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ZTE CORPORATION
中興通訊股份有限公司

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

2018 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”) warrant that the contents of the 2018 annual report (the “Annual Report”) are true, accurate and complete without any false information, misleading statements or material omissions, and collectively and individually accept responsibility therefor.

The Annual Report containing all information required to be presented in annual reports in accordance with Appendix 16 to the Rules (the “Hong Kong Stock Exchange 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 Forty-sixth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Gu Junying, Director, was unable to attend the meeting due to work reasons and has authorised Mr. Li Zixue, Chairman, to vote on his behalf.
- 1.4 The respective financial statements of ZTE and its subsidiaries (the “Group”) for the year ended 31 December 2018 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. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in the Annual Report.
- 1.7 The Company does not propose any profit distribution for 2018. The aforesaid matter shall require consideration and approval at the general meeting.

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated name of stock	ZTE
Stock code	000063 (A Shares) 763 (H Shares)
Place of listing	The Shenzhen Stock Exchange The Hong Kong Stock Exchange
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	31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
Website	http://www.zte.com.cn
E-mail	IR@zte.com.cn

2.2 Contact persons and correspondence

	Authorized representatives	Secretary to the Board of Directors/ Company Secretary	Securities Affairs Representative
Name	Gu Junying, 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, sales 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' network is focused on meeting carriers' requirements in network evolution with the provision of 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 informatization solutions for the government and corporations through the application of products such as communications networks, IOT, big data and cloud computing.

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 information terminals and 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 customers in numerous countries and regions.

The Group owns 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 products, enhancing customer’s satisfaction as well as 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 retrospective adjustments to or restated accounting data of the previous year by the Company because of changes in accounting policies or for the rectification of accounting errors

PRC ASBEs

In 2017, the PRC Ministry of Finance (“MOF”) announced a series of amendments to ASBEs, including “ASBE No. 22 — Recognition and Measurement of Financial Instruments”, “ASBE No. 23 — Transfer of Financial Assets”, “ASBE No. 24 — Hedge Accounting”, “ASBE No. 37 — Presentation of Financial Instruments” (hereinafter referred to as the “New ASBEs on Financial Instruments”) and “ASBE No. 14 — Revenue” (hereinafter referred to as the “New ASBE on Revenue”), and required enterprises with dual domestic and overseas listings to implement such amended accounting standards with effect from 1 January 2018. The Company has made changes to its accounting policies accordingly in compliance with the provisions of the aforesaid accounting standards. In accordance with pertinent requirements under the convergence provisions of the New ASBEs on Financial Instruments and New ASBE on Revenue, the Company has not made any retrospective adjustments to the comparative statements for the same period last year, but has only adjusted the opening balances of retained earnings and other related items on the statements for 2018. For details of the aforesaid changes in

accounting policies on financial instruments and revenue, please refer to the “Overseas Regulatory Announcement on Changes in Accounting Policies” published by the Company on 27 April 2018.

In June 2018, the MOF published the “Notice on the Revision and Publication of the 2018 General Corporate Financial Reporting Format” (the “New Reporting Format”). The Company has amended the financial reporting format in accordance with relevant provisions. Financial assets at fair value through profit or loss expected to be held for one year or less have been included under “trading financial assets”, while the previous “bills receivable” and “trade receivables” have been combined as “bills receivable and trade receivables”; the previous “dividends receivable” and “other receivables” have been combined as “other receivables”; the previous “amounts due from customers for contract works” has been included under “contract assets”; financial assets at fair value through profit or loss expected to be held for more than one year have been included under “other non-current financial assets”; the previous “long-term deferred assets” and “other non-current assets” have been combined as “other non-current assets”; the previous “bills payable” and “trade payables” have been combined as “bills payable and trade payables”; the previous “advanced from customers” and “amounts due to customers for contract works” have been combined as “contract liabilities”; the previous “dividends payable” and “other payables” have been combined as “other payables”; and expected credit losses arising from provision for impairment in financial instruments have been included under “credit impairment losses”.

In September 2018, the MOF issued the “Explanation of Issues relating to the 2018 General Corporate Financial Reporting Format”. In accordance with relevant provisions, the Company accounted for handling charges received for the deduction of tax payments as other income relating to day-to-day activities and entered such income under “Other income” in the income statement. Comparable figures for the comparable period were also adjusted accordingly.

The implementation of the New ASBEs on Financial Instruments, the New ASBE on Revenue and the New Reporting Format has had no material impact on the Company’s consolidated financial statements.

HKFRSs

In 2014, the Hong Kong Institute of Certified Public Accountants published HKFRS No. 9 “Financial Instruments”, HKFRS No. 7 “Financial Instruments Disclosures” (the “New HKFRSs on Financial Instruments”) and HKFRS No. 15 “Revenue from Contracts with Customers” (the “New HKFRS on Revenue”) for implementation with effect from 1 January 2018.

In accordance with the New HKFRSs on Financial Instruments, the Company has changed its former accounting policies on financial assets, including the policy on impairment provisions for trade receivables and the policy for the measurement of investments in available-for-sale equity instruments. In accordance with the New HKFRS on Revenue, the Company has changed its former accounting policies on revenue from sales of goods, revenue from rendering of services and revenue from construction contracts. The details and impact of such changes are identical as those in relation to the aforementioned PRC ASBEs. The Company has adjusted the presentation of financial statements prepared under HKFRSs accordingly.

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 2018	For the year ended 31 December 2017 (Restated)	Year-on-year change	For the year ended 31 December 2016 (Restated)
Operating revenue	85,513.2	108,815.3	(21.41%)	101,233.2
Operating profit	(612.0)	6,781.0	(109.03%)	1,171.3
Total profit/(loss)	(7,350.2)	6,718.9	(209.40%)	(767.8)
Net profit attributable to holders of ordinary shares of the listed company	(6,983.7)	4,568.2	(252.88%)	(2,357.4)
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	(3,395.5)	903.4	(475.86%)	2,130.8
Net cash flows from operating activities	(9,215.4)	7,220.0	(227.64%)	5,260.2

Unit: RMB in millions

Item	As at 31 December 2018	As at 31 December 2017	Year-on-year change	As at 31 December 2016
Total assets	129,350.7	143,962.2	(10.15%)	141,640.9
Total liabilities	96,390.1	98,582.1	(2.22%)	100,755.8
Owners' equity attributable to holders of ordinary shares of the listed company	22,897.6	31,646.9	(27.65%)	26,401.2
Share capital (million shares)	4,192.7	4,192.7	—	4,184.6

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

Unit: RMB in millions

Item	Three months ended 31 March 2018	Three months ended 30 June 2018	Three months ended 30 September 2018	Three months ended 31 December 2018
Operating revenue	27,526.3	11,907.5	19,332.4	26,747.0
Net profit attributable to holders of ordinary shares of the listed company	(5,407.2)	(2,417.0)	564.5	276.0
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	(28.1)	(2,351.1)	120.4	(1,136.7)
Net cash flows from operating activities	(171.1)	(4,875.2)	(5,176.5)	1,007.4

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.

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 2018	For the year ended 31 December 2017	Year-on-year change	For the year ended 31 December 2016
Basic earnings per share <i>(RMB/share)</i> ^{Note 1}	(1.67)	1.09	(253.21%)	(0.57)
Diluted earnings per share <i>(RMB/share)</i> ^{Note 2}	(1.67)	1.08	(254.63%)	(0.57)
Basic earnings per share after extraordinary items <i>(RMB/share)</i> ^{Note 1}	(0.81)	0.22	(468.18%)	0.51
Weighted average return on net assets	(26.10%)	15.74%	Decreased by 41.84 percentage points	(8.40%)
Weighted average return on net assets after extraordinary items	(12.69%)	3.11%	Decreased by 15.80 percentage points	7.59%
Net cash flows from operating activities per share <i>(RMB/share)</i> ^{Note 3}	(2.20)	1.72	(227.91%)	1.26

Item	As at 31 December 2018	As at 31 December 2017	Year-on-year change	As at 31 December 2016
Net asset per share attributable to holders of ordinary shares of the listed company (<i>RMB/share</i>) ^{Note 3}	5.46	7.55	(27.68%)	6.31
Gearing ratio	74.52%	68.48%	Increased by 6.04 percentage points	71.13%

Note 1: Basic earnings per share and basic earnings per share after extraordinary items for 2018, 2017 and 2016 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 0, 30,243,000 and 0 potentially dilutive ordinary shares for 2018, 2017 and 2016, 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 2018, 2017 and 2016 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 2018	For the year ended 31 December 2017	For the year ended 31 December 2016
Non-operating income, other income and others	3,117.7	2,292.2	822.7
Gains/(Losses) from fair value change	51.8	58.3	30.0
Investment income	668.7	2,197.8	986.1
Less: Losses/(gains) on disposal of non-current assets	34.2	80.5	22.5
Less: Other non-operating expenses	6,851.3	112.8	6,272.3
Less: Asset impairment loss	1,161.4	—	—
Less: Effect of income tax	(631.3)	653.2	(185.2)
Less: Effect of non-controlling interests (after tax)	10.8	37.0	217.4
Total	(3,588.2)	3,664.8	(4,488.2)

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	2018	Year ended 31 December			
		2017	2016 (Restated)	2015 (Restated)	2014 (Restated)
Revenue	85,513.2	108,815.3	101,233.2	100,186.4	81,471.3
Cost of sales	(58,638.3)	<u>(76,116.5)</u>	<u>(71,312.5)</u>	<u>(70,968.3)</u>	<u>(57,634.0)</u>
Gross profit	26,874.9	32,698.8	29,920.7	29,218.1	23,837.3
Other income and gains	4,247.8	6,950.9	6,116.0	4,262.2	3,438.2
Research and development expenses	(10,905.6)	(12,962.2)	(11,689.2)	(11,168.2)	(8,010.5)
Selling and distribution expenses	(9,084.5)	(12,260.0)	(12,622.4)	(11,941.0)	(10,391.6)
Administrative expenses	(4,106.2)	(3,237.7)	(2,731.0)	(2,514.1)	(2,138.1)
Impairment losses on financial and contract assets, net	(3,654.9)	—	—	—	—
Gain on disposal of financial assets	382.6	—	—	—	—
Other expenses	(8,978.3)	<u>(3,184.9)</u>	<u>(8,651.0)</u>	<u>(2,347.7)</u>	<u>(1,582.3)</u>
Profit from operating activities	(5,224.2)	8,004.9	343.1	5,509.3	5,153.0
Finance costs	(1,328.7)	(1,157.8)	(1,156.1)	(1,269.1)	(1,561.7)
Share of profit and loss of jointly controlled entities and associates	(797.3)	<u>(128.2)</u>	<u>45.2</u>	<u>63.3</u>	<u>(53.0)</u>
Profit/(loss) before tax	(7,350.2)	6,718.9	(767.8)	4,303.5	3,538.3
Income tax expense	400.9	<u>(1,332.6)</u>	<u>(640.1)</u>	<u>(563.2)</u>	<u>(810.6)</u>
Profit/(loss) for the year	(6,949.3)	5,386.3	(1,407.9)	3,740.3	2,727.7
Attributable to:					
Non-controlling interests	382.6	<u>(316.8)</u>	<u>(448.2)</u>	<u>(115.8)</u>	<u>(94.1)</u>
Attributable to:					
Perpetual capital instruments	(417.0)	<u>(501.3)</u>	<u>(501.3)</u>	<u>(416.6)</u>	<u>—</u>
Attributable to:					
Holders of ordinary shares of the parent company	(6,983.7)	<u>4,568.2</u>	<u>(2,357.4)</u>	<u>3,207.9</u>	<u>2,633.6</u>

Unit: RMB in millions

Assets and liabilities	2018	As at 31 December			
		2017	2016	2015	2014
Total assets	129,350.7	143,962.2	141,408.2	124,588.0	110,254.6
Total liabilities	96,390.1	98,582.1	100,523.1	81,239.4	83,962.1
Non-controlling interests	3,810.7	4,411.9	5,162.6	4,367.2	1,413.9
Perpetual capital instruments	6,252.4	9,321.3	9,321.3	9,321.3	—
Equity attributable to holders of ordinary shares of the parent company	22,897.6	31,646.9	26,401.2	29,660.1	24,878.6

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

Item	2018	2017	2016	2015	2014
Basic earnings per share (RMB/share) <i>Note 1</i>	(1.67)	1.09	(0.57)	0.78	0.64
Net assets per share (RMB/share) <i>Note 2</i>	5.46	7.55	6.31	7.15	6.03
Fully diluted return on net assets	(30.50%)	14.43%	(8.93%)	10.82%	10.59%

Note 1: Basic earnings per share and basic earnings per share after extraordinary items for 2018, 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 2014 has 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 2018, 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 the same period of 2014 has 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 2018 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 2018

There were 376,976 shareholders (comprising 376,658 holders of A shares and 318 holders of H shares)

As at 28 February 2019, namely the last day of the preceding month of the date of publication of the Annual Report

There were 384,225 shareholders (comprising 383,907 holders of A shares and 318 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. Zhongxingxin Telecom Company Limited (“Zhongxingxin”)	State-owned corporation	30.34%	1,271,868,333	—	—	98,667,983
2. HKSCC Nominees Limited	Foreign shareholders	17.99%	754,306,792	+15,282	—	Unknown
3. Central Huijin Asset Management Co. Ltd.	State-owned corporation	1.25%	52,519,600	—	—	Nil
4. Hunan Nantian (Group) Co., Ltd	State-owned corporation	0.99%	41,516,065	—	—	Nil
5. Hong Kong Securities Clearing Company Limited	Foreign corporation	0.58%	24,498,838	+9,741,184	—	Nil
6. NSSF Portfolio #116	Others	0.46%	19,249,074	+17,501,474	—	Nil
7. China Mobile No. 7 Research Institute	State-owned corporation	0.45%	19,073,940	—	—	Nil
8. NSSF Portfolio #112	Others	0.45%	18,884,400	+12,327,273	—	Nil
9. NSSF Portfolio #104	Others	0.43%	18,000,881	-23,987,900	—	Nil
10. China Ping An Life Insurance Co., Ltd. — Wanneng — Personal Insurance Wanneng	Others	0.32%	13,516,896	+681,224	—	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	754,306,792	H share
3. Central Huijin Asset Management Co. Ltd.	52,519,600	A share
4. Hunan Nantian (Group) Co., Ltd	41,516,065	A share
5. Hong Kong Securities Clearing Company Limited	24,498,838	A share
6. NSSF Portfolio #116	19,249,074	A share
7. China Mobile No. 7 Research Institute	19,073,940	A share
8. NSSF Portfolio #112	18,884,400	A share
9. NSSF Portfolio #104	18,000,881	A share
10. China Ping An Life Insurance Co., Ltd. — Wanneng — Personal Insurance Wanneng	13,516,896	A share

Descriptions of any connected party relationships or concerted party relationships among the above shareholders	<ol style="list-style-type: none"> 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.
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Description of involvement in financing and securities lending businesses of top 10 shareholders (if any) N/A

Note 1: Shares held by HKSCC Nominees Limited represented the sum of shares held in the accounts of the H shareholders of the Company traded on the trading platform of HKSCC Nominees Limited.

Note 2: Shares held by Hong Kong Securities Clearing Company Limited represented the sum of A shares in the Company purchased through Shenzhen Hong Kong Stock Connect (Northbound).

Note 3: 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 4: Shareholders holding 5% or above of the Company's shares — As at the end of the reporting period, Zhongxingxin held 1,271,868,333 shares in the Company in aggregate, representing 30.34% of the total share capital of the Company, and was the controlling shareholder of the Company. Changes in the shareholdings of the Zhongxingxin during the reporting period 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	98,667,983
	0	2,038,000	H shares	0	2,038,000	Nil

Note 5: As at the date of this announcement, Zhongxingxin holds 1,271,314,633 shares in the Company in aggregate (comprising 1,269,276,633 A shares and 2,038,000 H shares), representing 30.32% of the Company's total share capital.

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
Uniform 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, and 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, each of 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:

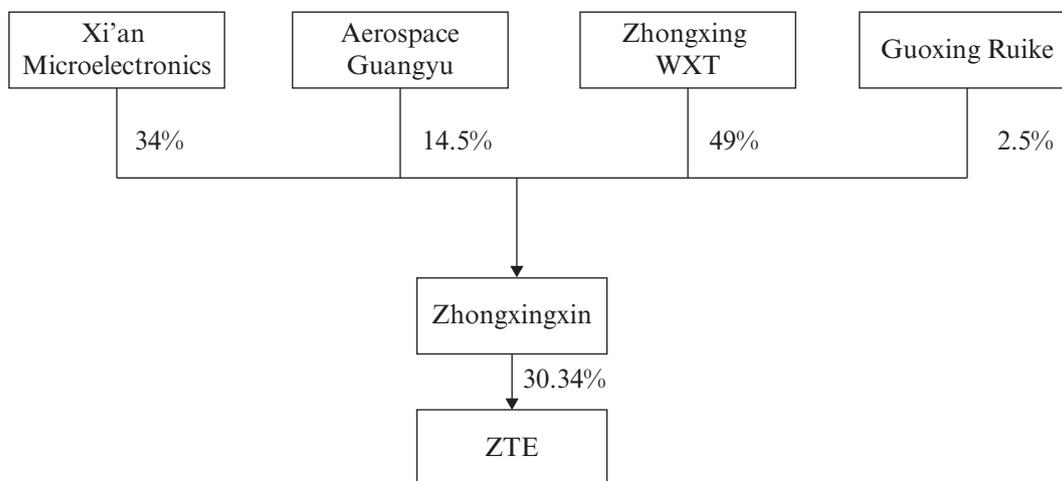
Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large-scale state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tian Dongfang and its uniform social credit code is 12100000H0420141X7. It is the only specialised research institute in China which features the complementary integration of the research, development, commercial production and inspection/testing of semiconductor 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 uniform 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 food; 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 uniform 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 Guoxing Ruike Capital Management Company Limited as executive partner and a registered capital of RMB500 million. Its uniform 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 so required under the law).

The following diagram shows the shareholding and controlling relationships between the aforesaid entities and the Company as at 31 December 2018.



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, senior management

6.1.1 Changes in the shareholdings and share options of and annual remuneration of the Company's Directors, Supervisors, senior management in office as at the end of the year

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on <i>Note 1</i>	Term of office ending on <i>Note 1</i>	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 <i>Note 2</i>
Directors of the Company														
1	Li Zixue <i>Note 4</i>	Male	54	Chairman	Incumbent	6/2018	3/2019	—	—	—	—	—	53.7	Note 3
2	Xu Ziyang <i>Note 5, Note 6</i>	Male	46	Director	Incumbent	8/2018	3/2019	—	—	—	—	—	195.7	No
				President		7/2018	3/2019							
3	Li Buqing <i>Note 4</i>	Male	46	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	5	Yes
4	Gu Junying <i>Note 4</i>	Male	51	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	46.8	Note 3
				Executive Vice President		7/2018	3/2019							
5	Zhu Weimin <i>Note 4</i>	Male	52	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	5	Yes
6	Fang Rong <i>Note 4</i>	Female	54	Director	Incumbent	6/2018	3/2019	—	—	—	—	—	5	Yes
7	Cai Manli <i>Note 4</i>	Female	45	Independent Non-executive Director	Incumbent	6/2018	3/2019	—	—	—	—	—	12.5	Yes
8	Yuming Bao <i>Note 4</i>	Male	46	Independent Non-executive Director	Incumbent	6/2018	3/2019	—	—	—	—	—	12.5	Yes
9	Gordon Ng <i>Note 4</i>	Male	54	Independent Non-executive Director	Incumbent	6/2018	3/2019	—	—	—	—	—	12.5	Yes
Supervisors of the Company														
10	Xie Daxiong	Male	55	Chairman of Supervisory Committee	Incumbent	3/2016	3/2019	495,803	—	—	495,803	—	157.1	No
11	Wang Junfeng	Male	52	Supervisor	Incumbent	3/2016	3/2019	—	—	—	—	—	0	Yes
12	Xia Xiaoyue	Female	43	Supervisor	Incumbent	3/2016	3/2019	50,927	—	—	50,927	—	84.0	No
13	Li Quancai	Male	57	Supervisor	Incumbent	11/2017	3/2019	—	—	—	—	—	105.5	No
Senior management of the Company														
14	Wang Xiyu <i>Note 5</i>	Male	44	Executive Vice President	Incumbent	7/2018	3/2019	—	—	—	—	—	190.7	No
15	Li Ying <i>Note 5</i>	Female	40	Executive Vice President and Chief Financial Officer	Incumbent	7/2018	3/2019	1,800	—	—	1,800	—	185.6	No
16	Cao Wei	Female	42	Secretary to the Board	Incumbent	4/2016	3/2019	25,200	—	—	25,200	—	126.3	No
	Total	—	—	—	—	—	—	573,730	—	—	573,730	—	1,197.9	—

- Note 1:* The starting and ending dates of the term of office set out in this table are the starting and ending dates of the term of office of the Directors of the Seventh Session of the Board of Directors, Supervisors of the Seventh Session of the Supervisory Committee and senior management of the Company appointed by the Seventh Session of the Board of Directors.
- 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. Li Zixue received remuneration from Xi'an Microelectronics Research Institute from January to June 2018; Mr. Gu Junying received remuneration from China Aerospace Electronics Technology Research Institute from January to June 2018.
- Note 4:* At the 2017 Annual General Meeting of the Company held on 29 June 2018, Mr. Li Zixue, Mr. Li Buqing, Mr. Gu Junying, Mr. Zhu Weimin and Ms. Fang Rong were elected as non-independent Directors of the Seventh Session of the Board of Directors of the Company, and Ms. Cai Manli, Mr. Yuming Bao and Mr. Gordon Ng were elected as Independent Non-executive Directors of the Seventh Session of the Board of Directors of the Company. At the Thirty-first Meeting of the Seventh Session of the Board of Directors of the Company held on 29 June 2018, Mr. Li Zixue was elected as Chairman of the Board of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-executive Directors of the Seventh Session of the Board of Directors of the Company, and Mr. Li Zixue and Mr. Gu Junying were elected as Executive Directors of the Seventh Session of the Board of Directors of the Company.
- Note 5:* At the Thirty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 5 July 2018, it was approved that Mr. Xu Ziyang be appointed President of the Company and each of Mr. Wang Xiyu, Mr. Gu Junying and Ms. Li Ying be appointed Executive Vice President of the Company; that Ms. Li Ying be concurrently appointed Chief Financial Officer of the Company.
- Note 6:* At the Second Extraordinary General Meeting of 2018 of the Company held on 28 August 2018, Mr. Xu Ziyang was elected as Executive Director of the Seventh Session of the Board of Directors of the Company.
- Note 7:* None of the Company's Directors, Supervisors, senior management in office as at the end of the year held any H shares in the issued share capital of the Company during the year.

6.1.2 Changes in the shareholdings and share options of and annual remuneration of the Company's Directors, Supervisors, senior management who resigned during the year

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on ^{Note 1}	Term of office ending on ^{Note 1}	Number of	Increase in	Decrease in	Number of	Reasons for changes	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands) ^{Note 2}	Whether remuneration is received from related parties ^{Note 3}
								held at the beginning of the reporting period (shares)	the number of A shares held during the period (shares)	the number of A shares held during the period (shares)	A shares held at the end of the reporting period (shares)			
Directors of the Company ^{Note 4}														
1	Yin Yimin	Male	55	Chairman Director	Resigned	3/2017 3/2016	6/2018 6/2018	759,400	—	—	759,400	—	118.8	No
2	Zhang Jianheng	Male	57	Vice Chairman	Resigned	3/2016	6/2018	—	—	—	—	—	5	Yes
3	Luan Jubao	Male	56	Vice Chairman	Resigned	3/2016	6/2018	—	—	—	—	—	5	Yes
4	Zhao Xianming ^{Note 5}	Male	52	Director President	Resigned	3/2016 4/2016	6/2018 7/2018	488,636	—	—	488,636	—	149.2	No
5	Wang Yawen	Male	55	Director	Resigned	3/2016	6/2018	—	—	—	—	—	5	Yes
6	Tian Dongfang	Male	58	Director	Resigned	3/2016	6/2018	—	—	—	—	—	5	Yes
7	Zhan Yichao	Male	55	Director	Resigned	3/2016	6/2018	—	—	—	—	—	5	Yes
8	Wei Zaisheng	Male	56	Director	Resigned	3/2016	6/2018	439,677	—	—	439,677	—	5	Yes
9	Zhai Weidong	Male	51	Director	Resigned	6/2017	6/2018	—	—	—	—	—	5	Yes
10	Richard Xike Zhang	Male	48	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	6.5	Yes
11	Chen Shaohua	Male	57	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	6.5	Yes
12	Lü Hongbing	Male	52	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	6.5	Yes
13	Bingsheng Teng	Male	48	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	6.5	Yes
14	Zhu Wuxiang	Male	53	Independent Non-executive Director	Resigned	3/2016	6/2018	—	—	—	—	—	6.5	Yes
Supervisors of the Company														
15	Xu Weiyuan ^{Note 6}	Female	56	Supervisor	Resigned	3/2016	7/2018	11,039	—	—	11,039	—	48.1	Yes
Senior management of the Company ^{Note 5}														
16	Xu Huijun	Male	45	Executive Vice President	Resigned	4/2016	7/2018	756,851	—	—	756,851	—	77.8	No
17	Zhang Zhenhui	Male	45	Executive Vice President	Resigned	4/2016	7/2018	218,400	—	—	218,400	—	121.3	No
18	Pang Shengqing	Male	50	Executive Vice President	Resigned	4/2016	7/2018	733,682	—	—	733,682	—	107.7	No
19	Xiong Hui	Male	49	Executive Vice President	Resigned	1/2017	7/2018	10,000	—	—	10,000	—	169.5	No
20	Shao Weilin	Male	45	Executive Vice President and Chief Financial Officer	Resigned	9/2017	7/2018	—	—	—	—	—	87.4	No
Total		—	—	—	—	—	—	3,417,685	—	—	3,417,685	—	947.3	—

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.

Note 2: Remuneration payable to Directors, Supervisors and senior management who resigned during the year represented remuneration payable for the period during which they were in office as Directors, Supervisors and senior management.

Note 3: 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 4: Messrs. Yin Yimin, Zhang Jianheng, Luan Jubao, Zhao Xianming, Wang Yawen, Tian Dongfang, Zhan Yichao, Wei Zaisheng, Zhai Weidong, Richard Xike Zhang, Chen Shaohua, Lü Hongbing, Bingsheng Teng and Zhu Wuxiang resigned as Directors and members of the specialist committees under the Board of the Company on 29 June 2018.

Note 5: At the Thirty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 5 July 2018, it was approved that the appointment of Mr. Zhao Xianming as President of the Company, each of Mr. Xu Huijun, Mr. Zhang Zhenhui, Mr. Pang Shengqing, Mr. Xiong Hui and Mr. Shao Weilin as Executive Vice President of the Company and Mr. Shao Weilin as Chief Financial Officer of the Company be discontinued.

Note 6: Ms. Xu Weiyan resigned as Shareholders' Representative Supervisor of the Company in July 2018.

Note 7: 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.

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 2018 are set out in the section of this announcement "6.1 Changes in the Shareholdings and Share Options of and Annual Remuneration of the Company's Directors, Supervisors, Senior Management."

Save as disclosed above, as at 31 December 2018, 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 2018, 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 2018

(1) Overview of the domestic telecommunications industry for 2018

According to the data published by the Ministry of Industry and Information Technology of the PRC, the domestic telecommunications sector reported revenue of RMB1,301.0 billion for 2018, representing year-on-year growth of 3.0%^{Note 1}. The mobile Internet business sustained rapid growth in data volume in 2018 with the benefit of increasing penetration of mobile Internet applications, which was driven by faster integration of online and offline services as well as innovative developments in the business. The 4G network was expanding in width and depth to remove blind spots in coverage, as the quality of mobile network services continued to improve. In the meantime, the research on 5G standards and testing of 5G technologies was progressing in a vigorous manner, while the third stage of 5G tests was completed in compliance with relevant standards. The expanding scale of optical broadband deployment and the construction of cloud networked platforms have strengthened the network capability of various industries for the provision of services.

Note 1: Data derived from the “2018 Statistical Communique on the Telecom Industry” published by the Ministry of Industry and Information Technology of the PRC.

(2) Overview of the global telecommunications industry for 2018

The global telecommunications industry sustained growth amidst stable development during 2018. Investments by the global telecommunications industry remained focused on 4G networks, digital communication, optical transmission and broadband access. The 4G network further penetrated the market to become the dominant network for mobile broadband communication.

(3) Operating results of the Group for 2018

For 2018, the Group reported operating revenue of RMB85.51 billion, representing year-on-year decrease of 21.41%. Net profit attributable to holders of ordinary shares of the listed company amounted to RMB-6.98 billion, representing year-on-year decrease of 252.88%. Basic earnings per share amounted to RMB-1.67. This was mainly attributable to the USD1 billion penalty described in the “INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING” published on 12 June 2018 and operating losses and loss provisions arising from the matter described in the “INSIDE INFORMATION ANNOUNCEMENT” published by the Company on 9 May 2018.

A. By market

The domestic market

For the year, the Group's operating revenue from the domestic market amounted to RMB54.44 billion, accounting for 63.7% of the Group's overall operating revenue. The Group persisted in the implementation of a prudent business strategy while exploring new opportunities for growth, as it actively participated in the network construction and technological evolution of carriers on top of ongoing intensive efforts in large-scale 5G outfield tests, with a view to seizing opportunities presented by the technological revolution on the back of its technological prowess and productive competitiveness developed over the years.

The international market

For the year, the Group's operating revenue from the international market amounted to RMB31.07 billion, accounting for 36.3% of the Group's overall operating revenue. The Group persisted in the globalisation strategy with a consistent focus on the carriers' market. Through a full range of innovative product solutions matching dominant customer requirements for 4G networks, such as performance evolution, capacity expansion and smooth transition to 5G. Meanwhile, steady progress has been made in the launch of experimental 5G networks in association with numerous mainstream carriers.

B. By business segment

For the year, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB57.07 billion, RMB9.23 billion and RMB19.21 billion, respectively.

Carriers' network

In connection with wireless products, the Group increased its investments in critical wireless technologies and important markets with a strong focus on high-worth products, with a view to empowering transformation towards digitalisation achieving mutual benefits with the carriers with a special emphasis on sustainable development. In connection with wireline products, the Group stayed focused on the market of international mainstream carriers and high-worth customers, seizing opportunities presented by technological revolutions in mobile bearer, Big Video, next-generation PON and SDN/NFV, among others, as it continued to optimise the market profile for its products.

Government and corporate business

Based on the concept of a “cloud network ecosphere”, the Group built on its core products in the wireless, bearer, Big Data and cloud computing segments to deliver innovative solutions for various sectors in collaboration with its partners, in a bid to contribute to the transformation of industries towards digitalisation.

Consumer business

The Group’s consumer business was focused on handsets business, home information terminal and fixed network broadband terminals, with a particular emphasis on core models and product competitiveness with a view to enhancing customer experience. We also ensured sound development of 5G terminals to build the foundation for ongoing development.

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 (XXV) 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

Unit: 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	85,513.2	100%	57,367.6	32.91%	(21.41%)	(23.52%)	1.84
Total	85,513.2	100%	57,367.6	32.91%	(21.41%)	(23.52%)	1.84
II. By business segment							
Carriers' networks	57,075.8	66.75%	34,035.7	40.37%	(10.51%)	(11.00%)	0.33
Government and corporate business	9,227.8	10.79%	6,529.3	29.24%	(6.13%)	(6.13%)	(0.01)
Consumer business	19,209.6	22.46%	16,802.6	12.53%	(45.43%)	(43.63%)	(2.79)
Total	85,513.2	100%	57,367.6	32.91%	(21.41%)	(23.52%)	1.84
III. By region							
The PRC	54,444.2	63.67%	33,721.3	38.06%	(12.13%)	(15.59%)	2.54
Asia (excluding the PRC)	11,877.2	13.89%	8,358.8	29.62%	(24.76%)	(20.66%)	(3.64)
Africa	4,082.3	4.77%	2,141.3	47.55%	8.40%	(23.06%)	21.44
Europe, Americas and Oceania	15,109.5	17.67%	13,146.2	12.99%	(44.66%)	(39.52%)	(7.40)
Total	85,513.2	100.00%	57,367.6	32.91%	(21.41%)	(23.52%)	1.84

(1) Analysis of change in revenue

The Group reported RMB85,513.2 million in operating revenue for 2018, decreasing by 21.41% as compared with the same period last year. This was mainly attributable to operating losses and loss provisions arising from the matter described in the "INSIDE INFORMATION ANNOUNCEMENT" published by the Company on 9 May 2018.

(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

2018			2017 ^{Note}			Year-on-year increase/decrease in gross profit margin (percentage points)		
Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin	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)
85,513.2	57,367.6	32.91%	107,923.7	74,359.7	31.10%	(20.77%)	(22.85%)	1.81

Note: Figures of operating revenue and operating costs for 2017 have excluded operating revenue and operating costs of subsidiaries deconsolidated in 2018.

During the year, 9 subsidiaries of the Company completed deregistration, 2 subsidiaries completed equity transfers, 1 subsidiary was no longer under our control owing to the dilution of our equity interests after a capital increase exercise, and 1 subsidiary was under liquidation. The said 13 subsidiaries were no longer included in the consolidated financial statements. For details, please refer to the section headed "9.6 EXPLANATORY STATEMENT ON CHANGES TO THE SCOPE OF CONSOLIDATION FINANCIAL STATEMENT IN COMPARISON WITH THE PREVIOUS ANNUAL FINANCIAL REPORT" in this announcement. Excluding the operating revenue and operating costs of the aforesaid companies for the corresponding period of 2017, the operating revenue and operating costs of the Group for 2018 would have decreased by 20.77% and 22.85%, respectively, as compared to the same period last year, while gross profit margin would have increased by 1.81 percentage points, year-on-year.

(3) *During the year, the Company did not enter into any material contracts requiring disclosure.*

7.2.2 Statement on 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 2018 amounted to RMB-612.0 million, representing year-on-year decrease of 109.03% which reflected mainly operating losses and loss provisions arising from the matter described in the "INSIDE INFORMATION ANNOUNCEMENT" published by the Company on 9 May 2018. Investment income amounted to RMB294.5 million, a decrease by 88.41% as compared to the same period last year reflecting mainly the decrease in investment income from the disposal of subsidiaries as well as investment income from associate companies. Gain/loss from fair-value changes amounted to RMB-861.3 million, a decrease by 1,577.26%, year-on-year, attributable mainly to the recognition of fair value changes to previous equity instruments quoted in an active market and measured at fair value under "Gain/loss from fair value changes" following the implementation of the New ASBE on Financial Instruments for the period and the decrease in fair value. Non-operating expenses amounted to RMB6,880.9 million, which was attributable mainly to the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 by the Company.

- (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 2018 was 32.91%, versus 31.07% 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	2018	2017
Operating revenue:		
Carriers' networks	57,075.8	63,782.3
Government and corporate business	9,227.8	9,830.6
Consumer business	19,209.6	35,202.4
	<hr/>	<hr/>
Total revenue	85,513.2	108,815.3
Cost of sales	(58,638.3)	(76,116.5)
	<hr/>	<hr/>
Gross profit	26,874.9	32,698.8
Other income and gains	4,247.8	6,950.9
Research and development costs	(10,905.6)	(12,962.2)
Selling and distribution expenses	(9,084.5)	(12,260.0)
Administrative expenses	(4,106.2)	(3,237.7)
Impairment losses on financial and contract assets, net	(3,654.9)	—
Gain on disposal of financial assets	382.6	—
Other expenses	(8,978.3)	(3,184.9)
	<hr/>	<hr/>
Profit from operating activities	(5,224.2)	8,004.9
Finance costs	(1,328.7)	(1,157.8)
Share of profits and losses of joint ventures and associates	(797.3)	(128.2)
	<hr/>	<hr/>
(Loss)/profit before tax	(7,350.2)	6,718.9
Income tax expense	400.9	(1,332.6)
	<hr/>	<hr/>
(Loss)/profit for the year	(6,949.3)	5,386.3
Attributable to:		
Non-controlling interests	382.6	(316.8)
Attributable to:		
Perpetual capital instruments	(417.0)	(501.3)
Attributable to:		
Ordinary shares of the parent company	(6,983.7)	4,568.2
	<hr/>	<hr/>
Other comprehensive income	(905.3)	318.6
Comprehensive income	(7,854.6)	5,704.9
	<hr/>	<hr/>
Earnings per share — Basic	RMB(1.67)	RMB1.09
	<hr/> <hr/>	<hr/> <hr/>
— Diluted	RMB(1.67)	RMB1.08
	<hr/> <hr/>	<hr/> <hr/>

REVENUE ANALYSIS BY BUSINESS SEGMENT AND REGION

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

Unit: RMB in millions

Business segment	2018		2017	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	57,075.8	66.8%	63,782.3	58.6%
Government and corporate business	9,227.8	10.8%	9,830.6	9.0%
Consumer business	19,209.6	22.4%	35,202.4	32.4%
Total	85,513.2	100.0%	108,815.3	100.0%

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

Unit: RMB in millions

Regions	2018		2017	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	54,444.2	63.7%	61,958.6	56.9%
Asia (excluding the PRC)	11,877.2	13.9%	15,786.7	14.5%
Africa	4,082.3	4.8%	3,766.1	3.5%
Europe, the Americas and Oceania	15,109.5	17.6%	27,303.9	25.1%
Total	85,513.2	100.0%	108,815.3	100.0%

The Group reported RMB85,513.2 million in operating revenue for 2018, decreasing by 21.4% as compared with the same period last year. This was mainly attributable to operating losses and loss provisions arising from the matter described in the “INSIDE INFORMATION ANNOUNCEMENT” published by the Company on 9 May 2018.

COST OF SALES AND GROSS PROFIT

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

Unit: RMB in millions

Business segment	2018		2017	
	Cost of sales	As a percentage of business segment revenue	Cost of sales	As a percentage of business segment revenue
Carriers’ networks	34,933.8	61.2%	39,003.6	61.2%
Government and corporate business	6,687.0	72.5%	7,056.2	71.8%
Consumer business	17,017.5	88.6%	30,056.7	85.4%
Total	<u>58,638.3</u>	<u>68.6%</u>	<u>76,116.5</u>	<u>70.0%</u>

Unit: RMB in millions

Business segment	2018		2017	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers’ networks	22,142.0	38.8%	24,778.7	38.8%
Government and corporate business	2,540.8	27.5%	2,774.4	28.2%
Consumer business	2,192.1	11.4%	5,145.7	14.6%
Total	<u>26,874.9</u>	<u>31.4%</u>	<u>32,698.8</u>	<u>30.0%</u>

Cost of sales of the Group for 2018 decreased by 23.0%, year-on-year, to RMB58,638.3 million. The Group's overall gross profit margin rose by 1.4 percentage points to 31.4% for 2018, reflecting the decrease as a percentage of total revenue in revenue from the consumer business which commanded a lower gross profit margin.

Cost of sales of the Group's carriers' networks for 2018 amounted to RMB34,933.8 million, a 10.4% decrease compared to the same period last year. Gross profit margin was 38.8%, unchanged from the same period last year.

Cost of sales of the Group's government and corporate business for 2018 amounted to RMB6,687.0 million, a decrease of 5.2% compared to the same period last year. The relevant gross profit margin was 27.5%, 0.7 percentage point lower versus 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 of wireless products in the domestic market and government and corporate and energy products in the domestic market.

Cost of sales of the Group's consumer business for 2018 amounted to RMB17,017.5 million, decreasing by 43.4% compared to the same period last year. The relevant gross profit margin was 11.4%, 3.2 percentage points lower versus the same period last year. The decline in gross profit margin for the consumer business was attributable mainly to lower gross profit margin for handset products in the domestic as well as international markets as a result of the provision for losses.

OTHER INCOME AND GAINS

Other income and gains of the Group for 2018 amounted to RMB4,247.8 million, representing a decrease of 38.9% compared to RMB6,950.9 million for 2017, reflecting mainly the decrease in investment gains from the disposal of subsidiaries by the Group during the period.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2018 decreased by 15.9% to RMB10,905.6 million from RMB12,962.2 million for 2017. The Group continued to invest in the research and development of core products such as 5G wireless, core network, bearer, access and chips for the period. Research and development costs as a percentage of operating revenue increased by 0.9 percentage point to 12.8%, as compared to 11.9% for 2017.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses for 2018 decreased by 25.9% to RMB9,084.5 million from RMB12,260.0 million for 2017, reflecting mainly the decrease in the Group's staff expenses, advertising and promotion expenses for the period. Selling and distribution expenses as a percentage of operating revenue decreased by 0.7 percentage point to 10.6%, compared to 11.3% for 2017.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for 2018 increased by 26.8% to RMB4,106.2 million, as compared to RMB3,237.7 million for 2017. Such increase was attributable mainly to the increase in the Group's legal fees for the period. Administrative expenses as a percentage of operating revenue increased by 1.8 percentage point to 4.8% as compared to 3.0% for 2017.

IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS, NET

The Group's credit impairment loss for 2018 amounted to RMB3,654.9 million, comprising bad debt provision for trade receivables of RMB3,445.8 million representing an increase of 55.1% compared to RMB2,222.1 million for 2017. This was mainly attributable to the increase in bad debt provision made in respect of international customer risks.

GAIN ON DISPOSAL OF FINANCIAL ASSETS

The Group recorded gain from the disposal of financial assets for 2018 amounting to RMB382.6 million, attributable mainly to gain from the disposal of financial assets at fair value through profit or loss for the period.

OTHER EXPENSES

Other expenses primarily include loss on impairment of assets and non-operating expenses. Other expenses of the Group for 2018 was RMB8,978.3 million, representing an increase of 181.9% from RMB3,184.9 million in 2017, which was attributable primarily to the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 by the Company, and the long-term equity investment impairment charge of approximately RMB1,094 million in respect of the 49.9% equity interests in Nubia Technology Limited held by the Group. The aforesaid impairment charge for long-term equity investment has reduced the Company's profit before tax on the face of its 2018 consolidated financial statements by approximately RMB1,094 million.

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2018 amounted to RMB-5,224.2 million, as compared to RMB8,004.9 million for 2017, while operating profit margin was -6.1% as compared to 7.4% for 2017, attributable mainly to the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 and operating losses and loss provisions arising from the matter described in the "INSIDE INFORMATION ANNOUNCEMENT" published on 9 May 2018 by the Company.

FINANCE COSTS

Finance costs of the Group for 2018 amounted to RMB1,328.7 million, increasing by 14.8% compared to RMB1,157.8 million for 2017, which was attributable mainly to the increase in interest expenses in line with the increase in financing of the Group for the period.

INCOME TAX EXPENSE

The Group's income tax expense for 2018 was RMB-400.9 million, which was 130.1% lower as compared to RMB1,332.6 million for 2017, reflecting mainly the Company's recognition of deferred tax assets deductible against loss.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The Group's profit attributable to non-controlling interests for 2018 amounted to RMB-382.6 million, representing a decrease of RMB699.4 million compared to RMB316.8 million for 2017, which was attributable mainly to losses reported by certain subsidiaries of the Group.

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for 2018 amounted to RMB-905.3 million, compared to RMB318.6 million for 2017, which was attributable mainly to the implementation of New ASBEs for Financial Instruments for the period under which fair value changes of previous equity instruments at fair value quoted in an active market recognised in other comprehensive income was adjusted to the opening balance of retained earnings, as well as losses on translation of statements denominated in foreign currencies owing to exchange rate fluctuations for the 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 2018 was 46.7%, increasing by 10.7 percentage points as compared to 36.0% for 2017, reflecting mainly the increase in the Group's interest-bearing liabilities and loss incurred for the period.

LIQUIDITY AND CAPITAL RESOURCES

In 2018, 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 2018 amounted to RMB21,134.1 million held mainly in RMB and to a smaller extent in USD, EUR, HKD and other currencies.

CASH FLOW DATA

	<i>Unit: RMB in millions</i>	
Item	2018	2017
Net cash (outflow)/inflow from operating activities	(10,233.3)	4,460.2
Net cash outflow from investing activities	(2,111.0)	(4,051.7)
Net cash inflow from financing activities	3,051.3	117.3
Net increase in cash and cash equivalents	9,293.0	525.8
Cash and cash equivalents at the end of the period	21,134.1	30,109.3

OPERATING ACTIVITIES

The Group reported net cash outflow from operating activities of RMB10,233.3 million for 2018, compared to net inflow of RMB4,460.2 million for 2017, reflecting mainly year-on-year decrease in cash received from sales of goods and provision of services by RMB24,995.4 million, decrease in tax refund received by RMB1,639.5 million, increase in other cash receipts relating to operating activities by RMB1,136.8 million, decrease in cash paid for the purchase of goods and services by RMB12,651.8 million, increase in cash payments to and on behalf of employees by

RMB1,108.8 million, decrease in payments of tax expenses by RMB1,170.0 million, and increase in other cash payments relating to operating activities by RMB3,650.3 million.

INVESTING ACTIVITIES

The Group's net cash outflow from investing activities was RMB2,111.0 million for 2018, compared to RMB4,051.7 million for 2017, reflecting mainly the combined effect of the increase in cash received for the disposal of investments and the decrease in cash paid for the purchase of fixed assets, intangible assets and other long-term assets for the period.

FINANCING ACTIVITIES

The Group's net cash inflow from financing activities for 2018 was RMB3,051.3 million, compared to RMB117.3 million for 2017, reflecting mainly the year-on-year decrease in cash paid for the repayment of debts for the period.

CAPITAL EXPENDITURE

The Group's capital expenditure for 2018 amounted to RMB4,700.8 million, compared to RMB7,386.5 million for 2017, which was mainly applied in the new energy commercial vehicle production base, ZTE high-efficiency lithium battery project Phase I, construction of staff quarters and purchase of machinery and equipment.

INDEBTEDNESS

Unit: RMB in millions

Item	31 December	
	2018	2017
Secured bank loans	1,155.8	24.1
Unsecured bank loans	26,194.1	21,513.9

Unit: RMB in millions

Item	31 December	
	2018	2017
Short-term bank loans	24,983.3	18,535.9
Long-term bank loans	2,366.6	3,002.1

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 amounted to RMB18,476.8 million and RMB340.0 million respectively. Other RMB loans were subject to floating interest rates. Loans in TRY, USD and EUR subject to fixed interest rates in aggregate amounted to the equivalent of approximately RMB2,461.4 million and the remaining USD 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 volatility of exchange rates, which might affect the operations of the Group. The Group adopts ongoing measures to strengthen exposure management and seek to minimise exposures through initiatives such as the business strategic guidance, internal settlement management, financing mix optimisation, internal exchange settlement and value-protected derivative products on exchange rates. The Group also strengthens liquidity risk management in countries practicing exchange control and facilitates RMB pricing and settlement for overseas projects to lower its exchange risks in the long term.

The Group's bank loans in 2018 increased by RMB5,811.9 million as compared to 2017, which were mainly applied to replenish its working capital.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

Item	Total	31 December 2018		
		Less than 1 year	2–5 years	More than 5 years
Bank loans	27,349.9	24,983.3	2,312.6	54.0
Operating lease obligation	1,025.4	479.4	531.9	14.1

CONTINGENT LIABILITIES

Unit: RMB in millions

Item	31 December	
	2018	2017
Guarantees given to banks in connection with borrowings to customers	—	—
Guarantees given to banks in respect of performance bonds	<u>10,726.2</u>	<u>8,419.1</u>
Total	<u><u>10,726.2</u></u>	<u><u>8,419.1</u></u>

CAPITAL COMMITMENTS

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

Unit: RMB in millions

Item	31 December	
	2018	2017
Land and buildings: Contracted, but not provided for	3,414.1	2,854.5
Investment in associates: Contracted, but not provided for	65.3	110.3

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

Details of the subsidiaries of the Group as at 31 December 2018 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 2018 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 2018 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 2018 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 2018 are set out in Note 36 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 2018 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 2018

Audited net profit attributable to holders of ordinary shares of the Company for the year 2018 calculated in accordance with PRC ASBEs amounted to approximately RMB-6,489,290,000. Together with undistributed profit of approximately RMB3,387,426,000 carried forward at the beginning of the year and after provision for statutory surplus reserves of RMB0, profit available for distribution to shareholders amounted to approximately RMB-3,101,864,000.

Audited net profit attributable to holders of ordinary shares of the Company for the year 2018 calculated in accordance with HKFRSs amounted to approximately RMB-5,953,747,000. Together with undistributed profit of approximately RMB1,784,910,000 carried forward at the beginning of the year and after provision of statutory surplus reserves of approximately RMB0, profit available for distribution to shareholders amounted to approximately RMB-4,168,837,000.

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 RMB-4,168,837,000.

The Company does not propose any profit distribution for 2018. The aforesaid matter shall require consideration and approval at the general meeting.

7.5 Business outlook of 2019 and risk exposures

7.5.1 Business outlook of 2019

The Group will persist in implementing the strategic basic principles of “focusing on carriers, enhancing customer satisfaction, maintaining the technological edge, increasing market shares, and strengthening compliance, human resources and internal control”.

Looking to 2019, the Group will welcome new opportunities for development given sustained rapid growth in information spending and data flow and the ongoing progress of the 5G industry. Specifically, such opportunities will be underpinned by: the pre-commercial launch of 5G in major countries around the globe to prepare for large-scale 5G commercialisation as we enter the critical stage of commercial 5G deployment; 5G-driven transformation towards digitalisation resulting in higher operating efficiency and enabling business innovation and upgrade; the innovative development of new applications in tandem with the gradual launch of chips, modules and terminals in a sophisticated industry chain driven by 5G commercialisation. In view of the above, the Group will adopt the following strategies in 2019:

In connection with carriers’ networks, the Group will continue to focus on the business with carriers business with stronger efforts, seeking to enhance customer satisfaction while facilitating our own development in a mutually beneficial and legally compliant manner. As part of our effort to maintain and strengthen our technological edge, we will enhance our deployment of and ability in chip and fundamental technologies in line with the dominant market trend of 5G

development, in a bid to highlight the superiority of our products. We will also seek to establish a first-rate regime for product safety governance and service delivery to provide customers with end-to-end security assurance.

In connection with the government and corporate business, the Group will enhance its focus on this sector and strengthen the marketing of core products to key business sectors, in order to assist in the intensive transformation towards digitalisation in various sectors.

In connection with the consumer business, the Group will continue to engage in ongoing value innovation driven by consumer experience, as it seeks to unveil, innovate, solidify, penetrate and broaden the dominant path of adding commercial value in collaboration with upstream as well as downstream partners along the industry chain, in an effort to build a full-scenario value chain of smart experience for consumers.

In 2019, the Group will continue to pursue proprietary innovations in core technologies as it seeks to herald 5G innovation under the guidance of technology. With a consistent focus on high-worth customers and core products, we will intensify open-ended cooperation and coordination with customers and partners in a customer-oriented approach. We will also continue to enhance “compliance, human resources and internal control” as our three major cornerstones, driving co-development of employees and the Company while strengthening the development of compliance processes and streamlining our corporate governance structure to prevent corporate risks.

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 100 countries, as well as the differences in macro-economy, policy and regulation and political and social backgrounds among the countries where the Group’s businesses are operated, the Group will continue to be exposed to risks relating to legal compliance, taxation, exchange rates and political developments (such as war and domestic unrest), which might affect the operations of the Group. The Group ensures compliance primarily through the establishment of a complete compliance management regime to identify and comply with trade and taxation policy requirements in these countries (including export control and GDPR (General Data Protection Regulation)); we also work with independent professional organisations to analyse and identify country risks. We take out necessary export insurance in respect of businesses in regions with higher evaluated risks, and we also resort to financing to avoid possible losses.

(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 under partnerships with the Group cannot be totally ruled out. The Group will continue to drive the solution of related issues with an open-minded, cooperative and mutually beneficial approach.

(3) *Exchange rate risks*

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates, which might affect the operations of the Group. The Group adopts ongoing measures to strengthen exposure management and seeks to minimise exposures through initiatives such as business strategic guidance, internal settlement management, financing mix optimisation, internal exchange settlement and value-protected derivative exchange instruments. The Group has also strengthened liquidity risk management in countries practicing exchange control and endeavoured to facilitate RMB pricing and settlement for overseas projects to lower its 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 fixed 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) Customer 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 mainly 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

For the year ended 31 December 2018, 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.

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 2018 and the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2018 prepared by the Group in accordance with PRC ASBEs and the consolidated and company statement of financial position at 31 December 2018 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 2018 prepared in accordance with HKFRSs.

9.2 Audit opinion

The consolidated and company balance sheets as at 31 December 2018, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2018 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 (2019) 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 2018, 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 2018 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 the period included: tier-one subsidiaries ZTE Smart Terminal Company Limited, Nanjing Xingtong Future Realty Company Limited and Xi'an Guoxing Smart Technology Industry Park Company Limited; tier-two subsidiaries ZTE HONGKONG (LAO) SOLE COMPANY LIMITED, ZXRC PAKISTAN (PRIVATE) LIMITED, Kela IOT (Quzhou) Company Limited, Heilongjiang ZTE ICT Technology Company Limited, Nanjing Xingtong Zhiyuan Realty Company Limited, Beijing ZTE Guangtai Software Company Limited, ZTEsoft (Nanjing) Information Technology Company Limited; tier-three subsidiaries ZTE HAITI S.A., Wuzhou Digital City Development Company Limited, Fuzhou ZTE Ruanzhi Technology Development Company Limited, Zsmart Myanmar Company Limited, ZTEICT TECHNOLOGY UGANDA CO.LTD and ZTE ICT (Nigeria) Limited; and a tier-four subsidiary ZTE ITALIA INNOVATION & RESEARCH CENTER S.R.L.

Subsidiaries deregistered during the period included: tier-one subsidiaries Henan ZTE Photovoltaics Technology Co., Ltd., ZTE Group Finance Holdings (Hangzhou) Limited, Shenyang (ZTE) Big Data Research Company Limited and ZTE (Yiwu) Research Institute Company Limited; tier-two subsidiaries ZTE Xingyun Industrial Investment Management (Hangzhou) Company Limited, Beijing ZTE Green Energy Auto Company Limited, Henan ZTE New Energy Auto Company Limited and Changchun ZTE New Energy Auto Sales Company Limited; and a tier-three subsidiary Dalian Zhongwang Realty Company Limited.

深圳市中興雲服務有限公司, a subsidiary of the Company, completed the disposal of 100% equity interests in Shenzhen ZTE Jinyun Technology Company Limited (“ZTE Jinyun”) on 25 September 2018. ZTE Jinyun has been excluded from the consolidated financial statements of the Group as from 25 September 2018. The Company completed the disposal of 43.66% equity interests in ZTEsoft Technology Co., Ltd. (“ZTEsoft”, renamed “Whale Cloud Technology Co., Ltd.”) in September 2018. ZTEsoft has been excluded from the consolidated financial statements of the Group as from October 2018. On 10 October 2018, the Dushanbe Economic Law Court approved the bankruptcy of Closed Joint Stock Company TK Mobile (“TK”). TK has been excluded from the consolidated financial statements of the Group as from 10 October 2018. 科翔高新技術發展有限公司 increased its capital contribution to 南通興通智慧產業園建設有限公司 (“南通興通”), a subsidiary of the Company. Following the completion of such capital increase on 24 December 2018, 南通興通 has been excluded from the consolidated financial statements of the Group.

For details of changes to the scope of consolidation financial statement in comparison with the previous annual financial report, please refer to Note VI to the financial statements prepared under PRC ASBES.

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

Applicable N/A

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
27 March 2019

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

**APPENDIX 1: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH
PRC ASBES**

CONSOLIDATED BALANCE SHEET

31 December 2018

RMB'000

Assets	2018	2017
Current assets		
Cash	24,289,798	33,407,879
Trading financial assets	1,476,823	—
Derivative financial assets	228,117	116,794
Bills receivable and trade receivables	21,592,325	26,398,228
Factored trade receivables	587,869	1,080,449
Prepayments	615,489	591,664
Other receivables	2,004,870	3,629,933
Inventories	25,011,416	26,234,139
Contract assets	8,462,226	—
Amount due from customers for contract works	—	9,012,909
Other current assets	8,578,720	7,758,594
Total current Assets	92,847,653	108,230,589
Non-current Assets		
Available-for-sale financial assets	—	3,181,668
Other non-current financial assets	1,502,499	—
Long-term trade receivables	843,429	1,244,760
Factored long-term trade receivables	432,041	2,608,006
Long-term equity investments	3,015,295	3,960,597
Investment properties	2,011,999	2,023,809
Fixed assets	8,898,068	8,694,456
Construction in progress	1,296,044	1,472,986
Intangible assets	8,558,488	4,741,615
Development costs	2,732,356	1,902,077
Goodwill	186,206	308,806
Deferred tax assets	2,787,790	1,464,250
Other non-current assets	4,238,881	4,128,596
Total non-current assets	36,503,096	35,731,626
TOTAL ASSETS	129,350,749	143,962,215

CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2018

RMB'000

Liabilities	2018	2017
Current liabilities		
Short-term loans	23,739,614	14,719,023
Bank advances on factored trade receivables	591,931	1,080,472
Derivative financial liabilities	101,332	49,830
Bills payable and trade payables	27,443,104	34,463,067
Amount due to customers for contract works	—	8,050,655
Advances from customers	—	8,702,351
Contract liabilities	14,479,355	—
Salary and welfare payables	6,259,639	7,389,544
Taxes payable	954,021	1,263,723
Other payables	11,135,030	7,071,421
Deferred income	1,261,449	454,891
Provisions	2,167,614	533,126
Non-current liabilities due within one year	1,243,709	3,816,844
Total current liabilities	89,376,798	87,594,947
Non-current liabilities		
Long-term loans	2,366,568	3,002,146
Bank advances on factored long-term trade receivables	434,137	2,948,006
Provision for retirement benefits	136,245	133,191
Deferred tax liabilities	155,041	338,131
Deferred income	691,608	1,224,978
Other non-current liabilities	3,229,677	3,340,669
Total non-current liabilities	7,013,276	10,987,121
Total liabilities	96,390,074	98,582,068

CONSOLIDATED BALANCE SHEET (CONTINUED)*31 December 2018**RMB'000*

Shareholder's equity	2018	2017
Shareholder's equity		
Share capital	4,192,672	4,192,672
Capital reserves	11,444,456	11,304,854
Other comprehensive income	(2,047,561)	(723,770)
Surplus reserve	2,324,748	2,205,436
Retained profits	6,983,261	14,667,683
Total equity attributable to holders of ordinary shares of the parent	<u>22,897,576</u>	<u>31,646,875</u>
Other equity instruments		
Including: perpetual capital instruments	6,252,364	9,321,327
Non-controlling interests	<u>3,810,735</u>	<u>4,411,945</u>
Total shareholders' equity	<u>32,960,675</u>	<u>45,380,147</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>129,350,749</u>	<u>143,962,215</u>

Li Zixue
Legal Representative

Li Ying
Chief Financial Officer

Xu Jianrui
Head of Finance Division

CONSOLIDATED INCOME STATEMENT
2018

RMB'000

	2018	2017 (Restated)
Operating revenue	85,513,150	108,815,273
Less: Operating costs	57,367,578	75,005,818
Taxes and surcharges	637,725	942,119
Selling and distribution costs	9,084,489	12,104,355
Administrative expenses	3,651,498	3,057,208
Research and development costs	10,905,584	12,962,245
Finance costs	280,648	1,043,482
Including: Interest expense	1,328,685	1,157,659
Interest income	748,810	908,082
Impairment losses	2,076,863	2,533,608
Credit impairment losses	3,654,881	—
Add: Other income	2,081,455	3,047,221
Investment income	294,486	2,540,328
Including: Share of losses of associates and joint ventures	(797,318)	(128,201)
(Loss)/gain from changes in fair values	(861,259)	58,301
Gain/(loss) from asset disposals	19,483	(31,275)
Operating (loss)/profit	(611,951)	6,781,013
Add: Non-operating income	142,651	131,194
Less: Non-operating expenses	6,880,903	193,283
Total (loss)/profit	(7,350,203)	6,718,924
Less: Income tax	(400,863)	1,332,582
Net (loss)/profit	(6,949,340)	5,386,342
Including: Net (loss)/profit from continuing operations	(6,949,340)	5,386,342
Analysed by ownership:		
Holders of ordinary shares of the parent	(6,983,662)	4,568,172
Holders of perpetual capital instruments	417,037	501,300
Non-controlling interests	(382,715)	316,870

CONSOLIDATED INCOME STATEMENT (CONTINUED)

2018

RMB'000

	2018	2017 (Restated)
Other comprehensive income, net of tax	<u>(905,246)</u>	<u>318,567</u>
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	<u>(885,656)</u>	<u>98,954</u>
Other comprehensive income that will not be reclassified to profit or loss		
Change in net assets arising from the re-measurement of defined benefit plans	<u>(477)</u>	<u>15,572</u>
	<u>(477)</u>	<u>15,572</u>
Other comprehensive income that will be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	—	94,575
Effective portion of hedging instruments	—	(12,327)
Exchange differences on translation of foreign operations	<u>(885,179)</u>	<u>1,134</u>
	<u>(885,179)</u>	<u>83,382</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>(19,590)</u>	<u>219,613</u>
Total comprehensive (loss)/income	<u>(7,854,586)</u>	<u>5,704,909</u>
Attributable to:		
Holders of ordinary shares of the parent	<u>(7,869,318)</u>	<u>4,667,126</u>
Holders of perpetual capital instruments	<u>417,037</u>	<u>501,300</u>
Non-controlling interests	<u>(402,305)</u>	<u>536,483</u>
Earnings per share (RMB/share)		
Basic	<u>RMB(1.67)</u>	<u>RMB1.09</u>
Diluted	<u>RMB(1.67)</u>	<u>RMB1.08</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2018

RMB'000

	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments	Non-controlling interests	Total shareholders' equity
I. Current year's opening 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
Add: Change in accounting policies	—	—	(438,135)	(63,082)	(518,366)	(1,019,583)	—	27,565	(992,018)
Other	—	—	—	182,394	(182,394)	—	—	—	—
Adjusted current period's opening balance	4,192,672	11,304,854	(1,161,905)	2,324,748	13,966,923	30,627,292	9,321,327	4,439,510	44,388,129
II. Changes during the year									
(I) Total comprehensive income	—	—	(885,656)	—	(6,983,662)	(7,869,318)	417,037	(402,305)	(7,854,586)
(II) Shareholder's capital injection and capital reduction									
1. Ordinary shares capital injection from shareholders	—	(6,680)	—	—	—	(6,680)	—	187,280	180,600
2. Equity settled share expenses charged to equity	—	193,188	—	—	—	193,188	—	—	193,188
3. Capital reduction by shareholders	—	—	—	—	—	—	—	(91,449)	(91,449)
4. Acquisition of non-controlling interests	—	(31,606)	—	—	—	(31,606)	—	15,866	(15,740)
5. Redemption of perpetual capital instruments	—	(15,300)	—	—	—	(15,300)	(2,984,700)	—	(3,000,000)
(III) Profit appropriation									
1. Provision of surplus reserve	—	—	—	—	—	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	—	(501,300)	(338,167)	(839,467)
III. Current year's closing balance	<u>4,192,672</u>	<u>11,444,456</u>	<u>(2,047,561)</u>	<u>2,324,748</u>	<u>6,983,261</u>	<u>22,897,576</u>	<u>6,252,364</u>	<u>3,810,735</u>	<u>32,960,675</u>

2017

RMB'000

	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments	Non-controlling interests	Total shareholders' equity
I. Current 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. Capital reduction by shareholders	—	—	—	—	—	—	—	(1,357,208)	(1,357,208)
4. Acquisition of non-controlling interests	—	227,403	—	—	—	227,403	—	(312,525)	(85,122)
(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	<u>4,192,672</u>	<u>11,304,854</u>	<u>(723,770)</u>	<u>2,205,436</u>	<u>14,667,683</u>	<u>31,646,875</u>	<u>9,321,327</u>	<u>4,411,945</u>	<u>45,380,147</u>

CONSOLIDATED CASH FLOW STATEMENT
2018

RMB'000

	2018	2017
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	90,583,797	115,579,157
Refunds of taxes	6,330,164	7,969,630
Cash received relating to other operating activities	4,652,950	3,516,155
Sub-total of cash inflows	<u>101,566,911</u>	<u>127,064,942</u>
Cash paid for goods and services	65,459,632	78,111,408
Cash paid to and on behalf of employees	20,792,247	19,683,442
Cash paid for various types of taxes	6,140,537	7,310,548
Cash paid relating to other operating activities	18,389,881	14,739,570
Sub-total of cash outflows	<u>110,782,297</u>	<u>119,844,968</u>
Net cash flows from operating activities	<u>(9,215,386)</u>	<u>7,219,974</u>
II. Cash flows from investing activities		
Cash received from sale of investments	2,717,092	1,378,058
Cash received from return on investment	531,923	619,745
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	374,948	128,716
Net cash received from the disposal of subsidiaries and other operating units	498,207	—
Other cash received in relation to investing activities	2,200,000	1,771,000
Sub-total of cash inflows	<u>6,322,170</u>	<u>3,897,519</u>
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	4,881,872	5,984,005
Cash paid for acquisition of investments	2,405,998	2,200,283
Other cash paid in relation to investing activities	—	647,838
Sub-total of cash outflows	<u>7,287,870</u>	<u>8,832,126</u>
Net cash flows from investing activities	<u>(965,700)</u>	<u>(4,934,607)</u>

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

2018

RMB'000

2018 2017

III. Cash flows from financing activities

Cash received from capital injection	180,600	102,439
Including: Capital injection into subsidiaries by minority shareholders	180,600	14,200
Cash received from borrowings	29,123,900	35,148,401
Sub-total of cash inflows	29,304,500	35,250,840
Cash repayment of borrowings	23,237,437	35,048,391
Cash payments for perpetual capital instruments	3,000,000	—
Cash payments for distribution of dividends, profits and for interest expenses	2,163,236	1,962,060
Including: Distribution of dividends, profits by subsidiaries to minority shareholders	338,167	337,596
Other cash paid in relation to financing activities	15,740	—
Sub-total of cash outflows	28,416,413	37,010,451
Net cash flows from financing activities	888,087	(1,759,611)
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	317,841	(466,278)
V. Net (decrease)/increase in cash and cash equivalents	(8,975,158)	59,478
Add: cash and cash equivalents at beginning of year	30,109,269	30,049,791
VI. Net balance of cash and cash equivalents at the end of year	21,134,111	30,109,269

BALANCE SHEET*31 December 2018**RMB'000*

Assets	2018	2017
Current assets		
Cash	11,523,002	18,665,112
Derivative financial assets	72,450	1,679
Bills receivable and trade receivables	29,045,827	29,072,067
Factored trade receivables	356,134	704,593
Prepayments	37,194	56,680
Other receivables	15,935,675	25,387,464
Inventories	15,343,153	16,484,640
Contract assets	3,911,263	—
Amount due from customers for contract works	—	4,291,058
Other current assets	5,249,358	4,313,873
Total current assets	81,474,056	98,977,166
Non-current assets		
Available-for-sale financial assets	—	461,091
Other non-current financial assets	658,078	—
Long-term trade receivables	5,542,886	5,752,524
Factored long-term trade receivables	270,063	2,491,751
Long-term equity investments	13,168,721	13,685,375
Investment properties	1,556,775	1,615,458
Fixed assets	5,319,213	4,887,175
Construction in progress	250,417	905,876
Intangible assets	5,210,847	1,235,751
Development costs	379,318	404,145
Deferred tax assets	1,383,311	566,364
Other non-current assets	3,094,949	3,452,454
Total non-current assets	36,834,578	35,457,964
TOTAL ASSETS	118,308,634	134,435,130

BALANCE SHEET (CONTINUED)

31 December 2018

RMB'000

Liabilities and shareholders' equity	2018	2017
Current liabilities		
Short-term loans	13,072,700	7,158,482
Bank advances on factored trade receivables	360,196	704,617
Derivative financial liabilities	14,041	30,078
Bills payable and trade payables	46,554,829	52,386,859
Amount due to customers for contract works	—	5,584,395
Advances from customers	—	6,424,220
Contract liabilities	9,204,928	—
Salary and welfare payables	3,229,594	4,118,982
Taxes payable	219,325	155,820
Other payables	18,280,463	20,730,300
Deferred income	875,874	329,251
Provisions	1,757,603	301,785
Long-term loans due within one year	370,000	74,000
Total current liabilities	93,939,553	97,998,789
Non-current liabilities		
Long-term loans	2,115,290	2,121,125
Bank advances on factored long-term trade receivables	272,159	2,831,751
Provision for retirement benefits	136,245	133,191
Deferred income	191,571	149,260
Other non-current liabilities	2,697,982	2,781,120
Total non-current liabilities	5,413,247	8,016,447
Total liabilities	99,352,800	106,015,236
Shareholders' equity		
Share capital	4,192,672	4,192,672
Capital reserves	9,244,984	9,067,096
Other comprehensive income	704,686	706,538
Surplus reserve	1,662,992	1,543,680
Retained profits	(3,101,864)	3,588,581
Shareholders' equity attributable to holders of ordinary shares	12,703,470	19,098,567
Other equity instruments		
Including: perpetual capital instruments	6,252,364	9,321,327
Total shareholders' equity	18,955,834	28,419,894
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	118,308,634	134,435,130

INCOME STATEMENT

2018

RMB'000

	2018	2017 (Restated)
Operating revenue	76,115,358	95,881,635
Less: Operating costs	63,960,941	80,382,612
Taxes and surcharges	177,864	362,104
Selling and distribution costs	4,861,777	7,481,793
Administrative expenses	2,387,226	2,054,502
Research and development costs	2,646,861	3,638,235
Finance costs	(236,683)	1,287,020
Including: Interest expense	742,647	705,151
Interest income	170,725	317,598
Impairment losses	516,838	1,863,009
Credit impairment losses	2,994,185	—
Add: Other gains	247,569	614,488
Investment income	778,051	6,878,277
Including: Share of losses of associates and joint ventures	(535,543)	(210,835)
Gains/(losses) from changes in fair values	116,511	(34,354)
Gains/(losses) from asset disposal	9,814	(31,275)
Operating profit	(41,706)	6,239,496
Add: Non-operating income	51,088	34,079
Less: Non-operating expenses	6,723,153	75,205
Total (loss)/profit	(6,713,771)	6,198,370
Less: Income tax	(641,518)	146,951
Net (loss)/profit	(6,072,253)	6,051,419
Including: Net (loss)/profit from continuing operations	(6,072,253)	6,051,419
Attributable to holders of ordinary shares	(6,489,290)	5,550,119
Attributable to holders of perpetual capital instruments	417,037	501,300

INCOME STATEMENT (CONTINUED)

2018

RMB'000

	2018	2017 (Restated)
Other comprehensive income, net of tax		
Other comprehensive income that cannot be reclassified to profit and loss		
Change in net assets arising from the re-measurement of defined benefit plans	<u>(477)</u>	<u>15,572</u>
Other comprehensive income will be reclassified to profit and loss		
Exchange differences on translation of foreign operations	<u>(1,375)</u>	<u>(981)</u>
Other comprehensive income, net of income tax effect on respective items	<u>(1,852)</u>	<u>14,591</u>
Total comprehensive income	<u>(6,074,105)</u>	<u>6,066,010</u>
Attributable to:		
Holders of ordinary shares	<u>(6,491,142)</u>	<u>5,564,710</u>
Holders of perpetual capital instruments	<u>417,037</u>	<u>501,300</u>

STATEMENT OF CHANGES IN EQUITY
2018

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. Closing balance of previous year	4,192,672	9,067,096	706,538	1,543,680	3,588,581	19,098,567	9,321,327	28,419,894
Add: Change in accounting policies	—	—	—	(63,082)	(567,742)	(630,824)	—	(630,824)
Others	—	—	—	182,394	366,587	548,981	—	548,981
Opening balance as adjusted	4,192,672	9,067,096	706,538	1,662,992	3,387,426	19,016,724	9,321,327	28,338,051
II. Changes during the year								
(I) Total comprehensive income	—	—	(1,852)	—	(6,489,290)	(6,491,142)	417,037	(6,074,105)
(II) Shareholder's capital injection and capital reduction								
1. Equity settled share expenses charged to equity	—	193,188	—	—	—	193,188	—	193,188
2. Redemption of perpetual capital instruments	—	(15,300)	—	—	—	(15,300)	(2,984,700)	(3,000,000)
(III) Profit appropriation								
1. Distribution to shareholders	—	—	—	—	—	—	(501,300)	(501,300)
III. Current year's closing balance	4,192,672	9,244,984	704,686	1,662,992	(3,101,864)	12,703,470	6,252,364	18,955,834

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. Closing balance of previous year	4,184,628	8,723,945	691,947	1,360,953	(3,053,766)	11,907,707	9,321,327	21,229,034
Add: Others	—	—	—	—	1,274,955	1,274,955	—	1,274,955
Opening balance as adjusted	4,184,628	8,723,945	691,947	1,360,953	(1,778,811)	13,182,662	9,321,327	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

CASH FLOW STATEMENT
2018

RMB'000

	2018	2017
I. Cash flows from operating activities		
Cash received from sale of goods or rendering of services	79,827,650	105,486,277
Refunds of taxes	4,226,984	5,686,842
Cash received relating to other operating activities	<u>2,198,338</u>	<u>2,805,440</u>
Sub-total of cash inflows	<u>86,252,972</u>	<u>113,978,559</u>
Cash paid for goods and services	73,126,570	95,086,866
Cash paid to and on behalf of employees	8,525,554	7,024,266
Cash paid for various types of taxes	1,185,146	1,258,255
Cash paid relating to other operating activities	<u>14,070,117</u>	<u>11,224,343</u>
Sub-total of cash outflows	<u>96,907,387</u>	<u>114,593,730</u>
Net cash flows from operating activities	<u>(10,654,415)</u>	<u>(615,171)</u>
II. Cash flows from investing activities		
Cash received from sale of investments	—	41,103
Cash received from return on investments	429,068	7,077,570
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	216,950	253,248
Net cash received from the disposal of subsidiaries	862,100	978,025
Other cash paid in relation to investing activities	<u>2,200,000</u>	<u>1,771,000</u>
Sub-total of cash inflows	<u>3,708,118</u>	<u>10,120,946</u>
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	1,802,116	4,059,462
Cash paid for acquisition of investments	<u>410,037</u>	<u>2,132,591</u>
Sub-total of cash outflows	<u>2,212,153</u>	<u>6,192,053</u>
Net cash flows from investing activities	<u>1,495,965</u>	<u>3,928,893</u>

CASH FLOW STATEMENT (CONTINUED)
2018

	<i>RMB'000</i>	
	2018	2017
III. Cash flows from financing activities		
Cash received from capital injection	—	88,239
Cash received from borrowings	<u>17,594,488</u>	<u>16,652,012</u>
Sub-total of cash inflows	<u>17,594,488</u>	<u>16,740,251</u>
Cash repayment of borrowings	11,184,308	17,359,739
Cash payment for perpetual capital instruments	3,000,000	—
Cash payments for distribution of dividends and profits or for interest expenses	<u>1,242,738</u>	<u>1,206,571</u>
Sub-total of cash outflows	<u>15,427,046</u>	<u>18,566,310</u>
Net cash flows from financing activities	<u>2,167,442</u>	<u>(1,826,059)</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>132,220</u>	<u>(233,661)</u>
V. Net (decrease)/increase in cash and cash equivalents	(6,858,788)	1,254,002
Add: cash and cash equivalents at the beginning of the year	<u>17,006,734</u>	<u>15,752,732</u>
VI. Net balance of cash and cash equivalents at the end of the year	<u><u>10,147,946</u></u>	<u><u>17,006,734</u></u>

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 2018

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
REVENUE	85,513,150	108,815,273
Cost of sales	<u>(58,638,348)</u>	<u>(76,116,539)</u>
Gross profit	26,874,802	32,698,734
Other income and gains	4,247,804	6,950,862
Research and development costs	(10,905,584)	(12,962,245)
Selling and distribution expenses	(9,084,489)	(12,259,965)
Administrative expenses	(4,106,152)	(3,237,737)
Impairment losses on financial and contract assets, net	(3,654,881)	—
Gain on disposal of financial assets	382,607	—
Other expenses	(8,978,307)	(3,184,865)
Finance costs	(1,328,685)	(1,157,659)
Share of profits and losses of:		
Joint ventures	2,621	(1,377)
Associates	<u>(799,939)</u>	<u>(126,824)</u>
(LOSS)/PROFIT BEFORE TAX	(7,350,203)	6,718,924
Income tax credit/(expense)	<u>400,863</u>	<u>(1,332,582)</u>
(LOSS)/PROFIT FOR THE YEAR	<u>(6,949,340)</u>	<u>5,386,342</u>
Attributable to:		
Ordinary equity holders of the parent	(6,983,662)	4,568,172
Perpetual capital instruments	417,037	501,300
Non-controlling interests	<u>(382,715)</u>	<u>316,870</u>
	<u>(6,949,340)</u>	<u>5,386,342</u>

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

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2018

	2018	2017
	RMB'000	<i>RMB'000</i>
OTHER COMPREHENSIVE INCOME		
Other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods:		
Hedges — effective portion of changes in fair value of hedging instruments arising during the year	—	(12,327)
Changes in fair value of available-for-sale investments, net of tax	—	314,188
Exchange differences on translation of foreign operations	<u>(904,769)</u>	<u>1,134</u>
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods	<u>(904,769)</u>	<u>302,995</u>
Other comprehensive (loss)/income that will not to be reclassified to profit or loss in subsequent periods:		
Actuarial gain or loss on defined benefit plans	<u>(477)</u>	<u>15,572</u>
Net other comprehensive (loss)/income that will not to be reclassified to profit or loss in subsequent periods	<u>(477)</u>	<u>15,572</u>
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX	<u>(905,246)</u>	<u>318,567</u>
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR	<u><u>(7,854,586)</u></u>	<u><u>5,704,909</u></u>

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

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2018

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Attributable to:		
Ordinary equity holders of the parent	(7,869,318)	4,667,126
Perpetual capital instruments	417,037	501,300
Non-controlling interests	<u>(402,305)</u>	<u>536,483</u>
	<u>(7,854,586)</u>	<u>5,704,909</u>
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	<u>RMB(1.67)</u>	<u>RMB1.09</u>
Diluted	<u>RMB(1.67)</u>	<u>RMB1.08</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2018

	31 December 2018 <i>RMB'000</i>	31 December 2017 <i>RMB'000</i>
NON-CURRENT ASSETS		
Property, plant and equipment	10,194,112	10,202,425
Investment properties	2,011,999	2,023,809
Prepaid land lease payments	4,867,296	1,251,535
Goodwill	186,206	308,806
Other intangible assets	6,270,288	5,363,042
Investments in joint ventures	97,650	92,344
Investments in associates	2,917,645	3,868,253
Available-for-sale investments	—	3,181,668
Financial assets at fair value through profit or loss	1,502,499	—
Long-term trade receivables	843,429	1,244,760
Factored long-term trade receivables	432,041	2,608,006
Deferred tax assets	2,787,790	1,464,250
Pledged deposits	2,928,146	1,462,286
Long-term prepayments, deposits and other receivables	1,310,735	2,631,327
Total non-current assets	36,349,836	35,702,511
CURRENT ASSETS		
Prepaid land lease payments	153,260	29,115
Inventories	25,011,416	26,234,139
Amount due from customers for contract works	—	9,012,909
Contract assets	8,462,226	—
Trade and bills receivables	21,592,325	26,398,228
Debt investments at fair value through other comprehensive income	2,730,351	—
Factored trade receivables	587,869	1,080,449
Prepayments, other receivables and other assets	8,468,728	11,980,191
Financial assets at fair value through profit or loss	1,476,823	—
Derivative financial instruments	228,117	116,794
Pledged deposits	3,057,459	3,066,199
Time deposits with original maturity of over three months	98,228	232,411
Cash and cash equivalents	21,134,111	30,109,269
Total current assets	93,000,913	108,259,704

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2018

	31 December 2018 RMB'000	31 December 2017 RMB'000
CURRENT LIABILITIES		
Trade and bills payables	27,443,104	34,463,067
Amount due to customers for contract works	—	8,050,655
Contract liabilities	14,479,355	—
Other payables and accruals	19,076,536	24,297,517
Derivative financial instruments	101,332	49,830
Interest-bearing bank borrowings	24,983,323	18,535,867
Bank advances on factored trade receivables	591,931	1,080,472
Tax payables	532,281	583,091
Dividends payables	1,322	1,322
Provision	2,167,614	533,126
	<u>89,376,798</u>	<u>87,594,947</u>
Total current liabilities		
	<u>89,376,798</u>	<u>87,594,947</u>
NET CURRENT ASSETS	<u>3,624,115</u>	<u>20,664,757</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2018

	31 December 2018 RMB'000	31 December 2017 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>39,973,951</u>	<u>56,367,268</u>
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	2,366,568	3,002,146
Bank advances on factored long-term trade receivables	434,137	2,948,006
Deferred tax liabilities	155,041	338,131
Provision for retirement benefits	136,245	133,191
Other non-current liabilities	<u>3,921,285</u>	<u>4,565,647</u>
Total non-current liabilities	<u>7,013,276</u>	<u>10,987,121</u>
Net assets	<u><u>32,960,675</u></u>	<u><u>45,380,147</u></u>
EQUITY		
Equity attributable to ordinary equity holders of the parent		
Issued capital	4,192,672	4,192,672
Reserves	<u>18,704,904</u>	<u>27,454,203</u>
	22,897,576	31,646,875
Perpetual capital instruments	6,252,364	9,321,327
Non-controlling interests	<u>3,810,735</u>	<u>4,411,945</u>
Total equity	<u><u>32,960,675</u></u>	<u><u>45,380,147</u></u>

Li Zixue
Director

Xu Ziyang
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 2018. 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 arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 2	<i>Classification and Measurement of Share-based Payment Transactions</i>
Amendments to HKFRS 4	<i>Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts</i>
HKFRS 9	<i>Financial Instruments</i>
HKFRS 15	<i>Revenue from Contracts with Customers</i>
Amendments to HKFRS 15	<i>Clarifications to HKFRS 15 Revenue from Contracts with Customers</i>
Amendments to HKAS 40	<i>Transfers of Investment Property</i>
HK(IFRIC)-Int 22	<i>Foreign Currency Transactions and Advance Consideration</i>
<i>Annual Improvements 2014–2016 Cycle</i>	<i>Amendments to HKFRS 1 and HKAS 28</i>

Except for the amendments to HKFRS 4 and Annual Improvements 2014–2016 Cycle, which are not relevant to the preparation of the Group’s financial statements, the nature and the impact of the new and revised HKFRSs are described below:

- (a) Amendments to HKFRS 2 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. The amendments have had no impact on the financial position or performance of the Group as the Group does not have any cash-settled share-based payment transactions and has no share-based payment transactions with net settlement features for withholding tax.
- (b) HKFRS 9 Financial Instruments replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments:

With the exception of hedge accounting, which the Group has applied prospectively, the Group has recognised the transition adjustments against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

The following information sets out the impacts of adopting HKFRS 9 on the statement of financial position, including the effect of replacing HKAS 39's incurred credit loss calculations with HKFRS 9's expected credit losses ("ECLs").

A reconciliation between the carrying amounts under HKAS 39 and the balances reported under HKFRS 9 as at 1 January 2018 is as follows:

	Notes	HKAS 39 measurement			ECL RMB'000	HKFRS 9 measurement	
		Category	Amount RMB'000	Reclassification RMB'000		Amount RMB'000	Category
Financial assets							
Financial assets at fair value through profit or loss		N/A	—	3,181,668	—	3,181,668	FVPL ¹ (equity)
From: Available-for-sale investments	(i)		—	3,181,668	—	—	
Available-for-sale investments		AFS ²	3,181,668	(3,181,668)	—	—	N/A
To: Financial assets at fair value through profit or loss	(i)		—	(3,181,668)	—	—	
Long-term trade receivables	(ii)	L&R ³	1,244,760	—	—	1,244,760	AC ⁴
Factored long-term trade receivables		L&R	2,608,006	—	—	2,608,006	AC
Pledged deposits (current)		L&R	3,066,199	—	—	3,066,199	AC
Long-term prepayments, deposits and other receivables		L&R	305,496	—	—	305,496	AC
Trade and bills receivables	(ii)	L&R	26,398,228	(2,052,945)	(23,139)	24,322,144	AC
To: Debt investments at fair value through other comprehensive income	(iii)		—	(2,052,945)	—	—	
Debt investments at fair value through other comprehensive income		N/A	—	2,052,945	—	2,052,945	FVOCI ⁵ (debt)
From: Trade and bills receivables	(iii)		—	2,052,945	—	—	
Factored trade receivables		L&R	1,080,449	—	—	1,080,449	AC
Financial assets included in prepayments, other receivables and other assets		L&R	3,007,327	—	—	3,007,327	AC
Derivative financial instruments		FVPL	116,794	—	—	116,794	FVPL
Pledged deposits (non-current)		L&R	1,462,286	—	—	1,462,286	AC
Time deposits with original maturity of over three months		L&R	232,411	—	—	232,411	AC
Cash and cash equivalents		L&R	30,109,269	—	—	30,109,269	AC
			<u>72,812,893</u>	<u>—</u>	<u>(23,139)</u>	<u>72,789,754</u>	

	Notes	HKAS 39 measurement			HKFRS 9 measurement		
		Category	Amount RMB'000	Reclassification RMB'000	ECL RMB'000	Amount RMB'000	Category
Contract assets		AC	—	9,012,909	—	9,012,909	AC
From: Amount due from customers for contract works			—	9,012,909	—	—	
Amount due from customers for contract works		AC	9,012,909	(9,012,909)	—	—	AC
To: Contract assets	(iii)		—	(9,012,909)	—	—	
Total assets			<u>81,825,802</u>	<u>—</u>	<u>(23,139)</u>	<u>81,802,663</u>	
Financial liabilities							
Trade and bills payables		AC	34,463,067	—	—	34,463,067	AC
Financial liabilities included in other payables and accruals		AC	6,204,068	—	—	6,204,068	AC
Derivative financial instruments		FVPL	49,830	—	—	49,830	FVPL
Interest-bearing bank borrowings		AC	21,538,013	—	—	21,538,013	AC
Bank advances on factored trade receivables		AC	1,080,472	—	—	1,080,472	AC
Factoring costs payable		AC	98,187	—	—	98,187	AC
Long-term payable		AC	394,226	—	—	394,226	AC
Bank advances on factored long-term trade receivables		AC	2,948,006	—	—	2,948,006	AC
Total liabilities			<u>66,775,869</u>	<u>—</u>	<u>—</u>	<u>66,775,869</u>	

1. FVPL: Financial assets at fair value through profit or loss
2. AFS: Available-for-sale investments
3. L&R: Loans and receivables
4. Financial assets or financial liabilities at amortised cost
5. FVOCI: Financial assets at fair value through other comprehensive income

Notes:

- (i) The Group has elected the option to irrevocably designate certain of its previous available-for-sale equity investments as equity investments at fair value through profit or loss.
- (ii) The gross carrying amounts of the trade receivables and the contract assets under the column “HKAS 39 measurement — Amount” represent the amounts after adjustments for the adoption of HKFRS 15 but before the measurement of ECLs. Further details of the adjustments for the adoption of HKFRS 15 are included in note 2.2(c) to the financial statements.
- (iii) The Group concluded that these bill receivables are managed within a business model to collect contractual cash flows and to sell the financial assets. Accordingly, the Group has classified bill receivables as debt investments measured at fair value through other comprehensive income.

Impairment

The following table reconciles the aggregate opening impairment allowances under HKAS 39 to the ECL allowances under HKFRS 9. Further details are disclosed in notes 22 and 29 to the financial statements.

	Impairment allowances under HKAS 39 at 31 December 2017 <i>RMB\$'000</i>	Re-measurement <i>RMB\$'000</i>	ECL allowances under HKFRS 9 at 1 January 2018 <i>RMB\$'000</i>
Trade receivables	9,143,050	23,139	9,166,189
Contract assets	119,011	—	119,011

Impact on reserves and retained profits

The impact of transition to HKFRS 9 on reserves and retained profits is as follows:

	Reserves and retained profits <i>RMB'000</i>
Fair value reserve under HKFRS 9 (available-for-sale investment revaluation reserve under HKAS 39)	
Balance as at 31 December 2017 under HKAS 39	438,135
Reclassification of financial assets from available-for-sale investments to financial assets at fair value through profit or loss	(438,135)
Remeasurement of debt investments designated at fair value through other comprehensive income previously measured at cost under HKAS 39	—
	<hr/>
Balance as at 1 January 2018 under HKFRS 9	—
	<hr/> <hr/>
Retained profits	
Balance as at 31 December 2017 under HKAS 39	14,667,683
Recognition of expected credit losses for contract assets under HKFRS 9	—
Recognition of expected credit losses for trade receivables under HKFRS 9	(23,139)
Reclassification of available-for-sale investments to financial assets at fair value through profit or loss	438,135
Remeasurement of the equity investment designated at fair value through profit or loss previously measured at cost under HKAS 39 (attributable to parent company)	105,543
Deferred tax in relation to the above	(23,080)
Statutory reserve in relation to the above	(12,136)
	<hr/>
Balance as at 1 January 2018 under HKFRS 9	15,153,006
	<hr/> <hr/>

- (c) HKFRS 15 and its amendments replace HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in notes 3 and 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition in note 2.4 to the financial statements.

The Group has adopted HKFRS 15 using the modified retrospective method of adoption. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group has elected to apply the standard to contracts that are not completed as at 1 January 2018.

The cumulative effect of the initial application of HKFRS 15 was recognised as an adjustment to the opening balance of retained profits as at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 11, HKAS 18 and related interpretations.

Set out below are the amounts by which each financial statement line item was affected as at 1 January 2018 as a result of the adoption of HKFRS 15:

	Increase/ (decrease) RMB'000
Assets	
Inventories	2,224,871
Amount due from customers for contract works	(9,012,909)
Contract assets	6,101,416
Deferred tax assets	<u>188,959</u>
Total assets	<u><u>(497,663)</u></u>
Liabilities	
Amount due to customers for contract works	(8,050,655)
Other payables and accruals	(8,702,351)
Contract liabilities	16,753,006
Provision	<u>581,244</u>
Total liabilities	<u><u>581,244</u></u>
Equity	
Retained profits	(1,003,689)
Statutory reserves	<u>(75,218)</u>
Total equity	<u><u>(1,078,907)</u></u>

Set out below are the amounts by which each financial statement line item was affected as at 31 December 2018 and for the year ended 31 December 2018 as a result of the adoption of HKFRS 15. The adoption of HKFRS 15 has had no impact on other comprehensive income or on the Group's operating, investing and financing cash flows. The first column shows the amounts recorded under HKFRS 15 and the second column shows what the amounts would have been had HKFRS 15 not been adopted:

Consolidated statement of profit or loss for the year ended 31 December 2018:

	Amounts prepared under		
	HKFRS 15	Previous	Increase/
	RMB'000	HKFRS 15	(decrease)
		RMB'000	RMB'000
Revenue	85,513,150	84,755,551	757,599
Cost of sales	<u>(58,638,348)</u>	<u>(57,914,415)</u>	<u>(723,933)</u>
Gross profit	<u>26,874,802</u>	<u>26,841,136</u>	<u>33,666</u>
Loss before tax	(7,350,203)	(7,383,869)	33,666
Income tax credit	<u>(400,863)</u>	<u>(463,505)</u>	<u>62,642</u>
Loss for the year	<u>(6,949,340)</u>	<u>(6,920,364)</u>	<u>(28,976)</u>
Attributable to:			
Ordinary equity holders of the parent	(6,983,662)	(6,954,686)	(28,976)
Perpetual capital instruments	417,037	417,037	—
Non-controlling interests	<u>(382,715)</u>	<u>(382,715)</u>	<u>—</u>
	<u>(6,949,340)</u>	<u>(6,920,364)</u>	<u>(28,976)</u>
Loss per share attributable to ordinary equity holders of the parent	<u>RMB(1.67)</u>	<u>RMB(1.66)</u>	<u>RMB(0.01)</u>
Basic and diluted	<u>RMB(1.67)</u>	<u>RMB(1.66)</u>	<u>RMB(0.01)</u>

Consolidated statement of financial position as at 31 December 2018:

	Amounts prepared under		
	HKFRS 15	Previous	Increase/
	RMB'000	HKFRS	(decrease)
		RMB'000	RMB'000
Inventories	25,011,416	25,735,349	(723,933)
Amount due from customers for contract works	—	6,210,576	(6,210,576)
Contract assets	8,462,226	—	8,462,226
Deferred tax assets	<u>2,787,790</u>	<u>2,850,432</u>	<u>(62,642)</u>
Total assets	<u>36,261,432</u>	<u>34,796,357</u>	<u>1,465,075</u>
Amount due to customers for contract works	—	7,636,303	(7,636,303)
Other payables and accruals	19,076,536	25,919,588	(6,843,052)
Contract liabilities	14,479,355	—	14,479,355
Provision	<u>2,167,614</u>	<u>673,563</u>	<u>1,494,051</u>
Total liabilities	<u>35,723,505</u>	<u>34,229,454</u>	<u>1,494,051</u>
Retained profits	6,983,261	7,012,237	(28,976)
Non-controlling interests	<u>3,810,735</u>	<u>3,810,735</u>	<u>—</u>
Total equity	<u>10,793,996</u>	<u>10,822,972</u>	<u>(28,976)</u>

The nature of the adjustments as at 1 January 2018 and the reasons for the significant changes in the statement of financial position as at 31 December 2018 and the statement of profit or loss for the year ended 31 December 2018 are described below:

(i) *Sale of telecommunications system contracts*

Revenue from telecommunications system contracts were previously recognized under HKAS 11 Construction Contracts, generally using the percentage of completion method. In using the percentage of completion method, revenues were 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 are identified and transaction price allocated each performance obligation is 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).

Accordingly, upon adoption of HKFRS 15, contract assets were decreased by RMB3,230,000,000, inventories and deferred tax assets were increased by RMB2,891,000,000 and RMB148,000,000 as at 1 January 2018, respectively, which resulted in an decrease in retained profits of RMB191,000,000.

As at 31 December 2018, the adoption of HKFRS 15 resulted in an increase in contract assets of RMB897,000,000 and decreases in inventories and deferred tax assets of RMB754,000,000 and RMB71,000,000, respectively, which resulted in an increase in retained profits of RMB72,000,000. Revenue and cost of sales for the year ended 31 December 2018 were also increased by RMB897,000,000 and RMB754,000,000, respectively.

(ii) Construction services

Before the adoption of HKFRS 15, contract costs were recognised as an asset provided it was probable that they would be recovered. Such costs represented an amount due from the customers and were recorded as “amount due from customers for contract works” in the statement of financial position before the construction services were billed to customers. Upon the adoption of HKFRS 15, a contract asset is recognised when the Group performs by transferring goods or services to customers and the Group’s right to consideration is conditional. Accordingly, the Group reclassified RMB9,012,000,000 from amount due from customers for contract works to contract assets as at 1 January 2018.

As at 31 December 2018, the adoption of HKFRS 15 resulted in a decrease in amount due from customers for contract works of RMB6,211,000,000 and an increase in contract assets of RMB8,462,000,000.

(iii) Consideration received from customers in advance

Before the adoption of HKFRS 15, the Group recognised consideration received from customers in amount due to customers for contract works or advance from customer which was included in other payables and accruals. Under HKFRS 15, the amount is classified as contract liabilities.

Therefore, upon adoption of HKFRS 15, the Group reclassified RMB8,702,000,000 from other payables and accruals and RMB8,050,000,000 from amount due to customers for contract works to contract liabilities as at 1 January 2018 in relation to the consideration received from customers in advance as at 1 January 2018.

As at 31 December 2018, under HKFRS 15, was reclassified RMB6,843,000,000 from other payables and RMB7,636,000,000 from amount due to customers for contract works to contract liabilities in relation to the consideration received from customers in advance for the sale of goods and services.

(iv) Other adjustments

In addition to the adjustments described above, other items of the primary financial statements such as tax and non-controlling interests were adjusted as necessary. Retained profits were adjusted accordingly.

- (d) Amendments to HKAS 40, 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 have had no impact on the financial position or performance of the Group.
- (e) HK(IFRIC)-Int 22, 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. The interpretation has had no impact on the Group's financial statements as the Group's accounting policy for the determination of the exchange rate applied for initial recognition of non-monetary assets or non-monetary liabilities is consistent with the guidance provided in the interpretation.

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 3	<i>Definition of a Business</i> ²
Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i> ¹
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> ⁴
HKFRS 16	<i>Leases</i> ¹
HKFRS 17	<i>Insurance Contracts</i> ³
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i> ²
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i> ¹
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i> ¹
HK(IFRIC)-Int 23 <i>Annual Improvements 2015–2017 Cycle</i>	<i>Uncertainty over Income Tax Treatments</i> ¹ Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23 ¹

¹ Effective for annual periods beginning on or after 1 January 2019

² Effective for annual periods beginning on or after 1 January 2020

³ Effective for annual periods beginning on or after 1 January 2021

⁴ No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

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 16, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, 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 will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. During 2018, the Group has performed a detailed assessment on the impact of adoption of HKFRS 16. The Group has estimated that right-of-use assets of RMB952,264,096 and lease liabilities of RMB952,264,096 will be recognised at 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

HK(IFRIC)-Int 23, 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 interpretation is 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 segment focuses on meeting the demands of carriers by providing wireless networks, wireline networks, core networks, telecommunications software systems and services and other innovative technologies and product solutions.
- (b) The Consumer Business segment focuses on bringing experience in smart devices to customers while also catering to the demands of industry and corporate clients through the development, production and sale of products such as smart phones, mobile broadband, family terminals, innovative fusion terminals, wearable devices, as well as the provision of related software application and value-added services.
- (c) The Government and Corporate Business segment focuses on meeting the demands of government and corporate clients, providing top-level design and consultation services as well as implementation, operation and maintenance of integrated informatisation solutions for the government and corporate informatisation projects through the application of Cloud Computing, communications networks, Internet of Things, Big Data technologies and other related 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 2018	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	57,075,772	19,209,590	9,089,781	85,375,143
Rental income	—	—	138,007	138,007
	<u>57,075,772</u>	<u>19,209,590</u>	<u>9,227,788</u>	<u>85,513,150</u>
Segment results	16,550,965	223,002	1,649,391	18,423,358
Bank and other interest income				748,810
Dividend income and unallocated gains				3,518,477
Corporate and other unallocated expenses				(27,914,845)
Finance costs				(1,328,685)
Share of profits and losses of associates and joint ventures				(797,318)
Loss before tax				<u>(7,350,203)</u>
Segment assets	38,903,524	11,734,829	6,290,953	56,929,306
Investments in joint ventures				97,650
Investments in associates				2,917,645
Corporate and other unallocated assets				69,406,148
Total assets				<u>129,350,749</u>
Segment liabilities	11,113,248	2,595,090	1,797,085	15,505,423
Corporate and other unallocated liabilities				80,884,651
Total liabilities				<u>96,390,074</u>
Other segment information:				
Impairment losses recognised in profit or loss	1,386,203	466,544	224,116	2,076,863
Depreciation and amortisation	1,673,551	563,255	270,573	2,507,379
Capital expenditure*	3,137,583	1,055,995	507,271	4,700,849
Impairment losses on financial and contract assets	2,439,451	821,029	394,401	3,654,881

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

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	9,697,937	108,682,608
Rental income	—	—	132,665	132,665
	<u>63,782,295</u>	<u>35,202,376</u>	<u>9,830,602</u>	<u>108,815,273</u>
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				<u>(128,201)</u>
Profit before tax				<u>6,718,924</u>
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				<u>73,423,127</u>
Total assets				<u>143,962,215</u>
Segment liabilities	14,148,392	4,452,436	2,180,656	20,781,484
Corporate and other unallocated liabilities				<u>77,800,584</u>
Total liabilities				<u>98,582,068</u>
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

Geographical information

(a) Revenue from external customers

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
The PRC (place of domicile)	54,444,175	61,958,643
Asia (excluding the PRC)	11,877,250	15,786,666
Africa	4,082,307	3,766,083
Europe, Americas and Oceania	<u>15,109,418</u>	<u>27,303,881</u>
	<u>85,513,150</u>	<u>108,815,273</u>

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

(b) Non-current assets

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
The PRC (place of domicile)	15,392,949	15,911,554
Asia (excluding the PRC)	1,741,804	1,217,751
Africa	540,986	263,883
Europe, Americas and Oceania	<u>953,920</u>	<u>1,447,623</u>
	<u>18,629,659</u>	<u>18,840,811</u>

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 and investments in associates.

5. REVENUE, OTHER INCOME AND GAINS

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Other income		
Bank interest income [#]	600,357	651,127
Interest income arising from revenue contracts	148,453	256,955
VAT refunds and other tax subsidies ^{##}	1,632,237	2,148,384
Dividend income from equity investments at fair value through profit or loss/available-for-sale investments	46,634	32,318
Others ^{###}	591,869	1,030,032
	<u>3,019,550</u>	<u>4,118,816</u>
Gains		
Gain on disposal of available-for-sale investments	—	438,454
Gain on disposal of subsidiaries	662,563	2,286,581
Gain on disposal of associates	—	48,710
Derivative instruments	55,901	50,962
Wealth management products	7,660	—
Fair value gains on investment properties	—	7,339
Foreign exchange gain	502,130	—
	<u>1,228,254</u>	<u>2,832,046</u>
	<u><u>4,247,804</u></u>	<u><u>6,950,862</u></u>

[#] The bank interest income for the year ended 31 December 2018 includes the interest income generated from ZTE Group Finance Company Ltd. amounting to RMB369,477,000 (2017: RMB411,891,000).

^{##} Refund of VAT on software products represents the refund upon payment of VAT with respect 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 of the state taxation authorities.

^{###} Others mainly represent government grants, contract penalty income and other miscellaneous income.

6. (LOSS)/PROFIT BEFORE TAX

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

	2018	2017
	RMB'000	<i>RMB'000</i>
Cost of goods and services	55,065,491	73,735,995
Depreciation	1,232,407	1,199,131
Recognition of prepaid land lease payments	53,733	27,993
Amortisation of intangible assets other than deferred development costs	273,213	229,556
Research and development costs:		
Deferred development costs amortised	948,026	1,146,542
Current year expenditure	11,969,500	13,431,254
Less: Deferred development costs	(2,011,942)	(1,615,551)
	10,905,584	12,962,245
Fair value losses/(gains), net*:		
Derivative instruments	(55,901)	(50,962)
Investment properties	11,810	(7,339)
Equity investments at fair value through profit or loss	913,010	—
Wealth management products	(7,660)	—
Impairment of financial and contract assets, net:		
Impairment of trade receivables	3,445,793	2,222,096
Impairment of contract assets, net	70,914	—
Impairment of other receivables	130,770	—
Impairment of debt investments at fair value through other comprehensive income	2,455	—
Impairment of amount due from customers for contract works	—	54,246
Impairment of factored trade receivables	2,853	—
Impairment of factored long-term trade receivables	2,096	—
Dividend income from equity investments at fair value through profit or loss/available-for-sale investments	(46,634)	(32,318)
Provision for onerous contract**	1,545,600	—
Provision for warranties**	363,924	527,432
Provision for legal obligation*	295,089	17,159
Cost related to the comprehensive settlement with US authorities*	6,416,700	—
Write-down of inventories to net realisable value**	884,794	130,836
Impairment of available-for-sale investments	—	97,913
Impairment of items of property, plant and equipment*	7,515	16,507

	2018	2017
	RMB'000	RMB'000
Impairment of intangible assets*	59,356	12,010
Impairment of goodwill*	123,263	—
Impairment of investments in associates*	999,680	—
Impairment of investments in joint ventures*	2,255	—
Minimum lease payments under operating leases on land and buildings	593,673	692,165
Contingent rental income in respect of operating leases	(5,689)	(23,424)
Auditor's remuneration	10,662	9,128
Staff costs (including directors', chief executives' and supervisors' remuneration):		
Wages, salaries, bonuses, allowances and welfare	14,124,797	17,919,000
Equity-settled share option expense	193,188	262,956
Retirement benefit scheme contributions:		
Defined benefit pension scheme	5,200	4,673
Defined contribution pension schemes	1,316,416	1,170,882
	15,639,601	19,357,511
Foreign exchange (gain)/loss*	(502,130)	420,001
Loss on disposal of items of property, plant and equipment*	16,450	80,492
Gain on disposal of subsidiaries	(662,563)	(2,286,581)
Gain on disposal of associates	—	(48,710)
(Gain)/losses on disposal of derivative financial instruments*	(6,147)	137,534
(Gain) on disposal of available-for-sale investments	—	(438,454)

* The fair value loss, 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, the impairment of goodwill, the impairment of investments in associates, the impairment of investments in joint ventures, 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, provision for onerous contract 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:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Interest on bank loans and other loans	<u>766,393</u>	<u>729,205</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u>766,393</u>	<u>729,205</u>
Other finance costs:		
Loss on derecognition of factored trade receivables and bills discounted	360,154	—
Loss on not derecognised of factored trade receivables and bills discounted	<u>202,138</u>	<u>428,454</u>
Total Finance costs on factored trade receivables and bills discounted	<u>562,292</u>	<u>428,454</u>
	<u>1,328,685</u>	<u>1,157,659</u>

8. INCOME TAX

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Current — Hong Kong	11,879	9,703
Current — Mainland China		
Charge for the year	649,683	701,664
Overprovision in prior years	(16,571)	(5,534)
Current — Overseas		
Charge for the year	249,918	328,180
Underprovision in prior years	44,979	28,146
Deferred	<u>(1,340,751)</u>	<u>270,423</u>
Total tax charge for the year	<u>(400,863)</u>	<u>1,332,582</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final — Nil (2017: Nil) per ordinary share	—	—
	<u> </u>	<u> </u>

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

The basic (loss)/earnings per share amount is computed by dividing the (loss)/profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 4,192,672,000 (2017: 4,189,228,000) in issue during the year.

The calculation of the diluted (loss)/earnings per share amount is based on the (loss)/profit 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 (loss)/earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares. The aforesaid issue of ordinary shares at nil consideration is anti-dilutive, hence it was not taken into account in the calculation of diluted loss per share for the year ended 31 December 2018.

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
(Loss)/Earnings		
(Loss)/Profit for the year attributable to ordinary equity holders of the parent	<u>(6,983,662)</u>	<u>4,568,172</u>
	Number of shares	
	2018 <i>'000</i>	2017 <i>'000</i>
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic (loss)/earnings per share calculation	4,192,672	4,189,228
Effect of dilution — weighted average number of ordinary shares:		
Share options	<u>—</u>	<u>30,243</u>
Adjusted weighted average number of ordinary shares in issue	<u>4,192,672</u>	<u>4,219,471</u>

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Trade receivables	34,848,034	34,765,388
Bills receivable	—	2,052,945
Impairment	<u>(12,412,280)</u>	<u>(9,175,345)</u>
	22,435,754	27,642,988
Current portion	<u>(21,592,325)</u>	<u>(26,398,228)</u>
Long-term portion	<u>843,429</u>	<u>1,244,760</u>

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is 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 ageing analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	19,058,544	22,841,186
6 to 12 months	2,117,850	2,528,908
1 to 2 years	1,126,131	1,716,792
2 to 3 years	133,229	556,102
	22,435,754	27,642,988
Current portion of trade receivables	(21,592,325)	(24,345,283)
Current portion of trade bills	—	(2,052,945)
Long-term portion	843,429	1,244,760

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

	2018	2017
	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January	9,175,345	7,786,893
Effect of adoption of HKFRS 9	23,139	—
At 1 January (restated)	9,198,484	7,786,893
Impairment losses, net	3,445,793	2,222,096
Amount written off as uncollectible	(419,730)	(781,951)
Fluctuation in exchange	187,733	(51,693)
At 31 December	12,412,280	9,175,345

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by geographical region, product type, customer type and rating, and coverage by letters of credit or other forms of credit insurance). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Group's trade receivables using a provision matrix:

As at 31 December 2018

	Within 6 months	6 to 12 months	Past due 1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	10%	21%	71%	92%	100%	36%
Gross carrying amount	21,203,394	2,664,049	3,820,353	1,603,984	5,556,254	34,848,034
Expected credit losses	2,144,850	546,199	2,694,222	1,470,755	5,556,254	12,412,280

Impairment under HKAS 39 for the year ended 31 December 2017

Included in the above provision for impairment of trade and bills receivables, which was measured based on incurred credit losses under HKAS 39, as at 31 December 2017 was a provision for individually impaired trade receivables of RMB1,796,417,000 with a carrying amount before provision of RMB2,167,312,000. The individually impaired trade receivables relate to customers that were in financial difficulties, and are not expected to be recovered or only a portion of the receivables is expected to be recovered. Trade receivables are non-interest-bearing.

An ageing analysis of the trade and bills receivables as at 31 December 2017 that were not considered to be impaired under HKAS 39 is as follows:

	2017 <i>RMB'000</i>
Neither past due nor impaired	6,249,860
Less than one year past due	<u>16,131,233</u>
	<u><u>22,381,093</u></u>

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

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
The controlling shareholder	14	—
Joint ventures	15,801	115,563
Associates	219,384	323,267
Other related companies	<u>21,447</u>	<u>239,954</u>
	<u><u>256,646</u></u>	<u><u>678,784</u></u>

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 (2017: 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:

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
Within 6 months	26,647,259	33,839,956
6 to 12 months	385,737	272,723
1 to 2 years	198,519	252,918
2 to 3 years	169,568	66,953
Over 3 years	42,021	30,517
	<u>27,443,104</u>	<u>34,463,067</u>

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

	2018 <i>RMB'000</i>	2017 <i>RMB'000</i>
The controlling shareholder	8,514	41,437
Joint ventures	—	9,231
Associates	216,129	1,069,476
Other related companies	31,028	39,524
	<u>255,671</u>	<u>1,159,668</u>

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.