 as follows: RMB3.3 in cash (before tax) for every 10 shares based on the number of shares held by shareholders (including A shareholders and H shareholders) registered as at the close of business on the record date for profit distribution and dividend payment. 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	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 provision of ICT products and solutions that satisfy the needs of customers, integrating design, development, production, sale and services with a special focus on carriers' networks, government and corporate business and consumer business. There was no significant change to the principal businesses of the Group during the year.

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

The government and corporate business is focused on meeting requirements of government and corporate clients, providing informatisation solutions for the government and corporate sectors through the application of communications networks, IOT, big data and cloud computing technologies and related core products.

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

3.2 The industry in which we operate

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

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

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

4. HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Statement on the retrospective adjustments to or restated accounting data of the previous year because of changes in accounting policies or for the rectification of accounting errors

PRC ASBEs

(1) Government grants

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

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

(2) *Gains/losses from the disposal of assets*

On 25 December 2017, the MOF revised and promulgated the "Amendment and Publication of General Format for Corporate Financial Statement" (the "Notice"), which set out amendments to the format of general corporate financial statements. The Group has implemented the aforesaid Notice in the preparation of its 2017 financial statements under PRC ASBEs and changed the relevant accounting policies, whereby "Gains from asset disposal" has been separately presented under "Operating profit" on the income statement of the Group. A portion of the gain or loss from the disposal of non-current assets previously accounted for under "Non-operating income" and "Non-operating expenses" has been transferred to "Gains/losses from asset disposal". The Company has restated the comparative amounts for the same period last year. Such change in accounting policy has had no impact on the profit or loss.

HKFRSs

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

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 2017	For the year ended 31 December 2016	Year-on-year change	For the year ended 31 December 2015
Operating revenue	**108,815.3**	101,233.2	7.49%	100,186.4
Operating profit	**6,752.9**	1,165.5	479.40%	320.5
Total profit/(loss)	**6,718.9**	(767.8)	975.08%	4,303.5
Net profit/(loss) attributable to holders of ordinary shares of the listed company	**4,568.2**	(2,357.4)	293.78%	3,207.9
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	**903.4**	2,130.8	(57.60%)	2,577.9
Net cash flows from operating activities	**7,220.0**	5,260.2	37.26%	7,404.7

Unit: RMB in millions

Item	As at 31 December 2017	As at 31 December 2016	Year-on-year change	As at 31 December 2015 (Restated)
Total assets	**143,962.2**	141,640.9	1.64%	124,831.7
Total liabilities	**98,582.1**	100,755.8	(2.16%)	81,483.1
Owners' equity attributable to holders of ordinary shares of the listed company	**31,646.9**	26,401.2	19.87%	29,660.1
Share capital *(million shares)* [Note]	**4,192.7**	4,184.6	0.19%	4,150.8

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

Unit: RMB in millions

Item	Three months ended 31 March 2017	Three months ended 30 June 2017	Three months ended 30 September 2017	Three months ended 31 December 2017
Operating revenue	25,744.6	28,266.0	22,569.1	32,235.6
Net profit attributable to holders of ordinary shares of the listed company	1,213.6	1,079.3	1,611.8	663.5
Net profit/(loss) after extraordinary items attributable to holders of ordinary shares of the listed company	1,069.3	882.2	(389.2)	(658.9)
Net cash flows from operating activities	(971.2)	(3,235.4)	1,036.1	10,390.5

The accounting data and their aggregations set out above are not materially different from relevant accounting data disclosed in the quarterly reports and interim report of the Group.

Note: The total share capital of the Company increased from 4,184,628,172 shares to 4,192,671,843 shares following the exercise of 8,043,671 A share options by scheme participants under the 2013 share option incentive scheme of the Company during the year.

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 2017**	For the year ended 31 December 2016	Year-on-year change	For the year ended 31 December 2015
Basic earnings per share *(RMB/share)* Note 1	**1.09**	(0.57)	291.23%	0.78
Diluted earnings per share *(RMB/share)* Note 2	**1.08**	(0.57)	289.47%	0.77
Basic earnings per share after extraordinary items *(RMB/share)* Note 1	**0.22**	0.51	(56.86%)	0.62
Weighted average return on net assets	**15.74%**	(8.40%)	Increased by 24.14 percentage points	12.28%
Weighted average return on net assets after extraordinary items	**3.11%**	7.59%	Decreased by 4.48 percentage points	9.87%
Net cash flows from operating activities per share *(RMB/share)* Note 3	**1.72**	1.26	36.51%	1.78

Item	**As at 31 December 2017**	As at 31 December 2016	Year-on-year change	As at 31 December 2015 (Restated)
Net asset per share attributable to holders of ordinary shares of the listed company *(RMB/share)* Note 3	**7.55**	6.31	19.65%	7.15
Gearing ratio	**68.48%**	71.13%	Decreased by 2.65 percentage points	65.27%

Note 1: Basic earnings per share and basic earnings per share after extraordinary items for 2017, 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;

Note 2: As share options granted by the Company have given rise to 30,243,000, 0 and 52,784,000 potentially dilutive ordinary shares for 2017, 2016 and 2015, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor;

Note 3: 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 2017, 2016 and 2015 have been calculated on the basis of the total share capital as at the end of the respective periods.

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 2017**	For the year ended 31 December 2016	For the year ended 31 December 2015
Non-operating income, Other income and others	**2,292.2**	822.7	939.2
Gains/(Losses) from fair value change	**58.3**	30.0	(183.7)
Investment income	**2,197.8**	986.1	452.0
Less: Losses on disposal of non-current assets	**80.5**	22.5	28.9
Less: Other non-operating expenses	**112.8**	6,272.3	431.0
Less: Effect of income tax	**653.2**	(185.2)	112.1
Less: Effect of non-controlling interests (after tax)	**37.0**	217.4	5.5
Total	**3,664.8**	(4,488.2)	630.0

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

Results	Year ended 31 December **2017**	2016 (Restated)	2015 (Restated)	2014 (Restated)	2013 (Restated)
Revenue	**108,815.3**	101,233.2	100,186.4	81,471.3	75,233.7
Cost of sales	**(76,116.5)**	(71,312.5)	(70,968.3)	(57,634.0)	(54,775.1)
Gross profit	**32,698.8**	29,920.7	29,218.1	23,837.3	20,458.6
Other income and gains	**6,950.9**	6,116.0	4,262.2	3,438.2	4,136.7
Research and development expenses	**(12,962.2)**	(11,689.2)	(11,168.2)	(8,010.5)	(6,615.3)
Selling and distribution expenses	**(12,260.0)**	(12,622.4)	(11,941.0)	(10,391.6)	(10,158.5)
Administrative expenses	**(3,237.7)**	(2,731.0)	(2,514.1)	(2,138.1)	(2,258.7)
Other expenses	**(3,184.9)**	(8,651.0)	(2,347.7)	(1,582.3)	(2,119.1)
Profit from operating activities	**8,004.9**	343.1	5,509.3	5,153.0	3,443.7
Finance costs	**(1,157.8)**	(1,156.1)	(1,269.1)	(1,561.7)	(1,650.4)
Share of profit and loss of jointly controlled entities and associates	**(128.2)**	45.2	63.3	(53.0)	34.5
Profit/(loss) before tax	**6,718.9**	(767.8)	4,303.5	3,538.3	1,827.8
Income tax expense	**(1,332.6)**	(640.1)	(563.2)	(810.6)	(394.2)
Profit/(loss) for the year	**5,386.3**	(1,407.9)	3,740.3	2,727.7	1,433.6
Attributable to:					
Non-controlling interests	**(316.8)**	(448.2)	(115.8)	(94.1)	(76.0)
Attributable to:					
Perpetual capital instruments	**(501.3)**	(501.3)	(416.6)	—	—
Attributable to:					
Holders of ordinary shares of the parent company	**4,568.2**	(2,357.4)	3,207.9	2,633.6	1,357.6

Unit: RMB in millions

Assets and liabilities	**2017**	2016	2015	2014	2013
	As at 31 December				
Total assets	**143,962.2**	141,408.2	124,588.0	110,254.6	102,473.0
Total liabilities	**98,582.1**	100,523.1	81,239.4	83,962.1	78,847.3
Non-controlling interests	**4,411.9**	5,162.6	4,367.2	1,413.9	1,093.0
Perpetual capital instruments	**9,321.3**	9,321.3	9,321.3	—	—
Equity attributable to holders of ordinary shares of the parent company	**31,646.9**	26,401.2	29,660.1	24,878.6	22,532.7

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

Item	**2017**	2016	2015	2014	2013
Basic earnings per share *(RMB/share)* Note 1	**1.09**	(0.57)	0.78	0.64	0.33
Net asset per share *(RMB/share)* Note 2	**7.55**	6.31	7.15	6.03	5.46
Fully diluted return on net assets	**14.43%**	(8.93%)	10.82%	10.59%	6.03%

Note 1: Basic earnings per share and basic earnings per share after extraordinary items for 2017, 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 for 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 2017, 2016 and 2015 have been calculated on the basis of the total share capital as at the end of the respective periods, basic earnings per share for 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 2017 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 2017	There were 266,964 shareholders (comprising 266,633 holders of A shares and 331 holders of H shares)
As at 28 February 2018, namely the last day of the preceding month of the date of publication of the Annual Report	There were 318,364 shareholders (comprising 318,034 holders of A shares and 330 holders of H shares)

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

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	30.34%	1,271,868,333	+2,038,000	—	Nil
2. HKSCC Nominees Limited	Foreign shareholders	17.99%	754,291,510	+289,792	—	Unknown
3. Central Huijin Asset Management Ltd.	State-owned corporation	1.25%	52,519,600	—	—	Nil
4. Fang Deji (方德基)	Domestic natural person	1.08%	45,450,161	+45,450,161	—	Nil
5. NSSF Portfolio #104	Others	1.00%	41,988,781	+41,988,781	—	Nil
6. Hunan Nantian (Group) Co., Ltd	State-owned corporation	0.99%	41,516,065	−1,140,943	—	Nil
7. NSSF Portfolio #401	Others	0.55%	23,000,062	+2,000,111	—	Nil
8. Li Fengying (李鳳英)	Domestic natural person	0.54%	22,574,667	+22,574,667	—	Nil
9. Sun Huigang (孫惠剛)	Domestic natural person	0.49%	20,511,339	+20,511,339	—	Nil
10. NSSF Portfolio #117	Others	0.48%	20,000,000	+20,000,000	—	Nil

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

Name of shareholders	Number of shares not subject to lock-up *(shares)*	Class of shares
1. Zhongxingxin	1,269,830,333	A share
	2,038,000	H share
2. HKSCC Nominees Limited	754,291,510	H share
3. Central Huijin Asset Management Ltd.	52,519,600	A share
4. Fang Deji (方德基)	45,450,161	A share
5. NSSF Portfolio #104	41,988,781	A share
6. Hunan Nantian (Group) Co., Ltd	41,516,065	A share
7. NSSF Portfolio #401	23,000,062	A share
8. Li Fengying (李鳳英)	22,574,667	A share
9. Sun Huigang (孫惠剛)	20,511,339	A share
10. NSSF Portfolio #117	20,000,000	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)	Fang Deji (4th ranking shareholder) and Li Fengying (8th ranking shareholder) of the top 10 shareholders held 45,450,161 A shares and 22,574,667 A shares, respectively, in the Company through respective margin securities accounts.

Note 1: Shares held by HKSCC Nominees Limited represented the sum of shares in the accounts of holders of the Company's H shares traded on the trading platform of the HKSCC Nominee Limited by HKSCC Nominees Limited on behalf of the owners.

Note 2: 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 3: Shareholders holding 5% or above of the Company's shares — Zhongxingxin, controlling shareholder of the Company, purchased 2,038,000 H shares in the Company via the Shenzhen-Hong Kong Stock Connect during the year. As at the end of the year, Zhongxingxin held 1,271,868,333 shares in the Company in aggregate, representing 30.34% of the total share capital of the Company. Changes in the shareholdings of the Zhongxingxin 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
	+2,038,000	2,038,000	H shares	0	2,038,000	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:	Wei Zaisheng
Date of incorporation:	29 April 1993
Standardised social credit code:	91440300192224518G
Registered capital:	RMB100 million
Scope of business:	Design and production of cabinets and cases; R&D of machine vision systems integration, R&D of robotic vision systems integration, design and production of optical instruments, industrial cameras and instruments, design and production of high-end mechanical equipment, computer systems integration, and technology development, technology transfer, technical services, technical consultation and import and export of technologies in relation to software and hardware of computer vision data processing systems; leasing of owned housing properties; industrial investment; import and export business.

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 three shareholders, 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"). In April 2017, Aerospace Guangyu transferred 2.5% equity interests in Zhongxingxin to Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership) ("Guoxing Ruike"). Upon closing of the transfer, Xi'an Microelectronics, Aerospace Guangyu, Zhongxing WXT and Guoxing Ruike held a 34%, 14.5%, 49% and 2.5% 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 directors 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 the four shareholders of Zhongxingxin are as follows:

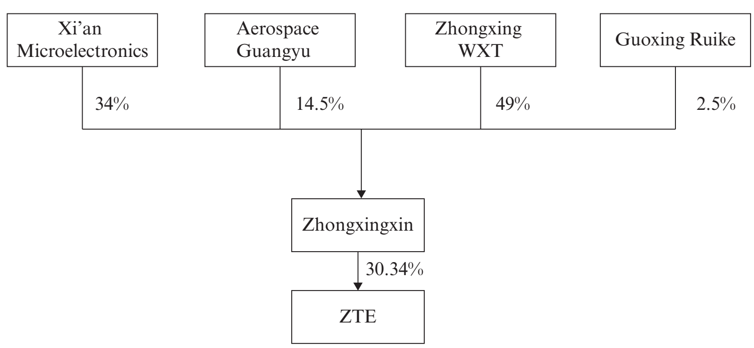
Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tian Dongfang and its organisation number is H0420141-X. It is the only specialised research institute in China which features the complementary integration of 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 of 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).

Guoxing Ruike is a limited partnership established on 2 December 2016 with Zhuhai Guoxing Ruike Capital Management Company Limited as executive partner and a registered capital of RMB500 million. Its standardised social credit code is 91440400MA4W1GHE5H and its scope of operation includes capital management, investment with owned funds and project investment (subject to approval of relevant authorities if such approval is required under the law).

The following diagram shows the shareholding and controlling relationships between the aforesaid entities and the Company as at 31 December 2017.



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														
1	Yin Yimin [Note 3]	Male	54	Chairman	Incumbent	3/2017	3/2019	759,400	—	—	759,400	—	589.1 [Note 13]	No
				Director		3/2016	3/2019							
2	Zhang Jianheng	Male	56	Vice Chairman	Incumbent	3/2016	3/2019	—	—	—	—	—	10.0	Yes
3	Luan Jubao	Male	55	Vice Chairman	Incumbent	3/2016	3/2019	—	—	—	—	—	10.0	Yes
4	Zhao Xianming [Note 3]	Male	51	Chairman	Resigned	3/2016	3/2017	651,515	—	162,879	488,636	*Note 12*	545.2	No
				Director	Incumbent	3/2016	3/2019							
				President		4/2016	3/2019							
5	Wang Yanwen	Male	54	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	10.0	Yes
6	Tian Dongfang	Male	57	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	10.0	Yes
7	Zhan Yichao	Male	54	Director	Incumbent	3/2016	3/2019	—	—	—	—	—	10.0	Yes
8	Wei Zaisheng [Note 4]	Male	55	Director	Incumbent	3/2016	3/2019	439,677	—	—	439,677	—	290.3	Yes
				Executive Vice President and Chief Financial Officer	Resigned	4/2016	9/2017							
9	Zhai Weidong [Note 5]	Male	50	Director	Incumbent	6/2017	3/2019	—	—	—	—	—	5.3	Yes
10	Shi Lirong [Note 6]	Male	53	Director	Resigned	3/2016	2/2017	660,613	—	660,613	—	*Note 12*	27.5	No
11	Richard Xike Zhang	Male	47	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	13.0	Yes
12	Chen Shaohua	Male	56	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	13.0	Yes
13	Lü Hongbing	Male	51	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	13.0	Yes
14	Bingsheng Teng	Male	47	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	13.0	Yes
15	Zhu Wuxiang	Male	52	Independent Non-executive Director	Incumbent	3/2016	3/2019	—	—	—	—	—	13.0	Yes
Supervisors of the Company														
16	Xie Daxiong	Male	54	Chairman of Supervisory Committee	Incumbent	3/2016	3/2019	495,803	—	—	495,803	—	295.2	No
17	Xu Weiyan	Female	55	Supervisor	Incumbent	3/2016	3/2019	11,039	—	—	11,039	—	381.0	Yes
18	Wang Junfeng	Male	51	Supervisor	Incumbent	3/2016	3/2019	—	—	—	—	—	—	Yes
19	Xia Xiaoyue	Female	42	Supervisor	Incumbent	3/2016	3/2019	50,927	—	—	50,927	—	124.8	No
20	Li Quancai [Note 7]	Male	56	Supervisor	Incumbent	11/2017	3/2019	—	—	—	—	—	168.2	No
21	Zhou Huidong [Note 8]	Male	41	Supervisor	Resigned	3/2016	8/2017	70,342	—	—	70,342	—	49.3	No
Senior management of the Company														
22	Xu Huijun	Male	44	Executive Vice President	Incumbent	4/2016	3/2019	630,851	126,000	—	756,851	*Note 12*	444.8	No
23	Zhang Zhenhui	Male	44	Executive Vice President	Incumbent	4/2016	3/2019	218,400	—	—	218,400	—	448.3	No
24	Pang Shengqing	Male	49	Executive Vice President	Incumbent	4/2016	3/2019	733,682	—	—	733,682	—	393.3	No
25	Xiong Hui [Note 9]	Male	48	Executive Vice President	Incumbent	1/2017	3/2019	10,000	51,700	51,700	10,000	*Note 12*	445.8	No
26	Shao Weilin [Note 10]	Male	45	Executive Vice President and Chief Financial Officer	Incumbent	9/2017	3/2019	—	—	—	—	—	268.3	No
27	Zeng Xuezhong [Note 11]	Male	44	Executive Vice President	Resigned	4/2016	4/2017	414,630	—	414,630	—	*Note 12*	27.0	No
28	Fan Qingfeng [Note 9]	Male	49	Executive Vice President	Resigned	4/2016	1/2017	685,687	—	260,000	425,687	*Note 12*	296.4	No
29	Chen Jianzhou [Note 9]	Male	47	Executive Vice President	Resigned	4/2016	1/2017	187,327	—	99,558	87,769	*Note 12*	138.5	No
30	Cao Wei	Female	41	Secretary to the Board	Incumbent	4/2016	3/2019	—	25,200	—	25,200	*Note 12*	207.9	No
	Total	—	—	—	—	—	—	**6,019,893**	**202,900**	**1,649,380**	**4,573,413**	—	**5,261.2**	—

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: 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 4: Mr. Wei Zaisheng resigned as Executive Vice President and Chief Financial Officer of the Company in September 2017. At the same time, Mr. Wei Zaisheng's position as Executive Director of the Company was re-designated as Non-executive Director.

Note 5: Mr. Zhai Weidong was elected Non-independent Non-executive Director of the Company of the Seventh Session of the Board of Directors of the Company at the 2016 Annual General Meeting of the Company held on 20 June 2017.

Note 6: Mr. Shi Lirong resigned as Non-executive Director and member of the Remuneration and Evaluation Committee and the Nomination Committee of the Company in February 2017.

Note 7: Mr. Li Quancai was elected Staff Representative Supervisor of the Seventh Session of the Supervisory Committee at the staff representatives' assembly of the Company in November 2017.

Note 8: Mr. Zhou Huidong resigned as Staff Representative Supervisor of the Company in August 2017.

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: Mr. Shao Weilin was elected Executive Vice President and Chief Financial Officer of the Company at the Twenty-third Meeting of the Seventh Session of the Board of Directors held on 29 September 2017.

Note 11: Mr. Zeng Xuezhong resigned as Executive Vice President of the Company in April 2017.

Note 12: Reduction or increase of shareholdings, including the exercise of share options of A shares, in accordance with pertinent domestic regulations.

Note 13: Mr. Yin Yimin received project rewards at Shenzhen ZTE Capital Management Company Limited ("ZTE Capital") in January 2017. Following his appointment as Chairman of the Company in March 2017, he has not received any remuneration at ZTE Capital.

Note 14: As at the end of the year, Mr. Wei Zaisheng held 30,000 H shares of the Company. Save as that, no other Directors, Supervisors or senior management of the Company held any H shares in the issued share capital of the Company.

Note 15: As at the end of the year, Ms. Xie Yi, spouse of Mr. Wei Zaisheng, held 21,600 A shares in the Company. Such shareholdings has been entered into the register kept in accordance with the SFO.

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

Save as disclosed above, as at 31 December 2017, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

7. REPORT OF THE BOARD OF DIRECTORS

7.1 Business review for 2017

(1) Overview of the domestic telecommunications industry for 2017

According to statistical data published by the Ministry of Industry and Information Technology of the PRC ("MIIT"), the telecommunications sector reported revenue of RMB1,262.0 billion in 2017, representing year-on-year growth of 6.4%.

In the wireless sector, there was ongoing effort to roll out more in-depth coverage of 4G networks with a net increase of 593,000 base stations for mobile communication across the country, taking the total to 6.19 million as network quality continued to improve. Meanwhile, further advances were made in the progress of 5G commercial deployment, as the MIIT announced the planning for working 5G frequencies, while domestic carriers and equipment manufacturers were actively engaged in the formulation of 5G standards, in a joint effort to expedite large-scale verification for 5G technologies and solutions. In addition, carriers also embarked on the first large-scale of IOT as a new frontier of future development, following the freezing of NB-IoT standards.

In the wireline sector, the expedited implementation of the Broadband China Strategy was driving rapid development of data and Internet businesses and faster construction of optical networks. Optical cables built in 2017 ran a length of 7.05 million km, representing an increase of 23.2% compared to the previous year, as the trend of replacing copper wires with optical cables became increasingly evident. The number of Internet broadband access ports reached 779 million, increasing by 9.3%, year-on-year.

In the telecommunications sector, the development of integration businesses such as IPTV, smart network gateways for homes, voice communication with video has gained pace following the substantial increase in the speed of network access. The domestic telecommunications industry reported IPTV revenue of RMB12.1 billion for the year, representing year-on-year growth of 32.1%.

(2) Overview of the global telecommunications industry for 2017

According to the report of the China Academy of Information and Communication Technology, the global telecommunication industry managed growth in stability in 2017, with annual revenue increasing by 1.2%, year-on-year, to USD1,590 billion.

Investments by the global telecommunications industry remained focused on 4G networks, optical transmission and broadband access networks. The further proliferation of 4G has made it the dominant network for mobile broadband in the current market, providing close to full coverage in developed countries. The broadband strategy has become an essential strategy for every nation, and Gb optical networks have become a standard configuration. Global telecommunications and wireline operators have deployed over 500 Gb networks and more than 85% of them are connected by optical fibre.

While continuing to enhance 4G network construction, all nations were stepping up with the development of 5G technologies. Equipment testing and pilot networks were massively rolled out in North America, Europe, Japan and Korea, featuring large-scale cross-regional cooperations. Breakthroughs in frequency planning were reported, as the European Union announced its 5G action plans, while the U.S. moved to open high frequency bands for use by 5G networks. In addition to 5G, carriers in various countries were also actively exploring and setting up businesses in new frontiers such as mobile videos, digital transformation and IOT.

(3) Operating results of the Group for 2017

For 2017, the Group reported operating revenue of RMB108.82 billion, representing year-on-year growth of 7.5%. The business segments of carriers' networks, consumer business and government and corporate business all reported year-on-year growth in operating revenue, benefitting from ongoing investments in telecommunications networks by global carriers coupled with the Group's effort to develop overseas markets for handsets and the government and corporate business. For 2017, the Group's net profit attributable to holders of ordinary shares of the listed company amounted to RMB4.57 billion, representing year-on-year growth of 293.8%. Basic earnings per share amounted to RMB1.09. Net cash flows from operating activities increased substantially thanks to the Group's stronger efforts to manage cash flow and the collection of sales revenue.

A. By market

The domestic market

For the year, the Group's operating revenue from the domestic market amounted to RMB61.96 billion, accounting for 56.9% of the Group's overall operating revenue. In carriers' network, the Group persisted in the strategy of "delivering value to and realising mutual growth with customers". While maintaining our position among the top-tier 4G suppliers in the domestic market, we were also engaged in active development for 5G, capped by excellent performance in the second-stage national 5G tests. Sound progress was also reported in the wireline sector, underpinned by increased market shares with the big three domestic carriers in core products such as OTN and core router. In connection with the government and corporate business, the Group reported initial success in its endeavour to rectify the channel market, as business transition gradually embarked on a positive track with an improving business profile. In connection with the consumer business, domestic operations were back on track after we placed a stronger focus on the substance of operations.

The international market

For the year, the Group's operating revenue from the international market amounted to RMB46.86 billion, accounting for 43.1% of the Group's overall operating revenue. With a strong focus on the market of international mainstream carriers and high-worth customers and consistent implementation of prudent strategies coupled with efforts to explore new growth opportunities, the Group was actively engaged in global network construction and technical evolution and enhanced its global market position as it seized opportunities arising from the changing global market profile and technical revolutions on the back of competitive technologies and products developed over the years. In connection with the consumer business, the Group reported stable growth in overseas market shares as it continued to focus on technology innovation and enhance cooperation with core carriers leveraging the global presence of its business network.

B. *By business segment*

For the year, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB63.78 billion, RMB9.83 billion and RMB35.21 billion, respectively.

Carriers' networks

In connection with wireless products, the Group's persistent implementation of the strategy of technological innovation, enhancing product competitiveness, efficient delivery and in-depth cooperation has effectively groomed it into a forerunner of the 4G era that ranked second in domestic market shares while achieving continuous improvements in overseas market development. The Groups' profile as a forerunner in 5G has been further enhanced with ongoing innovations and implementations in 5G frequency technology, 5G core network technology, 5G bearer technology, 5G high/low frequency matching base stations and 5G chips, world leading position in technology verification and product-based development, a more vocal involvement in standard formulation, the completion of the second-stage national 5G tests and tests of more than 20 global mainstream carriers, and strategic cooperation agreements with global mainstream carriers in a joint effort to advance 5G technologies and market applications.

In connection with wireline products, the Group reported substantial revenue growth as its seized opportunities arising from the fast growth in video data flow, rapid development of 5G, the upgrade of fixed line access to optical fibre, and SDN virtualisation on the back of its sustained competitive edge in technologies and solutions. We achieved stellar results in the procurement projects of domestic carriers, leading in market shares for numerous products. In the international market, important breakthroughs have been made in relation to a number of multinational carriers. In connection with innovative products and solutions, TITAN, our flagship optical access platform for the next decade, was named for the Fixed Broadband Innovation of the Year Award presented by Telecom Asia, while Combo PON was named for the Total Telecom Innovation Award. In the meantime, our 5G bearer and network virtualisation products were among the top tier on a global basis in terms of competitiveness.

In connection with telecommunications, the Group seized opportunities in big video system construction and upgrades arising from the transformation in the content services of telecom carriers and stayed atop in market shares for IPTV through our big video "4K+" end-to-end solution, a market-leading product.

Government and corporate business

The Group capitalised on opportunities presented by the digital transformation of the industry to foster core product capabilities and develop industry solutions focused on "network communication products, government and corporate virtual data centre, distributed database, and video big data analysis". We joined forces with our partners to develop a business ecosphere of cloud networks and achieved stable development in key sectors "government, transportation, energy, finance, enterprise and education".

Consumer business

In connection with handset terminals, the Group reported rapid growth in its business in North America and sound relationships with business partners. In connection with home information terminals, the Group reported fast growth capitalising on opportunities presented by requirements for the upgrade and replacement of home information terminals in tandem with the development of new technologies such as 4K and HDR (high dynamic range). In connection with fixed-line broadband terminals, the Group reported sustained growth for this segment, thanks to its ability to satisfy varying customers' demands with such flexibility as afforded by its wide-ranging product portfolio.

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 (XXXI) 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	108,815.3	100%	75,005.8	31.07%	7.49%	7.00%	0.32
Total	**108,815.3**	**100%**	**75,005.8**	**31.07%**	**7.49%**	**7.00%**	**0.32**
II. By business segment							
Carriers' networks	63,782.3	58.62%	38,240.9	40.04%	8.32%	6.68%	0.92
Government and corporate business	9,830.6	9.03%	6,955.5	29.25%	10.41%	24.17%	(7.84)
Consumer business	35,202.4	32.35%	29,809.4	15.32%	5.24%	4.04%	0.98
Total	**108,815.3**	**100%**	**75,005.8**	**31.07%**	**7.49%**	**7.00%**	**0.32**
III. By region							
The PRC	61,958.6	56.94%	39,950.1	35.52%	5.82%	2.55%	2.06
Asia (excluding the PRC)	15,786.7	14.51%	10,535.6	33.26%	8.39%	0.34%	5.35
Africa	3,766.1	3.46%	2,782.9	26.11%	(34.52%)	(13.82%)	(17.74)
Europe, Americas and Oceania	27,303.9	25.09%	21,737.2	20.39%	22.07%	24.82%	(1.75)
Total	**108,815.3**	**100%**	**75,005.8**	**31.07%**	**7.49%**	**7.00%**	**0.32**

(1) Analysis of change in revenue

The Group reported RMB108,815.3 million in operating revenue for 2017, increasing by 7.49% as compared with the same period last year. Operating revenue generated from the domestic business amounted to RMB61,958.6 million, increasing by 5.82% as compared with the same period last year. Operating revenue generated from the international business increased by 9.78% to RMB46,856.7 million.

Analysed by business segment, year-on-year growth in the Group's operating revenue reflected mainly year-on-year growth in operating revenue from the three principal business segments of carriers' networks, government and corporate business and consumer business. The 8.32% year-on-year increase in operating revenue from the Group's carriers' networks for 2017 reflected mainly the year-on-year increase in operating revenue from 4G system products and optical access products in the domestic and international markets and optical transmission products in the domestic market. The 10.41% year-on-year increase in operating revenue from the Group's government and corporate business for 2017 mainly reflected the year-on-year increase in operating revenue from government and corporate business in the domestic and international markets. The 5.24% year-on-year increase in operating revenue from the Group's consumer business for 2017 mainly reflected the year-on-year increase in operating revenue from handset products in the international market and home terminals in the domestic market.

(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

2017			2016 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)
108,815.3	**75,005.8**	**31.07%**	99,290.2	67,826.7	31.69%	9.59%	10.58%	(0.62)

Note: Figures of operating revenue and operating costs for 2016 have excluded operating revenue and operating costs of subsidiaries deconsolidated in 2017.

Hunan ZTE ICT Co., Ltd. ("Hunan ICT"), a subsidiary of the Company, completed the disposal of 70% equity interests in Hengyang ICT Real Estate Co., Ltd. ("Hengyang ICT") on 31 March 2017 and Hengyang ICT had been excluded from the consolidated financial statements of the Group as from 31 March 2017. The Company completed the disposal of 85% equity interests in ZTE Supply Chain Company Limited ("ZTE Supply Chain") on 20 April 2017 and ZTE Supply Chain had been excluded from the consolidated financial statements of the Group as from 20 April 2017. The Company completed the disposal of 81% equity interests in Beijing Zhongbao Net Shield Technology Co., Ltd. ("Zhongbao Net Shield") on 29 June 2017 and Zhongbao Net Shield had been excluded from the consolidated financial statements of the Group as from 29 June 2017. The Company completed the disposal of 10.1% equity interests in Nubia Technology Limited ("Nubia") on 17 August 2017 and Nubia had been excluded from the consolidated financial statements of the Group as from 17 August 2017. ZTE ICT Company Limited ("ZTE ICT"), a subsidiary of the Company, completed the disposal of 45% equity interests in Huanggang Education Valley Investment Holdings Co., Ltd. ("Huanggang Education Valley") on 13 November 2017 and Huanggang Education Valley had been excluded from the consolidated financial statements of the Group as from 13 November 2017. ZTE ICT completed the disposal of 100% equity interests in Shenzhen Zhonghu Industrial Development Co., Ltd. ("Zhonghu Industrial") on 25 December 2017 and Zhonghu Industrial had been excluded from the consolidated financial statements of the Group as from 25 December 2017. Excluding the operating revenue and operating costs of the aforesaid companies for the corresponding period of 2016, the operating revenue and operating costs of the Group for 2017 would have grown by 9.59% and 10.58%, respectively, as compared to the same period last year, while gross profit margin dropped by 0.62 percentage point, 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 — (XVII) 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 2017 amounted to RMB6,752.9 million, representing year-on-year growth of 479.40% which reflected mainly the increase in revenue, gross profit and investment income coupled with the modified structure of presentation for government grants in line with the amendment of the accounting standard relating to government grants. Operating revenue amounted to RMB108,815.3 million, representing year-on-year growth of 7.49%, which reflected mainly year-on-year growth in operating revenue from the three principal business segments, namely, carriers' networks, government and corporate business, and consumer business. Investment income amounted to RMB2,540.3 million, an increase by 54.87% as compared to the same period last year reflecting mainly investment income from the partial disposal of equity interests in Nubia during the period. Non-operating income amounted to RMB159.3 million, representing year-on-year decrease of 96.35%, which was attributable mainly to the modified structure of presentation for government grants in line with the amendment of the accounting standard relating to government grants. Non-operating expenses amounted to RMB193.3 million, representing year-on-year decrease of 96.93%, which was attributable mainly to the recognition of losses arising from penalties agreed to be paid by the Company amounting to approximately USD892 million following the settlement between the Company and relevant U.S. authorities in March 2017 in the 2016 financial statements in accordance with relevant accounting standards.

(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 2017 was 31.07%, versus 30.75% for 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 Annual Report.

Unit: RMB in millions

Consolidated statement of profit or loss and other comprehensive income	**2017**	2016 (Restated)
Operating revenue:		
Carriers' networks	**63,782.3**	58,880.5
Government and corporate business	**9,830.6**	8,903.7
Consumer business	**35,202.4**	33,449.0
Total revenue	**108,815.3**	101,233.2
Cost of sales	**(76,116.5)**	(71,312.5)
Gross profit	**32,698.8**	29,920.7
Other income and gains	**6,950.9**	6,116.0
Research and development costs	**(12,962.2)**	(11,689.2)
Selling and distribution expenses	**(12,260.0)**	(12,622.4)
Administrative expenses	**(3,237.7)**	(2,731.0)
Other expenses	**(3,184.9)**	(8,651.0)
Profit from operating activities	**8,004.9**	343.1
Finance costs	**(1,157.8)**	(1,156.1)
Share of profits and losses of joint ventures and associates	**(128.2)**	45.2
Profit/(loss) before tax	**6,718.9**	(767.8)
Income tax expense	**(1,332.6)**	(640.1)
Profit/(loss) for the year	**5,386.3**	(1,407.9)
Attributable to:		
Non-controlling interests	**(316.8)**	(448.2)
Attributable to:		
Perpetual capital instruments	**(501.3)**	(501.3)
Attributable to:		
Ordinary shares of the parent company	**4,568.2**	(2,357.4)
Other comprehensive income	**318.6**	(5.1)
Comprehensive income	**5,704.9**	(1,413.0)
Dividend	**1,383.6**	—
Earnings per share — Basic	**RMB1.09**	RMB(0.57)
— Diluted	**RMB1.08**	RMB(0.57)

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

	2017		2016	
Business segment	**Revenue**	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
Carriers' networks	**63,782.3**	**58.6%**	58,880.5	58.2%
Government and corporate business	**9,830.6**	**9.0%**	8,903.7	8.8%
Consumer business	**35,202.4**	**32.4%**	33,449.0	33.0%
Total	**108,815.3**	**100.0%**	101,233.2	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

	2017		2016	
Regions	**Revenue**	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
The PRC	**61,958.6**	**56.9%**	58,550.1	57.8%
Asia (excluding the PRC)	**15,786.7**	**14.5%**	14,564.6	14.4%
Africa	**3,766.1**	**3.5%**	5,751.2	5.7%
Europe, the Americas and Oceania	**27,303.9**	**25.1%**	22,367.3	22.1%
Total	**108,815.3**	**100.0%**	101,233.2	100.0%

The Group reported RMB108,815.3 million in operating revenue for 2017, improving by 7.5% as compared with the same period last year. Operating revenue generated from the domestic business increased by 5.8% to RMB61,958.6 million, while operating revenue generated from the international business increased by 9.8% to RMB46,856.7 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 year-on-year growth in operating revenue from the three principal business segments of carriers' networks, government and corporate business and consumer business. The 8.3% year-on-year increase in operating revenue from the Group's carriers' networks for 2017 reflected mainly the year-on-year increase in operating revenue from 4G system products and optical access products in the domestic and international markets and optical transmission products in the domestic market. The 10.4% year-on-year increase in operating revenue from the Group's government and corporate business for 2017 reflected mainly the year-on-year increase in operating revenue from the government and corporate business in the domestic and international markets. The 5.2% year-on-year increase in operating revenue from the Group's consumer business for 2017 reflected mainly the year-on-year increase in operating revenue from handset products in the international market and home terminals in the domestic market.

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

	2017		2016	
Business segment	**Cost of sales**	**As a percentage of business segment revenue**	Cost of sales	As a percentage of business segment revenue
Carriers' networks	**39,003.6**	**61.2%**	36,933.2	62.7%
Government and corporate business	**7,056.2**	**71.8%**	5,759.3	64.7%
Consumer business	**30,056.7**	**85.4%**	28,620.0	85.6%
Total	**76,116.5**	**70.0%**	71,312.5	70.4%

Unit: RMB in millions

Business segment	2017		2016	
	Gross profit	**Gross profit margin**	Gross profit	Gross profit margin
Carriers' networks	**24,778.7**	**38.8%**	21,947.3	37.3%
Government and corporate business	**2,774.4**	**28.2%**	3,144.4	35.3%
Consumer business	**5,145.7**	**14.6%**	4,829.0	14.4%
Total	**32,698.8**	**30.0%**	29,920.7	29.6%

Cost of sales of the Group for 2017 increased by 6.7%, year-on-year, to RMB76,116.5 million. The Group's overall gross profit margin rose by 0.4 percentage point to 30.0% for 2017, reflecting higher gross profit margin for carriers' networks and consumer business.

Cost of sales of the Group's carriers' networks for 2017 amounted to RMB39,003.6 million, a 5.6% increase compared to the same period last year. Gross profit margin was 38.8% compared to 37.3% 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 international market and wireline products in the domestic markets.

Cost of sales of the Group's government and corporate business for 2017 amounted to RMB7,056.2 million, an increase of 22.5% compared to the same period last year. The relevant gross profit margin was 28.2% compared to 35.3% 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 international market.

Cost of sales of the Group's consumer business for 2017 amounted to RMB30,056.7 million, increasing by 5.0% compared to the same period last year. The relevant gross profit margin was 14.6%, compared to 14.4% for the same period last year. The growth in gross profit margin for the consumer business was attributable mainly to the higher gross profit margin for handset products in the domestic market.

OTHER INCOME AND GAINS

Other income and gains of the Group for 2017 amounted to RMB6,950.9 million, representing a 13.7% increase compared to RMB6,116.0 million for 2016, reflecting mainly investment gains generated from the Group's partial disposal of equity interests in Nubia during the period.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2017 increased by 10.9% to RMB12,962.2 million from RMB11,689.2 million for 2016, or by 0.4 percentage point from 11.5% for 2016 to 11.9% for 2017 as a percentage of operating revenue. Such increase was 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 2017 decreased by 2.9% to RMB12,260.0 million from RMB12,622.4 million for 2016, reflecting mainly the decrease in the Group's advertising and promotion expenses for the period. Selling and distribution expenses as a percentage of operating revenue decreased by 1.2 percentage points to 11.3%, compared to 12.5% for 2016.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for 2017 increased by 18.6% to RMB3,237.7 million, as compared to RMB2,731.0 million for 2016. Such increase was attributable mainly to the increase in the Group's staff expenses for the period. Administrative expenses as a percentage of operating revenue increased by 0.3 percentage point to 3.0%, as compared to 2.7% for 2016.

OTHER EXPENSES

Other expenses primarily include loss on impairment of assets, loss on foreign exchange and non-operating expenses. Other expenses of the Group for 2017 was RMB3,184.9 million, representing a decrease of 63.2% from RMB8,651.0 million in 2016, which was attributable primarily to the recognition of losses arising from penalties agreed to be paid by the Company amounting to approximately USD892 million following the settlement between the Company and relevant U.S. authorities in March 2017 in the 2016 financial statements in accordance with the relevant accounting standards.

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2017 amounted to RMB8,004.9 million, as compared to RMB343.1 million for 2016, while operating profit margin was 7.4% as compared to 0.3% for 2016, reflecting mainly to the increase in the Group's gross profit for the period, versus the Company's recognition of an amount of approximately USD892 million as penalties agreed to be paid to relevant U.S. authorities in the 2016 financial statements in accordance with relevant accounting standards for the same period last year.

FINANCE COSTS

Finance costs of the Group for 2017 was flat comparing to the same period last year, increasing by 0.1% to RMB1,157.8 million compared to RMB1,156.1 million for 2016.

INCOME TAX EXPENSE

The Group's income tax expense for 2017 was RMB1,332.6 million, which was 108.2% higher as compared to RMB640.1 million for 2016, reflecting mainly the increase in profit of the Group's subsidiaries for the period.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The Group's profit attributable to non-controlling interests for 2017 amounted to RMB316.8 million, representing a decrease of RMB131.4 million compared to RMB448.2 million for 2016, which was attributable mainly to the decrease in profit reported by subsidiaries with higher levels of non-controlling interests for the period.

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for 2017 amounted to RMB318.6 million, compared to RMB–5.1 million for 2016, reflecting mainly the increase in gains from fair-value changes of available-for-sale financial assets of the fund partnership under ZTE Capital, a subsidiary of the Group, as well as gains on translation of statements denominated in foreign currencies owing to exchange rate fluctuations for the period versus losses on translation of statements denominated in foreign currencies owing to exchange rate fluctuations for the previous period.

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 2017 was 36.0%, declining by 2.6 percentage points as compared to 38.6% for 2016, reflecting mainly the increase in net profit for the period.

LIQUIDITY AND CAPITAL RESOURCES

In 2017, 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 2017 amounted to RMB30,109.3 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	**2017**	2016
Net cash inflow from operating activities	**4,460.2**	3,092.7
Net cash outflow from investing activities	**(4,051.7)**	(3,654.0)
Net cash inflow from financing activities	**117.3**	4,029.1
Net increase in cash and cash equivalents	**525.8**	3,467.8
Cash and cash equivalents at the end of the period	**30,109.3**	30,049.8

OPERATING ACTIVITIES

The Group reported net cash inflow from operating activities of RMB4,460.2 million for 2017, compared to RMB3,092.7 million for 2016, reflecting mainly year-on-year increase in cash received from sales of goods and provision of services by RMB2,027.2 million, increase in other cash receipts relating to operating activities by RMB285.6 million, increase in tax refund received by RMB521.6 million, decrease in cash paid for the purchase of goods and services by RMB6,214.0 million, increase in cash payments to and on behalf of employees by RMB2,031.5 million, decrease in payments of tax expenses by RMB595.9 million, and increase in other cash payments relating to operating activities by RMB5,653.1 million.

INVESTING ACTIVITIES

The Group's net cash outflow from investing activities was RMB4,051.7 million for 2017, compared to RMB3,654.0 million for 2016, reflecting mainly the year-on-year decrease in cash received for the disposal of subsidiaries for the period.

FINANCING ACTIVITIES

The Group's net cash inflow from financing activities for 2017 was RMB117.3 million, compared to RMB4,029.1 million for 2016, reflecting mainly the year-on-year increase in cash paid for the repayment of debts for the period.

CAPITAL EXPENDITURE

The Group's capital expenditure for 2017 amounted to RMB7,386.5 million, which was mainly applied in the prepayment of land premium for the Shenzhen Bay Super Headquarters project, construction of staff quarters, Heyuan production, R&D and training base and the purchase of machinery and equipment. Capital expenditure for 2016 amounted to RMB4,810.2 million.

INDEBTEDNESS

Unit: RMB in millions

Item	**31 December**	
	2017	2016
Secured bank loans	**24.1**	48.8
Unsecured bank loans	**21,513.9**	22,033.6

Unit: RMB in millions

Item	**31 December**	
	2017	2016
Short-term bank loans	**18,535.9**	17,064.1
Long-term bank loans	**3,002.1**	5,018.3

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. The Group's RMB short-term and long-term bank loans subject to fixed interest rates were RMB4,452.2 million and RMB935.4 million respectively. USD and EUR bank loans subject to fixed interest rates were equivalent to approximately RMB4,350.9 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 Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the fluctuations in the exchange rates of such currencies. The Group seeks to mitigate the impact of exchange rate volatility on its operations at source through business strategy guidance, internal settlement management, financing mix adjustment, internal exchange settlement and application of derivative instruments on exchange rates based on the principle of prudent exposure management. The Group also strengthens liquidity and facilitates the pricing and settlement of its overseas projects in RMB, so as to lower exchange risks in the long term.

The Group's bank loans in 2017 decreased by RMB544.4 million as compared to the previous year, reflecting mainly the repayment of loans in a move to optimise its balance sheet structure in view of the increase in the Group's cash flow from operating activities for the period.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

		31 December 2017		
Item	**Total**	Less than 1 year	2–5 years	More than 5 years
Bank loans	**21,538.0**	18,535.9	2,945.1	57.0
Operating lease obligation	**963.5**	556.8	378.8	27.9

CONTINGENT LIABILITIES

Unit: RMB in millions

Item	**31 December 2017**	31 December 2016
Guarantees given to banks in connection with borrowings to customers	**—**	—
Guarantees given to banks in respect of performance bonds	**8,419.1**	8,400.9
Total	**8,419.1**	8,400.9

CAPITAL COMMITMENTS

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

Unit: RMB in millions

Item	31 December **2017**	2016
Land and buildings:		
Contracted, but not provided for	**2,854.5**	1,052.8
Investment in associates:		
Contracted, but not provided for	**110.3**	128.4

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

Details of the subsidiaries of the Group as at 31 December 2017 are set out in the section headed "Report of the Board of Directors — (II) 11. Analysis of principal subsidiaries and investee companies" in Annual Report.

Details of the associates and joint ventures of the Group as at 31 December 2017 are set out in Notes 19 and 20 to the financial statements prepared in accordance with HKFRSs.

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

Details of progress of acquisitions and disposals related to subsidiaries, associates and joint ventures commenced by the Group in 2017 are set out in the section headed "Material Matters — (V) Asset Transactions" in 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 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 2017 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 Annual Report.

CHARGES ON ASSETS

Details of the Group's charges on assets as at 31 December 2017 are set out in Note 31 to the financial statements prepared under HKFRSs.

PLANS FOR INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

Details of the Group's investments and their performance and prospects as at 31 December 2017 are set out in the sections headed "Report of the Board of Directors — (II) 9. Analysis of Investments" and "Material Matters —(V) Asset Transactions" in Annual Report.

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

7.4 Proposal for profit distribution of 2017

Audited net profit attributable to the holders of ordinary shares of the Company for the year 2017 calculated in accordance with PRC ASBEs amounted to approximately RMB5,550,119,000. Together with undistributed profit of approximately RMB-1,778,811,000 carried forward at the beginning of the year and after provision for statutory surplus reserves of approximately RMB182,727,000, profit available for distribution to shareholders amounted to approximately RMB3,588,581,000.

Audited net profit attributable to the holders of ordinary shares of the Company for the year 2017 calculated in accordance with HKFRSs amounted to approximately RMB5,760,955,000. Together with undistributed profit of approximately RMB-3,225,576,000 carried forward at the beginning of the year and after provision of statutory surplus reserves of approximately RMB182,727,000, profit available for distribution to shareholders amounted to approximately RMB2,352,652,000.

In accordance with MOF requirements and the Articles of Association, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is approximately RMB2,352,652,000. The Board of Directors of the Company has recommended:

Proposal for profit distribution for 2017: RMB3.3 in cash (before tax) for every 10 shares based on the number of shares held by shareholders (including A shareholders and H shareholders) registered as at the close of business on the record date for profit distribution and dividend payment.

The Company expects to pay the dividend to shareholders on 29 June 2018.

7.5 Business outlook of 2018 and risk exposures

7.5.1 Business outlook of 2018

In 2018, the Group is set to welcome new opportunities for development, given rapid growth in the volume of data flow over the network. Specifically, such opportunities will be represented by: an accelerated process of 5G commercialization underpinned by ongoing upgrades in network infrastructure; robust demand for smart terminals; and an onrush of new technologies and models, with AI, IOT and smart home, among others, providing new growth niches. In view of the above, the Group will adopt the following strategies in 2018:

In connection with carriers' networks, for wireless area, the Group will persist in an innovation-driven approach and expedite the launch of new products to deliver value to customers through new models and technologies, thereby further enhancing its profile as a forerunner in 5G and driving the progress of global 5G commercialisation. For wireline area, the Group will further leverage its integrated platform to stay atop in terms of competitiveness of principal products. Through innovation solutions such as "5G bearer, IP+optic and CO restructuring", we will strive to increase the market shares of our key products and establish ourselves in a leading position in the era of ultra-fast networks on the back of customer satisfaction.

In connection with the government and corporate business, we will seize opportunities for market development arising from the industry's transformation towards digitalisation across the board. With a strong focus on key sectors and product competitiveness, we will join forces with our partners in the development of competitive innovative solutions with a special emphasis on sectors such as "government, public security, finance, energy and transportation" to assist users in their digital transformation and upgrade, while increasing our investment in industry alliances, open laboratories and open platforms to build a more open business ecosphere of cloud networks.

In connection with the consumer business, the Group will persist in the strategy of "focusing on innovation plus listening to and satisfying consumers' needs" and solidified its strengths in 6 major aspects where it claimed an edge over its peers: "global sales channels, partnering carriers, large global user base, technical restructuring ability, design innovation and total business operation". We will maintain our competitive edge in technology by increasing R&D investments and enhance cooperation with core carriers with a strong focus on the market of populous nations. In the domestic market, the Group will significantly increase its investment in the open channel market, procure proper top-level design, remodel its domestic brands and make further inroads in the carriers' market where it claims an advantageous position, seeking to bolster market shares and sales revenue on the basis of prudent operations and sound risk control.

In 2018, the Group will continue to focus on high-worth customers and enhance customer satisfaction in accordance with its "2020 Strategy". We will continue to persist in proprietary innovation of core technologies and increase our investment in the R&D of 5G and other core products to strengthen our product competitiveness. Seizing opportunities presented by changing technologies and landscapes in the global telecommunications market, we will make steadfast efforts to increase our market shares and enhance our global market position. Underpinned by high-calibre staff as well as ongoing improvements in internal administration through more stringent compliance and internal control, the Group is well-positioned to achieve prudent and sustainable development.

7.5.2 Risk Exposures

(1) Country risks

Given the complex nature of international economic and political conditions and the presence of the Group's business and branch organisations in over 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, which might affect the day-to-day operations of the Group. Meanwhile, import and export control, tax compliance and antitrust measures of national governments around the world means that a very high level of operational and risk control capabilities is required of the Group. Currently, the Group conducts systematic management of country risks mainly through studies, regular assessment, timely warning and proactive response in respect of political and economic developments and policies of various countries. We also control such risks by taking out country risk insurance policies.

(2) Risk associated with intellectual property rights

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

(3) Exchange rate risks

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the fluctuations in the exchange rates of such currencies, which might affect the operations of the Group. The Group seeks to mitigate the impact of exchange rate volatility on its operations at source through business strategy guidance, internal settlement management, financing mix adjustment, internal exchange settlement and application of derivative instruments on exchange rates based on the principle of prudent exposure management. The Group also strengthens liquidity and facilitates the pricing and settlement of its overseas projects in RMB, so as to lower 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. Structured management of interest-bearing liabilities is achieved mainly through portfolio control of a mixture of long-term/short-term domestic and overseas loans denominated in RMB or foreign currencies with fix or floating interests, complemented by derivative instruments such as interest rate swaps, sought from a diverse range of low-cost financing channels in the global market taking into account the trends of market changes.

(5) Credit risk

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

8. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

8.1 Compliance of the Corporate Governance Code

During the period from 1 January to 31 December 2017, the Company was in full compliance with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules, except for the following:

Code Provision A.2.1

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

From 1 January 2017 to 14 March 2017, the office of the Chairman and the office of the President had 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 tendered his resignation from the office of Chairman of the Seventh Session of the Board of Director. Following his resignation, Mr. Zhao Xianming has continued to serve as Executive Director and President of the Company. At the Fourteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 14 March 2017, Mr. Yin Yimin was elected Chairman of the Seventh Session of the Board of Directors, for a term commencing on 14 March 2017 and ending on the date on which the Seventh Session of the Board of Directors is concluded (namely, 29 March 2019). The

Company has fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules since 14 March 2017.

8.2 Securities transactions by Directors and Supervisors

The Directors and Supervisors of the Company confirmed that the Company has adopted the Model Code. Upon specific 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 2017 and the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2017 prepared by the Group in accordance with PRC ASBEs and the consolidated and company statement of financial position at 31 December 2017 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 2017 prepared in accordance with HKFRSs.

9.2 Audit opinion

The consolidated and company balance sheets as at 31 December 2017, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2017 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 (2018) 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 2017, 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 2017 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 2017 included: tier-one subsidiaries ZTE Kela Technology (Suzhou) Co., Ltd., Xi'an ZTE IOT Terminal Co., Ltd., ZTE (Xi'an) Co., Ltd., ZTE Wangkun Information Technology (Shanghai) Co., Ltd., Wuhan ZTE Smart City Research Institute Co., Ltd., ZTE (Kunming) ZTE Smart City Industry Research Institute Co., Ltd., ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd., ZTE (Nanjing) Co., Ltd.; tier-two subsidiaries Zhejiang ZTE ICT Co., Ltd., ZTE Xingyun Industrial Investment Management (Hangzhou) Co., Ltd., PT.NUBIA TECHNOLOGY INDONESIA, Nubia (Thailand) CO., LTD, Nubia USA, Inc., Shenzhen ZTE Zhiping Technology Co., Ltd., ZTE HK Telecommunication Jamaica Limited, Shenzhen ZTE Smart Net Technology Co., Ltd., ZTE Communication LLC (Oman), Shenzhen Zhonghu Industrial Development Co., Ltd., ZTE Smart (Guangzhou) Auto Sales Co., Ltd., ZTE ICT Suzhou Technology Co., Ltd., Yibin ZTE ICT Co., Ltd., ZTE (Fiji) PTE Limited, ZTE Smart (Wuhan) Auto Sales Co., Ltd, Zhongxing Trinidad and Tobago Limited; tier-three subsidiaries ZTE d.o.o. Beograd, ZTE NICARAGUA, S.A, Chongqing Zhongwang Wangsheng Technology Co., Ltd., ZTESoft Luxembourg SARL, Qingdao ZTE ICT Information Technology Co., Ltd., ZTE Luxembourg Sarl; and tier-four subsidiaries ZTE ITALIA SERVIZI S.R.L., NAS Netcare Administration Services GmbH, NCS Netcare Consulting and Engineering Services GmbH; newly acquired tier-two subsidiaries included Suzhou Luohe Leixin Optoelectronics Co., Ltd; and newly acquired tier-three subsidiaries included NETAŞ TELEKOMÜNİKASYON A.Ş. and Shenzhen Saijiaxun Investment Development Enterprise (Limited Partnership).

Hunan ICT, a subsidiary of the Company, completed the disposal of 70% equity interests in Hengyang ICT on 31 March 2017 and Hengyang ICT had been excluded from the consolidated financial statements of the Group as from 31 March 2017. The Company completed the disposal of 85% equity interests in ZTE Supply Chain on 20 April 2017 and ZTE Supply Chain had been excluded from the consolidated financial statements of the Group as from 20 April 2017. The Company completed the disposal of 81% equity interests in Zhongbao Net Shield on 29 June 2017 and Zhongbao Net Shield had been excluded from the consolidated financial statements of the Group as from 29 June 2017. The Company completed the disposal of 10.1% equity interests in Nubia on 17 August 2017 and Nubia had been excluded from the consolidated financial statements of the Group as from 17 August 2017. ZTE ICT, a subsidiary of the Company, completed the disposal of 45% equity interests in Huanggang Education Valley on 13 November 2017 and Huanggang Education Valley had been excluded from the consolidated financial statements of the Group as from 13 November 2017. ZTE ICT completed the disposal of 100% equity interests in Zhonghu Industrial on 25 December 2017 and Zhonghu Industrial had been excluded from the consolidated financial statements of the Group as from 25 December 2017.

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

10. CLOSE OF SHARE REGISTER

The Company has resolved to convene the 2017 Annual General Meeting (the "AGM") on Friday, 11 May 2018 at the conference room on the 4th floor of the Shenzhen headquarters of the Company.

The Company will close its H share register from Wednesday, 11 April 2018 to Thursday, 10 May 2018 (both days inclusive) to determine qualifications of shareholders to attend and vote at the AGM. Any H Shareholder who wishes to attend and vote at the AGM shall lodge an instrument of transfer, together with the corresponding share certificate(s) with Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m., Tuesday, 10 April 2018.

The Company will close its H share register from Thursday, 17 May 2018 to Tuesday, 22 May 2018 (both days inclusive) to determine qualifications of shareholders to receive the Dividends. Any H Shareholder who wishes to qualify for the dividends shall lodge an instrument of transfer, together with the corresponding share certificate(s) with Computershare Hong Kong Investor Services Limited at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong by 4:30 p.m., Wednesday, 16 May 2018.

By Order of the Board
Yin Yimin
Chairman

Shenzhen, the PRC
15 March 2018

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

APPENDIX 1: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH PRC ASBES

CONSOLIDATED BALANCE SHEET

31 December 2017

		RMB'000
Assets	**2017**	2016
Current assets		
Cash	**33,407,879**	32,349,914
Derivative financial assets	**116,794**	54,857
Bills receivable	**2,052,945**	1,984,493
Trade receivables	**24,345,283**	25,998,188
Factored trade receivables	**1,080,449**	2,261,280
Other receivables	**3,629,933**	4,430,072
Prepayments	**591,664**	1,739,691
Inventories	**26,234,139**	26,810,568
Amount due from customers for contract works	**9,012,909**	9,345,123
Other current assets	**7,758,594**	7,877,874
Total current assets	**108,230,589**	112,852,060
Non-current assets		
Available-for-sale financial assets	**3,181,668**	2,659,667
Long-term trade receivables	**1,244,760**	1,376,563
Factored long-term trade receivables	**2,608,006**	1,391,746
Long-term equity investments	**3,960,597**	665,876
Investment properties	**2,023,809**	2,016,470
Fixed assets	**8,694,456**	7,516,241
Construction in progress	**1,472,986**	1,729,450
Intangible assets	**4,741,615**	4,354,096
Deferred development costs	**1,902,077**	1,365,890
Goodwill	**308,806**	186,206
Deferred tax assets	**1,464,250**	1,604,575
Long-term deferred assets	**34,983**	34,953
Other non-current assets	**4,093,613**	3,887,117
Total non-current assets	**35,731,626**	28,788,850
TOTAL ASSETS	**143,962,215**	141,640,910

CONSOLIDATED BALANCE SHEET (CONTINUED)
31 December 2017

		RMB'000
Liabilities	**2017**	2016
Current liabilities		
Short-term loans	**14,719,023**	15,132,120
Bank advances on factored trade receivables	**1,080,472**	2,263,015
Derivative financial liabilities	**49,830**	40,148
Bills payable	**10,848,511**	11,689,957
Trade payables	**23,614,556**	25,243,881
Amount due to customers for contract works	**8,050,655**	5,876,790
Advances from customers	**8,702,351**	8,092,164
Salary and welfare payables	**7,389,544**	5,169,051
Taxes payable	**1,263,723**	997,189
Dividends payable	**1,322**	50,317
Other payables	**7,070,099**	13,660,418
Deferred income	**454,891**	712,657
Provisions	**533,126**	887,366
Long-term loans due within one year	**3,816,844**	1,932,025
Total current liabilities	**87,594,947**	91,747,098
Non-current liabilities		
Long-term loans	**3,002,146**	5,018,276
Bank advances on factored long-term trade receivables	**2,948,006**	1,391,746
Provision for retirement benefits	**133,191**	146,106
Deferred tax liabilities	**338,131**	98,380
Deferred income	**1,224,978**	790,223
Other non-current liabilities	**3,340,669**	1,563,991
Total non-current liabilities	**10,987,121**	9,008,722
Total liabilities	**98,582,068**	100,755,820

CONSOLIDATED BALANCE SHEET (CONTINUED)
31 December 2017

		RMB'000
Shareholder's equity	**2017**	2016
Shareholder's equity		
Share capital	**4,192,672**	4,184,628
Capital reserves	**11,304,854**	10,734,300
Other comprehensive income	**(723,770)**	(822,724)
Surplus reserve	**2,205,436**	2,022,709
Retained profits	**14,667,683**	10,282,238
Total equity attributable to holders of ordinary shares of the parent	**31,646,875**	26,401,151
Other equity instruments		
Including: perpetual capital instruments	**9,321,327**	9,321,327
Non-controlling interests	**4,411,945**	5,162,612
Total shareholders' equity	**45,380,147**	40,885,090
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**143,962,215**	141,640,910

Legal representative	**Chief Financial officer**	**Head of Finance Division**
Yin Yimin	*Shao Weilin*	*Xu Jianrui*

CONSOLIDATED INCOME STATEMENT
2017

RMB'000

	2017	2016
Operating revenue	**108,815,273**	101,233,182
Less: Operating costs	**75,005,818**	70,100,658
Taxes and surcharges	**942,119**	868,208
Selling and distribution costs	**12,104,355**	12,458,152
Administrative expenses	**3,057,208**	2,487,918
Research and development costs	**12,962,245**	12,762,055
Finance costs	**1,043,482**	207,773
Impairment losses	**2,533,608**	2,853,127
Add: Gains from changes in fair values	**58,301**	29,978
Investment income	**2,540,328**	1,640,279
Including: Share of profits/(losses) of associates and joint ventures	**(128,201)**	45,166
Gains/(losses) from asset disposal	**(31,275)**	—
Other gains	**3,019,138**	—
Operating profit	**6,752,930**	1,165,548
Add: Non-operating income	**159,277**	4,361,548
Less: Non-operating expenses	**193,283**	6,294,847
Total profit/(loss)	**6,718,924**	(767,751)
Less: Income tax	**1,332,582**	640,118
Net profit/(loss)	**5,386,342**	(1,407,869)
Attributable to:		
Holders of ordinary shares of the parent	**4,568,172**	(2,357,418)
Holders of perpetual capital instruments	**501,300**	501,300
Non-controlling interests	**316,870**	448,249

CONSOLIDATED INCOME STATEMENT (CONTINUED)

2017

	2017	2016
		RMB'000
Other comprehensive income, net of tax	**318,567**	(5,158)
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax	**98,954**	(137,657)
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods		
Change in net assets/(net liabilities) arising from the re-measurement of defined benefit plans	**15,572**	743
	15,572	743
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	**94,575**	58,780
Effective portion of hedging instruments	**(12,327)**	(57,047)
Exchange differences on translation of foreign operations	**1,134**	(140,133)
	83,382	(138,400)
Other comprehensive income attributable to non-controlling interests, net of tax	**219,613**	132,499
Total comprehensive income	**5,704,909**	(1,413,027)
Attributable to:		
Holders of ordinary shares of the parent	**4,667,126**	(2,495,075)
Holders of perpetual capital instruments	**501,300**	501,300
Non-controlling interests	**536,483**	580,748
Earnings per share *(RMB/share)*		
Basic	**RMB1.09**	RMB(0.57)
Diluted	**RMB1.08**	RMB(0.57)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2017

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	Non-controlling interests	Total shareholders' equity
I. Current year's opening balance	4,184,628	10,734,300	(822,724)	2,022,709	10,282,238	26,401,151	9,321,327	5,162,612	40,885,090
II. Changes during the year									
(I) Total comprehensive income	—	—	98,954	—	4,568,172	4,667,126	501,300	536,483	5,704,909
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	8,044	122,942	—	—	—	130,986	—	715,803	846,789
2. Equity settled share expenses charged to equity	—	220,209	—	—	—	220,209	—	—	220,209
3. Acquisition of non-controlling interests	—	227,403	—	—	—	227,403	—	(312,525)	(85,122)
4. Capital reduction by shareholders	—	—	—	—	—	—	—	(1,357,208)	(1,357,208)
(III) Profit appropriation									
1. Provision of surplus reserve	—	—	—	182,727	(182,727)	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	(501,300)	(333,220)	(834,520)
III. Current year's closing balance	4,192,672	11,304,854	(723,770)	2,205,436	14,667,683	31,646,875	9,321,327	4,411,945	45,380,147

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	Non-controlling 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. Acquisition of non-controlling interests	—	—	—	—	—	—	—	(229,351)	(229,351)
3. Equity settled share expense charged to equity	—	(97,362)	—	—	—	(97,362)	—	—	(97,362)
4. Capital reduction by shareholders	—	—	—	—	—	—	—	(431,987)	(431,987)
(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

CONSOLIDATED CASH FLOW STATEMENT
2017

		RMB'000
	2017	2016
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	**115,579,157**	113,551,944
Refunds of taxes	**7,969,630**	7,448,038
Cash received relating to other operating activities	**3,516,155**	3,230,598
Sub-total of cash inflows	**127,064,942**	124,230,580
Cash paid for goods and services	**78,111,408**	84,325,441
Cash paid to and on behalf of employees	**19,683,442**	17,651,948
Cash paid for various types of taxes	**7,310,548**	7,906,466
Cash paid relating to other operating activities	**14,739,570**	9,086,519
Sub-total of cash outflows	**119,844,968**	118,970,374
Net cash flows from operating activities	**7,219,974**	5,260,206
II. Cash flows from investing activities		
Cash received from sale of investments	**1,378,058**	2,324,577
Cash received from return on investment	**619,745**	683,483
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	**128,716**	98,620
Net cash received from the disposal of subsidiaries and other operating units	**—**	964,261
Other cash received in relation to investing activities	**1,771,000**	—
Sub-total of cash inflows	**3,897,519**	4,070,941
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	**5,984,005**	4,002,460
Cash paid for acquisition of investments	**2,200,283**	3,087,455
Other cash paid in relation to investing activities	**647,838**	—
Sub-total of cash outflows	**8,832,126**	7,089,915
Net cash flows from investing activities	**(4,934,607)**	(3,018,974)

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)
2017

	2017	2016
		RMB'000
III. Cash flows from financing activities		
Cash received from capital injection	**102,439**	2,532,627
Including: Capital injection into subsidiaries by minority shareholders	**14,200**	2,160,567
Cash received from borrowings	**35,148,401**	30,425,813
Sub-total of cash inflows	**35,250,840**	32,958,440
Cash repayment of borrowings	**35,048,391**	28,929,382
Cash payments for distribution of dividends, profits and for interest expenses	**1,962,060**	2,802,549
Including: Distribution of dividends, profits by subsidiaries to minority shareholders	**337,596**	25,613
Sub-total of cash outflows	**37,010,451**	31,731,931
Net cash flows from financing activities	**(1,759,611)**	1,226,509
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**(466,278)**	(34,946)
V. Net increase in cash and cash equivalents	**59,478**	3,432,795
Add: cash and cash equivalents at beginning of year	**30,049,791**	26,616,996
VI. Net balance of cash and cash equivalents at the end of year	**30,109,269**	30,049,791

BALANCE SHEET
31 December 2017

Assets	**2017**	2016
		RMB'000
Current assets		
Cash	**18,665,112**	15,894,744
Derivative financial assets	**1,679**	15,457
Bills receivable	**1,888,992**	1,200,607
Trade receivables	**27,183,075**	40,132,425
Factored trade receivables	**704,593**	498,052
Prepayments	**56,680**	50,697
Dividend receivable	**23,753**	3,700,188
Other receivables	**25,363,711**	13,157,923
Inventories	**16,484,640**	17,993,566
Amount due from customers for contract works	**4,291,058**	4,904,060
Other current assets	**4,313,873**	5,177,219
Total current assets	**98,977,166**	102,724,938
Non-current assets		
Available-for-sale financial assets	**461,091**	458,091
Long-term trade receivables	**5,752,524**	6,154,837
Factored long-term trade receivables	**2,491,751**	1,249,292
Long-term equity investments	**13,685,375**	10,707,480
Investment properties	**1,615,458**	1,608,900
Fixed assets	**4,887,175**	4,508,652
Construction in progress	**905,876**	698,944
Intangible assets	**1,235,751**	1,153,375
Deferred development costs	**404,145**	191,977
Deferred tax assets	**566,364**	788,372
Long-term deferred assets	**34,991**	34,991
Other non-current assets	**3,417,463**	3,581,621
Total non-current assets	**35,457,964**	31,136,532
TOTAL ASSETS	**134,435,130**	133,861,470

BALANCE SHEET (CONTINUED)
31 December 2017

		RMB'000
Liabilities and shareholders' equity	**2017**	2016
Current liabilities		
Short-term loans	**7,158,482**	9,733,700
Derivative financial liabilities	**30,078**	3,878
Bank advances on factored trade receivables	**704,617**	499,386
Bills payable	**12,981,665**	14,382,695
Trade payables	**39,405,194**	40,201,805
Amount due to customers for contract works	**5,584,395**	3,540,132
Advances from customers	**6,424,220**	5,498,427
Salary and welfare payables	**4,118,982**	2,274,908
Taxes payable	**155,820**	191,128
Dividends payable	**225**	225
Other payables	**20,730,075**	30,533,249
Deferred income	**329,251**	344,610
Provisions	**301,785**	554,485
Long-term loans due within one year	**74,000**	1,906,025
Total current liabilities	**97,998,789**	109,664,653
Non-current liabilities		
Long-term loans	**2,121,125**	480,000
Bank advances on factored long-term trade receivables	**2,831,751**	1,249,292
Provision for retirement benefits	**133,191**	146,106
Deferred income	**149,260**	36,674
Other non-current liabilities	**2,781,120**	1,055,711
Total non-current liabilities	**8,016,447**	2,967,783
Total liabilities	**106,015,236**	112,632,436
Shareholders' equity		
Share capital	**4,192,672**	4,184,628
Capital reserves	**9,067,096**	8,723,945
Other comprehensive income	**706,538**	691,947
Surplus reserve	**1,543,680**	1,360,953
Retained profits	**3,588,581**	(3,053,766)
Shareholders' equity attributable holders of ordinary shares	**19,098,567**	11,907,707
Other equity instruments		
Including: perpetual capital instruments	**9,321,327**	9,321,327
Total shareholders' equity	**28,419,894**	21,229,034
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**134,435,130**	133,861,470

INCOME STATEMENT
2017

		RMB'000
	2017	2016
Operating revenue	**95,881,635**	90,890,478
Less: Operating costs	**80,382,612**	76,053,148
Taxes and surcharges	**362,104**	202,391
Selling and distribution costs	**7,481,793**	7,536,103
Administrative expenses	**2,054,502**	1,597,395
Research and development costs	**3,638,235**	3,375,265
Finance costs	**1,287,020**	(89,762)
Impairment losses	**1,863,009**	1,787,003
Add: Gains/(losses) from changes in fair values	**(34,354)**	21,494
Investment income	**6,878,277**	496,266
Including: Share of profits/(losses) of associates and jointly-controlled entities	**(210,835)**	52,082
Gains/(losses) from asset disposal	**(31,275)**	—
Other gains	**611,603**	—
Operating profit	**6,236,611**	946,695
Add: Non-operating income	**36,964**	976,275
Less: Non-operating expenses	**75,205**	6,190,693
Total profit/(loss)	**6,198,370**	(4,267,723)
Less: Income tax	**146,951**	(43,578)
Net profit/(loss)	**6,051,419**	(4,224,145)
Attributable to holders of ordinary shares	**5,550,119**	(4,725,445)
Attributable to holders of perpetual capital instruments	**501,300**	501,300

INCOME STATEMENT (CONTINUED)

2017

	2017	2016
		RMB'000
Other comprehensive income, net of tax		
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods		
Change in net assets (/liabilities) arising from the re-measurement of defined benefit plans	**15,572**	743
	15,572	743
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	**(981)**	646
	(981)	(3,700)
Other comprehensive income, net of income tax effect on respective items	**14,591**	(2,957)
Total comprehensive income attributable to:	**6,066,010**	(4,227,102)
Holders of ordinary shares	**5,564,710**	(4,728,402)
Holders of perpetual capital instruments	**501,300**	501,300

STATEMENT OF CHANGES IN EQUITY

2017

RMB'000

	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Total equity of holders of ordinary shares	Other equity instruments — Perpetual capital instruments	Total shareholders' equity
I. Current year's opening balance	**4,184,628**	**8,723,945**	**691,947**	**1,360,953**	**(3,053,766)**	**11,907,707**	**9,321,327**	**21,229,034**
Others	—	—	—	—	**1,274,955**	**1,274,955**	—	**1,274,955**
Opening balance as adjusted	—	—	—	—	**(1,778,811)**	**13,182,662**	—	**22,503,989**
II. Changes during the year								
(I) Total comprehensive income	—	—	**14,591**	—	**5,550,119**	**5,564,710**	**501,300**	**6,066,010**
(II) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	**8,044**	**122,942**	—	—	—	**130,986**	—	**130,986**
2. Equity settled share expenses charged to equity	—	**220,209**	—	—	—	**220,209**	—	**220,209**
(III) Profit appropriation								
1. Provision of surplus reserve	—	—	—	**182,727**	**(182,727)**	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	**(501,300)**	**(501,300)**
III. Current year's closing balance	**4,192,672**	**9,067,096**	**706,538**	**1,543,680**	**3,588,581**	**19,098,567**	**9,321,327**	**28,419,894**

2016

RMB'000

	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Total equity of holders of ordinary sharess	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

CASH FLOW STATEMENT

2017

		RMB'000
	2017	2016
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	**105,486,277**	99,705,900
Refunds of taxes	**5,686,842**	4,669,152
Cash received relating to other operating activities	**2,805,440**	2,641,022
Sub-total of cash inflows	**113,978,559**	107,016,074
Cash paid for goods and services	**95,086,866**	88,470,463
Cash paid to and on behalf of employees	**7,024,266**	6,418,846
Cash paid for various types of taxes	**1,258,255**	1,006,894
Cash paid relating to other operating activities	**11,224,343**	6,573,185
Sub-total of cash outflows	**114,593,730**	102,469,388
Net cash flows from operating activities	**(615,171)**	4,546,686
II. Cash flows from investing activities		
Cash received from sale of investments	**41,103**	241,385
Cash received from return on investments	**7,077,570**	28,098
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	**253,248**	19,317
Net cash received from the disposal of subsidiaries	**978,025**	139,743
Other cash paid in relation to investing activities	**1,771,000**	—
Sub-total of cash inflows	**10,120,946**	428,543
Cash paid to acquisition of fixed asset, intangible assets and other long term assets	**4,059,462**	1,387,509
Cash paid for acquisition of investments	**2,132,591**	3,680,606
Sub-total of cash outflows	**6,192,053**	5,068,115
Net cash flows from investing activities	**3,928,893**	(4,639,572)

CASH FLOW STATEMENT(CONTINUED)

2017

	2017	2016
		RMB'000
III. Cash flows from financing activities		
Cash received from capital injection	**88,239**	372,060
Cash received from borrowings	**16,652,012**	15,986,007
Sub-total of cash inflows	**16,740,251**	16,358,067
Cash repayment of borrowings	**17,359,739**	15,558,652
Cash payments for distribution of dividends and profits or for interest expenses	**1,206,571**	2,577,717
Sub-total of cash outflows	**18,566,310**	18,136,369
Net cash flows from financing activities	**(1,826,059)**	(1,778,302)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	**(233,661)**	298,170
V. Net increase/(decrease) in cash and cash equivalents	**1,254,002**	(1,573,018)
Add: cash and cash equivalents at the beginning of the year	**15,752,732**	17,325,750
VI. Net balance of cash and cash equivalents at the end of the year	**17,006,734**	15,752,732

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 2017

	2017	2016 Restated
	RMB'000	*RMB'000*
REVENUE	**108,815,273**	101,233,182
Cost of sales	**(76,116,539)**	(71,312,492)
Gross profit	**32,698,734**	29,920,690
Other income and gains	**6,950,862**	6,115,994
Research and development costs	**(12,962,245)**	(11,689,180)
Selling and distribution expenses	**(12,259,965)**	(12,622,371)
Administrative expenses	**(3,237,737)**	(2,730,950)
Other expenses	**(3,184,865)**	(8,650,966)
Finance costs	**(1,157,659)**	(1,156,134)
Share of profits and losses of:		
Joint ventures	**(1,377)**	(4,984)
Associates	**(126,824)**	50,150
PROFIT/(LOSS) BEFORE TAX	**6,718,924**	(767,751)
Income tax expense	**(1,332,582)**	(640,118)
PROFIT/(LOSS) FOR THE YEAR	**5,386,342**	(1,407,869)
Attributable to:		
Ordinary equity holders of the parent	**4,568,172**	(2,357,418)
Perpetual capital instruments	**501,300**	501,300
Non-controlling interests	**316,870**	448,249
	5,386,342	(1,407,869)

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

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2017

	2017	2016 Restated
	RMB'000	*RMB'000*
OTHER COMPREHENSIVE INCOME		
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:		
Effective portion of changes in fair value of hedging instruments arising during the year	**(12,327)**	(57,047)
Changes in fair value of available-for-sale investments, net of tax	**314,188**	187,275
Exchange differences on translation of foreign operations	**1,134**	(136,129)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods	**302,995**	(5,901)
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:		
Change in net assets/(liabilities) arising from the re-measurement of defined benefit plans	**15,572**	743
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods	**15,572**	743
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	**318,567**	(5,158)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	**5,704,909**	(1,413,027)

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

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2017

	2017	2016 Restated
	RMB'000	*RMB'000*
Attributable to:		
Ordinary equity holders of the parent	**4,667,126**	(2,495,075)
Perpetual capital instruments	**501,300**	501,300
Non-controlling interests	**536,483**	580,748
	5,704,909	(1,413,027)
EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	**RMB1.09**	RMB(0.57)
Diluted	**RMB1.08**	RMB(0.57)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2017

	31 December 2017	31 December 2016
	RMB'000	*RMB'000*
NON-CURRENT ASSETS		
Property, plant and equipment	**10,202,425**	9,280,644
Investment properties	**2,023,809**	2,016,470
Prepaid land lease payments	**1,251,535**	1,237,174
Goodwill	**308,806**	186,206
Other intangible assets	**5,363,042**	4,454,427
Investments in joint ventures	**92,344**	64,322
Investments in associates	**3,868,253**	601,554
Available-for-sale investments	**3,181,668**	2,659,667
Long-term trade receivables	**1,244,760**	1,376,563
Factored long-term trade receivables	**2,608,006**	1,391,746
Deferred tax assets	**1,464,250**	1,604,575
Pledged deposits	**1,462,286**	3,258,533
Long-term prepayments, deposits and other receivables	**2,631,327**	628,584
Total non-current assets	**35,702,511**	28,760,465
CURRENT ASSETS		
Prepaid land lease payments	**29,115**	28,385
Inventories	**26,234,139**	26,810,568
Amount due from customers for contract works	**9,012,909**	9,345,123
Trade and bills receivables	**26,398,228**	27,982,681
Factored trade receivables	**1,080,449**	2,261,280
Prepayments, deposits and other receivables	**11,980,191**	13,814,908
Derivative financial instruments	**116,794**	54,857
Pledged deposits	**3,066,199**	1,213,920
Time deposits with original maturity of over three months	**232,411**	1,086,203
Cash and cash equivalents	**30,109,269**	30,049,791
Total current assets	**108,259,704**	112,647,716

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2017

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
CURRENT LIABILITIES		
Trade and bills payables	**34,463,067**	36,933,838
Amount due to customers for contract works	**8,050,655**	5,876,790
Other payables and accruals	**24,297,517**	27,873,988
Derivative financial instruments	**49,830**	40,148
Interest-bearing bank borrowings	**18,535,867**	17,064,145
Bank advances on factored trade receivables	**1,080,472**	2,263,015
Tax payable	**583,091**	524,762
Dividends payable	**1,322**	50,317
Provision	**533,126**	887,366
Total current liabilities	**87,594,947**	91,514,369
NET CURRENT ASSETS	**20,664,757**	21,133,347

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2017

	31 December 2017 *RMB'000*	31 December 2016 *RMB'000*
TOTAL ASSETS LESS CURRENT LIABILITIES	**56,367,268**	49,893,812
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**3,002,146**	5,018,276
Bank advances on factored long-term trade receivables	**2,948,006**	1,391,746
Deferred tax liabilities	**338,131**	98,380
Provision for retirement benefits	**133,191**	146,106
Other non-current liabilities	**4,565,647**	2,354,214
Total non-current liabilities	**10,987,121**	9,008,722
Net assets	**45,380,147**	40,885,090
EQUITY		
Equity attributable to ordinary equity holders of the parent		
Issued capital	**4,192,672**	4,184,628
Reserves	**27,454,203**	22,216,523
	31,646,875	26,401,151
Perpetual capital instruments	**9,321,327**	9,321,327
Non-controlling interests	**4,411,945**	5,162,612
Total equity	**45,380,147**	40,885,090

Yin Yimin
Director

Zhao Xianming
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 2017. 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 HKAS 7	*Disclosure Initiative*
Amendments to HKAS 12	*Recognition of Deferred Tax Assets for Unrealised Losses*
Amendments to HKFRS 12 *included in Annual improvements to HKFRSs 2014–2016 Cycle*	*Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12*

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in the notes to the financial statements upon the adoption of amendments to HKAS 7, which 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 nature and the impact of the amendments are described below:

(a) 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. Disclosure of the changes in liabilities arising from financing activities is to be provided in the notes to the financial statements.

(b) Amendments to HKAS 12 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 amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

(c) Amendments to HKFRS 12 clarify that the disclosure requirements in HKFRS 12, other than those disclosure requirements in paragraphs B10 to B16 of HKFRS 12, apply to an entity's interest in a subsidiary, a joint venture or an associate, or a portion of its interest in a joint venture or an associate that is classified as held for sale or included in a disposal group classified as held for sale. The amendments have had no impact on the Group's financial statements as the Group does not has subsidiary classified as a disposal group held for sale.

To reflect more accurately the substance, enhance the comparability of financial information with the competitors, provide more relevant information to the users of its financial statements, and keep consistent with financial reports prepared under China Accounting Standard, which has already adopted the presentation of government grant as a deduction in reporting the related expense since 1 January 2017, the Group chose to present the government grant related to income as a deduction in reporting the related expense since 1 January 2017.

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

	Year ended 31 December 2017 *RMB'000*	Year ended 31 December 2016 *RMB'000*
Increase/(decrease) in:		
Research and development costs	**(1,684,499)**	(1,072,875)
Cost of sales	**(523,199)**	(296,882)
Other income and gains	**(2,207,698)**	(1,369,757)

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*[1]
Amendments to HKFRS 4	*Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1]
HKFRS 9	*Financial Instruments*[1]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[2]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 15	*Revenue from Contracts with Customers*[1]
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*[2]
HKFRS 16	*Leases*[2]
Amendments to HKAS 40	*Transfers of Investment Property*[1]
HK(IFRIC) — Int 22	*Foreign Currency Transactions and Advance Consideration*[1]
HK(IFRIC) — Int 23	*Uncertainty over Income Tax Treatments*[2]
Annual Improvements 2014–2016 Cycle	*Amendments to HKFRS 1 and HKAS 28*[1]

[1] Effective for annual periods beginning on or after 1 January 2018

[2] Effective for annual periods beginning on or after 1 January 2019

[3] 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 described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

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 an 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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will 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 will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of adoption of HKFRS 9. The expected impacts relate to the classification and measurement and impairment requirements and are summarised as follows:

(a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets except that the Group's equity investments currently classified as available-for-sale (AFS) will be reclassified to financial assets at fair value through profit or loss (FVPL) or other comprehensive income (FVOCI), which is being under the process of the election to present in other comprehensive income or not the subsequent changes in the fair value of those equity investments. If the irrevocable election is made, gains and losses recorded in other comprehensive income for those equity investments cannot be recycled to profit or loss when they are derecognised. The Group is in the progress of assessing the fair value of those equity investments and making an assessment of the impact of these changes on the consolidated financial statements.

(b) Impairment

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) either on a twelve-month basis or a lifetime basis rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income and contract assets under HKFRS 15 Revenue from Contracts with Customers. Based on the assessments undertaken to date, the Group does not expect a material change of the loss allowance for the Group's trade and bills receivables and other debt investments.

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 adoption now.

HKFRS 15, issued in July 2014, 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. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. 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 plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material as compared to the net assets of the Group. However, the expected changes in accounting policies, as further explained below, will have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of adoption of HKFRS 15.

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

a) Telecommunications system contracts

Revenue from telecommunications system contracts are currently recognized under HKAS 11 Construction Contracts, generally using the percentage of completion method. In using the percentage of completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Upon the adoption of HKFRS 15, performance obligations in those contracts will be identified and transaction price allocated each performance obligation will be recognized as revenue when that performance obligation is satisfied by transferring a promised good or service to a customer (which is the point in time when the customer obtains control of that good or service). Further analysis will be carried out by the Group to determine whether this change may have a material impact on the amounts reported in any given financial reporting period.

b) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 11 and HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

HKFRS 16, issued in May 2016, 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, or relates to a class of property, plant and equipment to which the revaluation model is applied. 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 recognise 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. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in the notes to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB963,484,000. Upon adoption of HKAS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements impact on the Group's financial statements.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The amendments are not expected to have any significant impact on the Group's financial statements.

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 is focused on meeting requirements of carriers in network evolution by providing wireless access, wireline access, bearer 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 requirements of industry clients through the development, production and sales of products such as smart phones, mobile data terminals, home terminals, innovative fusion terminals, as well as the provision of related software application and value-added services.

(c) The government and corporate business is focused on meeting requirements of government and corporate clients, providing informatisation solutions for the government and corporate sectors through the application of communications networks, IOT, big data and cloud computing technologies and related core products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource 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 2017	**Carriers' Networks** *RMB'000*	**Consumer Business** *RMB'000*	**Government & Corporate Business** *RMB'000*	**Total** *RMB'000*
Segment revenue:				
Sales to external customers	**63,782,295**	**35,202,376**	**9,830,602**	**108,815,273**
	63,782,295	**35,202,376**	**9,830,602**	**108,815,273**
Segment results	**17,894,165**	**1,172,382**	**1,696,434**	**20,762,981**
Bank and other interest income				**908,082**
Dividend income and unallocated gains				**6,042,780**
Corporate and other unallocated expenses				**(19,709,059)**
Finance costs				**(1,157,659)**
Share of profits and losses of associates and joint ventures				**(128,201)**
Profit before tax				**6,718,924**
Segment assets	**41,211,138**	**18,963,182**	**6,404,171**	**66,578,491**
Investments in joint ventures				**92,344**
Investments in associates				**3,868,253**
Corporate and other unallocated assets				**73,423,127**
Total assets				**143,962,215**
Segment liabilities	**14,148,392**	**4,452,436**	**2,180,656**	**20,781,484**
Corporate and other unallocated liabilities				**77,800,584**
Total liabilities				**98,582,068**
Other segment information:				
Impairment losses recognised in profit or loss	**1,485,079**	**819,637**	**228,892**	**2,533,608**
Depreciation and amortisation	**1,525,883**	**842,158**	**235,181**	**2,603,222**
Capital expenditure*	**4,329,631**	**2,389,587**	**667,315**	**7,386,533**

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

Year ended 31 December 2016	Carriers' Networks	Consumer Business	Government & Corporate Business	Total (Restated)
	RMB'000	*RMB'000*	*RMB'000*	*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				5,375,006
Corporate and other unallocated expenses				(23,578,941)
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

Geographical information

(a) Revenue from external customers

	2017	2016
	RMB'000	*RMB'000*
The PRC (place of domicile)	**61,958,643**	58,550,056
Asia (excluding the PRC)	**15,786,666**	14,564,608
Africa	**3,766,083**	5,751,221
Europe, Americas and Oceania	**27,303,881**	22,367,297
	108,815,273	101,233,182

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

(b) Non-current assets

	2017	2016
	RMB'000	*RMB'000*
The PRC (place of domicile)	**15,911,554**	14,446,199
Asia (excluding the PRC)	**1,217,751**	1,019,306
Africa	**263,883**	360,132
Europe, Americas and Oceania	**1,447,623**	1,163,078
	18,840,811	16,988,715

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

5. REVENUE, OTHER INCOME AND GAINS

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, other income and gains is as follows:

	2017	2016 (Restated)
	RMB'000	*RMB'000*
Revenue		
Telecommunications system contracts	**71,172,810**	63,483,211
Sale of goods and services	**37,509,798**	37,619,825
Rental income	**132,665**	130,146
	108,815,273	101,233,182
Other income		
VAT refunds and other tax subsidies#	**2,148,384**	2,639,155
Dividend income	**32,318**	29,991
Bank and other interest income##	**908,082**	740,988
Others###	**1,030,032**	352,636
	4,118,816	3,762,770
Gains		
Gain on disposal of available-for-sale investments	**438,454**	553,228
Gain on disposal of equity interests	**2,335,291**	1,151,046
Derivative instruments	**50,962**	23,904
Fair value gains on investment properties	**7,339**	6,074
Foreign exchange gain	**—**	618,972
	2,832,046	2,353,224
	6,950,862	6,115,994

\# Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales of the Group, pursuant to the principles of the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

\## The bank and other interest income for the year ended 31 December 2017 includes the interest income generated from ZTE Group Finance Company Ltd amounting to RMB411,891,000 (2016: RMB308,266,000).

\### Others mainly represent government grants, contract penalty income and other miscellaneous income.

6. PROFIT/(LOSS) BEFORE TAX

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

	2017	2016 (Restated)
	RMB'000	*RMB'000*
Cost of goods and services	**73,735,995**	66,686,236
Depreciation	**1,199,131**	1,285,360
Amortisation of land lease payments	**27,993**	32,064
Amortisation of intangible assets other than deferred development costs	**229,556**	163,102
Research and development costs:		
Deferred development costs amortised	**1,146,542**	985,982
Current year expenditure	**13,431,254**	12,150,545
Less: Deferred development costs	**(1,615,551)**	(1,447,347)
	12,962,245	11,689,180
Fair value (gains)/losses, net:		
Derivative instruments	**(50,962)**	(23,904)
Investment properties	**(7,339)**	(6,074)
Impairment of trade receivables*	**2,222,096**	2,110,620
Impairment of amount due from customers for contract works*	**54,246**	61,076
Provision for warranties**	**527,432**	1,052,162
Provision for legal obligation*	**17,159**	39,740
Costs related to the comprehensive settlement with US authorities*	**—**	6,182,452
Write-down of inventories to net realisable value**	**130,836**	636,161
Impairment of available-for-sale investments*	**97,913**	—
Impairment of items of property, plant and equipment*	**16,507**	45,270
Impairment of intangible assets*	**12,010**	—
Minimum lease payments under operating leases on land and buildings	**692,165**	660,860

	2017	2016 (Restated)
	RMB'000	*RMB'000*
Contingent rental income in respect of operating leases	**(23,424)**	(47,832)

	2017	2016 Restated
	RMB'000	*RMB'000*
Auditor's remuneration	**9,128**	8,291
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	**17,919,000**	16,545,770
Equity-settled share option expense	**262,956**	(97,362)
Retirement benefit scheme contributions:		
Defined benefit pension scheme	**4,673**	4,599
Defined contribution pension schemes	**1,170,882**	1,053,473
	19,357,511	17,506,480
Foreign exchange (gain)/loss*	**420,001**	(618,972)
Loss on disposal of items of property, plant and equipment*	**80,492**	22,514
Gain on disposal of subsidiaries	**(2,335,291)**	(1,151,046)
Loss on disposal of derivative financial instruments*	**137,534**	139,152
Gain on disposal of available-for-sale investments	**(438,454)**	(553,228)

* The impairment of trade receivables, impairment of amount due from customers for contract works, Impairment of available-for-sale investments, impairment of items of property, plant and equipment, impairment of intangible assets, 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:

	2017	2016
	RMB'000	*RMB'000*
Interest on bank loans and other loans	**729,205**	751,520
Total interest expense on financial liabilities not at fair value through profit or loss	**729,205**	751,520
Other finance costs:		
Finance costs on trade receivables factored and bills discounted	**428,454**	404,614
	1,157,659	1,156,134

8. INCOME TAX

	2017	2016
	RMB'000	*RMB'000*
Current — Hong Kong	**9,703**	15,076
Current — Mainland China	**696,130**	438,610
Current — Overseas	**356,326**	329,191
Deferred	**270,423**	(142,759)
Total tax charge for the year	**1,332,582**	640,118

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the 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 years 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen.

9. DIVIDEND

	2017	2016
	RMB'000	*RMB'000*
Proposed final — RMB0.33 (2016: Nil) per ordinary share	**1,383,582**	—

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

10. EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic earnings/(loss) per share amount is computed by dividing the profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 4,189,228,000 (2016: 4,159,663,000) 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 calculations of basic and diluted earnings per share are as follows:

	2017	2016
	RMB'000	*RMB'000*
Earnings/(loss)		
Profit/(loss) for the year attributable to ordinary equity holders of the parent	**4,568,172**	(2,357,418)

	Number of shares	
	2017	2016
	'000	*'000*
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings/(loss) per share calculation	**4,189,228**	4,159,663
Effect of dilution- weighted average number of ordinary shares:		
Share options	**30,243**	—
Adjusted weighted average number of ordinary shares in issue	**4,219,471**	4,159,663

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

	2017	2016
	RMB'000	*RMB'000*
Trade and bills receivables	**36,818,333**	37,146,137
Impairment	**(9,175,345)**	(7,786,893)
	27,642,988	29,359,244
Current portion	**(26,398,228)**	(27,982,681)
Long-term portion	**1,244,760**	1,376,563

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 aging 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:

	2017	2016
	RMB'000	*RMB'000*
Within 6 months	**22,841,186**	22,941,253
7 to 12 months	**2,528,908**	3,872,562
1 to 2 years	**1,716,792**	2,288,234
2 to 3 years	**556,102**	257,195
	27,642,988	29,359,244
Current portion of trade and bills receivables	**(26,398,228)**	(27,982,681)
Long-term portion	**1,244,760**	1,376,563

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

	2017	2016
	RMB'000	*RMB'000*
At 1 January	**7,786,893**	5,802,188
Impairment losses recognised	**2,572,475**	2,261,577
Impairment losses reversed	**(350,379)**	(150,957)
Amount written off as uncollectible	**(781,951)**	(232,680)
Fluctuation in exchange	**(51,693)**	106,765
At 31 December	**9,175,345**	7,786,893

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB1,796,417,000 (2016: RMB634,799,000) with a carrying amount before provision of RMB2,167,312,000 (2016: RMB634,799,000).The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

	2017	2016
	RMB'000	*RMB'000*
Neither past due nor impaired	**6,249,860**	4,569,867
Less than one year past due	**16,131,233**	21,906,738
	22,381,093	26,476,605

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:

	2017	2016
	RMB'000	*RMB'000*
The controlling shareholder	—	150
Joint ventures	**115,563**	127,434
Associates	**7,288**	14,830
Other related companies	**555,933**	315,394
	678,784	457,808

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 pledged bills receivables to secure the bank borrowings. (2016: nil).

12. TRADE AND BILLS PAYABLES

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

	2017	2016
	RMB'000	*RMB'000*
Within 6 months	**33,839,956**	36,097,084
7 to 12 months	**272,723**	459,023
1 to 2 years	**252,918**	286,434
2 to 3 years	**66,953**	57,892
Over 3 years	**30,517**	33,405
	34,463,067	36,933,838

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

	2017	2016
	RMB'000	*RMB'000*
The controlling shareholder	**41,437**	50,126
Joint ventures	**9,231**	6,080
Associates	**1,061,436**	194
Other related companies	**47,564**	180,974
	1,159,668	237,374

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

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

(b) Owing to the requirements of its operations and development, the Company won a bid for the land use rights of Site No. T208–0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District, Shenzhen on 27 June 2017.

The Company has selected through competitive negotiations Shenzhen Vanke Real Estate Co., Ltd. ("Vanke") to provide development, construction, sales and operational services in respect of land site No. T208-0049 for the Company and entered into a Letter of Intent and a Supplemental Agreement on the Letter of Intent with Vanke on 25 December 2017 and 25 January 2018.

On 9 February 2018, the Company and Vanke signed transaction documents including the "Framework Agreement for Entrustment of Development, Construction, Sale and Operation", pursuant to which Vanke agreed to provide to the Company the following services: (1) the development and construction of properties of 189,890 square metres on land site No. T208-0049; (2) sales service in respect of available-for-sale commercial properties and hotel properties of 35,000 square metres and 20,000 square metres, respectively; and (3) operational service in respect of office properties and premises for cultural facilities of 44,200 square metres and 6,100 square metres, respectively. The aforesaid matter was considered and approved at the Twenty-seventh Meeting of the Seventh Session of the Board of Directors of the Company, pending submission to the general meeting for consideration.

(c) Pursuant to the profit distribution proposal recommended by the Board of Directors, cash dividend of RMB3.3 in cash (before tax) for every 10 shares will be paid on the basis of the number of shares held by shareholders (including A shareholders and H shareholders) registered as at the close of business on the record date for profit distribution and dividend payment.