ZTE 中兴通讯股份有限公司
ZTE CORPORATION

stock code : 000063.SZ 763.HK

Annual Report 2018

Important

The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of the Company warrant that the contents of this report are true, accurate and complete without any false information, misleading statements or material omissions, and collectively and individually accept responsibility therefor.

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

This 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.

The respective financial statements of the Group for the year ended 31 December 2018 were prepared in accordance with PRC Accounting Standards for Business Enterprises and with Hong Kong Financial Reporting Standards 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.

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.

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 this report.

No profit distribution is proposed by the Company for 2018. The aforesaid matter shall require consideration and approval at the general meeting.

This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. Investors should beware of investment risks. The attention of investors is drawn to the section headed "Report of the Board of Directors (VI) Business outlook of 2019 and risk exposures", which contains a description of the potential risks inherent in the operations of the Company.

This report has been prepared in Chinese and English respectively. In case of discrepancy, the Chinese version shall prevail, except for the financial report prepared in accordance with Hong Kong Financial Reporting Standards, for which the English version shall prevail.

China Securities Journal, Securities Times, Shanghai Securities News and http://www.cninfo.com.cn are designated media for the Company's information disclosure. Investors are asked to beware of investment risks.

Contents

Definitions

In this report, unless the context otherwise requires, the following terms shall have the meanings set out below. Certain other terms are explained in the section headed "Glossary".

Company or ZTE	ZTE Corporation, a limited company incorporated in China, the shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively
Articles of Association	The Articles of Association of ZTE Corporation
Company Law	Company Law of the People's Republic of China
Securities Law	Securities Law of the People's Republic of China
Group	ZTE and one or more of its subsidiaries
Board of Directors	The board of directors of the Company
Directors	Members of the board of directors of the Company
Supervisory Committee	The supervisory committee of the Company
Supervisors	Members of the supervisory committee of the Company
China or PRC	The People's Republic of China
MOF	PRC Ministry of Finance
CSRC	China Securities Regulatory Commission
Shenzhen CSRC	The CSRC Shenzhen Bureau
Shenzhen Stock Exchange	The Shenzhen Stock Exchange
Shenzhen Listing Rules	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
PRC ASBEs	PRC Accounting Standards for Business Enterprise (Generally accepted accounting principles in China)
HKFRSs	Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards ("HKASs") and Interpretations)
ZTE HK	ZTE (H.K.) Limited
Nubia	Nubia Technology Limited

Definitions

ZTEsoft	ZTEsoft Technology Co., Ltd. (renamed as "Whale Cloud Technology Co., Ltd.")
Zhongxing Software	Shenzhen Zhongxing Software Company Limited
Great Power	Guangzhou Great Power Energy & Technology Co., Ltd.
Eoptolink	Eoptolink Technology Inc., Ltd.
Giga Device	Giga Device Semiconductor (Beijing) Inc.
Laimu	Shanghai Laimu Electronics Co., Ltd.
Olympic Circuit Technology	Olympic Circuit Technology Co., Ltd.
Mentech Optical	Dongguan Mentech Optical & Magnetic Co., Ltd
Lianchuang Electronic	Lianchuang Electronic Technology Co., Ltd.
Shijia Science & Technology	Suzhou Shijia Science & Technology Inc.
Enablence Technologies	Enablence Technologies Inc.
Union Optech	Union Optech Co., Ltd.
ZTE Capital	Shenzhen ZTE Capital Management Company Limited
Zhonghe Chunsheng Fund	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (Limited Partnership)
Jiaxing Fund	Jiaxing Xinghe Equity Investment Partnership (Limited Partnership)
Medium Term Note(s) or perpetual capital instruments	Perpetual Medium Term Notes
Zhongxingxin	Zhongxingxin Telecom Company Limited
Zhongxing Hetai	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
航天歐華	深圳市航天歐華科技發展有限責任公司
Xi'an Microelectronics	Xi'an Microelectronics Technology Research Institute
Aerospace Guangyu	Shenzhen Aerospace Guangyu Industrial Company Limited
Zhongxing WXT	Shenzhen Zhongxing WXT Equipment Company Limited
Guoxing Ruike	Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership)
ZTE Group Finance	ZTE Group Finance Co., Ltd.

Definitions

ZTE Microelectronics	ZTE Microelectronics Technology Company Limited
2017 Share Option Incentive Scheme	the share option incentive scheme considered and approved at the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 of the Company
Latest Practicable Date	1 April 2019, being the latest practicable date for the purpose of ascertaining the contents of this report prior to its printing

Glossary

This glossary contains definitions of certain technical terms used in this report as they relate to the Group. Some of these definitions may not correspond to standard industry definitions or usage.

4G	Fourth-generation mobile networks operating according to IMT-Advanced standards as defined by ITU, including LTE-Advanced and Wireless MAN-Advanced (802.16m) standards, which support theoretical download rates of 1Gbit/s at fixed locations and 100Mbit/s in motion.
4K	A video device having a resolution of 3840*2160, which is 4 times the resolution of a 2K video.
5G	Fifth-generation mobile communications, which is a general reference to the ensemble of post-4G broadband wireless communication technologies. The general view of the industry is that 5G is capable of providing faster data throughput (1,000 times faster than currently available) and more connections (100 times more than currently available), more efficient utilisation of energy (10 times of the current level of efficiency) and shorter end-to-end time delay (1/5 of the current length of time delay). It goes beyond human-to-human communication to cover a wide range of applications such as ultra-intensive networks, machine-to-machine communication and the internet of vehicles.
CDN	Content Delivery Network, a network structure capable of redirecting on a real-time basis a user's request to the closest service node available to such user based on network flow and information of various service nodes such as connection, load, distance from the user and response time.
IaaS	Infrastructure as a Service, the service that makes available the capacities of IT infrastructures (such as servers, storage and computation) to users through the Internet, the billing of which is based on the actual usage of such resources by the users.
ICT	New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology).
IDC	Internet Data Center, the venue where server groups of hosting corporations, tenants or websites are managed; it is the infrastructure facility underpinning the secure operation of various types of e-commerce activities, as well as a platform that supports value chain management by a corporation and its business alliance (such as distributors, suppliers and customers). IDC provides ICPs, corporations, media and websites with large-scale specialised server management service, space leasing, network bandwidth wholesale, as well as ASP and EC services which are safe and reliable and of high quality.
IPTV	Internet Protocol Television is a new technology that utilises the broadband cable TV network and integrates Internet access, multimedia and communications in one device, providing a variety of interactive services, such as digital TV, to home users.
LoRa	A communication technology to create low-power WANs for IOT applications, which is an ultra-long distance wireless transmission solution based on frequency expansion adopted and promoted by Semtech of the United States. Featuring long-distance transmission, long battery life, large capacity and low cost, it is applicable mainly to license-free frequency bands.

Glossary

LTE — Long Term Evolution, referring to fourth-generation mobile communication technologies with OFDM as its core technology, promoted by 3GPP and under continuous evolution. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE of frequency division and TDD-LTE of time division. The mixed operation of FDD-LTE and TDD-LTE is supported. In terms of networking, its supports homogeneous networks formed by macro base stations as well as heterogeneous networks formed by macro base stations and micro base stations.

NB-IoT — Narrow Band Internet of Things, a 3GPP-defined LPWAN standard applicable to 3GPP licensed frequency bands specifically designed for IOT connection. It mainly features: 1) connection by massive number of users; 2) substantially stronger coverage compared to traditional cellular network; 3) low power consumption; 4) simplified and optimised radio frequency that reduces cost for end-users.

NFV — Network Function Virtualisation, a solution for the construction of telecommunication network units using common servers and storage and network equipment promoted by NFV ISG, a group set up by the European Telecommunications Standards Institute (ETSI) in November 2012. NFV is generally perceived as consisting of three stages: first, implementation of network units through virtualisation technologies; second, deployment on cloud to realise centralisation and cloud-based operation; third, the breakdown of NFV network units into components by function, so that flexible network unit functions are facilitated through different configurations of components.

OTN — Optical Transport Network, a transmission network formed at the optical layer based on the wavelength-division multiplexing technology. OTN is a "digital transmission system" and "optical transmission system" regulated by a range of ITU-T recommendations such as G.872, G.709 and G.798, purporting to solve the problems of traditional WDM networks, such as poor modulation in the no-wavelength/sub-wavelength services, weak network formation and weak protection.

PaaS — Platform as a Service, the provision of services relating to the deployment of and operating environment for software based on cloud computing infrastructure facilities. It is capable of supplying resources required for flexible execution of application procedures and billing is based on actual usage.

PON — Passive Optical Network, a network that provides optical access services to users through the use of passive optical network technology and facilitates conservation of optical fibre resources on the main line through the adoption of a point-to-multipoint topological structure. It also offers flow management and security control functions. PON can be distinguished into FTTH, FTTDp, FTTB and FTTC, etc based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON, etc based on different standards.

Pre-5G — The adoption of the 5G technology without modifying existing air interfaces standards, providing in advance a 5G-like user experience on existing terminals.

PTN — Packet Transport Network, a network commonly using the MPLS-TP technology, designed to cater to the sudden nature of packet flow and the requirement for statistical multiplexing transmission and support multiple services provision with packet services as core services. PTN offers the advantage of lower total cost of use, while inheriting the traditional strengths of optical transmission, such as availability and reliability, efficient bandwidth management and flow, convenient OAM and network management, scalability and higher security

Glossary

RCS	Rich Communication Suite, which helps carriers to develop the integrated ICT communications network business with the database of users' social connections, leveraging their strengths in network communications. By enabling manufacturers and corporations on the Internet to cooperate through integrated communication, RCS integrates existing VoIP and IM channels into an integrated communications network and accumulates assets relating to users' information, thereby adding value to data flow on the Mobile Internet.
SaaS	Software as a Service, an application model for the provision of Internet-based software services that offers commercial services to users at lower costs and eliminates problems of installation, management, support and license, etc relating to the use of software, enabling users to experience services similar to those provided through local operations.
SDN	Software Defined Network is a new network structure that transforms a closed-end telecommunication equipment accommodating hardware and software into a novel architecture that features central control, open access and programmable software by separating the control face and the data face.
WDM	Wavelength Division Multiplexing, a technology that transmits a number of laser signals with different wavelengths simultaneously on a single optical fiber using multiple lasers, resulting in the exponential increase of the transmission capacity of optical fiber.
Big bandwidth	Higher bandwidth requirements for networks to facilitate Big Video, such as 50M bandwidth required by standard 4K, such that carriers are required to provide greater bandwidth to video users as compared to traditional video services.
Big Data	A data set that is too large and complex to be processed by existing conventional database management technologies and tools, and that requires the use of new data processing and management technologies in order to create value from the set in a speedy and economic manner. It has revolutionary long-term implications for the development of informatisation, smart applications and business models of the society. Big Data is often characterised by 4Vs: Volume, Variety, Velocity and Value.
Big Video	Ultra-high-definition videos such as 4K/8K/VR/AR, as opposed to standard-definition and high-definition videos, which feature richer contents and more exacting requirements for channels, signifying the big video era for the video business.
Distributed database	A logically coherent database formed by the interconnection of multiple data storage units located in different physical locations using a high-speed computer network, so as to enable larger storage capacity and higher volume of simultaneous visits.
Core network	Mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility.
Wearable devices	A new form of terminal device featuring the integration of software and hardware worn on the human body, capable of ongoing exchange and a considerable level of computation. It is a product arising from the ongoing developments of communications technologies, computer technologies and micro-electronic technologies under the computational concept of the "priority of people" and "human + machine unification." It may come in the form of watches, bracelets, spectacles, helmets and footwear, etc.

Glossary

AI	Artificial Intelligence, the use of machine to aid or replace human in doing certain tasks by simulating the sight, hearing, senses and thinking of human.
Data centre	An Internet-based infrastructure centre that operates and maintains equipment for centralised collection, storage, processing and dispatch of data, and provides related services.
IOT	Internet Of Things, a massive network connecting all sorts of information sensory devices, such as radio frequency identification units, ultra-red sensors, global positioning systems and laser scanners, to the Internet with the aim of connecting all things to the network for easy identification and management.
Virtual Reality or VR	A virtual 3D environment created with the aid of the computer system and sensor technologies, providing the visual experience of a highly simulated reality and immersive human-machine interaction by engaging all senses of users (sight, sound, touch and smell).
Cloud Computing	The concept underlining the fusion of traditional computing technologies such as grid computation and distributed computation with network technology development. The core idea is to centralise the management and modulation of massive computing resources connected through the network, forming a pool of computing resources that serve users on an as-needed basis. Cloud Computing is applied in business models such as SaaS, PaaS and IaaS.
Intelligent manufacturing	An integrated intelligent system comprising intelligent machines and human experts which is capable of intelligent activities such as analysing, inferring, making judgments, postulating and making decisions in the manufacturing process, such that manufacturing automation can reach a higher level in terms of flexibility, intelligence and intensification.
Augmented Reality or AR	A technology that superimposes virtual objects not existing in reality onto the real world through 3D registration and “aug-mediation”, facilitating a natural interaction between virtual objects and the reality to create faked reality with real-time images, which are further projected to end-to-end technologies and devices of other media via monitoring devices.

Company Profile

The Company is a leading integrated telecommunications equipment manufacturer in the world market and a provider of integrated global telecommunications solutions, with shares listed on the main board of the Shenzhen Stock Exchange and the main board of the Hong Kong Stock Exchange.

In November 1997, the Company conducted an initial public offering of A shares for listing on the main board of the Shenzhen Stock Exchange. In December 2004, the Company conducted an initial public offering of H shares for listing on the main board of the Hong Kong Stock Exchange, becoming the first A-share company to be listed on the main board of the Hong Kong Stock Exchange.

The Group is dedicated to the provision of ICT products and solutions that satisfy the needs of customers, integrating design, development, production, sale and services with a special focus on carriers' networks, government and corporate business and consumer business.

The Group is one of the major telecommunications equipment suppliers in China's telecommunications market and has also succeeded in gaining access to the international telecommunications market with respect to each of its major product segments. The Group has achieved a leading market position for its various telecommunications products in China with longstanding business ties with China's major telecommunications service providers, such as China Mobile, China Telecom and China Unicom. With respect to the global telecommunications market, the Group has provided innovative technology and product solutions to telecommunications service providers and government and corporate network clients in numerous countries and regions, making contributions to facilitate communications via multiple means, including voice, data, multi-media,wireless broadband and cable broadband, for users all over the world.

Corporate Information

1	Legal name (in Chinese) Chinese abbreviation Legal name (in English) English abbreviation	中興通訊股份有限公司 中興通訊 ZTE Corporation ZTE
2	Legal representative	Li Zixue
3	Secretary to the Board of Directors/ Company Secretary	Cao Wei
	Securities affairs representatives	Xu Yulong
	Correspondence Address	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, The People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	IR@zte.com.cn
4	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
	Website	http://www.zte.com.cn
	E-mail	IR@zte.com.cn
	Principal place of business in Hong Kong	31/F, Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong
5	Authorised representatives	Gu Junying Cao Wei
6	Media designated for information disclosure by the Company	China Securities Journal, Securities Times, Shanghai Securities News
	Authorised websites on which this report is made available	http://www.cninfo.com.cn http://www.hkexnews.hk
	Place where this report is available for inspection	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, The People's Republic of China
7	Listing information	**A shares** Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063 **H shares** Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763
8	Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Corporate Information

9	Legal advisers	
	As to Chinese law	Beijing Jun He Law Offices 20th Floor, China Resources Building, Beijing, The People's Republic of China
	As to Hong Kong law	Paul Hastings 21–22/F, Bank of China Tower, 1 Garden Road, Hong Kong
10	Auditors	
	PRC	Ernst & Young Hua Ming LLP Level 16, Ernst & Young Tower Oriental Plaza, No. 1 East Chang An Avenue Dongcheng District, Beijing, The People's Republic of China Signing Accountants: Liao Wenjia, Ma Jing
	Hong Kong	Ernst & Young 22/F, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong
11	Information on change in registration	☐ Applicable ✓ N/A
	Uniform Social Credit Code	9144030027939873X7

Since its initial public offering of A shares and listing on the main board of the Shenzhen Stock Exchange, there has been no change to the principal business and controlling shareholder of the Company.


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Chairman's Statement

DEAR SHAREHOLDERS,

I hereby present the annual report of the Group for the year ended 31 December 2018, and would like to express, on behalf of the Board of Directors, our sincere gratitude to all shareholders for their concern and support for ZTE.

OPERATING RESULTS

For 2018, the Company reported operating revenue of RMB85.51 billion, representing decrease of 21.41% as compared with the previous year. The Group's net profit attributable to holders of ordinary shares of the listed company for 2018 amounted to RMB-6.98 billion, representing decrease of 252.88%. Basic earnings per share was 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 by the Company.

For 2018, the Group's operating revenue from the domestic market and the international market amounted to RMB54.44 billion and RMB31.07 billion, respectively.

BUSINESS DEVELOPMENT

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 networks. The 4G network further penetrated the market to become the dominant network for mobile broadband communication.

In connection with the domestic market in 2018, 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. In connection with the international market, 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.

CORPORATE GOVERNANCE

In 2018, in order to enhance internal control, improve the Company's operational management standard and risk aversion ability and safeguard its assets security, compliance and effective operation, the Company has established a reasonable and effectively operating internal control regime in accordance with provisions of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies, Basic Rules for Corporate Internal Control and other pertinent laws, regulations and regulatory documents.

Chairman's Statement

SUSTAINABLE DEVELOPMENT

We constantly update ourselves with the latest ideas and standards in sustainable development and seek in-depth understanding of the demands of our stakeholders, so as to incorporate sustainable development into our corporate strategies and enhance our fulfilment of corporate social responsibility in a continuous manner. In 2018, the Group confirmed an updated version of its vision and mission and updated to provide a better interpretation for the corporate social responsibility it ought to undertake and the social value it ought to achieve. The new vision is represented by the "to enable communication and trust everywhere", underlining the Group's commitment to the provision of omnipresent communication services to people in every corner of the world, so that all could benefit from the convenience and efficiency of communication. The new mission is to "connect the world via our network and usher in the future through innovation", underpinning the Group's dedication to the construction of network infrastructure facilities across the globe and drive synergetic development of the entire industry chain through innovation. The Group is committed to creating and enhancing value for customers and partners and facilitating the transformation of the society based on smart operations as well as its own sustainable development through ongoing proprietary innovations, in a persistent drive for research, development and innovation as its core activity. We emphasise the breaking of internal barriers and the motivation of staff so that their talents and capabilities can be brought into full play in a workplace underpinned by equality and respect. Environmental protection is practiced in every stage and segment of our operation and throughout the entire life cycle of our products. New products and services with higher commercial value and eco-efficiency are being launched on an ongoing basis in a scientifically rigorous manner. We help to improve the quality of life in general, as we enhance the ability of people of different places to build a digitalised society by applying our expertise and strengths in the communications sectors to eliminate digital gaps. The Group's efforts in sustainable development and corporate social responsibility have been widely recognised by governments, international bodies and the media.

OUTLOOK

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 2019, the Group will continue to pursue proprietary innovations in core technologies as it seeks to lead 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.

Li Zixue
Chairman

Shenzhen, PRC
28 March 2019


MEDICAL
MEDICAL
MEDICAL

Health Care
Doctor
Hospital
Pharmacist
Nurse
Dentist
First Aid
Surgeon
Emergency
MEDICAL
Technology
Innovation
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Cytosine

Major Events of the Group

2018

March	2018	ZTE Retains Top 3 in PCT International Patent Application for 8th Consecutive Year, with more than 1700 5G Patents Field Worldwide
March	2018	ZTE teamed up with China Telecom and Baidu to complete China's first unmanned driving test based on the 5G network in a real-life setting in Xiongan New Area, Hebei.
September	2018	ZTE joined forces with China Telecom to make the first call via the 5G core network based on three-layer decoupling and the SA structure ahead of peers in the industry.
September	2018	ZTE disclosed more than 1000 groups of 3GPP 5G SEP (standard essential patents) to ETSI (European Telecommunications Standards Institute) in its first submission.
September	2018	ZTE completed numerous tests in the third-stage research and experimentation of China's 5G technologies with excellent results.
October	2018	ZTE cooperated with Guangdong Mobile to provide full wireless coverage for the Hong Kong-Zhuhai-Macau Bridge which is capable of accommodating the network coverage requirements of typical GSM, TDD-LTE, international roaming FDD-LTE, NB-IoT and the future 5G.
November	2018	Guangdong Unicom worked with ZTE and other industry partners to display 5G-based innovative applications, such as experiential cars, unmanned driving, 16-channel HDTV, AR forum and cloud-rail train, among others, in a joint effort to drive innovative 5G experiments, commence research on showcase 5G applications and business incubation, speed up 5G commercialisation and the coordinated development for the industry chain, aiming to build a new ecosphere of 5G cooperation.
November	2018	ZTE joined forces with China Mobile to complete the first-phase infield tests of the SA structure-based 5G core network ahead of peers in the industry.
December	2018	ZTE completed NSA end-to-end modulation between 5G terminals and the system.

Highlights of Accounting Data and Financial Indicators

(I) 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 MOF announced a series of amendments to PRC Accounting Standards for Business Enterprises (hereinafter referred to as the "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 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 Hong Kong Financial Reporting Standards ("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.

Highlights of Accounting Data and Financial Indicators

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.

(II) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP FOR THE PAST THREE YEARS PREPARED IN ACCORDANCE WITH PRC ASBEs

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

Highlights of Accounting Data and Financial Indicators

Major accounting data of 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.

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 (RMB/share) Note 1	**(1.67)**	1.09	(253.21%)	(0.57)
Diluted earnings per share (RMB/share) Note 2	**(1.67)**	1.08	(254.63%)	(0.57)
Basic earnings per share after extraordinary items (RMB/share) 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 (RMB/share) Note 3	**(2.20)**	1.72	(227.91%)	1.26

Highlights of Accounting Data and Financial Indicators

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 (RMB/share) 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.

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 gains	**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)

Highlights of Accounting Data and Financial Indicators

(III) MAJOR FINANCIAL INFORMATION AND FINANCIAL INDICATORS OF THE GROUP FOR THE PAST FIVE YEARS PREPARED IN ACCORDANCE WITH HKFRSs

1. Major financial information of the Group for the past five years prepared in accordance with HKFRSs

Unit: RMB in millions

Results	Year ended 31 December				
	2018	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)**	(76,116.5)	(71,312.5)	(70,968.3)	(57,634.0)
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)**	(3,184.9)	(8,651.0)	(2,347.7)	(1,582.3)
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)**	(128.2)	45.2	63.3	(53.0)
Profit/(loss) before tax	**(7,350.2)**	6,718.9	(767.8)	4,303.5	3,538.3
Income tax expense	**400.9**	(1,332.6)	(640.1)	(563.2)	(810.6)
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**	(316.8)	(448.2)	(115.8)	(94.1)
Attributable to:					
Perpetual capital instruments	**(417.0)**	(501.3)	(501.3)	(416.6)	—
Attributable to:					
Holders of ordinary shares of the parent company	**(6,983.7)**	4,568.2	(2,357.4)	3,207.9	2,633.6

Unit: RMB in millions

Assets and liabilities	As at 31 December				
	2018	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	**3,810.6**	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

Highlights of Accounting Data and Financial Indicators

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) Note 1	**(1.67)**	1.09	(0.57)	0.78	0.64
Net assets per share (RMB/share) Note 2	**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 2014 has been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve.

(IV) 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.

Summary of the Company's Business

I. 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.

II. 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".

III. MAJOR ASSETS

There was no significant change in the major assets of the Group during the year. For an analysis of the Group's assets and liabilities, please refer to the section headed "Report of the Board of Directors — (II). Discussion and Analysis of Operations under PRC ASBEs 7. Analysis of the Group's assets and liabilities" in this report.

IV. TECHNOLOGICAL INNOVATION

In 2018, the Group persisted in vigorous investigations in new technologies with an innovation-driven approach, as it forged closer cooperation with its partners in a more open-minded manner while sustaining investments in the R&D of core areas such as 5G wireless, core network, bearer, access and chips.

Summary of the Company's Business

In connection with wireless products, the Group commenced 5G cooperation with 30 global carriers and maintained its leading position among its peers in the implementation of 5G commercial network with critical technologies, having dispatched approximately 10,000 Massive MIMO stations. More than 400 commercial and PoC cases were established in connection with NFV, while we continued to stay atop in the industry in terms of technological innovations and applications such as Common Core network, end-to-end network slicing and edge computing. In the 5G review report entitled "Review of 5G Technology readiness and commercialization" published by Global Data in October 2018, ZTE's 5G RAN, 5G Core and transmission network products were all included in the leader's quadrant. In NB-IoT, we were among the best in terms of overall technological competitiveness. In 2018, we provided NB-IoT network services to China Unicom, China Mobile and China Telecom.

In wireline products, the Group reported improving competitiveness in 5G bearer, optical communication, digital communication, optical access and home information terminal. We were ahead of our peers in terms of core technical indicators and progress in trial commercialisation for 5G bearer. Large-scale deployment of our flagship optical access product, an all-rounded market leader in terms of capacity, integration level and structure, has commenced. Our optical network products also led the market in terms of transmission properties, as we broke the record of distance covered for 400G ultra-long distance high-speed land transmission in the wave division single carrier wave 400G testing hosted by China Mobile. In Thailand, we were the only company completing upgrade of the 200G non-electric relay optical transmission network.

In connection with the government and corporate business and the energy sector, our uSmartCloud platform solution was serving more than 300 commercial bureaus in the world, providing business support to users on the back of its flexibility, versatility, efficiency and security. The Group has become the world's most successful Chinese company in communication energy, as well as an integrated network energy solution provider with global servicing capabilities. In the communication energy sector, the Group ranked first in market share for domestic carriers' inventory for 10 years in a row. It was also a pioneer in green smart data centres in the data centre business and a leading supplier in charger modules. As at the end of 2018, the energy products of the Group served 386 carriers in over 160 countries and regions around the world and over 260 data centre clients.

In the video business, ZTE has pioneered in the proposition of ultra-video, ushering in a new era of the video business featuring extreme speed, definition and intelligence with the support of 5G and AI. In 2018, ZTE presented the proprietary controllable HD conference terminal based its own video processing chip manufactured entirely with domestically made components. With the integration of advanced smart video technologies, 5G technologies and AI, ZTE introduced an innovative application for unmanned search in Xiongan New Area.

In industrial 5G applications, the Group launched showcase 5G innovations in vertical sectors such as Big Video, Internet of Vehicles, Industrial Internet and smart power network in association with carriers and partners, as it enhanced strategic cooperation with partners in key vertical sectors in a joint effort to advance the research and development of industrial 5G applications.

As at 31 December 2018, the Group had applied for more than 73,000 patents, including over 35,000 patents granted in various countries and over 3,000 patents relating to 5G strategic deployment.

The Group holds memberships with more than 70 international standardisation organisations and forums, including the ITU (International Telecommunication Union), 3GPP (3rd Generation Partnership Project), IEEE (Institute of Electrical and Electronics Engineers), NGMN (Next Generation Mobile Network), CCSA (China Communications Standards Association) and ETSI (European Telecommunication Standard Institute), as well as convenorships and presenter roles at major international standardisation organisations through more than 30 experts among its staff. We have presented over 45,000 research papers in aggregate to international standardisation organisations, including more than 7,000 propositions on 5G NR/NexGenCore international standards.

Summary of the Company's Business

The Group has also been a key participant and contributor in the research of 5G technologies and standards. We have disclosed more than 1,200 groups of 3GPP 5G SEP (standard essential patents) to ETSI (European Telecommunications Standards Institute) in our first submission. At 3GPP, an important international standardisation organisation for the formulation of 5G technical standards, we have been the vice-chairperson for RAN3 and presenter of a number of technical standards such as NOMA (Non Orthogonal Multiple Access). 2-Step RACH, CoMP, ATSSS and 5G slicing enhancement. We has been assigned chief editorships for a number of technical standards, such as NR multiple connection, NG-RAN data transmission and NR electromagnetic compatibility. At IEEE, we have been chairperson of the NGV work group for next-generation Internet of Vehicles, ad hoc chairperson of IEEE-SA and member of the NesCom. At CESI (National Information Technology Standardisation Committee), we have been chairing the WPAN work group. At ITU-T SG15, we have served as WP3 chairperson to promote technical standards for 5G packet transmission and optical transmission, and have been assigned chief editorships for technical standards, such as transmission network media structure and management. The Group collaborated with China Mobile in the successful listing of the 5G bearer SPN international standard on ITU-T SG15, marking the international standardisation of the new technology regime for the optical transmission network.

In 2018, projects in which the Group participated received numerous awards, including: the "National Technological Progress Award — Class II Award" for "Technology for ultra-large volume optical access with efficient integration and applications", the "China Institute of Communications Class I Technological Progress Award" for the "Research and application of key technologies for APT attack testing" and the "R&D, standardisation and application of key 3D-MIMO technologies and products", and the "The Chinese Institute of Electronics Class I Technological Progress Award" for "Key technology for wireless access network microwave circuit and applications".


Social Network
Email
Website
VDO
DIGIT
MARKET


SEO
TAL
TING
Mobile

Report of the Board of Directors

The Board of Directors is pleased to present its audited operating results report together with the financial statements of the Group for the year ended 31 December 2018.

BUSINESS OF THE GROUP

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.

FINANCIAL RESULTS

Please refer to page 142-143 and page 330 of this report for the results of the Group for the year ended 31 December 2018 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

FINANCIAL SUMMARY

Set out on pages 20-22 of this report are the results and financial position of the Group for the three financial years ended 31 December 2018 prepared in accordance with the PRC ASBEs.

Set out on page 23-24 of this report are the results and financial position of the Group for the five financial years ended 31 December 2018 prepared in accordance with HKFRSs, which have been extracted from the respective financial statements of the Group for each of the five financial years ended 31 December 2014, 2015, 2016, 2017 and 2018 prepared in accordance with HKFRSs.

(I) 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 on 9 May 2018 by the Company.

Report of the Board of Directors

(1) 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.

(2) 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 our 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 (II) headed "Discussion and Analysis of Operations under PRC ASBEs" and section (III) headed "Management Discussion and Analysis under HKFRSs" in this chapter.

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 this report.

Report of the Board of Directors

(II) 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 this report.

1. Breakdown of indicators by industry, business segment and region for the year 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%**	**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					
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 "(XVI) EXPLANATORY STATEMENT ON CHANGES TO THE SCOPE OF CONSOLIDATION FINANCIAL STATEMENT IN COMPARISON WITH THE PREVIOUS ANNUAL FINANCIAL REPORT" in this report. 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.

2. Breakdown of the Group's costs by principal items

Unit: RMB in millions

		2018		2017		
Industry	**Item**	**Amount**	**As a percentage of operating costs**	Amount	As a percentage of operating costs	Year-on-year increase/ decrease
Manufacturing of communication equipment	Raw materials	**44,454.6**	**77.49%**	61,144.5	81.52%	(27.30%)
	Engineering costs	**11,142.0**	**19.42%**	11,789.1	15.72%	(5.49%)
	Total	**55,596.6**	**96.91%**	72,933.6	97.24%	(23.77%)

3. Breakdown of the Group's expenses by principal items

Unit: RMB in millions

Item	**2018**	2017	Year-on-year increase/decrease
Selling and distribution expenses	**9,084.5**	12,104.4	(24.95%)
Administrative expenses	**3,651.5**	3,057.2	19.44%
Finance costs	**280.6**	1,043.5	(73.11%)[Note 1]
Income tax	**(400.9)**	1,332.6	(130.08%)[Note 2]

Note 1: Attributable mainly to exchange gain owing to exchange rate fluctuations for the period versus exchange loss for the same period last year;

Note 2: Attributable mainly to the Company's recognition of deferred tax assets deductible against loss.

4. Research and development expense of the Group

Item	**2018**	2017	Year-on-year increase/decrease
Headcount of R&D personnel	**25,969**	28,942	(10.27%)[Note 1]
R&D personnel as a percentage of total headcount	**38.06%**	38.71%	Decreased by 0.65 percentage points
Amount of R&D expense (RMB in million) [Note]	**10,905.6**	12,962.2	(15.87%)
R&D expense as a percentage of operating revenue	**12.75%**	11.91%	Increased by 0.84 percentage points
Amount of capitalised R&D expense (RMB in million)	**2,011.9**	1,615.6	24.53%
Capitalised R&D expense as a percentage of R&D expense	**18.45%**	12.46%	Increased 5.99 percentage points

Note 1: Attributable mainly to the change in scope of consolidation following the disposal of subsidiaries for the period.

5. Breakdown of the Group's cash flow

Unit: RMB in millions

Item	2018	2017	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**101,566.9**	127,065.0	(20.07%)
Sub-total of cash outflows from operating activities	**110,782.3**	119,845.0	(7.56%)
Net cash flows from operating activities	**(9,215.4)**	7,220.0	(227.64%)[Note 1]
Sub-total of cash inflows from investing activities	**6,322.2**	3,897.5	62.21%
Sub-total of cash outflows from investing activities	**7,287.9**	8,832.1	(17.48%)
Net cash flows from investing activities	**(965.7)**	(4,934.6)	80.43%[Note 2]
Sub-total of cash inflows from financing activities	**29,304.5**	35,250.8	(16.87%)
Sub-total of cash outflows from financing activities	**28,416.4**	37,010.5	(23.22%)
Net cash flows from financing activities	**888.1**	(1,759.6)	150.47%[Note 3]
Net increase in cash and cash equivalents	**(8,975.2)**	59.5	(15,184.37%)

Note 1: Attributable mainly to the decrease in cash received from the sales of goods and provision of labour services and the USD1 billion penalty and the additional suspended USD400 million penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018;

Note 2: Attributable mainly to the increase in cash received for the disposal of investment;

Note 3: Attributable mainly to the decrease in cash paid for the repayment of debts.

For an explanation of reasons for the difference between net cash flows from operating activities and net profit of the Group for the year, please refer to Note V 58 Supplemental information on the cash flow statement to the financial statements prepared under PRC ASBEs.

6. 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.

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7. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in millions

Item	As at 31 December 2018 Amount	As at 31 December 2018 As a percentage of total assets	As at 31 December 2017 Amount	As at 31 December 2017 As a percentage of total assets	Year-on-year increase/ decrease in percentage of total assets (percentage points)
Total assets	**129,350.7**	**100%**	143,962.2	100%	—
Cash	**24,289.8**	**18.78%**	33,407.9	23.21%	(4.43)
Bills and trade receivables	**21,592.3**	**16.69%**	26,398.2	18.34%	(1.65)
Inventory	**25,011.4**	**19.34%**	26,234.1	18.22%	1.12
Investment properties	**2,012.0**	**1.56%**	2,023.8	1.41%	0.15
Long-term equity investments	**3,015.3**	**2.33%**	3,960.6	2.75%	(0.42)
Fixed assets	**8,898.1**	**6.88%**	8,694.5	6.04%	0.84
Construction in progress	**1,296.0**	**1.00%**	1,473.0	1.02%	(0.02)
Short-term loans	**23,739.6**	**18.35%**	14,719.0	10.22%	8.13
Long-term liability due within one year	**1,243.7**	**0.96%**	3,816.8	2.65%	(1.69)
Long-term loans	**2,366.6**	**1.83%**	3,002.1	2.09%	(0.26)

(2) Assets and liabilities at fair value

① Items relating to fair value measurement

Unit: RMB in thousands

Item	Opening balance	Gains/ losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Amount purchased for the period	Amount disposed of for the period	Closing balance
Financial assets							
1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	4,023,501	(905,350)	—	—	1,520,000	2,036,229	2,979,322
2. Derivative financial assets	116,794	104,268	7,055	—	—	—	228,117
3. Other debt investments	—	—	—	—	—	—	—
4. Other investments in equity instruments	—	—	—	—	—	—	—
Sub-total of financial assets	4,140,295	(801,082)	7,055	—	1,520,000	2,036,229	3,207,439
Investment properties	2,023,809	(11,810)	—	—	—	—	2,011,999
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	**6,164,104**	**(812,892)**	**7,055**	**—**	**1,520,000**	**2,036,229**	**5,219,438**
Financial liabilities Note	49,830	(48,367)	(3,135)	—	—	—	101,332

Note: Financial liabilities comprise trading financial liabilities.

Assets of the Company are stated at historical costs, except for derivative financial instruments, equity investments and debt investments at fair value through profit and loss, and trade receivables at fair value through other comprehensive income, investment properties, which are measured at fair value.

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There was no material change to the measurement attributes of the principal assets of the Company during the year.

(3) For details of assets of the Company subject to restrictions in ownership or use as at the end of the year, please refer to Note V.59 "Assets subject to restrictions in ownership or use" to the financial reports prepared under PRC ASBEs.

8. Major customers and suppliers

The Company provides comprehensive services to mainstream carriers and government and corporate clients around the world. Through the provision of innovative technology and product solutions to telecommunications carriers and government and corporate clients in numerous countries and regions, the Company enables communication services via multiple means, such as voice, data, multi-media, wireless broadband and wireline broadband for users all over the world. The handset terminal products of the Group are marketed to mainstream populations.

Suppliers of the Group include suppliers of raw materials and outsourcing manufacturers. The Group sources from different suppliers around the world, which have established stable business relationships with the Group.

Sales by the Group in 2018 to its largest customer amounted to RMB21,408.71 million, accounting for 25.04% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB46,613.50 million, accounting for 54.51% of the total sales of the Group for the year. The five largest customers were not connected to the Company in any way. None of the Directors, Supervisors, senior management, key technical personnel, shareholders holding 5% or more of the shares, de facto controller and other connected parties of the Company had any direct or indirect interest in any of the aforesaid five largest customers. None of the Directors or Supervisors of the Company or their close associates or, to the knowledge of the Board of Directors, any of the shareholders holding 5% or more of the shares of the Company had any interest in any of the five largest customers of the Group. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs).

Purchases by the Group from its largest supplier amounted to RMB2,064.51 million in 2018, accounting for 5.43% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB7,126.10 million, accounting for 18.76% of the total purchases of the Group for the year. Other than the aforementioned equity holdings, the five largest suppliers were not connected to the Company in any way. None of the Directors, Supervisors, senior management, key technical personnel, shareholders holding 5% or more of the shares, de facto controller and other connected parties of the Company had any direct or indirect interest in any of the aforesaid five largest suppliers. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs).

9. Analysis of investment

(1) Overview

The Company's long-term equity investments as at the end of the year under review amounted to approximately RMB3,015,295,000, representing decrease of 23.87% compared to approximately RMB3,960,597,000 as at 31 December 2017. Other third-party investments amounted to approximately RMB3,081,200,000, representing decrease of 22.08% compared to approximately RMB3,954,468,000 as at 31 December 2017.

(2) For details of equity investments and non-equity investments conducted by the Company during the year, please refer to the section headed "Material Matters — (V) ASSET TRANSACTIONS" in this report.

(3) Investment in financial assets

① Investment in securities

A. Investment in securities as at the end of the year

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gains/loss arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed during the period	Gains/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	300438	Great Power Note 1	169.41	Fair-value measurement	1,464.50	(846.03)	–	–	432.09	(485.81)	570.46	Trading financial assets	Issue fund
Stock	300502	Eoptolink Note 1	974.45	Fair-value measurement	15,980.16	(6,579.07)	–	–	1,973.73	(4,776.04)	9,259.67	Trading financial assets	Issue fund
Stock	603986	Giga Device Note 1	1,282.86	Fair-value measurement	73,281.66	(51,187.62)	–	–	38,500.45	(15,310.89)	21,515.36	Trading financial assets	Issue fund
Stock	603633	Laimu Note 1	2,000.00	Fair-value measurement	6,016.67	(2,124.33)	–	–	1,214.53	(1,309.74)	3,508.34	Trading financial assets	Issue fund
Stock	603920	Olympic Circuit Technology Note 1	2,562.00	Fair-value measurement	21,924.37	(7,166.87)	–	–	–	(6,596.89)	14,757.50	Trading financial assets	Issue fund
Stock	002902	Mentech Note 1	1,655.50	Fair-value measurement	19,688.89	(8,198.59)	–	–	840.51	(7,411.74)	11,382.83	Trading financial assets	Issue fund
Stock	002036	Lianchuang Electronic Note 2	3,266.00	Fair-value measurement	10,060.65	(4,417.45)	–	–	661.60	(4,076.79)	5,298.94	Trading financial assets	Issue fund
Stock	300691	Union Optech Note 2	3,498.71	Fair-value measurement	20,599.32	(10,756.52)	–	–	–	(10,673.61)	9,842.80	Trading financial assets	Issue fund
Stock	002796	Shijia Science & Technology Note 2	1,575.00	Fair-value measurement	2,597.45	954.97	–	–	–	975.48	3,552.42	Trading financial assets	Issue fund
Stock	ENA: TSV	Enablence Technologies Note 3	3,583.26	Fair-value measurement	2,168.39	(460.40)	–	–	–	(460.40)	1,707.99	Trading financial assets	Internal funds
Other securities investments held at the end of the period			–	–	–	–	–	–	–	–	–	–	–
Total			**20,567.19**	**–**	**173,782.06**	**(90,781.91)**	**–**	**–**	**43,622.91**	**(50,126.43)**	**81,396.31**	**–**	**–**

Note 1: Figures corresponding to Great Power, Eoptolink, Giga Device, Laimu, Olympic Circuit Technology and Mentech are provided with Zhonghe Chunsheng Fund as the accounting subject.

Note 2: Figures corresponding to Lianchuang Electronic, Union Optech and Shijia Science & Technology are provided with Jiaxing Fund as the accounting subject.

Note 3: The initial investment for the acquisition of Enablence Technologies shares by ZTE HK, a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company's foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD19,519,000, equivalent to approximately RMB17,079,900 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.87504) on 31 December 2018.

B. Details in investment in securities

a. Shareholdings in Great Power

As at the end of the year, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund, a partnership reported in the consolidated financial statements of the Company. In 2018, Zhonghe Chunsheng Fund transferred 139,600 shares in Great Power (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the year, Zhonghe Chunsheng Fund held 353,000 shares in Great Power, accounting for 0.13% of the total share capital of Great Power.

b. Shareholdings in Eoptolink

In 2018, Zhonghe Chunsheng Fund transferred 800,000 shares in Eoptolink (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the year, Zhonghe Chunsheng Fund held 4,712,300 shares in Eoptolink, accounting for 1.98% of the total share capital of Eoptolink.

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c. Shareholdings in Giga Device

In 2018, Zhonghe Chunsheng Fund transferred 2,026,500 shares in Giga Device (a company listed on the Shanghai Stock Exchange) it held. As at the end of the year, Zhonghe Chunsheng Fund held 3,452,400 shares (after the implementation of the 2017 equity distribution plan) in Giga Device, accounting for 1.21% of the total share capital of Giga Device.

d. Shareholdings in Laimu

In 2018, Zhonghe Chunsheng Fund transferred 640,000 shares in Laimu (a company listed on the Shanghai Stock Exchange) it held. As at the end of the year, Zhonghe Chunsheng Fund held 3,501,300 shares (after the implementation of the 2017 equity distribution plan) in Laimu, accounting for 2.24% of the total share capital of Laimu.

e. Shareholdings in Olympic Circuit Technology

As at the end of the year, Zhonghe Chunsheng Fund held 12,390,900 shares in Olympic Circuit Technology, a company listed on the Shanghai Stock Exchange, accounting for 3.03% of the total share capital of Olympic Circuit Technology.

f. Shareholdings in Mentech

In 2018, Zhonghe Chunsheng Fund transferred 334,000 shares in Mentech (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) it held. As at the end of the year, Zhonghe Chunsheng Fund held 4,811,000 shares in Mentech, accounting for 3.44% of the total share capital of Mentech.

g. Shareholdings in Lianchuang Electronic

As at the end of the year, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaxing Fund, which was a partnership reported in the consolidated financial statements of the Company. In 2018, Jiaxing Fund transferred 726,000 shares in Lianchuang Electronic (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange) it held. As at the end of the year, Jiaxing Fund held 6,161,600 shares in Lianchuang Electronic, accounting for 1.12% of the total share capital of Lianchuang Electronic.

h. Shareholdings in Union Optech

As at the end of the year, Jiaxing Fund held 4,421,800 shares (after the implementation of the 2017 equity distribution plan) in Union Optech, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.16% of the total share capital of Union Optech.

i. Shareholdings in Shijia Science & Technology

As at the end of the year, Jiaxing Fund held 1,025,500 shares in Shijia Science & Technology, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 0.91% of the total share capital of Shijia Science & Technology.

j. Shareholdings in Enablence Technologies

ZTE HK, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies on 4 December 2014. ZTE HK subscribed for 18 million shares issued by Enablence Technologies on 6 January 2015 for a total cash consideration of CAD2.70 million. ZTE HK entered into a Subscription Agreement with Enablence Technologies on 27 January 2016. On 2 February 2016, ZTE HK subscribed for 77 million shares issued by Enablence Technologies for a total cash consideration of CAD4.62 million. As at the end of the year, ZTE HK held 95 million shares in Enablence Technologies, accounting for 15.28% of its total share capital.

k. Save as aforesaid, the Group did not invest in non-listed financial enterprises such as commercial banks, securities companies, insurance companies, trusts and futures companies, or conduct securities investment such as dealing in stocks of other listed companies during the reporting period.

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② Derivative investments

Unit: RMB in ten thousands

Name of party operating the derivative investment	Connected relationship	Whether a connected transaction	Type of derivative investment Note 1	Initial investment amount in the derivative investment	Start date	End date	Opening balance of investment amount Note 2	Amount purchased during the period	Amount disposed during the period	Impairment provision (if any)	Closing balance of investment	Closing balance of investment amount as a percentage of net assets Note 3 of the Company at the end of the period (%)	Actual profit or loss for the reporting period
Financial institution	N/A	No	Foreign exchange forwards	–	2018/4/23	2019/12/20	192,179.82	644,518.28	428,976.74	–	407,721.36	17.81%	1,405.38
Financial institution	N/A	No	Foreign exchange forwards	–	2018/4/20	2019/11/21	166,311.57	586,242.60	377,022.42	–	375,531.75	16.40%	1,294.42
Financial institution	N/A	No	Foreign exchange forwards	–	2018/6/28	2019/12/11	108,078.78	517,539.12	274,271.61	–	351,346.29	15.35%	1,211.06
Other financial institutions	N/A	No	Foreign exchange forwards	–	2018/4/10	2019/12/24	483,406.03	1,124,612.03	942,507.75	–	665,510.31	29.06%	2,293.95
Total				**–**	**–**	**–**	**949,976.20**	**2,872,912.03**	**2,022,778.52**	**–**	**1,800,109.71**	**78.62%**	**6,204.81**

Source of funds for derivative investment	Internal funds
Litigation (if applicable)	Not involved in any litigation
Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)	"Announcement Resolutions of the Fifteenth Meeting of the Seventh Session of the Board of Directors" and "Announcement on the Application for Derivative Investment Limits for 2017" both dated 23 March 2017 and "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2018" both dated 15 March 2018.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	"Announcement on Resolutions of the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 dated 20 June 2017 and "Announcement on Resolutions of the 2017 Annual General Meeting" dated 29 June 2018.
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	In 2018, the Company conducted value-protection derivative investments, the major risks and control measures of which are discussed as follows: 1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date; 2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company's budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company's current assets was insignificant;

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3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks;

4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; obscure terms in the trade contract may result in legal risks;

5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.

Changes in the market prices or fair values of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The Company has recognised gains/losses from investments in derivatives during the reporting period. Total gains recognised for the reporting period amounted to RMB62 million, comprising gains from fair-value change of RMB56 million and recognised investment gains of RMB6 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period	There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.
Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control	Independent Non-executive Directors' Opinion: The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. The derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and the internal review procedures performed have been in compliance with the provisions of relevant laws and regulations and of the Articles of Association.

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Note 1: Derivative investments are classified according to the financial institutions involved and the types of derivative investments made;

Note 2: The investment amount at the beginning of the period represented the amount denominated in the original currency translated at the exchange rate prevailing as at the end of the reporting period;

Note 3: Net assets as at the end of the reporting period represented net assets attributable to holders of ordinary shares of the listed company as at the end of the reporting period.

(4) Entrusted fund management and entrusted loans

① Entrusted fund management

a. General information of entrusted fund management during the year

Unit: RMB in ten thousands

Product type	Source of fund	Amount incurred	Outstanding amount	Overdue and unrecovered amount
Bank financial products	Internal funds and issue fund	76,914	76,829	—
Total		**76,914**	**76,829**	**—**

b. Details of individually significant or high-risk entrusted fund management

☐ Applicable ✓ N/A

② During the year, the Company did not enter into any entrusted loans.

(5) Use of Issue Proceeds

☐ Applicable ✓ N/A

10. Material asset and equity disposal by the Group

For details of asset and equity transactions by the Group, please refer to the section headed "Material Matters (V) Asset Transactions" in this report.

11. Analysis of principal subsidiaries and investee companies

Unit: RMB in millions

Name of company	Corporate type	Principal operations	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Software development	RMB51.08 million	14,073.0	4,458.3	14,394.8	1,499.5	1,415.9
ZTE Capital	Subsidiary	Entrusted management of venture investment funds	RMB30 million	2,608.1	2,573.4	4.9	(548.9)	(567.3)
ZTE HK	Subsidiary	Sales and technical support in relation to communication products	HKD995 million	19,728.7	(319.2)	14,206.2	(2,134.7)	(2,286.1)

For information of other subsidiaries and principal investee companies, please refer to Note XV 5 Long-term equity investments and Note VII to the financial report prepared in accordance with PRC ASBEs.

For the year, the operating results of 3 subsidiaries had had a material impact on the Company's consolidated operating results, including 2 subsidiaries which reported year-on-year difference of more than 30% in operating results: ZTE Capital reported year-on-year decrease in net profit of 287.99% reflecting mainly the losses arising from fair-value re-measurement of the trading financial assets; ZTE HK reported year-on-year net profit decrease of 938.02%, reflecting mainly the decrease in the size of revenue.

For details of subsidiaries acquired or disposed of during the year and their impact, please refer to Note VI to the financial report prepared in accordance with PRC ASBEs.

12. There was no structured entity under the control of the Company within the meaning of "ASBEs No. 41 — Disclosure of Interests in Other Entities."

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(III) 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 this 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
Total revenue	**85,513.2**	108,815.3
Cost of sales	**(58,638.3)**	(76,116.5)
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)
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)
(Loss)/profit before tax	**(7,350.2)**	6,718.9
Income tax expense	**400.9**	(1,332.6)
(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
Other comprehensive income	**(905.3)**	318.6
Comprehensive income	**(7,854.6)**	5,704.9
Earnings per share — Basic	**RMB(1.67)**	RMB1.09
— Diluted	**RMB(1.67)**	RMB1.08

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

	2018		2017	
Business segment	**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%

Report of the Board of Directors

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

	2018		2017	
Regions	**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

	2018		2017	
Business segment	**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	**58,638.3**	**68.6%**	76,116.5	70.0%

Unit: RMB in millions

	2018		2017	
Business segment	**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	**26,874.9**	**31.4%**	32,698.8	30.0%

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 points 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 points 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 provision of approximately RMB1,094 million in respect of the 49.9% equity interests in Nubia held by the Group. The aforesaid impairment provision 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 by the Company on 9 May 2018.

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

Unit: RMB in millions

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	31 December 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	31 December 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

	31 December 2018			
Item	**Total**	**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

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

CAPITAL COMMITMENTS

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

Unit: RMB in millions

	31 December	
Item	**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

Report of the Board of Directors

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 this 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 this 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 this 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 this 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 this 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 this report.

MARKET RISKS

For details of the Group’s exposure to market risks, please refer to the section headed “Report of the Board of Directors — (VI) Business outlook for 2019 and risk exposures.”

(IV) Compliance with laws and regulations

The Group is one of the world’s leading listed manufacturers of integrated communications equipment and providers of global integrated communications and information solutions. The laws and regulations which have a material impact on the business and operations of the Group include, but are not limited to, company laws, contract laws, network security laws, product safety laws, intellectual property laws of relevant countries and regions and trade rules of relevant international organisations, countries and regions.

The Group is committed to ensuring compliance of its businesses and operations with applicable domestic and international laws and regulations. The Group’s Compliance Management Committee monitors and supervises the Group’s overall compliance with laws and regulations which have a material impact on the Group’s business and operations and reports to the Board on the Group’s compliance. Each operating unit is responsible for compliance with laws and regulations pertaining to its daily operations and reports to the Group’s Compliance Management Committee.

Report of the Board of Directors

For details of the Group's compliance with the Corporate Governance Code, please refer to the section headed "Corporate Governance Structure" in this report.

During the year, so far as known to the Company, the Group complied in all material respects with laws and regulations having a significant impact on the Group's operations.

(V) Records of reception of investors, communications and press interviews during the year

During the year, the Company hosted 5 receptions of investors for research purposes, receiving 17 institutional investors. No individual investors were received. For details, please refer to the following table. The Company did not disclose, reveal or divulge unpublished material information to such investors.

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
External meetings	January 2018	Shenzhen	Everbright Securities investors' conference	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Shanghai	UBS investors' conference	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Beijing	Deutsche Bank investors' conference	Customers of Deutsche Bank	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Shanghai	BOCI investors' conference	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Hong Kong	Bank of America Merrill Lynch investors' conference	Customers of Bank of America Merrill Lynch	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Shanghai	CITIC Securities investors' conference	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2018	Hong Kong	CICC investors' conference	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	March 2018	Guangzhou	Soochow Securities investors' conference	Customers of Soochow Securities	Day-to-day operations of the Company	Published announcements and regular reports
	November 2018	Shenzhen	Credit Suisse investors' conference	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
	November 2018	Shenzhen	Goldman Sachs investors' conference	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	November 2018	Hong Kong	Jefferies investors' conference	Customers of Jefferies	Day-to-day operations of the Company	Published announcements and regular reports
	November 2018	Shenzhen	Nomura Securities investors' conference	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports

Nature	Time	Location	Mode	Investors	Key contents discussed	Information furnished
Company visits by investors	January to December 2018	Company	Verbal	CLSA Limited, RBC Investment Management (Asia) Limited, Okasan Securities Co. Ltd., Fukoku Mutual Life Insurance Company, First Shanghai Securities, New Thinking Investment, Everbright Assets Management, Oriental Harbor Investment, Infore Capital, Hony Capital, Qianhai Ankang Investment, Yingtai Investment, Nikko Asset Management, Invus Asia Limited, HSBC Qianhai Securities, China Re Asset Management (Hong Kong) Limited, Signature Global Asset Management.	Day-to-day operations of the Company	Published announcements and regular reports

Note: For details of the Company's reception of investors for research purposes, please refer to the "Record of Investors' Relations Activities" published by the Company on http://www. cninfo.com.cn.

Report of the Board of Directors

(VI) Business outlook of 2019 and risk exposures

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 lead 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.

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 fix or floating interests, complemented by derivative instruments such as interest rate swaps, sought from a diverse range of low-cost financing channels in the global market taking into account the trends of market changes.

(5) 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.

(VII) Other Matters in the Report of the Board of Directors

1. Fixed assets

Details of changes in fixed assets of the Group for the year are set out in Note 14 to the financial statements prepared in accordance with HKFRSs.

2. Bank loans and other borrowings

Details of bank loans and other borrowings of the Group as at 31 December 2018 are set out in Note 36 to the financial statements prepared in accordance with HKFRSs.

Report of the Board of Directors

3. *Reserves*

Details of the reserves and changes in the reserves of the Group and the Company for the year are set out in Notes 42 and 57, respectively, to the financial statements prepared in accordance with HKFRSs.

4. *Pre-emptive rights*

There is no provision under the Company Law or the Articles of Association regarding pre-emptive rights that requires the Company to offer new shares to its existing shareholders on a pro-rata basis.

5. *Share capital*

Details of the share capital of the Company, together with the movements in such share capital and the reasons therefor, are set out in Note 40 to the financial statements prepared in accordance with HKFRSs and the section headed "Changes in shareholdings and information of shareholders (I) Changes in share capital during the year" in this report.

6. *Competing interest*

None of the Directors has interest in any business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

7. *List of Directors*

The list of Directors of the Company is set out in the section headed "Directors, Supervisors, Senior Management and Employees — (II) Changes in the Shareholdings and Share Options of and Annual Remuneration of the Company's Directors, Supervisors, Senior Management" in this report.

8. *Approved indemnity clause*

The Company has made proper insurance arrangements for the office of its Directors, Supervisors and senior management personnel to ensure that timely and comprehensive compensation may be made in respect of economic losses incurred by third parties as a result of the discharge of duties by such Directors, Supervisors and senior management personnel. In accordance with the provisions of Section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong), the aforesaid approved indemnity clause for the benefit of the Directors was effective during the financial year ended 31 December 2018 and at the time when the report of the Board of Directors prepared by the Directors was adopted in accordance with Section 391(1) (a) of the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

Material Matters

(I) PROFIT DISTRIBUTION

1. 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 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 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.

2. Formulation, implementation and adjustment of profit distribution policies

According to the Articles of Association of ZTE, aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years; the profit distribution plan of the Company should be formulated by the Board of Directors and approved by the general meeting. Following a resolution on the profit distribution plan by the general meeting, the Board of Directors should complete the distribution of dividend (or shares) within two months after the general meeting; when the Board of Directors of the Company formulates a profit distribution proposal, the views of Independent Non-executive Directors should be sufficiently heard and an independent opinion should be furnished by the Independent Non-executive Directors; after the announcement of the profit distribution plan is published in accordance with the law, the views and propositions of shareholders, the minority shareholders in particular, should be sufficiently heard. If the Board of Directors has not drawn up a cash profit distribution proposal, the reasons for not making the profit distribution and the use of funds not applied to profit distribution and retained at the Company should be disclosed in regular reports, and the Independent Non-executive Directors should furnish an independent opinion thereon.

The "Proposal for Profit Distribution for 2017 of the Company" was considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors of the Company held on 15 March 2018, which proposal was vetoed at the 2017 Annual General Meeting of the Company held on 29 June 2018.

Pursuant to the "Resolution on the amendment of relevant clauses in the Articles of Association" was considered and passed at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors held on 31 January 2018 and the First Extraordinary General Meeting of 2018 held on 28 March 2018 by the Company, the Company's profit distribution policy was adjusted, with details as follows:

Article 234(1)

The original clause which reads: Reasonable investment returns for investors should be a key consideration in the profit distribution of the Company and continuity and stability should be maintained in its profit distribution policy;

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Is amended to read: Reasonable investment returns for investors should be a key consideration in the profit distribution of the Company and continuity and stability should be maintained in its profit distribution policy, which should be in compliance with laws and regulations and the relevant requirements of regulatory authorities such as the China Securities Regulatory Commission;

Article 234(3)

The original clause which reads: Dividends may be distributed by the Company by way of cash and/or shares. Interim cash dividend may be distributed. Accumulated distribution of profit by way of cash by the Company in the three preceding years shall be no less than 30% of the annual average profit available for distribution realized in the three preceding years;

Is amended to read: Subject to the fulfillment of conditions for dividend distribution, the Company shall, in principle, distribute its profit on an annual basis by way of cash and/or shares, and may also carry out interim profit distribution. Accumulated distribution of profit by way of cash by the Company in the three preceding years shall be no less than 30% of the annual average profit available for distribution realized in the three preceding years;

3. Profit distribution or conversion of capital reserve in the past three years (including the reporting period)

No profit distribution was made by the Company for 2016. The aforesaid matter was considered and approved at the 2016 Annual General Meeting. The "Proposal for Profit Distribution for 2017 of the Company" considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors of the Company was vetoed at the 2017 Annual General Meeting of the Company. No profit distribution was made by the Company for 2017. The Company does not propose any profit distribution for 2018. The aforesaid matter shall require consideration and approval at the general meeting.

Details of the Company's cash dividend distribution for the past three years (including the reporting period):

Unit: RMB in ten thousands

Year	Cash distribution Amount (before tax)	Net profit attributable to holders of ordinary shares of the listed company in the consolidated statements for the year of dividend distribution	As a percentage of net profit attributable to holders of ordinary shares of the listed company in the consolidated statements	Profit of the year available for distribution
2018	—	(698,366.20)	—	(416,883.70)
2017	—	456,817.20	—	235,265.20
2016	—	(235,741.80)	—	(322,557.60)
Accumulated cash distribution amount in the past three years as a percentage of average annual profit available for distribution (%)				—

Note: The Company did not conduct cash distribution by way of any other means.

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(II) MATERIAL LITIGATION AND ARBITRATION

During the year, the Group did not incur any material litigation or arbitration. Progress during the year of immaterial litigation and arbitration proceedings incurred prior to the year and other litigation and arbitration cases occurring during the year are set out as follows:

1. In August 2005, an Indian consultant firm instituted an overseas arbitration to claim indemnity against the Company for a total amount of approximately USD1.714 million in respect of advisory fees, agency fees and related damages. The consultant firm subsequently raised its total claim amount to approximately USD2.27 million.

   The case was heard before an arbitration court formed by International Chamber of Commerce ("ICC") in Singapore during 25–28 July 2008. The Company was represented at all arbitration sessions. On 23 July 2010, the arbitration court issued its arbitration award on the arbitration fees, legal fees and travel expenses relating to the case and ruled that the Company should pay a total of USD1.323 million to the said consultant firm. Subsequent to the consultant firm's application to the High Court of Delhi in India on 28 September 2010 for the enforcement of the arbitration award, the Company filed an objection to the enforcement of the arbitration award on the grounds that the said consultant firm no longer carried the status of a corporate. On 23 September 2011, the High Court of Delhi in India ruled to reject the said consultant firm's application for the enforcement of the arbitration award. It also ruled that the said consultant firm may re-submit its application for the enforcement of the arbitration award after restoring its corporate status. On 30 April 2013, the High Court of Delhi in India admitted the application for the enforcement of arbitration award re-submitted by the said consultant firm. On 3 July 2017, the High Court of Delhi in India ruled in support of the application for the enforcement of arbitration award submitted by the said consultant firm. On 5 July 2017, the Company filed an appeal with the Supreme Court of India in respect of the aforesaid ruling of the High Court of Delhi in India. On 6 July 2017, the Supreme Court of India heard the case and ruled to reject the appeal of the Company. The High Court of Delhi in India has yet to make a ruling on the final compensation amount for the case.

   Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

2. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB37,706,500). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authorities issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB16,211,700) be paid by the Company. In accordance with local laws, the Company had filed with the local district court an objection against the arbitration award and a claim against the customer's breach of contract. On 23 June 2018, the district court ruled to reject the Company's objection to the arbitration award and uphold the original arbitration award. On 19 July 2018, the Company appealed to the higher court against the ruling of the district court in accordance with local laws.

   Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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3. Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, had staged a slowdown in work followed by total suspension, as part of its move to demand the Company to increase the contract amount on the grounds that raw material prices had increased. In September 2008, the Company instituted litigation with the Nanshan District People's Court of Shenzhen ("Nanshan Court"), pleading for the revocation of the contract and court order of the evacuation of the work sites by China Construction Fifth Division, as well as a penalty payment for work delay in the amount of RMB24.912 million and damages of RMB11.319 million payable to the Company. Nanshan Court handed down the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth Division be revoked and a penalty payment in the amount of RMB12.817 million be payable by China Construction Fifth Division. China Construction Fifth Division filed an appeal against the aforesaid judgement with Shenzhen Intermediate People's Court ("Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth Division's case with Shenzhen Intermediate Court noted below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth Division's case with Shenzhen Intermediate Court in May 2014, Shenzhen Intermediate Court resumed trial of the case and made its second trial judgement in November 2014, ruling that China Construction Fifth Division was not required to pay the penalty payment of RMB12.817 million to the Company. In response to the aforesaid second trial judgement, the Company had applied to Guangdong Higher Court for retrial. In January 2016, Guangdong Higher Court accepted the application for retrial and decided to proceed with retrial of the case. After commencing the trial of the aforesaid case, Guangdong Higher Court ruled to suspend trial on the grounds that retrial on the second trial judgement of Shenzhen Intermediate Court on China Construction Fifth Division's case had commenced. On 11 December 2017, the Guangdong Higher Court handed down the retrial judgment for the China Construction Fifth Division case by Shenzhen Intermediate Court. Therefore, Guangdong Higher Court resumed the retrial of the aforesaid case in June 2018. On 8 August 2018, the Guangdong Higher Court handed down its final judgment to uphold the second trial judgement of Shenzhen Intermediate Court.

   In October and November 2009, the Company further instituted two lawsuits with Nanshan Court, demanding China Construction Fifth Division to undertake a penalty payment for work delay in the amount of RMB30.615 million and the payment of RMB39.537 million, representing the amount of work payments in excess of the total contract amount. On 24 October 2018, Nanshan Court commenced trial of the 2 aforesaid cases. On 29 November 2018, the Company made an application to Nanshan Court to withdraw the lawsuits.

   In July 2009, China Construction Fifth Division instituted a lawsuit with the Shenzhen Intermediate Court in respect of the aforementioned work, demanding the Company to make a payment of RMB75.563 million for raw materials and staff deployment. The Shenzhen Intermediate Court handed down a first trial judgement in November 2012, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest, damages for work suspension of approximately RMB953,000 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. China Construction Fifth Division has filed an appeal with Guangdong Higher Court against the said judgement, and Guangdong Higher Court handed down a second trial judgement in May 2014, ruling that the Company should make work payments of approximately RMB14.497 million together with accrued interest and damages for work suspension of approximately RMB2,869,400 to China Construction Fifth Division, while China Construction Fifth Division should refund to the Company withheld payments in the amount of RMB20.15 million together with accrued interest. Other claims of China Construction Fifth Division were rejected. Case admission fees and authentication fees paid for the first trial and second trial relating to China Construction Fifth Division amounted to RMB2.699 million, of which an amount of RMB654,000 was borne by the Company. In response to the aforesaid second trial judgement, the Company had applied to the Supreme People's Court for retrial, which application was rejected by the Supreme People's Court. Subsequently, the

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Company filed a protest against such second trial judgement with Guangdong Provincial People's Procuratorate, which admitted the Company's application and referred the case to the Supreme People's Procuratorate for protest. On 24 December 2015, the Supreme People's Procuratorate filed a protest with the Supreme People's Court. On 17 June 2016, the Company received through the Guangdong Higher Court the ruling of the Supreme People's Court, which ordered the Guangdong Higher Court to conduct a retrial in respect of the aforesaid second trial judgement. On 11 December 2017, the Guangdong Higher Court gave a final verdict that upheld its second trial judgement.

In July 2014, China Construction Fifth Division instituted a lawsuit with Nanshan Court, demanding the refund of RMB24.596 million together with interest of RMB9.118 million (tentatively accrued to 10 July 2014, although it should be accrued to the date on which the contract work amounts are settled in full), being indemnity claim amounts under a bank performance guarantee letter withheld by the Company. On 24 October 2018, Nanshan Court commenced trial of the case. On 31 October 2018, Nanshan Court handed its first trial judgement ruling the refund of indemnity claim amounts under a bank performance guarantee letter amounting RMB24.596 million together with interest accruable for the period from 25 September 2008 to the date of full settlement based on prevailing bank lending rates for the period and the payment of litigation fees for the case amounting to RMB210,000 by ZTE.

The litigation procedures for the aforesaid cases between China Construction Fifth Division and ZTE have been fully closed. On 27 December 2018, China Construction Fifth Division and the Company reached an overall settlement in respect of the enforcement of the aforesaid cases.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the aforesaid cases will not have any material adverse impact on the financial conditions and operating results of the Group.

4. On 11 June 2010, A lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

   On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration ruling. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the court of appeal of Dallas, Texas in respect of the aforesaid ruling. On 19 November 2018, the court of appeal of Dallas, Texas ruled to overturn the ruling of the district court of Dallas, Texas of annulling the arbitration award and reinstated the arbitration award. On 4 December 2018, UTE made an application to the court of appeal of Dallas, Texas for review. On 4 January 2019, UTE made an application to the court of appeal of Dallas, Texas for the case to be heard by the full court. As of now, the court of appeal of Dallas, Texas has ruled to reject the aforesaid application of UTE.

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Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

5. On 26 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by the Company and ZTE USA, a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its preliminary judgment of the case, ruling that one of the patent relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of ITC.

   On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, ITC issued its preliminary judgment of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA engaged a legal counsel to conduct active defense of the case and file an appeal to the United States Court of Appeals for the Federal Circuit against the ruling of the Federal District Court of Delaware that the three patents involved in the litigation have been subject to infringement. In November 2017, United States Court of Appeals for the Federal Circuit ruled that the Company and ZTE USA had infringed upon two out of three patents involved in the aforesaid case. No ruling has yet been made in respect of the one remaining patent involved in the case. Currently, the Federal District Court of Delaware is scheduling a trial to determine compensation in respect of the infringement of the two patents as aforesaid.

   Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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6. In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its preliminary judgment of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California re-opened the litigation procedures for the case. In November 2015, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. The said company filed an appeal with the United States Court of Appeals for the Federal Circuit against the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again against the said verdict of the Federal District Court of California. Currently, the United States Court of Appeals for the Federal Circuit has yet to make a ruling. In February 2019, the United States Court of Appeals for the Federal Circuit ruled to uphold the judgement of the Federal District Court of California that the Company and ZTE USA had not infringed upon the patents under litigation.

   Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

7. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB55,529,600). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand a compensation amount of BRL31,224,300 (equivalent to approximately RMB55,300,400) together with accrued interests and legal fees payable immediately by the Brazilian company. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB55,300,400) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional enforcement procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB55,300,400) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

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On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB147 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period

8. On 12 July 2017, the Company received a notice of arbitration filed with the London Court for International Arbitration (LCIA) against the Company by a Sudanese carrier and its Mauritanian subsidiary. On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by a Mauritanian subsidiary of the said Sudanese carrier (the "Mauritanian Subsidiary"). The Sudanese carrier and its Mauritanian Subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31.80 million in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

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

   In May 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to DIFC-LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD37.45 million and other damages for breach of contract, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to DIFC-LCIA and made counter-claims against the Mauritanian Subsidiary under the arbitration.

   In October 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD31.88 million, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to LCIA and made counter-claims against the Mauritanian Subsidiary under the arbitration.

   Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

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

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

In March 2019, the Company and ZTE USA reached a settlement with Maxell, and the Eastern District Court of Texas, United States approved the request for withdrawal of the aforesaid case filed by the two parties. As such, all litigation procedures of this case have closed.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2018 where PKR amounts are translated at the exchange rate of PKR1:RMB0.04942 and BRL amounts are translated at the exchange rate of BRL1:RMB1.7711.

(III) APPROPRIATION AND REPAYMENT OF NON-OPERATING FUNDS BY CONTROLLING SHAREHOLDER AND OTHER CONNECTED PARTIES

1. There was no appropriation and repayment of non-operating funds of the Company by the controlling shareholder and other connected parties during the year.

2. Statement on fund appropriation issued by Ernst & Young Hua Ming LLP

The "Statement of ZTE Corporation on Appropriation of Non-operating Funds and Other Fund Transactions with Connected Parties in 2018" issued by Ernst & Young Hua Ming LLP was set out in the announcement published by the Company on the website designated for information disclosure on 27 March 2019.

(IV) THE COMPANY WAS NOT SUBJECT TO BANKRUPTCY, REORGANISATION OR RELATED ACTIONS DURING THE YEAR

(V) ASSET TRANSACTIONS

1. Matters pertaining to the Shenzhen Bay Super Headquarters Base

Owing to the requirements of its operations and development, the Company won a bid for the land use rights of Site No. T208–0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District, Shenzhen on 27 June 2017. The Company selected through competitive negotiations Shenzhen Vanke Real Estate Co., Ltd. (深圳市萬科房地產有限公司) ("Vanke") to provide development, construction, sales and operational services in respect of land site No. T208–0049 for the Company and entered into a Letter of Intent and a Supplemental Agreement on the Letter of Intent with Vanke on 25 December 2017 and 25 January 2018, respectively. For details please refer to the "Overseas Regulatory Announcement Announcement on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd." and the "Overseas Regulatory Announcement Announcement Updates on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd." published by the Company on 26 December 2017 and 25 January 2018, respectively.

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On 9 February 2018, the Company and Vanke signed transaction documents including the "Framework Agreement for Entrustment of Development, Construction, Sale and Operation", pursuant to which Vanke agreed to provide to the Company the following services: (1) the development and construction of properties with a GFA of 189,890 square metres on land site No. T208–0049; (2) sales service in respect of available-for-sale commercial properties and hotel properties with GFA of 35,000 square metres and 20,000 square metres, respectively; and (3) operational service in respect of office properties and premises for cultural facilities with GFA of 44,200 square metres and 6,100 square metres, respectively. The aforesaid matter was considered and approved at the Twenty-seventh Meeting of the Seventh Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2018. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-seventh Meeting of the Seventh Session of the Board of Directors" and "DISCLOSEABLE TRANSACTION FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT CONSTRUCTION, SALES AND OPERATION" published on 9 February 2018 and the "Announcement on Resolutions of the First Extraordinary General Meeting of 2018" published on 28 March 2018 by the Company.

2. Transfer of 43.66% shares in ZTEsoft Technology Co., Ltd. ("ZTEsoft") by the Company

Based on considerations for the Company's strategic development, the Company, Nanjing Xiruan Corporate Management Limited Partnership ("Nanjing Xiruan") and ZTEsoft entered into the Agreement for Share Transfer and New Share Subscription on 9 February 2018, pursuant to which the Company shall transfer 43.66% shares in ZTEsoft, its subsidiary, to Nanjing Xiruan for RMB1,223.3 million, while Nanjing Xiruan shall concurrently inject RMB100 million into ZTEsoft as capital. On 25 September 2018, the "Supplemental Agreement on Arrangements for Payment by Instalment" was entered into by the Company, Nanjing Xiruan and ZTEsoft, pursuant to which the full lump-sum payment by Nanjing Xiruan agreed under the Agreement for Share Transfer and New Share Subscription shall be adjusted to payment by instalment. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-seventh Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on Matters pertaining to the Transfer of Certain Shares in ZTEsoft Technology Co., Ltd." published by the Company on 9 February 2018, the "Announcement Resolutions of the Thirty-seventh Meeting of the Seventh Session of the Board of Directors" and the "Announcement Updates on Matters pertaining to the Transfer of Certain Shares in ZTEsoft Technology Co., Ltd." published by the Company on 25 September 2018, respectively.

As at the end of the year, the Company held 35.19% equity interests in ZTEsoft and ZTEsoft was no longer included in the consolidated statements of the Company. Investment gains arising from the aforesaid share transfer in aggregate amounted to approximately RMB727 million (before VAT).

3. Execution of contracts including Framework Agreement for Cooperation with Shenzhen Investment Holdings Co., Ltd. ("SIHC") and matters pertaining to Third-party Guarantee

On 19 September 2018, the Company entered into the Framework Agreement for Cooperation with SIHC in relation to the proposed transaction with SIHC in respect of land and property assets located in North Zone, Xili Industrial Park of Nanshan District of Shenzhen (which refers to North Zone, ZTE Industry Park situated alongside Liuxian Avenue, Nanshan District, Shenzhen) and Buji Sub-district of Longgang District of Shenzhen, respectively, held directly or indirectly by the Company. The aforesaid matter was considered and approved at the Thirty-sixth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Thirty-sixth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement of execution of contracts including Framework Agreement for Cooperation with Shenzhen Investment Holdings Co., Ltd. and matters pertaining to Third-party Guarantee" published by the Company on 19 September 2018.

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The Company and SIHC entered into the "Memorandum of Understanding on the Termination of the 'Framework Agreement for Cooperation and Related Matters'" in respect of arrangements for the termination of the Framework Agreement for Cooperation and related matters on 19 March 2019. The aforesaid matter was considered and approved at the Forty-fifth Meeting of the Seventh Session of the Board of Directors. For details, please refer to the "Announcement Resolutions of the Forty-fifth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on the signing of the 'Memorandum of Understanding on the Termination of the Framework Agreement for Cooperation and Related Matters' with Shenzhen Investment Holdings Co., Ltd." published by the Company on 19 March 2019.

(VI) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME (THE "SCHEME")

1. Summary of the 2017 Share Option Incentive Scheme

(1) Objective

The 2017 Share Option Incentive Scheme has been implemented by the Company to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibility of the management and key personnel of the Company and retain talent, so as to facilitate sustainable development of the Company and ensure the realisation of its development targets.

(2) Scheme participants and adjustments thereto

Scheme participants of the 2017 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to the Company's overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses and immediate or close family members).

Pursuant to the "2017 Share Option Incentive Scheme (Draft) of ZTE Corporation" (the "2017 Share Option Incentive Scheme (Draft)") considered and approved by the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017, a total of 150 million share options shall be granted to the Directors, senior management and key employees of the Company.

Prior to the grant of share options under the 2017 Share Option Incentive Scheme of the Company, the Company revoked the qualification to participate in the share option incentive scheme of qualified 17 participants, including 13 who had left the Company and 4 who had waived participation in the 2017 Share Option Incentive Scheme for personal reasons, and cancelled a total of 398,800 share options previously proposed to be granted in accordance with the 2017 Share Option Incentive Scheme (Draft), pertinent laws and regulations and the approval granted by the Twentieth Meeting of the Seventh Session of the Board of Directors of the Company held on 6 July 2017. As a result, the number of participants was adjusted from 2,013 to 1,996 and the number of share options to be granted was adjusted from 150 million to 149,601,200 under the share option incentive scheme.

(3) Number of underlying shares and maximum share options that may be granted to scheme participants

Each share option granted shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the 2017 Share Option Incentive Scheme at the exercise price and subject to the conditions of exercise. The source of shares under the 2017 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. The total number of underlying A shares in respect of the share options to be granted under the 2017 Share Option Incentive Scheme is 149,601,200 A shares, accounting for approximately 3.57% of the Company's total share capital in issue and approximately 4.35% of its A shares in issue as at Latest Practicable Date prior to the printing of this report.

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Unless approved by the shareholders in a general meeting, the aggregate number of A shares to be issued to a scheme participant upon exercise of his share options under the 2017 Share Option Incentive Scheme and other effective share option incentive schemes of the Company (if any) at any time must not exceed 1% of the Company's total share capital of the same class, and the maximum entitlement which may be granted to a scheme participant (including exercised, cancelled and outstanding share options) within any 12-month period shall not exceed 1% of the Company's total share capital of the same class.

(4) Date of grant, validity period, vesting period, exercise period and exercisable percentage

The 2017 Share Option Incentive Scheme of the Company shall remain in force for 5 years from the date of grant (i.e. 6 July 2017). The closing price of the Company's A shares on the trading date which is 1 day prior to the date of grant was RMB23.52/share. There shall be a vesting period of 2 years from the date of grant, after which share options can be exercised according to the following proportion, subject to the fulfillment of the exercise conditions:

Exercise period	Duration	Exercisable share options as a percentage of the total number of share options granted
First exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of grant and ending on the last trading day of the 36-month period from the date of grant	1/3
Second exercise period	Commencing from the first trading day after expiry of the 36-month period from the date of grant and ending on the last trading day of the 48-month period from the date of grant	1/3
Third exercise period	Commencing from the first trading day after expiry of the 48-month period from the date of grant and ending on the last trading day of the 60-month period from the date of grant	1/3

(5) Exercise price and basis of determination

The initial exercise price of the 2017 share options shall be RMB17.06 per A share. Upon fulfilment of the conditions for exercise, scheme participants are entitled by each option granted to purchase one A share of the Company at a price of RMB17.06 per A share.

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The exercise price for the aforesaid is the higher of the following:

a. the average trading price of the A Shares of the Company on the last trading day immediately preceding the announcement of the draft and summary of the 2017 Share Option Incentive Scheme (i.e. 24 April 2017); and

b. the average closing price of the A Shares quoted on the Shenzhen Stock Exchange for the last 120 trading days immediately preceding the announcement of the draft and summary of the 2017 Share Option Incentive Scheme.

Based on the aforesaid principle, the exercise price of the share options granted under the 2017 Share Option Incentive Scheme is RMB17.06 per A share.

During the validity period of the 2017 Share Option Incentive Scheme, in the event of any dividend distribution, capitalisation through conversion of capital reserves, bonus issue, sub-division, rights issue or consolidation of shares in relation to the A shares of the Company before the exercise of the share options, an adjustment to the exercise price shall be made accordingly.

(6) Approval procedures fulfilled

The 2017 Share Option Incentive Scheme implemented by the Company has been approved by the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. For details please refer to the "Announcement of Matters relating to the Grant of 2017 Share Options" published by the Company on 7 July 2017.

2. Details of share options held by the participants and their exercise during the year:

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

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

For details of the date of grant, validity period, vesting period, exercise period and exercise price under the 2017 Share Option Incentive Scheme in respect of the share options set out in the table above, please refer to the section headed "(1) Summary of the 2017 Share Option Incentive Scheme" above.

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3. Valuation and accounting policies relating to the share options and impact on the financial conditions and operating results of the Company

(1) Valuation of the share options

The Company has adopted the Binomial Tree model to calculate the value of the 2017 share options. The date of grant (6 July 2017) has been adopted as the measurement date and the estimated value of the 2017 share options is RMB10.40 per A share, representing 44.73% of the market price of the A shares on the date of grant. Data used in and results of the calculation are as follows:

Factors	Amount of factors and description
Initial exercise price	RMB17.06 per A share
Market price	RMB23.25 per A share, being the closing price of the A shares on the date of grant
Expected life	The scheme participants shall exercise all his/her options exercisable in the first, second and third exercise period within the third, fourth and fifth year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first, second and third exercise period being 43.35%, 42.20% and 42.90%, respectively.
Expected dividend (Note 1)	RMB0.18 per share
Risk-free interest rate (Note 2)	The risk-free interest rate for the first, second and third exercise period shall be 3.50%, 3.51% and 3.52%, respectively.
Value of share options per A share	RMB10.40

Note 1: The expected dividend was calculated based on the historical dividends of the Company.

Note 2: The Company adopted the national bond yield rates as the risk-free interest rates.

Note 3: The calculation results of the value of the share options are subject to a number of assumptions of the parameters used herein and the limitation of the model adopted, therefore the estimated value of the share options may be subjective and subject to uncertainties.

(2) Accounting policies relating to the share options and impact on the financial conditions and operating results of the Company

In accordance with "ASBEs No. 11 — Share-based Payment," services rendered by participants during the period may be charged to relevant costs or expenses and the capital reserve at the fair value on the date of grant based on the Company's best estimates of exercisable share options. Costs and expenses which have been recognised will not be adjusted during the exercise period of the share options. At each balance sheet date, exercised share options are recognised in the capital reserve. Specific accounting treatments of share options and the impact on the Company's financial conditions and operating results for the year and in future are set out in Note XI to the financial statements prepared under PRC ASBEs and Note 41 to the financial statements prepared under HKFRSs.

Material Matters

(VII) NON-PUBLIC ISSUANCE OF A SHARES BY THE COMPANY

The Company proposed to issue not more than 686,836,019 A shares to not more than 10 specific investors compliant with the provisions of the CSRC. Gross proceeds from the non-public issuance of A Shares will not exceed RMB13 billion. Net proceeds after deduction of issue expenses will be applied towards the "technology research and product development relating to 5G network evolution" and as "replenishment of working capital". The aforesaid matter has been considered and passed at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2018. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-sixth Meeting of the Seventh Session of the Board of Directors" and "(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER GENERAL MANDATE AND (2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION" published on 31 January 2018 and the "Announcement on Resolutions of the First Extraordinary General Meeting of 2018" published on 28 March 2018 by the Company.

Pursuant to the "UPDATE ON THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER GENERAL MANDATE" issued by the Company on 1 February 2018, the issue price of the non-public issuance of A shares shall be no less than RMB30/share.

On 10 April 2018, the Company received a "Form of Admission of Application for CSRC Administrative Approval" issued by the CSRC, stating that CSRC had made a decision to admit the application for administrative approval of the non-public issuance of new shares by a listed company submitted by the Company. The non-public issuance of A shares remained subject to the approval of CSRC. For details, please refer to the "Overseas Regulatory Announcement Announcement on Admission by CSRC of the Application for Non-public Issuance of A Shares" published by the Company on 10 April 2018.

The Company published "Overseas Regulatory Announcement Announcement on the Receipt of 'Notice Regarding the China Securities Regulatory Commission's First Feedback on the Review of Administrative Permission Items'" and "Overseas Regulatory Announcement Announcement on Extension of Deadline for Reply to the 'Notice Regarding the China Securities Regulatory Commission's First Feedback on the Review of Administrative Permission Items'" on 29 October 2018 and 19 November 2018, respectively. The Company worked with relevant intermediaries to study and deliberate on issues raised in the notice and furnished an item-by-item response. Please refer to the "Overseas Regulatory Announcement Announcement on Reply to the 'Notice Regarding the China Securities Regulatory Commission's First Feedback on the Review of Administrative Permission Items'" published by the Company on 23 January 2019 and "Overseas Regulatory Announcement Announcement on Reply (Revised Draft) to the Feedback on Application Materials for the Approval of Non-public Issuance of A Shares" published on 25 February 2019 by the Company.

The "Resolution on the Extension of the Validity Period for the Shareholders' Resolutions in relation to the Non-public Issuance of A Shares of 2018", "Resolution on the Authorisation in relation to the Non-public Issuance of A Shares of 2018" and "Resolution on the Arrangement of the Floor Price of the Non-public Issuance of A Shares of 2018" were considered and approved at the Forty-fourth Meeting of the Seventh Session of the Board of Directors held on 17 January 2019 and the Company's First Extraordinary General Meeting of 2019 held on 20 March 2019. For details, please refer to the "Announcement Resolutions of the Forty-fourth Meeting of the Seventh Session of the Board of Directors" and "(1) REVISED TERMS OF THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER THE GENERAL MANDATE (2) EXTENSION OF VALIDITY PERIOD OF THE SHAREHOLDERS' RESOLUTIONS IN RELATION TO THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES AND (3) NEW AUTHORIZATION TO THE BOARD IN RELATION TO THE PROPOSED NON-PUBLIC ISSUANCE OF A SHARES" published on 17 January 2019 and the "Announcement on Resolutions of the First Extraordinary General Meeting of 2019" published on 20 March 2019 by the Company.

The non-public issuance of A shares remained subject to the approval of CSRC.

(VIII) COMPLETION OF PAYMENT FOR THE 2015 TRANCHES II AND III MEDIUM TERM NOTES

To further advance Company's business development and optimise its debt structure, the "Resolution of on the Proposed Registration and Issue of Perpetual Medium Term Notes" was considered and passed at the Twentieth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2014 of the Company, granting approval to the Company's application to the National Association of Financial Market Institutional Investors for the registration and issue of Perpetual Medium Term Notes with an amount of not more than RMB9,000 million. The National Association of Financial Market Institutional Investors has accepted the registration of the Company's RMB9,000 million Medium Term Notes.

On 27 January 2015, the Company completed the issue of the 2015 Tranche I Medium Term Notes with an amount of RMB6,000 million for a term of 5+N years (maturity upon redemption by the Company pursuant to the terms of issue). On 6 February 2015, the Company completed the issue of the 2015 Tranche II Medium Term Notes with an amount of RMB1,500 million for a term of 3+N years (maturity upon redemption by the Company pursuant to the terms of issue). On 20 November 2015, the Company completed the issue of the 2015 Tranche III Medium Term Notes with an amount of RMB1,500 million for a term of 3+N years (maturity upon redemption by the Company pursuant to the terms of issue).

On 6 February 2018, the Company completed the payment of the principal cum interests of the 2015 Tranche II Medium Term Notes with a total amount of RMB1,585,350,000. For details, please refer to the "Overseas Regulatory Announcement Announcement Completion of Payment in respect of the 2015 Tranche II Medium Term Notes" published by the Company on 6 February 2018.

On 20 November 2018, the Company completed the payment of the principal cum interests of the 2015 Tranche III Medium Term Notes with a total amount of RMB1,567,350,000. For details, please refer to the "Overseas Regulatory Announcement Announcement Completion of Payment in respect of the 2015 Tranche III Medium Term Notes" published by the Company on 20 November 2018.

(IX) The Company published announcements in relation to the activation of the denial order by the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") and related effects and the actions taken by the Company and related parties on 17 April 2018, 18 April 2018, 20 April 2018, 22 April 2018, 25 April 2018, 1 May 2018, 6 May 2018, 9 May 2018, 16 May 2018, 23 May 2018, 30 May 2018 and 6 June 2018, respectively.

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

Due to the conduct described in the superseding settlement agreement entered into amongst the Company, ZTE Kangxun and BIS in June 2018, the United States District Court for Northern District of Texas (the "Court") issued an order on 3 October 2018 (U.S. time) modifying the conditions of the Company's corporate probation as described in the Agreement which became effective on 22 March 2017 (U.S. time) upon approval by the Court. For details, please refer to the "INSIDE INFORMATION ANNOUNCEMENT ON ORDER MODIFYING CONDITIONS OF PROBATION" published by the Company on 4 October 2018.

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(X) SIGNIFICANT CONNECTED TRANSACTIONS

1. SIGNIFICANT CONNECTED TRANSACTIONS AS DEFINED UNDER PRC LAWS AND REGULATIONS

(1) Connected transactions in the ordinary course of business

The connected transactions disclosed in the following table represent continuing connected transactions in 2018 reaching the benchmark for public disclosure as defined under the Shenzhen Listing Rules.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Whether approved cap has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin and its subsidiaries and investee companies	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials by the Company and its subsidiaries from connected parties were conducted at prices determined through arm's length negotiations and on the basis of normal commercial terms. The prices of properties leased to connected parties by the Group were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1–RMB300,000 per unit, cases and related accessories: RMB1–RMB15,000 per unit, depending on level of sophistication; Shelters: RMB1,000–RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000–50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200–2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3–30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5–50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01–5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5–100 per piece depending on measurement, level of process sophistication and materials used.	20,989.32	0.55%	No	Commercial acceptance bill	N/A	2015-9-23 2017-1-20	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201703 "Announcement on Execution of Supplemental Agreement for the 2016 –2018 Purchase Framework Agreement with Zhongxingxin, a Connected Party"
Zhongxing Hetai and its subsidiaries	A company for which a natural person related to the Company acted as director and its subsidiaries	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.	3,267.70	0.09%	No	Tele-transfer	N/A	2016-4-29 2018-6-29	Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201859 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries	A company for which a natural person related to the Company acted as director and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		From 1 January to 30 June 2018: RMB74/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB53/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB116/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB53/sq.m./month for hotel and related equipment and facilities in Xi'an. From 1 July to 31 December 2018: RMB86/sq.m./month for hotel and related equipment and facilities in Dameisha in Shenzhen; RMB64/sq.m./month for hotel and related equipment and facilities in Nanjing; RMB133/sq.m./month for hotel and related equipment and facilities in Shanghai; and RMB65/sq.m./month for hotel and related equipment and facilities in Xi'an.	8,407.26	25.28%	No	Tele-transfer	N/A	2016-4-29 2018-6-29	Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201859 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

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Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Whether approved cap has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
航天歐華	Company for which a natural person related to the Company had previously acted as director and subsidiary of a company for which a natural person related to the Company acted as senior management	Sale of products	The sale of digital communications products and communications products by the Company to the connected party		Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	25,640.88	0.30%	No	Tele-transfer or bank acceptance bill	N/A	2015-9-23	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				–	–	**58,305.16**	**N/A**	–	–	–	–	–

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations.
Effect of the connected transaction on the independence of the listed company	The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2018 be capped at RMB1,000 million (before VAT); pursuant to the Supplemental Agreement for the Zhongxingxin Purchase Framework Agreement between the Company and Zhongxingxin considered and approved at the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, the scope of the Zhongxingxin Purchase Framework Agreement was extended to cover Zhongxingxin, its subsidiaries and investee companies (companies in which Zhongxingxin directly or indirectly held equity interests of 30% or above);

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	At the Third Meeting of the Seventh Session of the Board of Directors of the Company held on 28 April 2016, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, and its subsidiaries to procure hotel services be capped at RMB90 million for the period commencing on 1 July 2017 and ending on 30 June 2018; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB85 million for the period commencing on 1 July 2017 and ending on 30 June 2018; At the Thirty-first Meeting of the Seventh Session of the Board of Directors of the Company held on 29 June 2018, it was considered and approved that the estimated amount payable by the Company to Zhongxing Hetai, a connected party, or its subsidiaries to procure hotel services be capped at RMB35 million for the period commencing on 1 July 2018 and ending on 31 December 2018; and the estimated amount payable by Zhongxing Hetai and its subsidiaries to the Company for the lease of properties and related equipment and facilities be capped at RMB50 million for the period commencing on 1 July 2018 and ending on 31 December 2018; At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated sales of digital communications products and communications products to 航天歐華, a connected party, by the Group in 2018 be capped at RMB1,100 million (before VAT); and Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

Note 1: For details of "Approved Cap", please refer to the section headed "Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)".

Note 2: For details of the connected transactions, please refer to Note X to the financial statements prepared under PRC ASBEs.

(2) The Company did not conduct any connected transactions arising from acquisitions or disposals of assets and equity interests during the year.

(3) Connected transactions of the Company involving joint investment in third parties during the year

The Company did not enter into any connected transactions involving joint investment in third parties during the year.

(4) Creditors and debtors with connected parties

During the year, the Company did not incur any creditors or debtors with connected parties of a non-operating nature.

Material Matters

(5) Other material connected transactions

① The following connected transactions were considered and approved at the Forty-first Meeting of the Seventh Session of the Board of Directors of the Company held on 31 October 2018. For details, please refer to the "CONNECTED TRANSACTION PROVISION OF FINANCIAL ASSISTANCE BY CONTROLLING SHAREHOLDER" and "Announcement Resolution of the Forty-first Meeting of the Seventh Session of the Board of Directors" published by the Company on 31 October 2018:

On 31 October 2018, the Company entered into the Loan Agreement and Pledge Agreement with Zhongxingxin, controlling shareholder of the Company, pursuant to which the Company shall seek loans amounting to not more than RMB1,000 million (with tranche 1 and tranche 2 each capped at RMB500 million) from Zhongxingxin according to the Company's funding requirements, and shall pledge the equity interests in ZTE Microelectronics as security. The loan interest rate shall be determined through negotiation between the two parties subject pertinent laws and regulations based on market-oriented principles and by reference to the interest rates for loans of similar nature extended by other commercial banks and financial institutions, taking also into consideration factors such as the finance cost of Zhongxingxin for obtaining financing from relevant third party institutions.

② The following connected transactions were considered and approved at the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, Forty-third Meeting of the Seventh Session of the Board of Directors of the Company held on 29 December 2018 and the First Extraordinary General Meeting of 2019 held on 20 March 2019 (for details, please refer to the "Announcement Resolution of the Forty-second Meeting of the Seventh Session of the Board of Directors" and "CONTINUING CONNECTED TRANSACTIONS PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN" published on 26 December 2018, "Announcement Resolution of the Forty-third Meeting of the Seventh Session of the Board of Directors" and "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" published on 1 January 2019, and "Announcement on Resolutions of the First Extraordinary General Meeting of 2019" published on 20 March 2019 by the Company:

a. The estimated cumulative amount (before VAT) of purchase of raw materials from Zhongxingxin and its its subsidiaries and companies in which it held equity interests of 30% or above by the Group for the years 2019–2021 will be capped at RMB700 million, RMB800 million and RMB900 million, respectively;

b. The estimated cumulative amount (before VAT) of sales of products to 航天歐華 by the Group in 2019 will be capped at RMB800 million;

c. The estimated cumulative amount (before VAT) of purchase of software outsourcing services from Huatong by the Group in 2019 will be capped at RMB70 million;

d. The estimated cumulative amount (before VAT) of purchase of software outsourcing services from Nanchang Software by the Group in 2019 will be capped at RMB30 million;

e. The estimated cumulative amount (before VAT) of purchase of engineering services from Nanchang Software by the Group for each of the periods from 25 December 2018 to 31 October 2019 and from 1 November 2019 to 31 October 2020 will be capped at RMB1 million and RMB1 million, respectively.

f. The estimated cumulative amount (before VAT) of continuing connected transactions in relation to the purchase of hotel services from Zhongxing Hetai or its subsidiaries by the Group for the years 2019–2021 will be capped at RMB36 million, RMB36.50million and RMB37.50 million, respectively.

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g. The estimated cumulative amount (before VAT) of continuing connected transactions in relation to the lease of properties and related equipment and facilities to Zhongxing Hetai or its subsidiaries by the Group in 2019 will be capped at RMB72.06 million.

2. Continuing connected transactions under the Hong Kong Listing Rules

In accordance with Chapter 14A of the Hong Kong Listing Rules, the following connected transactions are required to be disclosed in this report. The Company hereby confirms that the disclosures requirements under Chapter 14A of the Hong Kong Listing Rules have been complied with.

(1) Continuing connected transactions — purchase of raw materials from Zhongxingxin

The Group has entered into connected transaction framework agreements with the following connected parties, and has fulfilled the statutory procedures of reporting and announcement in accordance with relevant clauses under Chapter 14A of the Hong Kong Listing Rules based on the estimated annual cap of each connected transaction. For details, please refer to the "Continuing Connected Transactions — Purchases of Raw Materials from Zhongxingxin" published on 22 September 2015. Pursuant to the Supplemental Agreement for the Zhongxingxin Purchase Framework Agreement between the Company and Zhongxingxin considered and approved at the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, the scope of the Zhongxingxin Purchase Framework Agreement was extended to cover Zhongxingxin, its subsidiaries and investee companies (namely, companies in which Zhongxingxin directly or indirectly held shareholdings of 30% or above). Save for the aforementioned amendment, all other terms and conditions under the Zhongxingxin Purchase Framework Agreement disclosed in the "Continuing Connected Transactions — Purchases of Raw Materials from Zhongxingxin" published on 22 September 2015 remained unchanged. For details, please refer to the "CONTINUING CONNECTED TRANSACTIONS — SUPPLEMENTAL AGREEMENT FOR THE ZHONGXINGXIN PURCHASE FRAMEWORK AGREEMENT" published by the Company on 19 January 2017.

① Purchases of raw materials by the Company from Zhongxingxin and companies in which it directly or indirectly holds 30% shareholdings or above, comprising primarily cabinets and accessories, cases and accessories, shelters, railings, antenna poles, optical products, refined processing products, packaging materials, FPC, R-FPC and components

- Description of the connected relationship between the parties to the transaction:

  Zhongxingxin is the largest shareholder of the Company. As controlling shareholder of the Company, Zhongxingxin is a connected person of the Company under the Hong Kong Listing Rules. Zhongxingxin, its subsidiaries and investees companies (namely, companies in which Zhongxingxin holds, directly or indirectly, 30% shareholdings or above) are connected persons of the Company under the Hong Kong Listing Rules.

- Total transaction amount in 2018:

  Approximately RMB209,653,000

Note: Zhongxingxin disposed of its 60% equity interest in 中興儀器(深圳)有限公司 ("Zhongxing Instruments") and completed registration changes with industrial and commercial administration authorities on 14 December 2017, upon which Zhongxingxin no longer held any equity interest in Zhongxing Instruments. Zhongxing Instruments has ceased to be a connected person of the Company within the meaning of the Hong Kong Listing Rules as from 14 December 2017 and has ceased to be the Company's connected party under the Shenzhen Listing Rules as from 14 December 2018. Hence the continuing connected transaction for the purchase of raw materials by the Group from from Zhongxingxin, its subsidiaries and investees companies (namely, companies in which Zhongxingxin holds, directly or indirectly, 30% shareholdings or above) in 2018 did not include Zhongxing Instruments under the Hong Kong Listing Rules, while under the Shenzhen Listing Rules Zhongxing Instruments was still included for the period from 1 January to 14 December 2018.

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- Price and other terms:

  Pursuant to the Zhongxingxin Purchase Framework Agreement entered into between the Group and Zhongxingxin dated 22 September 2015 in respect of the purchase of raw materials by the Group from Zhongxingxin and its subsidiaries considered and approved at the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the "Supplemental Agreement for the Zhongxingxin Purchase Framework Agreement" between the Company and Zhongxingxin dated 19 January 2017, the effective period shall be from 1 January 2016 to 31 December 2018 and the amount of purchase from Zhongxingxin, its subsidiaries and investee companies (namely, companies in which Zhongxingxin holds, directly or indirectly, 30% shareholdings or above) made by the Group for 2016–2018 shall be capped at RMB800 million, RMB900 million and RMB1,000 million (before VAT), respectively.

  A potential supplier must pass the Group's internally formulated qualification procedures based on qualifications, product quality and price in order to become an approved supplier of the Group. Zhongxingxin, its subsidiaries and investee companies (namely, companies in which Zhongxingxin holds, directly or indirectly, 30% shareholdings or above) were selected through the Group's qualification and bidding procedures as described above. For details, please refer to the "Continuing Connected Transactions — Purchases of Raw Materials from Zhongxingxin" published on 22 September 2015 by the Company. The Directors confirm that the accreditation of qualifications, bidding procedures, pricing bases and internal Group procedures under the Zhongxingxin Purchase Framework Agreement will effectively ensure that the Group's purchases from Zhongxingxin, its subsidiaries and investee companies (namely, companies in which Zhongxingxin holds, directly or indirectly, 30% shareholdings or above) are made on an arm's length basis and on normal commercial terms without compromising the interests of the Group and its independent shareholders as a whole. The Group will settle the payment by commercial acceptance bill for the products within 210 days from the date of inspection and acceptance of the raw materials.

  Pursuant to and subject to the terms of the Zhongxingxin Purchase Framework Agreement, the Group will issue purchase orders to (or enter into individual agreements with) Zhongxingxin, its subsidiaries and investee companies (namely, companies in which Zhongxingxin holds, directly or indirectly, 30% shareholdings or above) from time to time, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery schedules, locations and modes, as well as other contract details. Prices shall be determined on the basis of the prices for which tenders are won by Zhongxingxin and companies in which it directly or indirectly holds 30% shareholdings or above. The annual cap for purchase in 2018 was estimated at RMB1,000 million (before VAT).

- Purpose of the transaction:

  Zhongxingxin, its subsidiaries and investee companies (namely, companies in which Zhongxingxin holds, directly or indirectly, 30% shareholdings or above) had been selected as suppliers through the Group's qualification and bidding procedures as they had consistently been able to meet the Group's stringent demands for product supply, product quality and timely delivery. The Group consider it very important and beneficial to have reliable and cooperative suppliers, and purchasing raw materials required for the Group's products from Zhongxingxin, its subsidiaries and investee companies (namely, companies in which Zhongxingxin holds, directly or indirectly, 30% shareholdings or above) allows the Group to ensure the quality and timely delivery of such raw materials.

② **The Independent Non-executive Directors of the Company have reviewed each of the aforesaid continuing connected transactions of the Group and confirmed that:**

- the transactions were conducted in the ordinary and usual course of business of the Company;

- the transactions were entered into on normal commercial terms or above;

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- the transactions were conducted in accordance with the terms of the agreements governing them and the terms of the transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole; and

- the Company has established adequate and efficient internal control procedures in relation to the aforesaid connected transactions.

③ **The auditors of the Company have examined the aforesaid continuing connected transactions and confirmed to the Board of Directors of the Company that, in relation to the continuing connected transactions:**

- no matters had come to the attention of the auditors causing the auditors to believe that the disclosed continuing connected transactions had not been approved by the Board of Directors of the Company;

- no matters had come to the attention of the auditors causing the auditors to believe that such continuing connected transactions had not been conducted in accordance with the pricing policies of the Group in all material aspects (where goods or services are being supplied or rendered by the Company);

- no matters had come to the attention of the auditors causing the auditors to believe that such continuing connected transactions had not been conducted in accordance with the terms of the agreements governing them in all material aspects; and

- no matters had come to the attention of the auditors causing the auditors to believe that such continuing connected transactions had exceeded the relevant annual caps as disclosed by announcements.

(2) Provision of financial assistance to the Group by Zhongxingxin

On 31 October 2018, the Company entered into the Loan Agreement with Zhongxingxin (the controlling Shareholder), pursuant to which Zhongxingxin has agreed to provide the Loan in an aggregate amount of up to RMB1,000,000,000. The loan will be applied by the Company in product research and development. As Zhongxingxin is the controlling Shareholder of the Company and therefore a connected person of the Company under the Hong Kong Listing Rules, the provision of financial assistance to the Group by Zhongxingxin constitutes a connected transaction of the Company. At the forty-first meeting of the seventh session of the Board held on 31 October 2018, the Board approved the entering into of the Loan Agreement and the transactions contemplated thereunder. For details, please refer to the "CONNECTED TRANSACTION PROVISION OF FINANCIAL ASSISTANCE BY CONTROLLING SHAREHOLDER" published by the Company on 31 October 2018.

(3) Connected transactions

During 2018, the Group was engaged in certain transactions with its connected parties under HKFRSs, the details of which are set out in Note 50 to the financial statements.

Transactions relating to the payment of remuneration by the Company to its key management personnel, including remuneration for the directors, supervisors and chief executive officers of the Company and its subsidiaries, fall within the scope of connected transaction defined under Chapter 14A of the Hong Kong Listing Rules. Such transactions are exempted from compliance with provisions relating to connected transactions under Rule 14A.76 or Rule 14A.95. Moreover, transactions relating to the issue of new shares to the directors and chief executive officer of the Company and its subsidiaries by the Company pursuant to the share option incentive scheme also fall within the scope of connected transaction defined under Chapter 14A of the Hong Kong Listing Rules. Such transactions are exempted from compliance with provisions relating to connected transactions under Rule 14A.92(3).

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Chengdu ZTE Software Company Limited (成都中興軟件有限責任公司) ("Chengdu Software"), a subsidiary of the Company, leased a property from Zhongxingxin in 2018 for a rental amount of RMB8,827,000. Such transaction is exempted from compliance with connected transaction provisions under Rule 14A.76.

ZTE (Heyuan) Company Limited, a subsidiary of the Company, leased properties to Zhongxingxin and深圳市中興新力精密機電技術有限公司 (held as to 85% by Zhongxingxin) in 2018 for rental amounts of RMB6,000 and RMB8,000, respectively. Such transactions are exempted from compliance with connected transaction provisions under Rule 14A.76.

ZTE Group Finance, a subsidiary of the Company, provided commercial acceptance bills discounting service for an amount of RMB3,178,400 to Pylon Technologies Co., Ltd. ("Pylon", a company in which Zhongxingxin held 40.4547% shares) and received bills discounting service interests amounting to RMB78,000 from Pylon in 2017. Such transaction has been exempted from compliance with provisions relating to connected transactions pursuant to Rule 14A.76.

During 2018, the Group sold wireless communication system equipment products etc. with a total amount of RMB284,300 to Zhongxingxin and companies in which it held, directly or indirectly, 30% shareholdings or above. Such transaction has been exempted from compliance with provisions relating to connected transactions pursuant to Rule 14A.76.

Save as disclosed in the above, there were no other connected transactions which should be deemed as "connected transactions" or "continuing connected transactions" as defined under Chapter 14A of the Hong Kong Listing Rules. The Company has complied with applicable disclosure requirements under Chapter 14A of the Hong Kong Listing Rules in respect of the aforesaid connected transactions.

(XI) MATERIAL CONTRACTS AND THEIR PERFORMANCE

1. There was no trust, contract management or lease of assets of other companies by the Company or of the Company's assets by other companies commencing or subsisting during the year.

2. Third-party guarantees of the Group

Third-party guarantees provided by the Company and subsidiaries (excluding guarantees provided by the Company on behalf of subsidiaries and by subsidiaries on behalf of fellow subsidiaries)

Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Beijing Fuhua Yuqi Information Technology Co., Ltd. Note 1	1 December 2016 201678	RMB21,019,250	1 April 2017	RMB21,019,250	Joint liability assurance	From the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of obligations under the Technology Development (Entrustment) Contract	No	No
Zhejiang Sunland Technology Company, Ltd Note 2	N/A	RMB7,765,520	15 September 2016	RMB7,765,520	Joint liability	From the date on which the Ningbo Smart Transport Project Contract comes into effect upon execution and ending on the completion of Zhejiang Sunland's performance of obligations under the Ningbo Smart Transport Project Contract	No	No

Total amount of third-party guarantee approved during the reporting period (A1)	–	Total amount of third-party guarantee actually incurred during the reporting period (A2)	–
Total amount of third-party guarantee approved as at the end of the reporting period (A3)	RMB21,019,300	Total amount of third-party guarantee actually incurred as at the end of the reporting period (A4)	RMB21,019,300

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Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
			Guarantees provided by the Company on behalf of subsidiaries					
ZTE France SASU Note 3	14 December 2011 201152	EUR10 million	N/A	–	Assurance	From maturity to the date on which performance of obligations of ZTE France under the "SMS Contract" and "PATES Contract" expires or terminates (whichever is later)	N/A	No
PT. ZTE Indonesia Note 4	13 September 2013 201362	USD40 million	23 October 2013	USD40 million	Joint liability	From maturity to the date on which performance of material obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed	No	No
PT. ZTE Indonesia Note 4	13 September 2013 201362	USD15 million	11 September 2013	USD15 million	Joint liability	From maturity to 5 March 2017 or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed (whichever is later)	No	No
ZTE (H.K.) Limited Note 5	27 March 2014 201413	Not more than USD600 million or RMB4,000 million	18 July 2014	USD450 million	Joint liability assurance	Not more than 5 years (from the date on which the debt financing agreement comes into effect)	Yes	No
			12 January 2015	EUR40 million	Joint liability assurance	From 12 January 2015 to (1) 6 months after 12 January 2018, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	Yes	No
			20 March 2015	USD60 million	Joint liability assurance	From 20 March 2015 to 20 March 2019	No	No
ZTE (Malaysia) Corporation SDN. BHD Note 6	24 September 2014 201440 8 January 2016 201605	USD60 million	27 November 2014	USD33.34 million	Joint liability	Commencing on the date on which the "UM Wireless Capacity Expansion Contract" comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Malaysia under the "UM Wireless Capacity Expansion Contract" is completed	No	No
ZTE (Malaysia) Corporation SDN. BHD Note 6	24 September 2014 201440 8 January 2016 201605	USD2 million	4 January 2015	USD2 million	Joint liability	Not more than 6 years from the date on which the bank letter of guarantee comes into effect upon issuance	No	No
ZTE (H.K.) Limited or ZTE COOPERATIEF UA Note 7	26 March 2015 201511	EUR200 million	24 June 2015	EUR70 million	Joint liability assurance	From 24 June 2015 to 22 December 2018	Yes	No
			24 June 2015	EUR30 million	Joint liability assurance	From 24 June 2015 to (1) 6 months after 24 June 2018, or (2) the irrevocable settlement in full by ZTE COOPERATIEF of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	Yes	No

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Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Guarantees provided by the Company on behalf of subsidiaries								
			8 September 2016	EUR50 million	Joint liability assurance	From 8 September 2016 to (1) 8 February 2021, or (2) the irrevocable settlement in full by ZTE COOPERATIEF of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
			10 April 2017	EUR30 million	Joint liability assurance	From 10 April 2017 to (1) 22 December 2020, or (2) the irrevocable settlement in full by ZTE COOPERATIEF of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
ZTE (Heyuan) Company Limited Note 8	26 August 2016 201664	RMB500 million	1 November 2016	RMB400 million	Joint liability assurance	Not more than 3 years (from the date on which the debt financing agreement comes into effect)	No	No
ZTE (Wenzhou) Railway Communication Technology Limited Note 9	30 September 2017 201765	RMB0.80 million	18 October 2017	RMB0.80 million	Joint liability	Commencing on the closing date for the tender and ending on the date of execution of the "Wenzhou Public Security Communications Contract"	Yes	No
		RMB3.30 million	28 December 2017	RMB3,152,500	Joint liability	Commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate	No	No
ZTE (H.K.) Limited Note 10	16 March 2018 201822	Not more than USD600 million	–	–	Joint liability assurance	Not more than 66 months (from the date on which an individual debt financing agreement comes into effect)	No	No
PT. ZTE Indonesia Note 11	15 October 2018 201890	USD40 million	25 October 2018	USD40 million	Joint liability	Commencing on the date of issuance of the guarantee letter of the parent company and ending on the date on which the parent company is fully released from its assurance obligations under the guarantee	No	No
PT. ZTE Indonesia Note 11	15 October 2018 201890	IDR300 billion	–	–	Joint liability	Commencing on the date of issuance of the bank guarantee letter and ending upon the conclusion of an effective term of 3 years and 6 months or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed, whichever is later	N/A	No
ZTE Corporation Note 12	19 September 2018 201882	RMB2,287 million	–	–	Joint liability	2 years from the date on which the period for the fulfilment of primary debt by the debtor under the main contract (i.e., ZTE) is concluded, or 2 years from the date on which the period for the fulfilment of the last instalment of the primary debt is concluded, where fulfilment is by instalment	N/A	No

Total amount of guarantee approved during the reporting period (B1)	RMB7,776,600,000 Note 13	Total amount of guarantee actually incurred during the reporting period (B2)	RMB274,480,000
Total amount of guarantee approved as at the end of the reporting period (B3)	RMB14,849,380,000 Note 13	Total amount of guarantee actually incurred as at the end of the reporting period (B4)	RMB2,337,313,600

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Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Guarantees provided by subsidiaries on behalf of fellow subsidiaries								
ZTE ICT Company Limited Note 14	N/A	RMB160 million	30 December 2014	RMB21,147,200	Joint liability	5 years (from the date of drawdown)	No	No
西安中興通訊終端科技有限公司Note 15	N/A	RMB60,005,000	13 March 2015	RMB60,005,000	Joint liability	5 years	No	No
深圳市中興新能源汽車服務有限公司 Note 16	N/A	RMB60 million	29 December 2015	RMB54 million	Joint liability assurance	Commencing on the date on which the "CDB Development Fund Investment Agreement" comes into effect and ending upon on the conclusion of a period of 2 years from the date on which the amounts payable by 深圳市中興新能源汽車服務有限公司 are settled in full	No	No
Whale Cloud Technology Netherlands B.V. Note 17	N/A	EUR11,173,111	31 May 2016	EUR11,173,111	Joint liability	From 31 May 2016 to 31 January 2020	No	No
西安克瑞斯半導體技術有限公司Note 18	N/A	USD30 million	26 January 2017	USD2,117,578.3	Joint liability	Commencing on the date on which the "Guarantee Contract" comes into effect and ending upon on the conclusion of a 2-year period during which 克瑞斯 has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding.	No	No
ZTE (Australia) Pty Ltd. Note 19	N/A	USD40 million	N/A	–	Joint liability	Commencing on the date on which the "PTA-LTE-R Project Contract" comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Australia under the "PTA-LTE-R Project Contract" is completed.	N/A	No
		USD3 million	N/A	–	Joint liability	Commencing on the date on which the guarantee letter comes into effect and ending on the date on which performance of the obligations of ZTE Australia under the "PTA-LTE-R Project Contract" is completed.	N/A	No
		USD40 million	N/A	–	Joint liability	Commencing on the date on which the "PTA-LTE-R Project Contract" comes into effect and ending on the date on which performance of the obligations of ZTE Australia under the "Joint Entity Agreement" is completed.	N/A	No
Netaş Bilişim Teknolojileri A.Ş. Note 20	N/A	USD2,153,300	14 November 2012	USD82,888.02	Joint liability	Commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which performance of the obligations of Netas Bilişim under the "Systems Integration Agreement" is completed.	No	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. Note 20	N/A	EUR10,753,800	5 May 2017	EUR10,753,800	Joint liability	Commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed	No	No

Total amount of guarantee for subsidiary approved during the reporting period (C1)	–	Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)	RMB15,099,600
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)	RMB1,154,610,700	Total amount of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)	RMB234,675,600

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Total amount guaranteed by the Company (sum of the three categories aforesaid)			
Total amount of guarantee approved during the reporting period (A1+B1+C1)	RMB7,776.60 million	Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)	RMB289,579,600
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)	RMB16,025.01 million	Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)	RMB2,593,008,500
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company		11.32%	
Including:			
Amount of guarantee provided on behalf of shareholders, de facto controllers and their connected parties (D)		0	
Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (E)		RMB1,988,729,900	
Amount of total guarantee exceeding 50% of net assets (F)		0	
Aggregate amount of the three guarantee amounts stated above (D+E+F)		RMB1,988,729,900	
Statement on liability incurred during the reporting period or potential joint liability for debt settlement (if any) in respect of outstanding guarantees		N/A	
Statement on provision of guarantee to third parties in violation of stipulated procedures (if any)		N/A	

Note 1: It was considered and approved at the Tenth Meeting of the Seventh Session of the Board of Directors that guarantee be provided by the Company by way of joint liability assurance for the performance of obligations by Beijing Fuhua Yuqi Information Technology Co., Ltd. ("Fuhua Yuqi") under the Technology Development (Entrustment) Contract for a guarantee amount of not more than RMB21,019,250 for a term commencing on the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of obligations under the Technology Development (Entrustment) Contract. The Technology Development (Entrustment) Contract came into effect on 1 April 2017 upon execution. Fuhua Yuqi has provided a third-party counter-guarantee to the Company in respect of the aforesaid guarantee.

Note 2: Following consideration by the board of directors of ZTEsoft, it was approved that joint liability guarantee be provided by ZTEsoft for Zhejiang Sunland Technology Company, Ltd ("Zhejiang Sunland") for its performance obligations under the Ningbo Smart Transport Project Contract to the extent of the project items undertaken by Zhejiang Sunland for an amount capped at RMB7,765,520, for a term from the date on which the Ningbo Smart Transport Project Contract comes into effect upon execution to the date on which the obligations of Zhejiang Sunland under Ningbo Smart Transport Project Contract are completed. The Ningbo Smart Transport Project Contract came into effect on 15 September 2016 upon execution. Zhejiang Sunland has provided a third-party counter-guarantee to ZTEsoft in respect of the aforesaid guarantee. The Company completed a partial disposal of equity interests in ZTEsoft in 2018 and ZTEsoft was excluded from the consolidated statements of the Company as at the end of the reporting period.

Note 3: It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France SASU ("ZTE France"), a wholly-owned subsidiary of the Company under the 2010 SMS Execution Contract ("SMS Contract") and the PATES-NG Execution Contract ("PATES Contract"). As at the end of the reporting period, the PATES Contract was competed and the guarantee provided by the Company in respect of the performance obligations of ZTE France was undergoing registration procedures of the State Administration of Foreign Exchange and had yet to be performed.

Note 4: It was considered and approved at the Ninth Meeting of the Sixth Session of the Board of Directors and the Third Extraordinary General Meeting of 2013 of the Company that a performance guarantee of USD40 million be provided by the Company for ZTE Indonesia, a wholly-owned subsidiary of the Company, and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD15 million. As at the end of the reporting period, the aforesaid guarantee was under normal performance.

Note 5: The Company sought medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee by way of joint liability assurance for an amount of not more than USD600 million (or not more than RMB4,000 million) in relation to the aforesaid debt financing of ZTE HK. The aforesaid guarantee was considered and passed at the Sixteenth Meeting of the Sixth Session of the Board of Directors and the 2013 Annual General Meeting of the Company. The total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) represented the higher of USD600 million or RMB4,000 million. In July 2014, ZTE HK entered into a USD450 million syndicate loan agreement with 12 international banks including BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide joint liability assurance for an amount of not more than USD450 million in favour of the lending banks for ZTE HK. ZTE HK completed repayment of the aforesaid USD450 million syndicate loan in July 2018, and the corresponding guarantee agreement was terminated in July 2018. ZTE HK entered into a EUR40 million loan agreement with Banco Santander, S.A. and a USD60 million loan agreement with DBS Bank in January and March 2015, respectively. At the same time, the Company entered into guarantee agreements with Banco Santander, S.A. and DBS Bank, respectively, to provide guarantee to Banco Santander, S.A. and DBS Bank for amounts of not more than EUR40 million and USD60 million, respectively, by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE HK. ZTE HK completed a EUR40 million loan repayment to Banco Santander in January 2018, and the corresponding guarantee agreement was terminated in January 2018.

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Note 6: At the Twenty-first Meeting of the Sixth Session of the Board of Directors, it was considered and approved that the Company would provide a USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, and apply to relevant banks for the issuance of a USD2 million bank letter of guarantee. As the gearing ratio of ZTE Malaysia was above 70%, the aforesaid guarantee was considered and approved at the First Extraordinary General Meeting of 2014 of the Company. At the Thirty-ninth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2016 of the Company, it was considered and approved that the Company would increase the USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, by USD40 million (namely, a total of not more than USD60 million) and to extend the valid period of the USD2 million bank letter of guarantee to 6 years after the date of issuance. As at the end of the reporting period, USD33.34 million of the USD60 million performance guarantee provided by the Company for ZTE Malaysia and the USD2 million bank letter of guarantee issued by relevant banks and applied for by the Company on behalf of ZTE Malaysia had come into effect.

Note 7: The Company conducted outside Mainland China medium/long-term debt financing (including but not limited to banks facilities and issue of bonds) with ZTE HK or ZTE COOPERATIEF UA ("ZTECOOPERATIEF"), each a wholly-owned subsidiary, as the principal. The Company provided guarantee for ZTE HK or ZTE COOPERATIEF by way of joint liability assurance for an amount of not more than EUR200 million (or the equivalent in other currencies, calculated according to the Company's foreign currency statement book exchange rate) in relation to the aforesaid debt financing for a term of not more than 5 years (from the date on which the debt financing agreement takes effect). The aforesaid matter was considered and approved at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors and the 2014 Annual General Meeting of the Company. ZTE COOPERATIEF entered into respective loan agreements with Bank of China Limited, Luxembourg Branch ("BOC Luxembourg") and Banco Santander, S.A., Hong Kong Branch ("Santander HK") for amounts of EUR70 million and EUR30 million, respectively, in June 2015. At the same time, the Company entered into guarantee agreements with BOC Luxembourg and Santander HK, respectively, to provide guarantee to BOC Luxembourg and Santander HK for amounts of not more than EUR70 million and EUR30 million, respectively, by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF.. ZTE COOPERATIEF completed loan repayments of EUR70 million and EUR30 million to BOC Luxembourg and Santander HK, respectively, in June 2018, and the corresponding guarantee agreements were terminated in June 2018. ZTE COOPERATIEF entered into a loan agreement with Credit Agricole CIB ("Credit Agricole") for an amount of EUR50 million in February 2016. At the same time, the Company entered into a guarantee agreement with Credit Agricole to provide guarantee to Credit Agricole for an amount of not more than EUR50 million in September 2016 by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF. ZTE COOPERATIEF entered into a loan agreement with Banco Bilbao Vizcaya Argentaria, Hong Kong ("Banco Bilbao HK") for an amount of EUR30 million in April 2017. At the same time, the Company entered into a guarantee agreement with Banco Bilbao HK to provide guarantee to Banco Bilbao HK for an amount of not more than EUR30 million by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF.

Note 8: At the Eighth Meeting of the Seventh Session of the Board of Directors, it was considered and approved that guarantee be provided by the Company by way of joint liability assurance in connection with the debt financing of ZTE Heyuan for an amount of not more than RMB500 million for a term of not more than 3 years (from the date on which the debt financing agreement comes into effect). ZTE Heyuan entered into a RMB400 million loan agreement with Bank of China Corporation, Shenzhen Branch ("BOC Shenzhen") in November 2016. At the same time, the Company entered into a guarantee agreement with BOC Shenzhen to provide joint liability assurance for an amount of not more than RMB400 million to guarantee the due performance of obligations under the loan agreements by ZTE Heyuan.

Note 9: As considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors, the provision of the following guarantees for ZTE (Wenzhou) Railway Communication Technology Limited ("ZTE Wenzhou") by the Company was approved: (1) Guarantee for tender deposit: the Company providing a guarantee for tender deposit amounting to RMB800,000 in respect of the tendering obligations of ZTE Wenzhou for the Wenzhou Public Security Communications Project for a period commencing on the closing date for the tender and ending on the date of execution of the "Wenzhou Public Security Communications Contract". The "Wenzhou Public Security Communications Contract" was executed in February 2018 and the guarantee for tender deposit was terminated; (2) Guarantee by way of performance bond: upon successful bidding, the Company will provide a guarantee by way of performance bond amounting to not more than RMB3.30 million in respect of the performance obligations of ZTE Wenzhou under the "Wenzhou Public Security Communications Contract" for a period commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate. The Company has applied to the relevant bank for the issuance of a bank guarantee letter providing guarantee by way of performance bond with a cumulative maximum amount of RMB3,152,500 in respect of the performance obligations of ZTE Wenzhou under the "Wenzhou Public Security Communications Contract". As at the end of the reporting period, the performance bond had come into effect. ZTE Wenzhou had provided counter-guarantees in equivalent amounts to the Company in respect of the aforesaid guarantees.

Note 10: The Company sought medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee by way of joint liability assurance for an amount of not more than USD600 million. The aforesaid guarantee was considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors and the 2017 Annual General Meeting of the Company.

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Note 11: As considered and passed at the Thirty-ninth Meeting of the Seventh Session of the Board of Directors, the provision of USD40 million performance guarantee and the application to the relevant bank for the issuance of a IDR 300 billion bank letter of guarantee by the Company for ZTE Indonesia, a wholly-owned subsidiary, was approved. The aforesaid guarantee was within the limit of USD200 million for the guarantee of contract performance provided for Wholly-owned Overseas Subsidiaries as considered and passed at the 2017 Annual General Meeting. As at the end of the reporting period, the USD40 million performance guarantee agreement had been executed, while the IDR300 billion bank letter of guarantee had yet to be issued.

Note 12: As considered and passed at the Thirty-sixth Meeting of the Seventh Session of the Board of Directors of the Company and by way of resolution at the general meeting of Shenzhen Guoxin Electronics Development Company Limited ("Guoxin Electronics"), a subsidiary of the Company, it was approved that Guoxin Electronics would enter into the Mortgage Contract with Shenzhen Investment Holdings Co., Ltd. ("SIHC") to provide guarantee in respect of the Company's obligations under the project by the Company and SIHC secured by land blocks and buildings thereon in Buji Sub-district of Longgang District of Shenzhen held by Guoxin Electronics. The guarantee amount was approximately RMB2,287 million. The Mortgage Contract was executed on 19 September 2018. As at the end of the reporting period, the relevant mortgage registration procedures had yet to be completed.

Note 13: As considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors of the Company and the 2017 Annual General Meeting, the Company would provide a guarantee amount for contract performance (including but not limited to the execution of guarantee agreements by the parent company and the provision of bank letters of guarantee) of not exceeding USD200 million in aggregate for 9 wholly-owned overseas subsidiaries including ZTE Indonesia. The aforesaid guarantee amount may be applied on a revolving basis during an effective period commencing on the date on which the limit of performance guarantee provided by the Company for wholly-owned overseas subsidiaries is considered and approved at the 2017 General Meeting of the Company and ending on the date on which the Company's 2018 Annual General Meeting is convened. After the limit of performance guarantee provided by the Company for wholly-owned overseas subsidiaries has been considered and approved at the Company's general meeting, specific guarantees within the limit shall be approved by the Board of Directors of the Company, which shall be responsible for disclosing relevant. The computations of the total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) include a USD200 million guarantee provided for overseas wholly-owned subsidiaries. As at the end of the reporting period, the balance of the aforesaid guarantee amount was USD140 million.

Note 14: It was considered and approved at the board meeting and general meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide guarantee by way of joint liability assurance for an amount of RMB160 million in respect of the project financing of ZTE ICT Company Limited ("ZTE ICT"), a controlling subsidiary of the Company, for a term of 5 years (from the date of issuance of the loan). As at the end of the reporting period, the aforesaid guarantee documents had come into effect and guarantee for an amount of RMB21,147,200 had come into effect. The other shareholder of ZTE ICT (holding a 10% interest in ZTE ICT) had provided a counter-guarantee for RMB16 million in favour of ZTE Group Finance in respect of the aforesaid guarantee.

Note 15: It was considered and approved at the board meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide joint liability guarantee for an amount of not more than RMB60.005 million in respect of the performance of the "Smart Phone Manufacturing Equipment Lease Contract" by 西安中興通訊終端科技有限公司, a wholly-owned subsidiary of the Company, for a term of 5 years. As at the end of the reporting period, the aforesaid guarantee documents had come into effect.

Note 16: It was considered and approved at the board meeting and general meeting of 中興新能源汽車有限責任公司, a subsidiary of the Company, that 中興新能源汽車有限責任公司 would provide guarantee by way of joint liability assurance for an amount of not more than RMB60 million in respect of a project financing for 深圳市中興新能源汽車服務有限公司 (renamed as "深圳市中興新能源汽車科技有限公司"), its wholly-owned subsidiary, for a term commencing on the date on which the "CDB Development Fund Investment Agreement" comes into effect and ending upon on the conclusion of a period of 2 years from the date on which the amounts payable by深圳市中興新能源汽車科技有限公司 are settled in full. As at the end of the reporting period, the aforesaid guarantee documents had come into effect.

Note 17: It was considered and approved at the board meeting of ZTEsoft that ZTEsoft would provide joint liability guarantee for an amount of EUR11,173,111 for ZTEsoft Netherlands B.V. (renamed as "Whale Cloud Technology Netherlands B.V., hereinafter as "ZTEsoft Netherlands"), its wholly-owned subsidiary, in connection with its performance obligations under the "Moebius Project Performance Service Contract" for a term from 31 May 2016 to 31 January 2020. The Company completed a partial disposal of equity interests in ZTEsoft in 2018 and ZTEsoft was excluded from the consolidated statements of the Company as at the end of the reporting period.

Note 18: It was considered and approved at the board meeting of ZTE Micro-electronics, a subsidiary of the Company, that ZTE Micro-electronics would provide joint liability guarantee for an amount of not more than USD30 million in connection with the procurement orders between 西安克瑞斯半導體技術有限公司 ("克瑞斯"), its wholly-owned subsidiary, and Taiwan Semiconductor Manufacturing Company Limited ("TSMC") for a term commencing on the date on which the "Guarantee Contract" comes into effect and ending upon on the conclusion of a 2-year period during which 克瑞斯 has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding. As at the end of the reporting period, the guarantee documents had come into effect and guarantee for an amount of USD2,117,578.3 had come into effect.

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Note 19: As considered and passed by the board of directors and general meeting of ZTE HK, a wholly-owned subsidiary of the Company, it was approved that ZTE HK will provide the following guarantees for ZTE (Australia) Pty Ltd. ("ZTE Australia"), a wholly-owned subsidiary of ZTE HK, after the successful bidding of the "PTA LTE-R Project Contract" by the joint entity formed by ZTE Australia and John Holland Pty Ltd: (1) provision of guarantee by ZTE HK in favour of PTA in respect of the performance obligations of ZTE Australia under the "PTA LTE-R Project Contract" for an amount of not more than USD40 million for a term commencing on the date on which the "PTA LTE-R Project Contract" comes into effect upon execution and ending on the date on which the performance of the obligations of ZTE Australia under the "PTA LTE-R Project Contract" are completed; (2) the application by ZTE HK to the relevant bank for the issuance of a bank guarantee letter providing guarantee with a cumulative maximum amount of USD3 million in respect of the performance obligations of ZTE Australia under the "PTA LTE-R Project Contract", with a valid term commencing on the date of issuance and ending on the date on which the performance of the obligations of ZTE Australia under the ""PTA LTE-R Project Contract" are completed; (3) provision of guarantee by ZTE HK in favour of John Holland Pty Ltd in respect of the performance obligations of ZTE Australia under the "Joint Entity Agreement" for an amount of not more than USD40 million for a term commencing on the date on which the "PTA LTE-R Project Contract" comes into effect upon execution and ending on the date on which the performance of the obligations of ZTE Australia under the "Joint Entity Agreement" is completed. As the Joint Entity has not won the bid for the PTA LTE-R Project, the relevant guarantee documents have not been and will not be executed. The bank guarantee letter has not been and will not be issued.

Note 20: The Company completed the acquisition of Netaş, a listed Turkish company, on 28 July 2017. Prior to the acquisition of Netaş by the Company, Netaş had provided the following guarantee for its subsidiaries Probil Bilgi İşlem Destek ve Danışmanlık San.ve Tic. A.Ş. (renamed as Netas Bilişim Teknolojileri A.Ş and hereinafter as "Netas Bilişim") and BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ("BDH"): (1) guarantee in respect of the performance obligations of Netas Bilişim under the "Systems Integration Agreement" for an amount of approximately USD2,153,300 for a term commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which the performance of the obligations of Netas Bilişim under the "Systems Integration Agreement " are completed; (2) guarantee in respect of the performance obligations of BDH under the "Procurement and Installation Agreement" for an amount of EUR10,753,800 for a term commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed. As at the end of the reporting period, the aforesaid guarantees were under normal performance.

Note 21: The guaranteed amounts are translated at the following book exchange rates of the Company as at 31 December 2018: USD1: RMB6.862, EUR1: RMB7.8506, IDR1: RMB1: 0.00047187.

3. Guarantees provided by the Group to third parties after the end of the year

ZTE ICT (Guangxi) Company Limited ("Guangxi ICT"), a wholly-owned subsidiary of ZTE ICT, which is in turn a subsidiary of the Company, has entered into a "Working Capital Maximum Borrowing Contract" (the "Borrowing Contract") with Guilin Bank Co., Ltd., Wuzhou branch for the provision of borrowings amounting to RMB20 million to Guangxi ICT by Guilin Bank Co., Ltd., Wuzhou branch. ZTE ICT has proposed to provide maximum amount guarantee by way of assurance with a maximum amount of RMB10 million in respect of the obligations of Guangxi ICT under the Borrowing Contract and enter into a "Maximum Guarantee Contract" with Guilin Bank Co., Ltd., Wuzhou branch for a term commencing on the date on which the "Maximum Guarantee Contract" comes into effect and ending on the date on which a period of three years has lapsed since the expiry of the exercisable period for the principal credit rights secured by the guarantee.

The aforesaid matter was considered and approved at the Forty-fifth Meeting of the Seventh Session of the Board of Directors held on 19 March 2019. For details, please refer to the "Announcement Resolutions of the Forty-fifth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on the Provision of Guarantee Between Subsidiaries" published by the Company on 19 March 2019.

4. For the special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company furnished by the Independent Non-Executive Directors of the Company, please refer to the "Independent Opinion of the Independent Non-Executive Directors on Matters pertaining to the Forty-sixth Meeting of the Seventh Session of the Board of Directors" published by the Company on 27 March 2019.

5. Entrusted investments and entrusted loans of the Group

For details of the entrusted investment and entrusted loans of the Group during the year, please refer to the section headed "Report of the Board of Directors — (II) 9. Analysis of Investment" in this report.

6. Progress of material contracts entered into during or prior to the year

☐ Applicable ✓ N/A

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(XII) UNDERTAKING

1. Undertakings by relevant undertaking parties, including the de facto controller, shareholders, connected parties, acquirer of the Company and the Company completed during the reporting period and outstanding as at the end of the reporting period

(1) Undertaking given upon the initial public offering or any refinancing exercise

a. Zhongxingxin, the controlling shareholder of the Company, entered into "Non-Competition Agreement" with the Company on 19 November 2004, pursuant to which Zhongxingxin has undertaken to the Company that: Zhongxingxin will not, and will prevent and preclude any of its other subsidiaries from carrying on or participating in any activities in any businesses deemed to be competing with existing and future businesses of the Company in any form (including but not limited to sole ownership, equity joint venture or co-operative joint venture and direct or indirect ownership of equity or other interests in other companies or enterprises, other than through ZTE); Zhongxingxin will immediately terminate and/or procure any of its subsidiaries to terminate any participation in, management or operation of any competing businesses or activities that Zhongxingxin and/or such subsidiaries are participating in or carrying on in any manner at any time.

b. Zhongxingxin, the controlling shareholder of the Company, provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the Company's non-public issuance of A shares of 2018: (1) that it will not, for so long as it remains the controlling shareholder of the Company, act beyond its powers to interfere with the Company's operating and management activities or infringe upon the Company's interests; (2) that it will willingly assume the liability for compensating the Company or other shareholders in accordance with the law in the event of losses incurred by the Company or other shareholders as a result of its violation of or refusal to honour its undertaking.

(2) Other undertaking given to minority shareholders of the Company

On 10 December 2007, Zhongxingxin gave an undertaking that it shall disclose any intention in future to dispose of unlocked shares in the Company held via the securities trading system to sell down shareholdings by a volume equivalent to 5% or more within six months after the first sell-down, by way of an indicative announcement to be published by the Company within two trading days before the first sell-down.

2. Undertaking by the Directors and senior management of the Company in relation to the implementation of remedial measures to address the dilution of return for the current period due to the Non-public Issuance of A Shares of the Company in 2018

The Directors and senior management of the Company provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the Company's Non-public Issuance of A Shares in 2018: (1) that they will not be engaged in tunneling in favour of other units or individuals on a no-payment basis or upon unfair terms, or compromise the interests of the Company in any other manner; (2) that they will exercise restraint in spending when performing duties of their office; (3) that they will not misappropriate Company assets for investing activities or expenses not related to the performance of their duties; (4) that they will procure the linking of the remuneration regime formulated by the Board of Directors or the Remuneration Committee of the Board of Directors with the implementation of the Company's measures relating to compensation for return; (5) that they will procure the linking of the exercise conditions under the Company's share option incentives to be announced with the implementation of the Company's measures relating to compensation for return; (6) that they will willingly assume the liability for compensating the Company or shareholders in accordance with the law in the event of losses incurred by the Company or shareholders as a result of their violation of or refusal to honour their undertaking.

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3. **Company statement on meeting original profit forecasts for assets or projects and the reasons therefor, where such profit forecasts have been made and the reporting period falls within the profit forecast period**

☐ Applicable ✓ N/A

(XIII) EXPLANATORY STATEMENT FROM THE BOARD OF DIRECTORS, THE SUPERVISORY COMMITTEE AND THE INDEPENDENT NON-EXECUTIVE DIRECTORS OF THE COMPANY ON THE ACCOUNTANT'S "QUALIFIED AUDIT REPORT" FOR THE YEAR

☐ Applicable ✓ N/A

(XIV) 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

For details of changes in the accounting policies of the Company for the year, please refer to the section headed "Highlights of accounting data and financial indicators (I)" in this report.

(XV) EXPLANATORY STATEMENT ON RECTIFICATION OF SIGNIFICANT ACCOUNTING ERRORS FOR THE YEAR REQUIRING RETROSPECTIVE RESTATEMENT

☐ Applicable ✓ N/A

(XVI) EXPLANATORY STATEMENT ON CHANGES TO THE SCOPE OF CONSOLIDATION 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 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 in September 2018. ZTEsoft has been excluded from the consolidated financial statements of the Group as from October 2018. On 10 October 2018, the Dusanbe 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.

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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.

(XVII) APPOINTMENT OF AUDITORS BY THE COMPANY

Ernst & Young Hua Ming LLP ("Ernst & Young Hua Ming") and Ernst & Young acted as the Group's PRC auditor and Hong Kong auditor, respectively. For details, please refer to the section headed "Corporate Governance Structure PART II — VI. Auditors' Remuneration" in this report.

(XVIII) DURING THE PAST THREE YEARS, NONE OF THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT CONTROLLING SHAREHOLDER, DE FACTO CONTROLLER OR ACQUIRER WAS SUBJECT TO INVESTIGATION BY COMPETENT PRC AUTHORITIES, ENFORCEMENT BY PRC JUDICIARY OR DISCIPLINARY AUTHORITIES, DETAINMENT BY PRC JUDICIAL AUTHORITIES OR PROSECUTION FOR CRIMINAL CHARGES, CASE INVESTIGATION OR ADMINISTRATIVE PENALTY BY CSRC, PROHIBITION FROM PARTICIPATION IN THE SECURITIES MARKET, OPINION OF DEEMED INAPPROPRIATENESS, MATERIAL ADMINISTRATIVE PUNISHMENT BY ENVIRONMENTAL PROTECTION, SECURITY REGULATION, TAXATION AND OTHER PRC ADMINISTRATIVE AUTHORITIES OR PUBLIC CENSURE BY PRC STOCK EXCHANGES.

(XIX) THERE WAS NO NON-COMPLIANCE WITH VALID COURT JUDGEMENT ON THE PART OF OR OVERDUE DEBTS OF A SUBSTANTIAL NATURE OWED BY THE COMPANY AND ITS CONTROLLING SHAREHOLDER DURING THE YEAR.

(XX) ALLEGED ILLICIT TRADING IN SHARES OF THE COMPANY BY DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR SHAREHOLDERS HOLDING 5% OR MORE OF SHARES IN THE COMPANY IN RESPECT OF WHICH THE RETRIEVAL OF GAINS FROM ALLEGED ILLICIT TRADING HAS BEEN ANNOUNCED BY THE COMPANY

☐ Applicable ✓ N/A

(XXI) PROSPECTS OF SUSPENSION OR TERMINATION OF LISTING SUBSEQUENT TO THE PUBLICATION OF THE ANNUAL REPORT

☐ Applicable ✓ N/A

(XXII) NO DEBENTURES OF THE COMPANY WERE IN ISSUE OR LISTED ON STOCK EXCHANGES DURING THE YEAR

(XXIII) OTHER SIGNIFICANT EVENTS

Save as aforesaid, no other significant events as specified under Rule 67 of the Securities Law and Article 30 of the Measures for the Administration of Information Disclosure by Listed Companies and events that were significant in the judgment of the Board of Directors of the Company occurred to the Company during the year.

(XXIV) THERE WERE NO OTHER DISCLOSEABLE MATERIAL MATTERS OCCURRING TO THE SUBSIDIARIES OF THE COMPANY DURING THE YEAR THAT REMAINED UNDISCLOSED

(XXV) PERFORMANCE OF CORPORATE SOCIAL RESPONSIBILITY BY THE COMPANY

1. Performance of social responsibilities in defined poverty aid

In adherence to its fundamental objectives of "championing the community welfare spirit, fulfilling corporate responsibility and promoting public welfare development", ZTE Charity Foundation has sought to build, with the support of our employees, an innovative community welfare project regime which is more focused, effective, transparent and compliant, engaged primarily in poverty aid through healthcare complemented by initiatives in education assistance and relief for the underprivileged.

During the year under review, the Company implemented a number of community welfare projects in three areas: poverty aid through healthcare, poverty aid through education and relief for the underprivileged, organizing close than 100 welfare campaigns. More specifically: (1) in connection with poverty aid through healthcare, the Company joined forces with Beijing Xinyangguang Charity Foundation and Shenzhen Henghui Children Charity Foundation to launch the "United Love Project" to help child patients suffering from leukemia in Heyuan, Guangdong and Qinghai Province on a pilot basis, in an experimental initiative to control serious diseases; (2) in connection with poverty aid through education, the Company participated in the Xinghua Education Assistance Project, Azure Reading (Education Assistance for Rural Children) Programme and Shaanxi Charity 100 Education Assistance Action to help facilitate education development in impoverished areas by providing financial assistance to underprivileged students and fund the construction of school libraries in impoverished areas; (3) in connection with and relief for the underprivileged, the Company organised visits to veteran soldiers and orphans and offered care in both materialistic and emotional terms through a variety of activities.

Statistics of the Company's defined poverty aid during the year are set out as follows:

Indicator	Unit	Count/status
I. Overview	—	—
Including: 1. Cash	RMB in ten thousands	572.7
2. Value of donation in kind	RMB in ten thousands	—
3. Number of people lifted from poverty among registered population of poverty	Person	—
II. Breakdown of contributions	—	—
1. Poverty aid through education	—	—
Including: 1.1 Amount contributed to the aid of underprivileged students	RMB in ten thousands	310
1.2 Number of underprivileged students receiving financial aid	Person	856
1.3 Amount contributed for the improvement of educational resources in impoverished areas	RMB in ten thousands	23.3
2. Poverty aid through healthcare	—	—
Including 2.1 Amount contributed to healthcare resources for impoverished areas	RMB in ten thousands	200
3. Other projects	—	—
Including: 3.1. Number of projects	Project	2
3.2. Amount contributed	RMB in ten thousands	39.4
III. Awards (details and class)	—	—

Material Matters

In 2019, the Company will continue to focus on the healthcare and education sectors in its performance of social responsibilities in defined poverty aid and tackle challenges in poverty aid-related healthcare by working with Beijing Xinyangguang Charity Foundation and Shenzhen Henghui Children Charity Foundation with a strong focus on the "United Love Project". Through ongoing participation in the Xinghua Education Assistance Project, we will continue to provide financial assistance to underprivileged students and look to optimise the model for assisting needy university students, aiming to enhance their job competitiveness as well as improving their finances.

2. Status in relation to environmental protection

Whether the listed company and its key subsidiaries are major pollution discharging units announced by environmental protection authorities

✓ Applicable ☐ N/A

Name of company or subsidiary	Name of main pollutants and typical pollutants	Means of discharge	Number of discharge outlets	Distribution of discharge outlets	Concentration of discharge	Pollutant discharge standards implemented	Total discharge volume in 2018	Approved total discharge volume	Excessive discharge
ZTE Corporation	Used batteries, tin slag, spent fluorescent tubes, etc	Transfer to professional hazard waste disposal agencies	1	55 Keji Road South, Nanshan District, Shenzhen	N/A	N/A	195.9 tonnes	N/A	N/A

(1) Construction and operation of facilities for the prevention of pollution

The Company has set up warehouse for the temporary storage of wastes. Hazardous wastes have been labelled and separately stored by category in accordance with environmental laws and regulations, while administrative rules and contingency plans have been formulated. Emergency facilities such as anti-seepage troughs and sand extinguishers have been put in place, and safety inspection of the storage zones have been carried out on a regular basis.

As a member of the UN Global Compact, ZTE has persisted in efforts in line with the idea of sustainable development on a global basis to realise harmony and co-growth of the community, environment and stakeholders.

ZTE has set up the Energy Conservation and Discharge Reduction Committee to oversee and drive energy conservation and the reduction of discharge and consumption at the corporate level: in terms of products, energy-saving measures have been adopted to procure clean production and energy conservation by improving efficiency in utilisation; in terms of operation, equipment upgrades have been carried out to enhance day-to-day management of energy conservation. Initiatives in these two aspects have combined to make our work in energy conservation and discharge reduction more target-specific and operable. The Company has also formulated measures for the administration of energy conservation and discharge reduction to propagate relevant regulations among the staff on a long-term basis, while energy conservation and discharge reduction has been implemented at the business departments by way of self-inspection, self-rectification and regular inspection and reporting by the departments in-charge.

Material Matters

(2) Environmental impact assessment for construction projects and other administrative approvals relating to environmental protection

The Company has conducted environmental impact assessment for construction projects and obtained environmental assessment approvals from the environmental authorities in accordance with environmental laws and regulations.

(3) Emergency plans for contingent environmental incidents

In order to establish a comprehensive emergency unit with unified command, quick response and efficient operation which will enhance the Company's ability to deal with various contingent events, prevent and mitigate the damage caused by contingent events, protect the lives of staff and the safety of the environment, and safeguard the stable and healthy development of the Company, we have formulated emergency plans for contingent events and established an emergency response team with established procedures for response to emergencies.

(4) Environmental self-monitoring plan

The Company has obtained ISO14001 accreditation for its environmental management system and conducts annual environmental inspection and testing as well as internal and external audit in accordance with the standards.

For details of the social welfare activities (including donations) of and performance of corporate social responsibility by the Company, please refer to the "2018 Sustainability Report" published by the Company on 27 March 2019.

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE YEAR

Unit: shares

	31 December 2017		Increase/decrease as a result of the change during the year (+, -)					31 December 2018	
	Number of shares	Percentage	New issue	Bonus issue	Transfer from capital reserve	Others Note	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	**3,184,710**	**0.08%**	**–**	**–**	**–**	**+416,258**	**+416,258**	**3,600,968**	**0.09%**
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned corporate shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	–	–	–	–	–	–	–	–	–
Comprising: domestic non-state-owned corporate shares	–	–	–	–	–	–	–	–	–
Domestic natural person shares	–	–	–	–	–	–	–	–	–
4. Foreign shares	–	–	–	–	–	–	–	–	–
Comprising: Foreign corporate shares	–	–	–	–	–	–	–	–	–
Foreign natural person shares	–	–	–	–	–	–	–	–	–
5. Senior management shares	3,184,710	0.08%	–	–	–	+416,258	+416,258	3,600,968	0.09%
II. Shares not subject to lock-up	**4,189,487,133**	**99.92%**	**–**	**–**	**–**	**−416,258**	**−416,258**	**4,189,070,875**	**99.91%**
1. RMB ordinary shares	3,433,984,599	81.90%	–	–	–	−416,258	−416,258	3,433,568,341	81.89%
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H shares)	755,502,534	18.02%	–	–	–	–	–	755,502,534	18.02%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**4,192,671,843**	**100.00%**	**–**	**–**	**–**	**–**	**–**	**4,192,671,843**	**100.00%**

Note: In accordance with relevant domestic regulations, shares held by the Directors, Supervisors or senior management shall be subject to lock-up or unlocking on a pro-rata basis.

(II) CHANGES IN SHARES SUBJECT TO LOCK-UP DURING THE YEAR

Unit: shares

No.	Name of shareholders subject to lock-up	Number of A shares subject to lock-up as at 31 December 2017	Number of A shares unlocked during the year Note 1	Increase in the number of A shares subject to lock-up during the year Note 2	Number of A shares subject to lock-up at the end of the year	Reason for lock-up	Date of unlocking
1	Xu Huijun	567,638	–	189,213	756,851	Restricted senior management shares	–
2	Pang Shengqing	550,261	–	183,421	733,682	Restricted senior management shares	–
3	Yin Yimin	569,550	–	–	569,550	Restricted senior management shares	–
4	Zhao Xianming	488,636	122,159	122,159	488,636	Restricted senior management shares	–
5	Xie Daxiong	371,852	–	–	371,852	Restricted senior management shares	–
6	Wei Zaisheng	329,757	–	–	329,757	Restricted senior management shares	–
7	Zhang Zhenhui	163,800	–	54,600	218,400	Restricted senior management shares	–
8	Xia Xiaoyue	38,195	–	–	38,195	Restricted senior management shares	–
9	Cao Wei	18,900	–	–	18,900	Restricted senior management shares	–
10	Xu Weiyan	8,279	–	2,760	11,039	Restricted senior management shares	–
11	Others	77,842	17,586	3,850	64,106	Restricted senior management shares	–
	Total	**3,184,710**	**139,745**	**556,003**	**3,600,968**	**–**	**–**

Note 1: The reduction in the number of shares subject to lock-up is attributable to (1) permission for Directors, Supervisors and senior management of the Company to dispose of up to 25% of their shareholdings through the stock exchange each year in accordance with relevant domestic regulations; (2) release of lock-up of shareholdings of departing Directors, Supervisors and senior management of the Company in accordance with relevant domestic regulations;

Note 2: The increase in the number of shares subject to lock-up is attributable to a lock-up applying to shareholdings of newly appointed and departed Directors, Supervisors and senior management in accordance with relevant domestic regulations.

(III) ISSUE AND LISTING OF SECURITIES DURING THE YEAR

1. The Company granted 149,601,200 A share options to 1,996 participants on 6 July 2017. The registration of the grant of such A share options was completed on 20 July 2017. The code of the options is "037050" and the abbreviated name is "中興JLC2".

2. The Company had no employees' shares.

(IV) SHAREHOLDERS AND DE FACTO CONTROLLERS OF THE COMPANY AS AT THE END OF THE YEAR

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	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

Changes in Shareholdings and Information of Shareholders

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

Note 1: 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 by HKSCC Nominees Limited on behalf of the owners.

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 27 March 2019, Zhongxingxin holds 1,271,314,633 shares in the Company (comprising 1,269,276,633 A shares and 2,038,000 H Shares), accounting for 30.32% of the Company's total share capital.

Changes in Shareholdings and Information of Shareholders

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.

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.

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, Aerospace Guangyu and Zhongxing WXT. In April 2017, Aerospace Guangyu transferred 2.5% equity interests in Zhongxingxin to 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 semi-conductor integrated circuits, hybrid integrated circuits and computers.

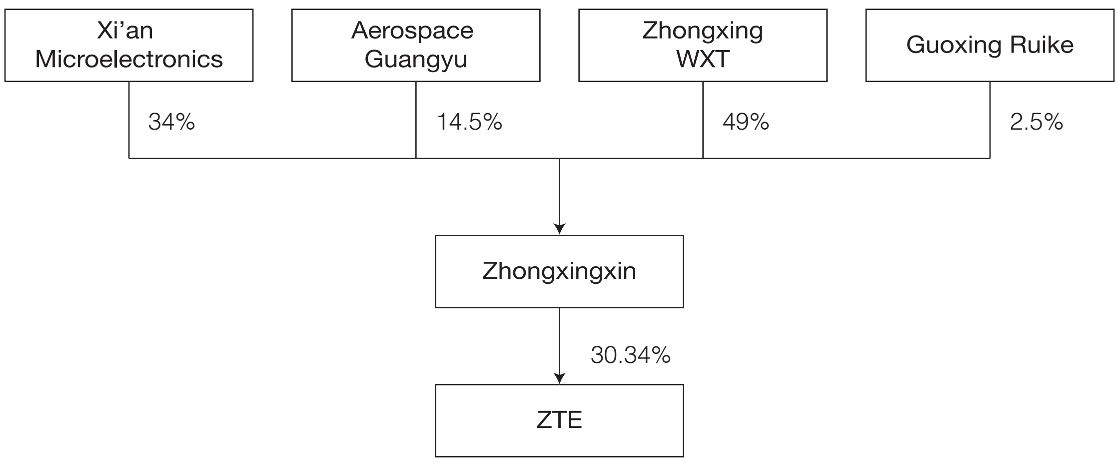
Changes in Shareholdings and Information of Shareholders

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.



4. The Company had no other corporate shareholder who was interested in more than 10% of its shares.

5. During the year, no controlling shareholder, parties to reorganisation or other entities of undertaking were subject to restrictions against the sell-down of the Company’s shares

Changes in Shareholdings and Information of Shareholders

6. Interests of substantial shareholders of the Company in shares and underlying shares

As at 31 December 2018, the following shareholders held interests or short positions in 5% or more in various classes of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shares held	Shareholding as an approximate percentage (%) of: Note Total share capital	 Class shares
Zhongxingxin	Beneficial owner	1,269,830,333 A shares (L)	30.29% (L)	36.94% (L)
Zhongxing WXT	Interests of corporation controlled by you	1,269,830,333 A shares (L)	30.29% (L)	36.94% (L)
Xi'an Microelectronics	Interests of corporation controlled by you	1,269,830,333 A shares (L)	30.29% (L)	36.94% (L)
China Aerospace Electronics Technology Research Institute	Interests of corporation controlled by you	1,269,830,333 A shares (L)	30.29% (L)	36.94% (L)
China Aerospace Science and Technology Corporation	Interests of corporation controlled by you	1,269,830,333 A shares (L)	30.29% (L)	36.94% (L)
BlackRock, Inc.	Interests of corporation controlled by you	45,311,308 H shares (L)	1.08% (L)	6.00% (L)
	Interests of corporation controlled by you	702,880 H shares (S)	0.02% (S)	0.09% (S)
Jericho Capital Asset Management LP	Investment manager	49,609,000 H shares (L)	1.18% (L)	6.57% (L)
Jericho Capital Holdings LLC	Interests of corporation controlled by you	49,609,000 H shares (L)	1.18% (L)	6.57% (L)
Resnick Joshua	Interests of corporation controlled by you	49,609,000 H shares (L)	1.18% (L)	6.57% (L)
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.92% (L)	5.08% (L)

(L) — long position, (S) — short position, (P) — lending pool

Note: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital of 4,192,671,843 shares, comprising 3,437,169,309 A shares and 755,502,534 H shares, as at 31 December 2018.

Save as disclosed above, as at 31 December 2018, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

7. Repurchase, sale and redemption of securities

During the year, the Company and its subsidiaries did not repurchase, sell or redeem any listed securities of the Company.

8. Public float

As at the latest practicable date prior to the publication of this report, so far as the Company and the Board of Director was aware of based on publicly available information, the Company's public float is in compliance with the minimum requirement for public float under the Hong Kong Listing Rules.

Directors, Supervisors, Senior Management and Employees

(I) BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

1. Brief biographies of Directors

Mr. Li Zixue, born in 1964, is Chairman and Executive Director of the Company. Mr. Li graduated from Xi'an Jiaotong University in 1987 with a bachelor's degree in engineering majoring in electronic components and materials, and currently holds the professional title of researcher. Mr. Li joined Xi'an Microelectronics Technology Research Institute in 1987, working on research and development and management in relation to microelectronic technology. From 1987 to 2010, Mr. Li served successively as technician, deputy head, deputy chief and chief of hybrid integrated circuit department. From 2010 to 2014, Mr. Li acted successively as deputy head, deputy secretary of party committee, general secretary of discipline inspection committee and chairman of the supervisory committee of Xi'an Microelectronics Technology Research Institute. From 2014 to 2015, he was general secretary of party committee and general secretary of discipline inspection committee, chairman of the supervisory committee and deputy head of Xi'an Microelectronics Technology Research Institute. Mr. Li acted as general secretary of party committee and deputy head of Xi'an Microelectronics Technology Research Institute from 2015 to January 2019. Mr. Li has been Chairman and executive Director of the Company since June 2018. Mr. Li has rich experience in practice and management in the electronics industry.

Mr. Xu Ziyang, born in 1972, is Executive Director and President of the Company. He graduated from University of Electronic Science and Technology of China with a bachelor's degree in engineering majoring in physical electronics technology in 1994. Mr. Xu joined the Company in 1998, and served successively as programmer, section chief of GSM product line development department, head of PS development department, deputy general manager of core network, and product general manager of core network of Nanjing Research and Development Center of the Company, from 1998 to 2011. From 2011 to 2013, Mr. Xu acted as general manager of MKT fourth branch of the Company in charge of European and United States systems products. From 2014 to 2016, Mr. Xu acted as general manager of ZTE Services Deutschland Gmbh, a subsidiary of the Company. From 2016 to July 2018, he acted concurrently as assistant to the President of the Company and product general manager of the CCN core network product line of the wireless operations department of the Company. Mr. Xu has been President of the Company since July 2018 and Executive Director of the Company since August 2018. Mr. Xu has many years of operational and management experience in the telecommunication industry.

Mr. Li Buqing, born in 1972, is Non-executive Director of the Company. Mr. Li graduated from Jiangxi University of Finance & Economics with a bachelor's degree in economics majoring in financial accounting in 1994, and currently holds the professional title of senior economist. From 1994 to 2001, Mr. Li worked in Shenzhen Aerospace Guangyu Industrial Company Limited. From 2001 to 2009, Mr. Li served successively as deputy general manager and general manager of Shenzhen Zhenfeng Industry Limited. From 2009 to 2012, he was deputy general manager of Shenzhen Aerospace Real Estate Development Co., Ltd. From 2011 to 2017, Mr. Li worked successively as general manager and chairman of Shenzhen Aerospace Real Estate Consultation Co., Ltd. Mr. Li has successively acted as deputy chief economist and director of CASIC Shenzhen (Group) Company Limited since 2015, and as deputy chief economist and chief accountant of Shenzhen Aerospace Industrial Technology Research Institute Limited since 2016. At present, he is concurrently acting as chairman of Shenzhen Aerospace Liye Industry Development Co., Ltd., director of Shenzhen Aerospace Guangyu Industrial Company Limited, Shenzhen Aerospace Property Management Co., Ltd., and supervisor of HT-Hysa Security Technology Engineering Co., Ltd. Mr. Li has been Non-executive Director of the Company since June 2018. Mr. Li has rich experience in management and operations.

Mr. Gu Junying, born in 1967, is Executive Director and Executive Vice President of the Company. Mr. Gu graduated from the Department of Aerospace Engineering of Shenyang Institute of Aeronautical Industry in 1989 with a bachelor's degree in engineering majoring in aircraft manufacturing and from Beijing Institute of Technology in 2002 with a master's degree in industrial engineering majoring in management engineering, and currently holds the professional title of researcher. From 1989 to 2003, Mr. Gu served successively as process technician, workshop director, division chief, deputy plant manager, and deputy plant manager and deputy party secretary at Factory 211. From 2003 to 2009, he served successively as head of human resources department/head of party committee work department, head of managerial department and assistant to general manager of China Aerospace Times Electronics Limited. From 2009 to January 2019, Mr. Gu served as assistant to the dean of China Aerospace Electronics Technology Research Institute, and concurrently acted as director of China Times Prospect Technology Co., Ltd. From 2017 to January 2019, he acted as vice president of China Aerospace Times Electronics Co., Ltd. (a company listed on the Shanghai Stock Exchange). Mr. Gu has been Executive Director of the Company, since June 2018 and Executive Vice President of the Company since July 2018. Mr. Gu has rich experience in management and operations.

Directors, Supervisors, Senior Management and Employees

Mr. Zhu Weimin, born in 1966, is Non-executive Director of the Company. Mr. Zhu graduated from the Department of Electronic Engineering of Shanghai Jiaotong University in 1988 with a bachelor's degree in engineering majoring in electronic engineering and obtained an MBA degree from China Europe International Business School in Shanghai in 2003. Mr. Zhu served successively as a technician and deputy head of Suzhou Dongfeng Communication Equipment Factory Research Institute from 1988 to 1991; research engineer and deputy director of the development department of Shenzhen Zhongxing Semiconductor Co., Ltd. from 1991 to 1993; research engineer of Zhongxingxin, the controlling shareholder of the Company and head of Nanjing Research Institute of Zhongxingxin from 1993 to 1997. Mr. Zhu served as Director and deputy general Manager of the Company from 1997 to 2000; deputy general manager of Zhongxingxin from 2002 to 2003; general manager of Shenzhen Changfei Investment Co., Ltd. from 2004 to 2013; and director of Shenzhen Jufei Optoelectronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange in 2012) from 2009 to 2015. Mr. Zhu has served as director of Shenzhen Techaser Technologies Co., Ltd. since 2008 (concurrently acting as advisor from 2013 to 2018); and chairman/director of Shenzhen Zhongxing International Investment Co., Ltd. and its certain subsidiaries since 2018. At present, he is concurrently serving as director of Zhongxingxin, Shenzhen Zhongxing WXT Equipment Company Limited and Shenzhen Xinyu Tengyue Electronics Co., Ltd. Mr. Zhu has been Non-executive Director of the Company since June 2018. Mr. Zhu has rich experience in management and operations.

Ms. Fang Rong, born in 1964, is Non-executive Director of the Company. Ms. Fang graduated from Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1987 with a bachelor's degree in engineering, majoring in telecommunications engineering. From 1987 to 1995, Ms. Fang worked at Wuhan Posts and Telecommunications and Science Research Institute under the Ministry of Posts and Telecommunications. She worked in Zhongxingxin from 1995 to 1997 and in the Company from 1997 to 2009, acting as Senior Vice President of the Company from 1998 to 2009. She has been director and deputy vice president of Zhongxing Development Company Limited since 2009. Ms. Fang has been Non-executive Director of the Company since June 2018. Ms. Fang has many years of operational and management experience in the telecommunication industry.

Ms. Cai Manli, born in 1973, is Independent Non-executive Director of the Company. Ms. Cai graduated from Renmin University of China in 1998 with a bachelor's degree in economics majoring in accounting and obtained a master's degree in management from Central University of Finance and Economics in 2006. She is a certified public accountant and certified tax agent of the PRC. From 2002 to 2015, Ms. Cai was involved in regulatory governance of listed companies at CSRC, holding successively the positions of deputy chief of the M&A Governance Office II and chief of the M&A Governance Office I while also serving as the leader of the accounting and evaluation group at the Department for the Governance of Listed Companies. Since 2015, she has been general manager of HEYI Rising Assets Management Co., Ltd. and senior advisor at King & Wood Mallesons. Since 2016, she has been concurrently serving external supervisor of Sichuan Xinwang Bank Co., Ltd. Ms. Cai has been independent director of Shanghai Flyco Electrical Appliance Co., Ltd (a company listed on the Shanghai Stock Exchange) since November 2018 and independent director of Beijing Yadii Media Co., Ltd. since December 2018. Since February 2019, she has been independent director of SF Diamond Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and Hubei Broadcasting and Television Information Network Co., Ltd. (a company listed on the Shenzhen Stock Exchange), respectively. She has been Independent Non-executive Director of the Company since June 2018. Ms. Cai has rich experience in consultation and equity investments relating to capital markets.

Mr. Yuming Bao, born in 1972, is Independent Non-executive Director of the Company. Mr. Bao graduated from Tianjin University in 1994 with a bachelor's degree in engineering and obtained a master's degree in management science and engineering from Tianjin University in 1999. In 2001, he obtained a master's degree in computer science from the University of Bridgeport, United States. He is a qualified PRC lawyer and a licensed Supreme Court attorney of the United States. Mr. Bao has been engaged in the legal practice since 1996, working as a partner with law firms in the Beijing/Tianjin region and posting in New York and California in the United States for close to 10 years. He has served as senior legal advisor to multinational enterprises including Cisco and News Corporation of the United States and South China Holdings of Hong Kong. Mr. Bao is currently vice president and chief legal officer of Yantai Jereh Oilfield Services Group Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and its subsidiaries (the "Jereh Group"). He has been Independent Non-executive Director of the Company since June 2018. Mr. Bao is an overseas senior talent recognized by the Ministry of Education, a foreign expert accredited by the State Administration of Foreign Experts Affairs and one of the top 10 chief legal officers in the country. Mr. Bao also has extensive experience in teaching and research as a lecturer of Long Island Business Institute in New York, a researcher at Southwest University of Political Science & Law and a professor of China Behavioral Jurisprudence Institute. He has extensive experience in law and compliance in the PRC and the United States, as well as a strong background in management and technology.

Directors, Supervisors, Senior Management and Employees

Mr. Gordon Ng, born in 1964, graduated with a bachelor's degree in microbiology and biochemistry in 1987 and further obtained a master's degree in intellectual property rights in 1988 from the University of London. He is a solicitor admitted in England and Wales and in Hong Kong. Mr. Ng has been the head of the Corporate Finance/Capital Markets Department at the Hong Kong Office of Dentons, an international law firm, since July 2013. He is currently an independent non-executive director of China Energine International (Holdings) Limited (a company listed on The Stock Exchange of Hong Kong Limited) and Mainland Headwear Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited), respectively. Mr. Ng has been Independent Non-executive Director of the Company since June 2018. Mr. Ng brings with him extensive experience in corporate listing and merger and acquisition.

2. Brief biography of Secretary to the Board of Directors/Company Secretary

Ms. Cao Wei, born in 1976, is Secretary to the Board of Directors/Company Secretary of the Company. Ms. Cao graduated from Xiamen University in 1998 with a bachelor's degree in Economics and from City University of Hong Kong in 2007 with a Master of Arts in International Accounting. Ms. Cao was involved in financial reporting and management from 1998 to 2010 after joining the Company in 1998. From 2011 to 2016, she was the securities affairs representative of the Company. Since April 2016, she has been the Secretary to the Board of Directors and Company Secretary of the Company.

3. Brief biographies of Supervisors

Mr. Xie Daxiong, born in 1963, is Chairman of the Supervisory Committee of the Company. Mr. Xie is a professor-grade senior engineer. He graduated from the Nanjing University of Science and Technology in 1986 with a master's degree in engineering, specialising in applied mechanics. Mr. Xie joined Zhongxingxin, the controlling shareholder of the Company, in 1994 and had been the head of the Nanjing Research Institute of Zhongxingxin. From 1998 to 2004, Mr. Xie had been CDMA product manager and general manager of CDMA Division of the Company. From 2004 to 2012, he was executive vice president of the Company in charge of the Company's technology planning and strategy. He has been Chairman of the Supervisory Committee of the Company since March 2013. Mr. Xie is a national-level candidate of the talent programme entitled to special government grants awarded by the State Council. He was a recipient of the first Shenzhen Mayor Prize. Mr. Xie is currently the director of the National Key Laboratory for Mobile Networks and Mobile Multi-media Technologies and a standing member of the Communications Science and Technology Committee under the Ministry of Industry and Information Technology. Mr. Xie has many years of practical and management experience in telecommunications industry.

Mr. Wang Junfeng, born in 1966, is a Supervisor of the Company. Mr. Wang graduated from Shenyang Metallurgical Engineering Institute (沈陽冶金機械專科學校) in July 1989 specialising in industrial enterprise planning and statistics and holds the title of senior accountant and certified safety works engineer. From 1989 to 1995, Mr. Wang had been auditor at the legal compliance department, head of the cost office under the financial department and head of the financial department of Shenyang Xinyang Machinery Co (沈陽新陽機器製造公司). From 1995 to 2003, he had been deputy manager, manager and deputy general manager of the finance department of Xinyang Electronic Machine Co. Ltd. (深圳新陽電子機械有限公司). From 2003 to 2005, he was the office manager of the machinery business department of CASIC Shenzhen (Group) Company Limited. From 2005 to 2009, he was financial controller of Shenzhen Aero-Startech Co., Ltd. (深圳市航天斯達泰電子科技有限公司). From 2009 to October 2016, he had been financial controller of the electric sector, head of the finance centre and deputy chief accountant of CASIC Shenzhen (Group) Company Limited. Since October 2016, he has been director of Shenzhen Aerospace Industrial Technology Research Institute Limited with a spell as deputy chief accountant. He is currently director of Shenzhen Aerospace Industrial Technology Research Institute Limited in charge of human resources and deputy general manager of Shenzhen Aerospace Terry McNair Electronics Co., Ltd. Mr. Wang has been Supervisor of the Company since March 2016. Mr. Wang has extensive experience in management and operations.

Ms. Xia Xiaoyue, born in 1975, is a Supervisor of the Company. Ms. Xia graduated from the Department of Finance of Nankai University in July 1998 with a bachelor's degree in economics. She joined the Company in the same year and has since served as Head of the Supplies Department and Head of the Planning Department. She is currently Deputy Head of the Human Resources Department of the Company. Ms. Xia has been Supervisor of the Company since March 2016. She has extensive experience in management and operations.

Mr. Li Quancai, born in 1961, is a Supervisor of the Company. Mr. Li graduated from Xi'an Jiaotong University in 1989 with a bachelor's degree, majoring in industrial and corporate automation. Mr. Li worked at China Aerospace Factory No.691 from August 1981 to October 1989. From November 1989 to September 1993, he was under the employment of Shenzhen Zhongxing Semiconductor Co., Ltd. He joined Zhongxingxin, the controlling shareholder of the Company, in October 1993 and had since successively served as after-sales engineer, manager of sales department and regional general manager of marketing until October 1997. From November 1997 to May 2018, Mr. Li had been working at the Company, having held the positions of deputy general manager of Marketing Division II, deputy general manager of Marketing of the Mobile Division, deputy general manager of Production of the Mobile Division, head of the Xi'an Research Institute of the Mobile Division and deputy head of the Wireless Research Institute. He has been chairman of the Trade Union of the Company since May 2018. Mr. Li has extensive experience in management and operations.

4. Brief biographies of Senior Management

Mr. Xu Ziyang, President of the Company. Please refer to the section headed "Brief biography of Directors" for his biography.

Mr. Wang Xiyu, born in 1974, is Executive Vice President of the Company. Mr. Wang graduated from Northern Jiaotong University (now renamed as "Beijing Jiaotong University") in 1995 with a bachelor's degree in engineering majoring in power traction and transmission control and further obtained a master's degree in engineering from Northern Jiaotong University in 1998 majoring in railway traction electrification and automation. Mr. Wang joined the Company in 1998. From 1998 to 2007, he had served successively as engineering, project manager, head of development division and deputy general manager at the CDMA Department of the Company. From 2008 to 2016, he was head of the Wireless Structure Division and deputy head/head of the Wireless Research Institute at the Wireless Department of the Company. He was Deputy CTO and Assistant to the President of the Company from 2016 to July 2018. Mr. Wang has been Executive Vice President of the Company since July 2018. He has many years of practical and management experience in telecommunications industry.

Ms. Li Ying, born in 1978, is Executive Vice President and Chief Financial Officer of the Company. Ms. Li graduated from Xi'an Jiaotong University in 1999 with a bachelor's degree in management and a bachelor's degree in engineering, and from Xi'an Jiaotong University in 2002 with a master's degree in management majoring in management science and engineering. Ms. Li joined the Company in 2002 and acted successively as principal of the Cost and Strategy Office, chief of the Logistics Finance Department, chief of the Production Research Finance Department, deputy chief of the Finance Management Department and deputy head of the Finance Management Department from 2002 to January 2018. From January to July 2018, she was head of Finance Management Department. She has been Executive Vice President and Chief Financial Officer of the Company since July 2018. Ms. Li has many years of experience in finance and operational and management experience in the telecommunication industry.

Ms. Cao Wei, Secretary to the Board of Directors/Company Secretary of the Company. Please refer to the section headed "Brief biographies of Secretary to the Board of Directors/Company Secretary" for her biography.

(II) CHANGES IN THE SHAREHOLDINGS AND SHARE OPTIONS OF AND ANNUAL REMUNERATION OF THE COMPANY'S DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT

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 Note 1	Term of office ending on Note 1	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of A shares held during the period (shares)	Decrease in the number of A shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reasons for changes	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands)	Whether remuneration is received from related parties Note 2
Directors of the Company														
1	Li Zixue Note 4	Male	54	Chairman	Incumbent	6/2018	3/2019	–	–	–	–	–	53.7	Note 3
2	Xu Ziyang Note 4, Note 6	Male	46	Director	Incumbent	8/2018	3/2019	–	–	–	–	–	195.7	No
				President		7/2018	3/2019							
3	Li Buqing Note 4	Male	46	Director	Incumbent	6/2018	3/2019	–	–	–	–	–	5	Yes
4	Gu Junying Note 4	Male	51	Director	Incumbent	6/2018	3/2019	–	–	–	–	–	46.8	Note 3
				Executive Vice President	Incumbent	7/2018	3/2019							
5	Zhu Weimin Note 4	Male	52	Director	Incumbent	6/2018	3/2019	–	–	–	–	–	5	12.5
6	Fang Rong Note 4	Female	54	Director	Incumbent	6/2018	3/2019	–	–	–	–	–	5	12.5
7	Cai Manli Note 4	Female	45	Independent Non-executive Director	Incumbent	6/2018	3/2019	–	–	–	–	–	12.5	12.5
8	Yuming Bao Note 4	Male	46	Independent Non-executive Director	Incumbent	6/2018	3/2019	–	–	–	–	–	12.5	Yes
9	Gordon Ng Note 4	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	–	–	–	–	–	–	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 Note 5	Male	44	Executive Vice President	Incumbent	7/2018	3/2019	–	–	–	–	–	190.7	No
15	Li Ying Note 5	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 Shenzhen Listing Rules, 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 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.

Directors, Supervisors, Senior Management and Employees

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 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) Note 2	Whether remuneration is received from related parties Note 3
Directors of the Company Note 4														
1	Yin Yimin	Male	55	Chairman	Resigned	3/2017	6/2018	759,400	–	–	759,400	–	118.8	No
				Director		3/2016	6/2018							
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	Resigned	3/2016	6/2018	488,636	–	–	488,636	–	149.2	No
				President		4/2016	7/2018							
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 Weiyan 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 Shenzhen Listing Rules, 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.

Directors, Supervisors, Senior Management and Employees

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

(III) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING POSITIONS IN CORPORATE SHAREHOLDERS OF THE COMPANY AS AT THE END OF THE YEAR

Name	Name of entity in which position is held	Position	Date of commencement	Date of termination	Whether remuneration is received from Zhongxingxin
Zhu Weimin Note 1	Zhongxingxin	Director	August 2018	August 2021	Yes

Note 1: Mr. Zhu Weimin was appointed director of Zhongxingxin in August 2018.

(IV) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING MAJOR POSITIONS IN OTHER ENTITIES AS AT THE END OF THE YEAR

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Li Zixue Note 1	Xi'an Microelectronics	Deputy head of institute	Note 2
Xu Ziyang	ZTE Microelectronics	Chairman	No
Li Buqing Note 3	CASIC Shenzhen (Group) Company Limited	Deputy chief economist and director	No
	Shenzhen Aerospace Industrial Technology Research Institute Limited	Deputy chief economist and chief accountant	Yes
	Aerospace Guangyu	Director	No
	Shenzhen Aerospace Property Management Co., Ltd.	Director	No
	HT-Hysa Security Technology Engineering Co., Ltd.	Director	No
	Shenzhen Aerospace Liye Industry Development Co., Ltd.	Chairman	No
Gu Junying Note 4	China Aerospace Electronics Technology Research Institute	Assistant to head of institute	Note 2
	China Aerospace Times Electronics Co., Ltd.	Vice president	No
	China Times Prospect Technology Co., Ltd.	Director	No
Zhu Weimin	Shenzhen ZTE International Investment Limited	Chairman	Yes
	Held positions in 7 subsidiaries of Shenzhen ZTE International Investment Limited including Beijing United ZTE International Investment Limited	Chairman/Director	No
	Zhongxing WXT	Director	No
	Shenzhen Techaser Technologies Co., Ltd.	Director	No
	Shenzhen Xinyu Tengyue Electronics Co., Ltd	Director	No
Fang Rong	Zhongxing Development	Director and executive vice president	Yes
	Shenzhen ZTE International Investment Limited	Director	No
	Held positions in 18 subsidiaries or investees of Zhongxing Development including Beijing Holi Health Information Scientific and Technological Co., Ltd.	Director	No
	Beijing United ZTE International Investment Limited	Director	No
Cai Manli Note 5	HEYI Rising Assets Management Co., Ltd.	General manager	Yes
	King & Wood Mallesons	Senior consultant	No
	Sichuan Xinwang Bank Co., Ltd	External supervisor	Yes
	Beijing Yadii Media Co., Ltd	Independent director	Yes
	Shanghai Flyco Electrical Appliance Co., Ltd.	Independent director	Yes
Yuming Bao	Yantai Jereh Oilfield Services Group Co., Ltd.	Group vice president/chief legal officer	Yes
	Southwest University of Political Science and Law	Adjunct research fellow	No
	China Behavior Law Association	Visiting professor	No
Gordon Ng	Dentons Hong Kong LLP	Partner	Yes
	China Energine International (Holdings) Limited	Independent Non-executive Director	Yes
	Mainland Headwear Holdings Limited	Independent Non-executive Director	Yes
Xie Daxiong	Held positions in 2 subsidiaries including Guangdong New Pivot Technology & Service Company Limited	Chairman	No
Wang Junfeng Note 6	Shenzhen Aerospace Terry McNair Electronics Co., Ltd	Deputy general manager	Yes
	Shenzhen Aerospace Industrial Technology Research Institute Limited	Director	No
Li Quancai Note 7	深圳市中興宜和投資發展有限公司	Director	No
	深圳市益和天成投資發展有限公司	Supervisor	No
	深圳市小禾科技有限公司	Directors	No
	深圳市益和天成餐飲管理有限公司	Director	No
Wang Xiyu	Held positions in 17 subsidiaries including Guangdong New Pivot Technology & Service Company Limited	Chairman/director/general manager	No
	Zhuhai Guoxing Ruike Capital Management Limited	Director	No
Li Ying Note 8	Held positions in 4 subsidiaries including ZTE Group Finance	Chairman/director	No
Cao Wei	ZTE Capital	Director	No

Note 1: Mr. Li Zixue has ceased to be deputy head of institute of Xi'an Microelectronics Research Institute as from January 2019.

Note 2: 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 3: Mr. Li Buqing has ceased to be chairman of Nanjing Areospace Yinshan Electric Co., Ltd. as from August 2018.

Note 4: Mr. Gu Junying has ceased to be chairman of 航天物聯網技術有限公司 as from September 2018 and assistant to head of China Aerospace Electronics Technology Research Institute, vice president of China Aerospace Times Electronics Co., Ltd. and director of China Times Prospect Technology Co., Ltd. as from January 2019.

Note 5: Ms. Cai Manli has been appointed independent director of 上海飛科電器股份有限公司 as from November 2018, independent director of Beijing Yadii Media Co., Ltd as from December 2018, and independent director of SF Diamond Co., Ltd. and Hubei Radio & Television Information Network Co., Ltd., respectively, as from February 2019.

Note 6: Mr. Wang Junfeng has been appointed deputy general manager of Shenzhen Aerospace Terry McNair Electronics Co., Ltd as from April 2018 and has ceased to be chairman of 航天亮麗電氣有限責任公司 as from March 2018 and director of 航天歐華 as from April 2018.

Note 7: Mr. Li Quancai has ceased to be general manager of Xi'an Zhongxing New Software Company Limited and 西安中興電子科技有限公司 as from November 2018 and supervisor of 深圳市中興益禾天美投資發展有限公司as from December 2018.

Note 8: Ms. Li Ying has been appointed director of ZTE HK as from July 2018 and ceased to be supervisor of Nanjing Xingtong Future Real Estate Co., Ltd. and Shenzhen Zoom Rel Testing Technology Co., Ltd as from July 2018 and chairman of ZTE Group Finance Holdings (Hangzhou) Limited as from November 2018.

(V) DECISION-MAKING PROCESS, BASES FOR DETERMINATION AND ACTUAL PAYMENT OF REMUNERATION FOR DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY

Allowances for Directors are based on recommendations made to the Board of Directors by the Remuneration and Evaluation Committee of the Board of Directors with reference to the duties of Directors at the Company and markets levels represented by other listed companies in the same industry and determined upon consideration and approval by the Board of Director and the general meeting.

Allowances for Supervisors are based on recommendations of the Supervisory Committee made with reference to the duties of Supervisors and markets levels represented by other listed companies in the same industry and determined upon consideration and approval by the general meeting.

The remuneration for senior management personnel is based on the results of their annual performance appraisals conducted by the Remuneration and Evaluation Committee and determined upon consideration by the Board of Directors.

Remuneration for the Directors, Supervisors and senior management are determined and payable by the Company in accordance with the aforesaid provisions and procedures.

(VI) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE YEAR

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

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

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

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

Pursuant to the "Resolution on the appointment and removal of senior management personnel" considered and approved at the Thirty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 5 July 2018, it was approved that the appointment of Mr. Zhao Xianming as President of the Company, each of Mr. Xu Huijun, Mr. Zhang Zhenhui, Mr. Pang Shengqing, Mr. Xiong Hui and Mr. Shao Weilin as Executive Vice President of the Company and Mr. Shao Weilin as Chief Financial Officer of the Company be discontinued; that Mr. Xu Ziyang be appointed President of the Company 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; and that such newly appointed senior management shall be appointed for a term commencing on the date on which this resolution is considered and approved at the said meeting of the Board of Directors and ending upon the conclusion of the term of the Seventh Session of the Board of Directors of the Company (i.e., 29 March 2019). For details, please refer to the "Announcement of Resolutions of the Thirty-second Meeting of the Seventh Session of the Board of Directors of the Company" published by the Company on 5 July 2018.

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

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 for a term commencing on the date on which this resolution is considered and approved at the general meeting and ending upon the conclusion of the term of the Seventh Session of the Board of Directors of the Company (i.e., 29 March 2019). For details, please refer to the "Announcement on Resolutions of the Second Extraordinary General Meeting of 2018" published by the Company on 28 August 2018.

Please refer to sections (II) and (III) in this chapter for details of positions at corporate shareholders and major positions at other entities held by Directors, Supervisors and senior management of the Company.

(VII) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY SUBSEQUENT TO THE END OF THE YEAR

At the First Extraordinary General Meeting of 2019 of the Company held on 20 March 2019, Mr. Li Zixue, Mr. Xu Ziyang, Mr. Li Buqing, Mr. Gu Junying, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-independent Directors of the Eighth 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 Eighth Session of the Board of Directors of the Company. The term of the Eighth Session of the Board of Directors of the Company commenced on 30 March 2019 and shall end on 29 March 2022. For details, please refer to the "Announcement on Resolutions of the First Extraordinary Meeting of 2019" published by the Company on 20 March 2019.

At the First Extraordinary General Meeting of 2019 of the Company held on 20 March 2019, Mr. Shang Xiaofeng and Ms. Zhang Sufang were elected Shareholders' Representative Supervisors of the Eighth Session of the Supervisory Committee of the Company. In addition, Mr. Xie Daxiong, Ms. Xia Xiaoyue and Mr. Li Quancai, were elected Staff Representative Supervisors of the Eighth Session of the Supervisory Committee of the Company through democratic elections among staff representatives. The term of the Eighth Session of the Supervisory Committee of the Company commenced on 30 March 2019 and shall end on 29 March 2022. For details, please refer to the "Announcement on Resolutions of the First Extraordinary Meeting of 2019" published by the Company on 20 March 2019.

(VIII) INFORMATION ON GROUP EMPLOYEES

As at the end of the year, the Group had 68,240 employees (including 57,538 as employees of the parent company), with an average age of 32. There were 147 resigned/retired employees, including 124 resigned/retired employees in respect of which expenses were payable by the Company.

1. Classification by specialisation as follows:

Specialisation	Headcount	As an approximate percentage of total headcount
Research and development	25,969	38.1%
Marketing and sales	9,499	13.9%
Customer service	10,133	14.8%
Manufacturing	16,911	24.8%
Financial	998	1.5%
Administration	4,730	6.9%
Total	**68,240**	**100%**

2. Classification by academic qualifications as follows:

Academic qualifications	Headcount	As an approximate percentage of total headcount
Doctorate degree	377	0.6%
Master's degree	21,577	31.6%
Bachelor's degree	23,688	34.7%
Others	22,598	33.1%
Total	**68,240**	**100%**

Note 1: The change in the Group's staff headcount was mainly attributable to the change in the scope of consolidation following the disposal of subsidiaries during the period.

3. Remuneration Package and Training for Employees

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees are also entitled to accident insurance, business traveling insurance, housing subsidies, retirement and other benefits. In accordance with relevant regulations of countries where the employees are located, the Group also participates in social insurance plans organised by the relevant government authorities, under which the Group makes contributions towards each employee's social insurance fund in an amount equivalent to a specified percentage of his/her monthly salaries.

Staff training provided by the Group includes induction training, job-specific skills training, professional aptitude training and training for management officers. Such training are conducted in the forms of class lessons, online learning via PC terminals or mobile phones, public lectures, themed seminars and sand table drilling. Training programmes will be arranged for new employees upon their induction according to their job positions, and instructors will be assigned to provide supervision. In-service staff may take part in group training or project assignment organised by the Group based on their job requirements, qualifications required for various positions and aptitude assessment results, or conduct online and offline self-learning based on their personal career planning. For management officers, the Group provides a combination of online and offline training comprising reading classes, close-ended training, guided reading and online learning.

Corporate Governance Structure

The Company has prepared the "Corporate Governance Work Report" and the "Corporate Governance Report" in accordance with different requirements in form and content of PRC securities regulatory authorities and the Hong Kong Listing Rules, respectively. To avoid undue repetitions and to keep the presentation lucid, a cross-referencing approach has been adopted.

PART I: CORPORATE GOVERNANCE WORK REPORT PREPARED IN ACCORDANCE WITH PRC SECURITIES REGULATORY REQUIREMENTS

I. Status of Corporate Governance

The Company improves its corporate governance systems and regimes, regulates operations and optimises internal control regimes on an ongoing basis in accordance with requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of CSRC. During the year, the Company carried out its internal control tasks in accordance with the "Notice on the Publication of Supplementary Guidelines for Corporate Internal Control" (《關於印發企業內部控制配套指引通知》) and other regulations.

As at the end of the year, the status of corporate governance of the Company was in compliance with provisions of regulatory documents relating to the governance of listed companies published by the CSRC. The Company had not received any documents relating to administrative regulatory measures adopted by regulatory authorities in China against the Company.

(I) **Shareholders and general meetings:** The Company has established a corporate governance structure to ensure that all shareholders, minority shareholders in particular, can fully exercise their rights and enjoy equal status. Sufficient time is provided at general meetings of shareholders for the discussion of each proposal, insofar as they are convened and held in a legal and valid manner, to provide a good opportunity for communications between the Board of Directors and the shareholders. In accordance with the revised Rules for General Meetings of Listed Companies, the Company has introduced a combination of on-site and online voting to afford convenience for shareholders participating in its general meetings, as well as the practice of separately disclosing the votes of minority shareholders in announcements of resolutions of general meetings to give an adequate account of the views of minority shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or contact and communicate with the Company through its designated e-mail address and the investors' relations interactive platform of the Shenzhen Stock Exchange.

(II) **Controlling shareholder and the listed company:** The Company's controlling shareholder is Zhongxingxin. The controlling shareholder exercises its rights as an investor in strict compliance with the law, without compromising the lawful rights and interests of the Company and other shareholders. Candidates for election as Directors and Supervisors are nominated in strict compliance with laws and regulations and the terms and procedures as set out in the Articles of Association. The staffing, assets, financial affairs, business and organisation of the controlling shareholder of the Company are independent from those of the listed company, with the controlling shareholder and listed company each carrying out independent auditing and assuming its own responsibilities and risks. The controlling shareholder of the Company was not engaged in any direct or indirect interference with the decision-making and business activities of the Company in circumvention of the general meeting.

(III) **Directors and the Board:** The Company appoints directors in strict compliance with the criteria and procedures set out its Articles of Association, ensuring that the directors are appointed in an open, fair, just and independent manner. In order to fully reflect the opinions of minority shareholders, a cumulative voting scheme is adopted for the appointment of directors. The Company has formulated the Rules of Procedure of the Board Meetings, and board meetings are convened and held in strict compliance with the Articles of Association and Rules of Procedure of the Board Meetings. To optimise the corporate governance structure, four specialised committees — the Nomination Committee, Audit Committee, Remuneration and Evaluation Committee and Export Compliance Committee — have been established by the Board of Directors. The majority of members and the respective convenors of these committees are Independent Non-executive Directors, providing scientific and professional opinions for reference by the Board of Directors in its decision-making.

Corporate Governance Structure

(IV) Supervisors and the Supervisory Committee: The Supervisors possess expertise and work experience in management, accounting and other areas and supervisors who are the representatives of shareholders are elected by way of cumulative voting. They shall monitor the financial affairs of the Company and inspect and supervise legal compliance in the performance of duties by the Company's Directors, the Chief Executive Officer and other members of the senior management to safeguard the legal rights and interests of the Company and shareholders. The Company has formulated the Rules of Procedure for Supervisory Committee Meetings. Meetings of the Supervisory Committee are convened and held in strict compliance with the Articles of Association and the Rules of Procedure for Supervisory Committee Meetings.

(V) Performance appraisal and incentive mechanism: During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Scheme for the Administration of Senior Management's Performance. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of Association. The Company has established a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy and optimised the overall remuneration structure to create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's business results.

(VI) Stakeholders: The Company respects the legal rights of banks and other stakeholders such as creditors, employees, consumers, suppliers, and the community, and works actively with these stakeholders to promote the sustainable and healthy development of the Company.

(VII) Information disclosure and transparency: The Secretary to the Board of Directors and dedicated officers are responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. The Company procures true, accurate, complete and timely disclosure of relevant information in compliance with relevant PRC laws and regulations and the Articles of Association, ensuring that all shareholders have equal access to information. There were no instances of controlling shareholders or de facto controllers owning information otherwise not publicly disclosed or other irregularities in corporate governance during the year.

(VIII) Rules and regulations established

No.	Title	Date of disclosure Note
1	Articles of Association	28 August 2018
2	Rules of Procedure of the General Meetings	20 May 2009
3	Rules of Procedure of the Board Meetings	28 August 2018
4	Rules of Procedure of the Supervisors' Meetings	7 April 2006
5	Working Rules for the Nomination Committee of the Board of Directors	29 June 2018
6	Working Rules for the Audit Committee of the Board of Directors	25 December 2018
7	Working Rules for the Remuneration and Evaluation Committee of the Board of Directors	29 June 2018
8	Working Rules for the Export Compliance Committee of the Board of Directors	27 July 2018
9	System of Derivative Investment Risk Control and Information Disclosure	26 October 2017
10	System for the Administration of External Information Users	9 April 2010
11	System of Accountability for Significant Errors in Information Disclosure of Annual Reports	9 April 2010
12	System of Registration of Owners of Inside Information	23 August 2012
13	Specific System for the Selection and Appointment of Accountants' Firms	20 August 2009
14	System of Annual Report Duties for Independent Directors	14 March 2008
15	Guidelines for Work of the Audit Committee of the Board of Directors relating to the Annual Report	14 March 2008
16	Independent Director System	26 June 2007
17	Administrative Measures for Guest Reception and Promotion	26 June 2007
18	Administrative Rules of the Company on Issue Proceeds	31 January 2018
19	Internal Control System	25 December 2018
20	Administrative Rules for Information Disclosure	26 June 2007
21	Implementation Rules for the Dealings in Company's Shares by Directors, Supervisors, Senior Management and Their Related Parties	26 June 2007
22	Regulations for the Administration of Information Disclosure pertaining to Debt Financing Instruments in the Inter-bank Bond Market	16 January 2015
23	Administrative Rules for Investments in Securities	26 March 2015

Note: The dates on which the latest revised versions of the above rules and regulations being posted on http://www.cninfo.com.cn.

Corporate Governance Structure

II. Information on general meetings convened

The Company's First Extraordinary General Meeting of 2018 was held on 28 March 2018 by way of a combination of on-site voting and online voting. For relevant details, please refer to the "Announcement on Resolutions of the First Extraordinary General Meeting of 2018 of ZTE Corporation" dated 28 March 2018.

The Company's 2017 Annual General Meeting was held on 29 June 2018 by way of a combination of on-site voting and online voting. For relevant details, please refer to the "Announcement on Resolutions of the 2017 Annual General Meeting of ZTE Corporation" dated 29 June 2018.

The Company's Second Extraordinary General Meeting of 2018 was held on 28 August 2018 by way of a combination of on-site voting and online voting. For relevant details, please refer to the "Announcement on Resolutions of the Second Extraordinary General Meeting of 2018 of ZTE Corporation" dated 28 August 2018.

III. Performance of duties by Independent Non-executive Directors

During the year, the Independent Non-executive Directors of the Company did not dispute any resolutions passed at the Board meetings and other matters of the Company. In relation to important matters on which they were required to give independent opinions (including connected transactions, third-party guarantees and third-party investments), the Independent Non-executive Directors have diligently examined the matters concerned and have issued independent opinions in writing. By providing valuable and professional recommendations on major decisions by the Company, the Independent Non-executive Directors have improved the rationality and objectiveness of the Company's decisions.

The attendance records of Independent Non-executive Directors of the Company for Board meetings and general meetings during the period from 29 June to 31 December 2018 were set out as follows:

Independent Non-executive Directors Note 1	Number of Board meetings required to attend	Number of personal attendance (including video/ telephone conference)	Number of attendance via communications	Attendance by proxy	Absence	Failure to attend in person at two consecutive meetings	Number of general meetings required to attend	Attendance at general meetings
Cai Manli	13	8	4	1	0	No	1	0
Yuming Bao	13	8	4	1	0	No	1	0
Gordon Ng	13	7	4	2	0	No	1	0

Note 1: For details of changes in the membership of the Board during the year, please refer to the section of this report headed "Directors, Supervisors, Senior Management and Employees (VI) Changes in Directors, Supervisors and Senior Management of the Company During the Year".

The attendance records of Independent Non-executive Directors of the Company for Board meetings and general meetings during the period from 1 January to 29 June 2018 were set out as follows:

Independent Non-executive Directors Note 1	Number of Board meetings required to attend	Number of personal attendance (including video/ telephone conference)	Number of attendance via communications	Attendance by proxy	Absence	Failure to attend in person at two consecutive meetings	Number of general meetings required to attend	Attendance at general meetings
Richard Xike Zhang	5	2	1	2	0	No	2	0
Chen Shaohua	5	3	1	1	0	No	2	0
Lü Hongbing	5	2	1	2	0	No	2	0
Bingsheng Teng	5	4	1	0	0	No	2	0
Zhu Wuxiang	5	3	1	1	0	No	2	1

Note 1: For details of changes in the membership of the Board during the year, please refer to the section of this report headed "Directors, Supervisors, Senior Management and Employees (VI) Changes in Directors, Supervisors and Senior Management of the Company During the Year".

Corporate Governance Structure

The Company has adopted recommendations in respect of the Company proposed by the Independent Non-executive Directors. For details, please refer to the "2018 Report on the Performance of Duties by Independent Non-executive Directors" published on http://www.cninfo.com.cn on 27 March 2019.

IV. Performance of principal duties by specialised committees of the Board of Directors

During the year, the specialist committees under the Board of Directors of the Company convened meetings and performed their duties in strict accordance with the provisions and requirements of the Articles of Association, Rules of Procedure of the Board Meetings and their respective working rules, playing an important role in ensuring scientific decision making at the Board of Directors by furnishing opinions and recommendations in respect of matters such as the Company's financial information and its disclosure, internal audit system and its implementation, internal control system and risk management system, material connected transactions, nomination of candidates for Directors and senior management, management of remuneration and performance of Directors and senior management and export compliance.

1. Performance of principal duties by the Audit Committee

During the year, the Audit Committee diligently performed its duties in accordance with the "Working Rules for the Audit Committee" and the "Guidelines for Work of the Audit Committee relating to the Annual Report" and performed duties such as the vetting of the annual auditing and supervision and inspection of the building and improvement of the Company's internal controls.

(1) Issue of three review opinions on the 2018 annual financial report of the Company

Members of the Audit Committee boast rich expertise and experience in financial operations. During the year, the Audit Committee issued three review opinions on the annual financial report in accordance with relevant requirements of the CSRC.

First, The Audit Committee examined the unaudited financial statements and issued an opinion in writing. The Audit Committee was of the view that: other than requirements under new accounting standards implemented as from 2018, relevant accounting standards had been appropriately applied and all significant accounting systems adopted had been consistent with those adopted for 2017; key financial indicators calculated on the basis of data from the 2018 management accounts were consistent with preliminary judgements made by the Committee members based on known facts and comparison with financial indicators of 2017. The passing of the financial statements to the PRC and Hong Kong auditors for auditing was approved.

Second, Following timely review of the preliminary opinion of the audit report and discussions with the PRC and Hong Kong auditors, the Audit Committee was of the view that the preliminary audit results of the 2018 annual report was in compliance with the ASBEs and their practice notes and the HKFRSs.

Finally, the Audit Committee reviewed the audit opinion of the PRC and Hong Kong auditors and the audited financial report of the Company for 2018. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2018 and approved the submission of the report for consideration by the Board of Directors.

(2) Supervision of the audit work of the accountants' firms

To ensure the conduct of auditing work in an orderly manner given the complex nature of the Company's business, the PRC and Hong Kong auditors of the Company had finalised the audit timetable for the year by December 2018. In accordance with "Guidelines for Work of the Audit Committee relating to the Annual Report", the Company arranged the timely report of such audit timetable to the Audit Committee. Following discussion with the accountants' firms, the Audit Committee was of the view that the annual audit timetable scheduled by the Company according to actual circumstances was appropriate, and the Audit Committee concurred with the annual audit plan arranged by the accountants' firms. During the course of audit, members of the Audit Committee held discussions with principal officers in charge of the assignment to inform themselves of the progress of audit and concerns of the accountants. Such concerns were then communicated to relevant departments of the Company in a timely manner. The Audit Committee also issued two letters to the accountants' firms requesting auditors in charge of the assignment to expedite their work in accordance with the original timetable.

Corporate Governance Structure

(3) Summary report on the 2018 audit work performed by the accountants' firms

The PRC and Hong Kong auditors of the Company performed auditing on the Company's annual report during the period from October 2018 to March 2019. During such period, the PRC and Hong Kong auditors of the Company and the Audit Committee held discussions on the annual audit plan, while issues identified in the audit process were also brought to the attention of the Audit Committee in a timely manner. The preliminary audit opinion was submitted to the Audit Committee for consideration. The PRC and Hong Kong auditors of the Company completed the full audit process and acquired sufficient and appropriate audit evidence after about 6 months of auditing work. The audit reports by PRC and Hong Kong auditors with unqualified opinion were then submitted to the Audit Committee.

The PRC auditors of the Company performed auditing on the internal control of the Company's financial reporting during the period from October 2018 to March 2019. During such period, the PRC auditors of the Company conducted enquiry, testing and evaluation in respect of our internal control in accordance with the annual audit plan. The PRC completed the full audit process and acquired sufficient and appropriate audit evidence. An internal control audit report with unqualified opinion were then submitted to the Audit Committee.

During the course of the annual audit, the Audit Committee held discussions and exchanged views with the PRC and Hong Kong auditors of the Company, and also examined the annual audit report furnished by the PRC and Hong Kong auditors. The Audit Committee was of the view that the PRC and Hong Kong auditors of the Company were capable of performing their tasks in strict accordance with audit regulations, focusing on knowledge of the Company and the environment in which it operated, understanding the building, improvement and implementation of the Company's internal control, demonstrating acute risk awareness and completing the audit work in accordance with the audit timetable. The auditors maintained their independence and their prudent approach in the course of audit and completed the audit of the Company's 2018 financial report and internal control audit in a satisfactory manner.

(4) Recommendations on the appointment of PRC and Hong Kong auditors

Based on cooperation with Ernst & Young Hua Ming LLP and Ernst & Young over the years, the Audit Committee was of the view that the PRC and Hong Kong auditors of the Company are major accountants' firms with high calibre professional teams, full qualifications for the practice, rich practical experience and stringent internal management. As such, the Audit Committee recommends the Board of Directors to re-appoint Ernst & Young Hua Ming LLP as PRC auditors and Ernst & Young as Hong Kong auditors of the Company for the financial reports of 2019, and to re-appoint Ernst & Young Hua Ming LLP as the internal control auditor of the Company for 2019.

(5) Supervision of measures to improve the Company's internal control system

The Audit Committee is highly concerned with the establishment of a department with appropriate staffing for the inspection and supervision of the Company's internal control. The Internal Control and Audit Department serves as the day-to-day executive arm of the Audit Committee to implement supervision and inspection of internal controls on behalf of the Audit Committee. The Audit Committee supports the performance of audit functions by the Internal Control and Audit Department in accordance with the law and fulfill a supervisory role over the audit function. During the year, the Audit Committee received the report of the Internal Control and Audit Department on internal control and audit, reviewed the Company's investments in derivatives and securities and made risk control recommendations in respect of such investments.

2. Performance of principal duties by the Remuneration and Evaluation Committee

During the year, Remuneration and Evaluation Committee diligently performed its duties in accordance with the "Working Rules for the Remuneration and Evaluation Committee" and made recommendations to the Board of Directors with respect to the performance and remuneration package of the senior management personnel of the Company, the renewal of the "Directors', Supervisors' and Senior Management's Liability Insurance" and other important tasks.

3. Performance of principal duties by the Nomination Committee

During the year, the principal work of the Nomination Committee included the review of the structure, size and composition of the Board.

4. Performance of principal duties by the Export Compliance Committee

During the year, the principal work of the Export Compliance Committee included the consideration of matters pertaining to export compliance.

V. Performance of duties by the Supervisory Committee

Having conducted diligent supervision and inspection in relation to matters such as legal compliance, financial conditions, connected transactions, third-party investments, asset disposals and acquisitions and the share option incentive scheme of the Company during the year in accordance with the provisions of pertinent PRC laws and regulations and the Articles of Association, the Supervisory Committee of the Company has not raised any dissent during the course of its supervision over these matters.

VI. The Company's independence from its controlling shareholder and integrity in staffing, assets, finance, business and organisation

The Company is independent of its controlling shareholder Zhongxingxin in respect of staffing, assets, finance, business and organisation. Each of the Company and Zhongxingxin is audited independently and assumes its own responsibilities and risks.

With respect to **staffing**, the Company is fully independent in matters including the management of labour, human resources and salaries. Members of the senior management receive their remuneration from the Company. They do not receive any remuneration from, nor have they taken up other major positions (other than as directors) with, the controlling shareholder and other companies under its control.

With respect to **assets**, the Company's assets are fully independent with unequivocal ownership. The Company has independent production systems, supplementary production systems and ancillary facilities. Intangible assets such as industrial property rights, trademarks, and non-patentable technologies are owned by the Company. The Company's procurement and sales systems are independently owned by the Company.

With respect to **finance**, the Company has an independent financial department. It has established an independent accounting and audit system and a financial management system, and maintains an independent bank account.

With respect to **business**, the Company's business is fully independent from the controlling shareholder. Neither the controlling shareholder nor its subsidiaries are engaged in competition in the same business with the Company.

With respect to **organisation**, the Board of Directors, the Supervisory Committee and other internal organisations of the Company operate in complete independence from the controlling shareholder. There is no reporting relationship between the controlling shareholder (and its functional departments) and the Company (and its functional departments).

VII. Establishment and Implementation of the Appraisal and Incentive Mechanism for Senior Management

The Company has established a performance appraisal system for senior management and an incentive mechanism linking remuneration to the Company's results and the individual staff member's performance. The Remuneration and Evaluation Committee is principally responsible for formulating and examining proposals for the management of remuneration and performance of the senior management of the Company, conducting annual performance appraisals for the senior management of the Company and determining the remuneration of the senior management based on the results of the appraisal for implementation after consideration and approval by the Board of Directors.

VIII. Internal Control

In accordance with provisions of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies, Basic Rules for Corporate Internal Control and Supplementary Guidelines for Corporate Internal Control and other pertinent laws, regulations and regulatory documents, the Company has established a reasonable and effectively operating internal control regime to enhance internal control, improve the Company's operational management standard and risk aversion ability and ensure security, compliance and effective operation of the Company's assets.

Corporate Governance Structure

1. Establishment of internal control departments

The Company has established an all-encompassing and multi-level structure for internal control development comprising mainly the Board of Directors, the Audit Committee, the Internal Control Committee, the internal control and audit department and the internal control teams of various business units of the Company.

The Company has formed the Internal Control Committee as a corporate-level internal control administration responsible for the soundness and effectiveness of the Company's internal control and exercises the functions of decision making, planning, supervision and instruction in respect of the Company's internal control. The Internal Control Committee is supported by a secretarial group and an internal control development group.

The Company has developed and made ongoing improvements to the risk management and internal control systems featuring primarily a "three-tier protection" as follows: the first line of protection involves the business units and functional departments as the main units responsible for implementation of risk management and internal control. The second line of protection involves the Internal Control Committee. It is responsible for decision-making, planning, supervision, direction and enforcement in relation to risk management and internal control. The third line of protection, responsible for internal audit, is formed by the Audit Committee and the audit department, which is the supervisory unit for risk management and internal control responsible for internal audit.

2. Establishment and implementation of internal control system

The Company's internal control establishment has basically covered all operating segments of the Company, including production operations, financial management, organization, personnel management, and information disclosure, etc. The Company has, taking into account its specific conditions, developed a comprehensive internal control system.

The Company has formulated and implemented the ZTE Corporation Internal Control System to define the functional institutions of the Company's internal control and their powers, stipulate principles for internal control and key internal control factors and methods. The Company has formulated and put into implementation the Corporate Risk Management Regulations to define risk management organization and duties at various levels and regulate the risk evaluation standards and risk management processes of the Company. The Company has formulated and put into implementation the ZTE Administrative Measures for Driving Rectifications of Internal Control Deficiencies to regulate the entire process covering the confirmation of internal control deficiencies, control over rectification plans, tracking of rectification processes and closing of rectification results. Each year, the Company will review the effectiveness of its risk management and internal control systems and the implementation processes and outcomes of the annual risk management and internal control action plans based on the ZTE Risk Management Regulations and Basic Rules for Corporate Internal Control with reference to the Internal Control Handbook.

In 2018, the Company internal control efforts were focused on the following:

1. The Company continued to advance the building of its internal control system with a strong focus on enhancing abilities to deal with key areas. Amendment of the internal control manual was completed in accordance with the provisions of Basic Rules for Corporate Internal Control and its supplementary guide and the requirements of the Company's systems and standards.

2. Improvements and amendments were made to the operating mechanism of the Compliance Management Committee, the organisation for compliance management and the export control compliance process and system to enhance examination of export control compliance and ascertain the responsibility for evaluation.

3. The Company's derivative investments and investments in securities were examined. Measures were taken to support Ernst & Young Hua Ming LLP's audit on the Company's internal control.

4. Control of significant and material risks was reviewed and risk management regulations were optimised to strengthen closed-loop risk management at the first line of protection and further define the duties of departments for specialised abilities in the second line of protection. Control of significant and material risks was reviewed to identify and analyse risks in the Company's operations on an ongoing basis.

5. Key internal control tasks for critical areas such as job management and process management were carried out, while the operation of the internal control system was optimised and specialised internal control assessment regarding export control compliance and management was completed. Methods for the administration of internal control deficiency rectification were further improved to clarify responsibilities for the development of internal control ability modules and enhance accountability.

6. Internal control awareness of management officers was strengthened and an internal environment emphasising compliance with rules and punishment of violations was created. Activities to foster the culture of internal control among all employees, such as lectures on internal control, seminars on internal control in business operations, sharing of internal control cases and internal control quizzes, were organised on a continuous basis.

3. The 2018 Internal Control Assessment Report published by the Company

The Company has conducted an assessment on the effectiveness of its internal control as at 31 December 2018 (being the record date for the internal control assessment report) in accordance with the Basic Rules for Corporate Internal Control, its supplementary guidelines and other internal control regulatory requirements and taking into account its internal control system and assessment methods, based on general as well as specific supervision of internal control. Based on the work of identifying significant deficiencies in the Company's internal control in relation to financial reporting and non-financial reporting, as at the record date for the internal control assessment report, there was no significant deficiency in internal control in relation to financial reporting and the Company was not aware of any significant deficiency in internal control in relation to non-financial reporting.

Total assets of units being assessed accounted for more than 88.7% of the total assets as recorded in the consolidated financial statements of the Company, while the aggregate operating revenue of such units also accounted for more than 92.3% of the total operating revenue recorded in the consolidated financial statements of the Company. For the principal units under assessment and standards for assessing deficiencies in financial reports and non-financial reports and other details of the Company's internal control, please refer to the "The 2018 Internal Control Assessment Report of ZTE Corporation" published by the Company on 27 March 2019.

4. Internal control audit report furnished by the audit firm

In accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the Code of Ethics for Chinese Certified Public Accountants, Ernst & Young Hua Ming LLP conducted an audit on the effectiveness of internal control in relation to the financial reporting of the Company for the year ended 31 December 2018, and is of the view that the Company has maintained effective internal control in financial reporting in all material aspects in accordance with the Basic Rules for Corporate Internal Control and pertinent provisions.

For the internal control audit report of the Company, please refer to the "The Internal Control Audit Report of ZTE Corporation" published by the Company on 27 March 2019.

PART II: CORPORATE GOVERNANCE REPORT PREPARED IN ACCORDANCE WITH THE REQUIREMENTS OF THE HONG KONG LISTING RULES

The Company is dedicated to improving its corporate governance standards and strives to enhance its enterprise value through the implementation of corporate governance, with a view to ensuring sustainable development in the long term.

The Company had fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules throughout the year ended 31 December 2018, save for the deviation described in the section headed "I. Shareholders' Rights and Investors' Relations (VI) Chairman and the Chief Executive Officer" below.

Corporate Governance Structure

I. Shareholders' Rights, Investors' Relations and Dividend Policy

(I) Shareholders' rights

The Company adopts relevant measures to actively facilitate and ensure the smooth exercise of shareholders' rights in strict compliance with the Company Law, Securities Law, Hong Kong Listing Rules and other relevant laws and regulations and in accordance with pertinent requirements under the Articles of Association.

Details of the shareholding structure of the Company are set out in the section of this report headed "Changes in Shareholdings and Information of Shareholders".

The Company has always maintained effective communications with its shareholders by reporting the Group's results and operations to shareholders through numerous official channels, such as the publication of annual reports, interim reports and quarterly reports. Shareholders can also express their views or exercise their rights through communication channels set up by the Company, such as the shareholders' hotline and e-mail contacts. The Company's website is updated regularly to provide investors and the public with timely information of the Company's latest developments. Shareholders can also submit their enquiries and questions to the Board of Directors in writing through the Company Secretary, whose contact details are set out in the section headed "Corporate Information" in this report.

The circular and the notice of general meeting of the Company is in strict compliance with pertinent provisions of the Company Law, the Articles of Association and the Hong Kong Listing Rules in terms of dates, contents, delivery modes, announcement methods and shareholders' voting procedures, ensuring the smooth exercise of shareholders' right to participate in general meetings. Shareholders holding 10% of above of the shares of the Company alone or in aggregate shall be entitled to request the Board of Directors or Supervisory Committee to convene an extraordinary general meeting or to unilaterally convene such extraordinary general meeting. For details, please refer to Articles 74, 75 and 76 of the Articles of Association. Shareholders holding 3% of above of the shares of the Company alone or in aggregate shall be entitled to propose ex tempore motions 10 days prior to the convening of the general meeting and submit the same in writing to the convener of the general meeting. For details, please refer to Article 78 of the Articles of Association. In accordance with Article 100 of the Articles of Association, the Directors, Supervisors and senior management of the Company are obliged to give explanations in response to queries and suggestions of shareholders. In 2018, the Company convened 3 general meetings. For details, please refer to the section headed "II Information on general meetings convened" in Part I of this chapter.

(II) Investors' relations

The Company is committed to the development of investors' relations programmes and sound communications with investors are being maintained via our investors' relations hotline, e-mail and investor receptions. The Company regards the convening of its annual general meeting as one of the most important annual events for the Company. All Directors and key senior management members attend the meeting on a best effort basis and engage in direct dialogue with the shareholders during the arranged Q&A sessions. Details of the Company's reception of investors during 2018 are set out in the section of this report headed "Report of the Board of Directors (V) Records of reception of investors, communications and press interviews during the year".

In the coming year, the Company will further enhance communications with investors with the hope that they will offer more support and concern for the Company on the back of better understanding.

Owing to the issue of additional A shares as a result of the exercise of options by participants following the fulfilment of exercise conditions under the Company's 2013 A Share Option Incentive Scheme, the actual conditions of the Company and pertinent laws and regulations, Articles 24, 27, 35, 143, 151, 159 and 234 of the Articles of Association have been amended accordingly.

Corporate Governance Structure

Article 24

The original article which reads:	Subsequent to its establishment, the Company shall issue 4,185,896,909 ordinary shares, comprising 755,502,534 H Shares, accounting for 18.05% of the total number of ordinary shares issuable by the Company; and 3,430,394,375 Domestic Shares, accounting for 81.95% of the total number of ordinary shares issuable by the Company.
Is amended to read:	Subsequent to its establishment, the Company shall issue 4,192,671,843 ordinary shares, comprising 755,502,534 H Shares, accounting for 18.02% of the total number of ordinary shares issuable by the Company; and 3,437,169,309 Domestic Shares, accounting for 81.98% of the total number of ordinary shares issuable by the Company.

Article 27

The original article which reads:	The registered capital of the Company shall be RMB4,185,896,909.
Is amended to read:	The registered capital of the Company shall be RMB4,192,671,843.

Article 35

The original article which reads:	(I) reduction of the capital of the Company
Is amended to read:	(I) reduction of the registered capital of the Company

Article 143

The original article which reads:	...The Chairman and Vice Chairmen shall be elected and removed by a simple majority vote of all members of the Board of Directors. The Chairman must be elected from directors or members of the senior officers of the Company who have served for three years or more. The term of office of the Chairman and Vice Chairmen shall not be more than three years, which is renewable upon re-election....
Is amended to read:	...The Chairman and Vice Chairmen shall be elected and removed by a simple majority vote of all members of the Board of Directors. The term of office of the Chairman and Vice Chairmen shall not be more than three years, which is renewable upon re-election....

Article 151

The original article which reads:	...Independent non-executive directors shall account for over one-third of the Board of Directors, of whom there shall be at least one accounting professional. An independent non-executive director shall faithfully fulfill his duties and protect the Company's interests, in particular, ensuring that the legal interests of public shareholders are not impaired.
Is amended to read:	...Independent non-executive directors shall account for at least one-third of the Board of Directors and shall be no less than three, of whom there shall be at least one accounting professional. An independent non-executive director shall faithfully fulfill his duties and protect the Company's interests, in particular, ensuring that the legal interests of public shareholders are not impaired.

Corporate Governance Structure

Article 159

The original article which reads:	The Company shall establish a Board of Directors. The Board of Directors shall consist of fourteen directors, including one Chairman, two Vice Chairmen and five independent non-executive directors. Executive directors shall account for at least one-fifth of the total number of directors on the board.
Is amended to read:	The Company shall establish a Board of Directors. The Board of Directors shall consist of seven to fourteen directors, including one Chairman, two Vice Chairmen. Independent non-executive directors shall account for at least one-third of the Board of Directors and shall be no less than three. A balanced composition of executive directors and non-executive directors (including independent non-executive directors) shall be maintained.

Article 234

The original article which reads:

The profit distribution policy of the Company shall be as follows:

(1) Reasonable investment returns for investors should be a key consideration in the profit distribution of the Company and continuity and stability should be maintained in its profit distribution policy;

(3) The Company may distribute its dividend by way of cash and/or shares. Interim cash dividend may be distributed. Accumulated distribution of profit by way of cash by the Company in the three preceding years shall be no less than 30% of the annual average profit available for distribution realised in the three preceding years;

Is amended to read:

The profit distribution policy of the Company shall be as follows:

(1) Reasonable investment returns for investors should be a key consideration in the profit distribution of the Company and continuity and stability should be maintained in its profit distribution policy, which should be in compliance with laws and regulations and the relevant requirements of regulatory authorities such as the China Securities Regulatory Commission;

(3) Subject to the fulfillment of conditions for dividend distribution, the Company shall, in principle, distribute its profit on an annual basis by way of cash and/or shares, and may also carry out interim profit distribution. Accumulated distribution of profit by way of cash by the Company in the three preceding years shall be no less than 30% of the annual average profit available for distribution realised in the three preceding years;

(III) Dividend Policy

The Company holds the attainment of reasonable investment return for investors in high regard and has formulated a relevant dividend policy. For details please refer to the section headed "Material Matters (I) Profit distribution" in this report.

II. Board of Directors

Members of the Board of Directors seek to act in the best interests of the Company, providing leadership and supervision over the Company and assuming collective and individual responsibility to all shareholders of the Company in respect of the management, control and operations of the Company.

Corporate Governance Structure

(I) Functions of the Board of Directors

The Board of Directors is responsible for convening general meetings, reporting its work to the general meeting, implementing resolutions of the general meeting in a timely manner, monitoring the development of the overall operational strategy of the Company, deciding on the operational plans and investment proposals of the Company, as well as providing supervision over and guidance to the management team of the Company. The Board of Directors is also responsible for monitoring the business and financial performance of the Company and formulate the annual financial budgets and final accounts of the Company.

The Directors confirm that it is their responsibility to prepare financial statements in respect of each financial year to give a true and fair report on the Group's conditions, as well as the results and cash flow accounts for the relevant periods. The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in preparing the financial statements for the year ended 31 December 2018. After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

(II) Composition of the Board of Directors

As at the end of the year under review, the Seventh Session of the Board of Directors of the Company comprised 9 Directors, including 1 Chairman. There are 3 Executive Directors (Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying). The remaining members are all Non-executive Directors independent of the management, including 3 Independent Non-executive Directors, namely Ms. Cai Manli, Mr. Yuming Bao and Mr. Gordon Ng, who performed their duties in a proactive manner with the benefit of their professional qualifications and substantial experience as influential members respectively of the financial, accounting, legal and compliance sectors, and 3 Non-executive Directors, namely Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong, who had extensive business and management experience. Their presence has enabled stringent review and control of the management procedures and safeguards the interests of shareholders as a whole, including minority shareholders. The profile and terms of office of the Directors are set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees". The composition of the Board of Directors was in compliance with the provisions of Rule 3.10(1) and (2) and Rule 3.10A of the Hong Kong Listing Rules.

The Company confirms that it has received annual written confirmations of independence from all the Independent Non-executive Directors regarding their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules. In accordance with the guidelines on independence set out in the Hong Kong Listing Rules, the Company is of the opinion that all the Independent Non-executive Directors are independent persons.

There were no financial, business, family or other material/relevant connections among members of the Board of Directors of the Company.

(III) Term of office, appointment and removal of Directors

A Director (including Non-executive Director) of the Company is appointed for a term of 3 years and is eligible for re-election upon conclusion of each term. An Independent Non-executive Director can hold office for a maximum of 6 years. Save for Mr. Xu Ziyang, current Executive Director of the Company, whose term of office runs from 28 August 2018 to 29 March 2019, all current Directors of the Company serve a term commencing on 29 June 2018 and ending on 29 March 2019.

The appointment and removal of Directors is subject to the approval of the general meeting of the Company. Each Director has entered into a Director's Service Contract with the Company. The changes in the Directors of the Company during the year are set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees (VI) Changes in Directors, Supervisors and Senior Management of the Company During the Year".

(IV) Board Meetings

1. The Articles of Association requires that the Board of Directors convene at least 4 meetings a year. In 2018, the Board of Directors of the Company convened 18 meetings. In 2018, the Company convened 3 general meetings.

Corporate Governance Structure

Attendance of Directors at the meetings of the Board of Directors and the general meetings during the period from 29 June to 31 December 2018 was set out in the following:

Number of meetings		Board meeting 13		General meeting 1	
Directors [Note 1]	Attendance in person	Attendance by proxy	Attendance [Note 2]	Attendance in person	Attendance [Note 2]
Chairman and Executive Director					
Li Zixue	13	0	13/13	1	1/1
Executive Director					
Xu Ziyang	7	2	7/9	0	0/0
Gu Junying	13	0	13/13	0	0/1
Non-executive Director					
Li Buqing	13	0	13/13	1	1/1
Zhu Weimin	13	0	13/13	1	1/1
Fang Rong	11	1	11/12 [Note 3]	1	1/1
Independent Non-executive Director					
Cai Manli	12	1	12/13	0	0/1
Yuming Bao	12	1	12/13	0	0/1
Gordon Ng	11	2	11/13	0	0/1

Note 1: For details of changes in the membership of the Board during the year, please refer to the section of this report headed "Directors, Supervisors, Senior Management and Employees (VI) Changes in Directors, Supervisors and Senior Management of the Company During the Year".

Note 2: Attendance by proxy is not counted for the percentage of attendance. The percentage of attendance of Directors has been arrived at on the basis of Board meetings and general meetings held during the period while they were in office.

Note 3: As the only resolution considered at the Forty-third Meeting of the Seventh Session of the Board of Directors of the Company was the "Resolution on Continuing Connected Transactions under the "Property and Equipment Leasing Framework Agreement entered into with Zhongxing Hetai, a connected party", Ms. Fang Rong, as a connected Director, did not attend the meeting.

Attendance of Directors at the meetings of the Board of Directors and the general meetings during the period from 1 January to 29 June 2018 was set out in the following:

Number of meetings		Board meeting 5		General meeting 2	
Directors [Note 1]	Attendance in person	Attendance by proxy	Attendance [Note 2]	Attendance in person	Attendance [Note 2]
Chairman and Executive Director					
Yin Yimin	5	0	5/5	2	2/2
Vice Chairman and Non-executive Director					
Zhang Jianheng	3	2	3/5	0	0/2
Luan Jubao	3	2	3/5	2	2/2
Executive Director					
Zhao Xianming	5	0	5/5	2	2/2
Non-executive Director					
Wang Yawen	4	1	4/5	1	1/2
Tian Dongfang	4	1	4/5	1	1/2
Zhan Yichao	3	2	3/5	0	0/2
Wei Zaisheng	5	0	5/5	2	2/2
Zhai Weidong	5	0	5/5	2	2/2
Independent Non-executive Director					
Richard Xike Zhang	3	2	3/5	0	0/2
Chen Shaohua	4	1	4/5	0	0/2
Lü Hongbing	3	2	3/5	0	0/2
Bingsheng Teng	5	0	5/5	0	0/2
Zhu Wuxiang	4	1	4/5	1	1/2

Corporate Governance Structure

Note 1: For details of changes in the membership of the Board during the year, please refer to the section of this report headed "Directors, Supervisors, Senior Management and Employees (VI) Changes in Directors, Supervisors and Senior Management of the Company During the Year".

Note 2: Attendance by proxy was not counted for the percentage of attendance. The percentage of attendance of Directors was arrived at on the basis of Board meetings and general meetings held during the period while they were in office.

2. All Directors should be given 14 days' notice prior to the commencement of a regular Board of Directors meeting and 3 days' notice prior to the commencement of an interim Board of Directors meeting. The secretary to the Board of Directors should provide details of regular and interim Board meetings (including information in relation to each meetings of specialised committees of the Board of Directors) not later than 3 days (or other agreed periods) prior to the commencement of the meeting. The Company Secretary would respond to questions raised by the Directors and take appropriate action in a timely manner to assist the Directors to ensure that the procedures of the Board of Directors are in compliance with the Company Law, the Articles of Association, the Hong Kong Listing Rules and other applicable regulations.

3. Minutes of each Board of Directors meetings should be signed by the attending Directors and minute-takers, and be kept for a term of 10 years, during which the minutes are available for Directors' inspection from time to time upon their request.

4. Where any matters (including connected transactions) to be considered by the Board of Directors of the Company are deemed by the Board of Directors to involve a material conflict of interest, abstention measures are adopted and the Directors who are by any means connected with such transactions would abstain from voting.

(V) Respective scopes of delegation and duties of the Board of Directors and the management

The scopes of delegation and duties of the Board of Directors and the management have been clearly defined. Duties of the Board of Directors are set forth in Article 160 of the Articles of Association, summary of which can be found in the section headed "II (I) Functions of the Board of Directors" under Part II of this chapter. The management should be responsible for the day-to-day operation and management and be accountable to the Board of Directors by furnishing sufficient information to the Board of Directors and the specialised committees in a timely manner to enable them to make informed decisions. All Directors are entitled to obtain further information from the management of the Company.

(VI) Chairman and the Chief Executive Officer

The roles of Chairman and Chief Executive Officer are two distinctly separate positions. Mr. Li Zixue has been appointed Chairman of the Company, while Mr. Xu Ziyang has been appointed Chief Executive Officer. Their respective roles have been clearly defined in the Articles of Association, and the duties of the Chairman and those of the Chief Executive Officer are set out in Article 164 and Article 181, respectively, of the Articles of Association.

The Chief Executive maintains close liaison with the Chairman and all Directors and reports his work to the Board on a regular basis to ensure that all Directors are sufficiently informed of all significant business developments.

(VII) Measures Taken to Ensure the Performance of Duties by Directors

1. The Company would provide the Directors with all the relevant and necessary information when they take office, and thereafter provide regularly information that would help the Directors understand the business and operating conditions of the Company. Updated information such as newly promulgated laws and regulations and internal publications are sent to the Directors from time to time and arrangements are made for the Directors to attend relevant continuing professional training courses at the cost of the Company, in order to assist them to fully understand their duties as a director under the requirements of the Hong Kong Listing Rules and other relevant laws and regulations, as well as to gain comprehensive insight in the Company's operation in a timely manner. To ensure adequate performance of duties by the Independent Non-executive Directors, the Company will organise on-site visits for the Independent Non-executive Directors and facilitate their close communication with the Chief Financial Officer and Auditor.

2. According to records maintained by the Company, the current Directors of the Company received the following training focused on the roles, functions and duties of directors of listed companies in 2018:

Contents Director	Laws, regulations and rules Reading materials	 Attendance at talks or seminars
Chairman and Executive Director		
Li Zixue	√	√
Executive Director		
Xu Ziyang	√	√
Gu Junying	√	√
Non-executive Director		
Li Buqing	√	√
Zhu Weimin	√	√
Fang Rong	√	√
Independent Non-executive Director		
Cai Manli	√	√
Yuming Bao	√	√
Gordon Ng	√	√

Note: For details of changes in the membership of the Board of Directors of the Company, please refer to the section headed "Directors, Supervisors, Senior Management and Employees — (VI) CHANGES IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY DURING THE YEAR" in this report. Directors resigned during the year had been able to participate in continuous professional development during their term of office to develop and update their know-how and skills, so as to ensure that they could make contributions to the Board in a comprehensively informed and appropriate manner.

3. Whenever the Directors of the Company are required to provide an opinion in relation to matters including the provision of third-party guarantees, appropriation of funds and connected transactions, the Company would engage relevant independent professional bodies, such as auditors or lawyers, to provide independent professional advice so as to assist the Directors in performing their duties.

4. In connection with potential legal risks arising from the performance of duties by the Directors, Supervisors and senior management, the "Resolution on the Renewal of Directors', Supervisors' and Senior Management's Liability Insurance" was considered and passed at the Thirty-eighth Meeting of the Seventh Session of the Board of Directors held on 8 October 2018 with the mandate of the general meeting and the "Resolution on the Authorization to Purchase Directors', Supervisors' and Senior Management's Liability Insurance" was considered and passed at the First Extraordinary General Meeting of 2019 held on 20 March 2019.

III. Specialised Committees under the Board of Directors

There are 4 specialised committees under the Board of Directors of the Company, namely the Remuneration and Evaluation Committee, Nomination Committee, Audit Committee and Export Compliance Committee. Specific working rules have been formulated for each of the specialised committees, stipulating, among other things, the duties and powers of these committees. The working rules of each of the specialised committees have been posted on the website of the Hong Kong Stock Exchange and the website of the Company. The order of meeting for the specialised committees is conducted in accordance with the provisions of the "Working Rules for the Remuneration and Evaluation Committee of the Board of Directors", "Working Rules for the Nomination Committee of the Board of Directors", "Working Rules for the Audit Committee of the Board of Directors" and Working Rules for the Export Compliance Committee of the Board of Directors", and is implemented by reference to the statutory procedures for meetings of the Board of Directors.

Corporate Governance Structure

(I) The Remuneration and Evaluation Committee

1. Roles and functions of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee is primarily responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management of the Company based on the policies and structures for the management of remuneration and performance of Directors and senior management laid down by the Board of Directors.

2. Members and Meetings of the Remuneration and Evaluation Committee

As at the end of the year under review, the Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors of the Company comprised 5 members, including 3 Independent Non-executive Directors, 1 Non-executive Directors and and 1 Executive Director. As at the end of the year, the convenor of the Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors was Ms. Cai Manli, Independent Non-executive Director. Members of the committee included Mr. Gu Junying, Mr. Zhu Weimin, Mr. Yuming Bao and Mr. Gordon Ng.

The Remuneration and Evaluation Committee held 3 meetings during the period from 29 June to 31 December 2018. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in Person Note	Attendance by Proxy Note
Cai Manli	2/3	1/3
Gu Junying	3/3	0/3
Zhu Weimin	3/3	0/3
Yuming Bao	3/3	0/3
Gordon Ng	3/3	0/3

Note: The percentage of attendance of members has been arrived at on the basis of the number of meetings of the Remuneration and Evaluation Committee held during the period while they were in office.

The Remuneration and Evaluation Committee held 2 meetings during the period from 1 January to 29 June 2018. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in Person Note	Attendance by Proxy Note
Bingsheng Teng	2/2	0/2
Yin Yimin	2/2	0/2
Zhang Jianheng	1/2	1/2
Richard Xike Zhang	0/2	2/2
Chen Shaohua	2/2	0/2
Zhu Wuxiang	2/2	0/2

Note: The percentage of attendance of members has been arrived at on the basis of the number of meetings of the Remuneration and Evaluation Committee held during the period while they were in office.

3. The decision-making process and criteria for determining remuneration for Directors and senior management

The Remuneration and Evaluation Committee makes recommendations to the Board of Directors on the allowances for Directors by reference to the work performance of the Directors of the Company as well as the levels offered by other listed companies in the industry. Such recommendations shall be confirmed upon consideration and approval both by the Board of Directors and the general meeting, namely in the manner set out in Code B.1.2(c) (ii) of Appendix 14 to the Hong Kong Listing Rules.

The Remuneration and Evaluation Committee conducts annual performance appraisals of the senior management personnel of the Company and determines the remuneration of such senior management personnel based on the results of such appraisals for implementation after consideration and approval by the Board of Directors.

Corporate Governance Structure

4. Work of the Remuneration and Evaluation Committee during the year

The Remuneration and Evaluation Committee held 5 meetings in 2018 to consider and approve, among others, the performance of and annual bonus amount for senior management personnel for 2017, the 2018 Measures for the Administration of Senior Management's Performance, and the renewal of "Directors', Supervisors' and senior management's liability insurance".

(II) The Nomination Committee

1. Roles and functions of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee considers the criteria, procedures and duration of appointment for Directors and senior management of the Company in accordance with relevant laws and regulations and the Articles of Association and taking into account the actual conditions of the Company. The Nomination Committee then submits a proposal to the Board of Directors and general meetings (if applicable) for approval, and implements accordingly.

2. Members and Meetings of the Nomination Committee

As at the end of the year under review, the Nomination Committee of the Seventh Session of the Board of Directors of the Company comprises 5 members, including 3 Independent Non-executive Directors, 1 Non-executive Directors and 1 Executive Director. As at the end of the year, the convenor of the Nomination Committee of the Seventh Session of the Board of Directors was Mr. Gordon Ng, Independent Non-executive Director. Members of the committee included Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Yuming Bao.

The Nomination Committee held 1 meetings during the period from 29 June to 31 December 2018. Attendance at the meeting was as follows:

Members of the Nomination Committee	Attendance in Person Note	Attendance by Proxy Note
Gordon Ng	1/1	0/1
Li Zixue	1/1	0/1
Fang Rong	1/1	0/1
Cai Manli	1/1	0/1
Yuming Bao	1/1	0/1

Note: The percentage of attendance of members has been arrived at on the basis of the number of meetings of the Nomination Committee held during the period while they were in office.

The Nomination Committee did not hold any meetings during the period from 1 January to 29 June 2018.

3. The criteria and procedures for the nomination and recommendation of Directors and senior management and the board diversity policy

(1) The Nomination Committee conducts extensive searches for candidates for Directors and senior management both internally in the Company, its subsidiaries or associate companies and externally in the open market after considering the Company's requirements for new Directors and senior management. With the consent of the nominees, a meeting of the Nomination Committee will be convened to examine the qualifications of the shortlisted nominees based on the terms for appointment of Directors and senior management. Prior to the election of new Directors, the Nomination Committee will propose candidates for Directors to the Board of Directors and furnish the Board of Directors with relevant information. Prior to the appointment of candidates for senior management. Prior to the appointment of new senior management personnel, the Nomination Committee will also propose to the Board of Directors candidates to be appointed as senior management personnel and furnish the Board of Directors with relevant information.

(2) The Nomination Committee shall recommend candidates for Directors and new senior management appointments to the Board of the Directors in accordance with qualifications for directors and senior management set out in, among others, the Company Law, Guiding Opinion of the China Securities Regulatory Commission on the Establishment of the Independent Director System at Listed Companies (《中國證監會關於在上市公司建立獨立董事制度的指導意見》), Measures of the Shenzhen Stock Exchange for the Registration of Independent Directors (《深圳證券交易所獨立董事備案辦法》), the Hong Kong Listing Rules, the Articles of Association and the Rules of Procedures of the Board of Directors, etc.

(3) The Nomination Committee has formulated a Board Diversity Policy, which has been set out in the Working Rules of the Nomination Committee of the Board of Directors. The Board Diversity Policy primarily states that the Company considers board diversity in a range of aspects when determining the composition of the Board, including but not limited to age, cultural and education background, professional experience, skills and know-how. All appointments of the Board of Directors are based solely on meritocracy, and candidates are being considered under objective conditions taking into account the benefits of board diversity. The Board of Directors of the Company has a basically diverse composition. For details, please refer to "II (II) Composition of the Board of Directors" in Part II of this chapter.

The Company is a world-leading provider of integrated communication and information solutions. In determining the membership of its Board, the Company has taken into full consideration of its business model and sought to appoint directors with backgrounds in expertise such as management, communications, finance, law and compliance, among others. The Company has basically achieved diversity in the composition of its Board. For details, please refer to the section headed "Directors, Supervisors and Senior Management — (I) BRIEF BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY" in this report.

4. Work of the Nomination Committee during the year

The Nomination Committee held 1 meeting in 2018 to consider and discuss the structure, size and composition of the Board.

(III) The Audit Committee

1. Roles and functions of the Audit Committee

The Audit Committee is primarily responsible for making recommendations to the Board of Directors on the appointment and removal, remuneration and terms of engagement of external auditors, supervising the Company's internal audit system and its implementation, examining the financial information of the Company and its disclosure (including the inspection of the completeness of the Company's financial statements and annual reports and accounts, interim reports and quarterly reports, as well as the review of significant opinions on financial reporting contained in the statements and reports), reviewing the financial controls, internal controls and risk management system of the Company, and examining material connected transactions.

2. Members and Meetings of the Audit Committee

As at the end of the year under review, the Audit Committee of the Seventh Session of the Board of Directors of the Company comprised 5 members, including 3 Independent Non-executive Directors and 2 Non-executive Directors. As at the end of the year, the convenor of the Audit Committee of the Seventh Session of the Board of Directors was Ms. Cai Manli, Independent Non-executive Director. Members of the committee included Mr. Li Buqing, Mr. Zhu Weimin, Mr. Yuming Bao and Mr. Gordon Ng. The composition of the Audit Committee was in compliance with the provisions of Rule 3.21 of the Hong Kong Listing Rules.

Corporate Governance Structure

The Audit Committee held 6 meetings during the period from 29 June to 31 December 2018. Attendance at the meetings was as follows:

Members of the Audit Committee	Attendance in person Note	Attendance by proxy Note
Cai Manli	6/6	0/6
Li Buqing	6/6	0/6
Zhu Weimin	6/6	0/6
Yuming Bao	5/6	1/6
Gordon Ng	5/6	1/6

Note: The percentage of attendance of members has been arrived at on the basis of the number of meetings of the Audit Committee held during the period while they were in office.

The Audit Committee held 4 meetings during the period from 1 January to 29 June 2018. Attendance at the meetings was as follows:

Members of the Audit Committee	Attendance in person Note	Attendance by proxy Note
Chen Shaohua	4/4	0/4
Luan Jubao	2/4	2/4
Tian Dongfang	3/4	1/4
Zhan Yichao	1/4	3/4
Lü Hongbing	2/4	2/4
Bingsheng Teng	4/4	0/4
Zhu Wuxiang	4/4	0/4

Note: The percentage of attendance of members has been arrived at on the basis of the number of meetings of the Audit Committee held during the period while they were in office.

3. Work of the Audit Committee during the year

In 2018, the Audit Committee held 10 meetings to consider and approve audit arrangements, regular financial reports, appointment of reporting accountants, guarantees, derivatives, investments in securities, the internal control audit report of the Company, and maintained close liaison with the auditors.

For details of work conducted by the Audit Committee of the Company in fulfilment of its duties for reviewing the risk management and internal control systems of the Company during 2018, please refer to "Part II — IX. Risk Management and Internal Control" in this chapter.

(IV) Export Compliance Committee

1. Roles and functions of the Export Compliance Committee

The Export Compliance Committee is principally responsible for regulation over matters pertaining to compliance with export control and economic sanction laws.

2. Members and Meetings of the Export Compliance Committee

The Company established the Export Compliance Committee of the Board of Directors and "Working Rules for Export Compliance Committee of the Board of Directors" on 27 July 2018. As at the end of the year, the Export Compliance Committee of the Seventh Session of the Board of Directors of the Company comprises 5 members, including 3 Independent Non-executive Directors, 1 Non-executive Director and 1 Executive Director. The convenor of the Export Compliance Committee of the Seventh Session of the Board of Directors was Mr. Yuming Bao, Independent Non-executive Director, and its members included Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Gordon Ng.

Corporate Governance Structure

The Export Compliance Committee held 2 meetings in 2018. Attendance at the meetings was as follows:

Export Compliance Committee	Attendance in person	Attendance by proxy
Yuming Bao	2/2	0/2
Li Zixue	2/2	0/2
Fang Rong	2/2	0/2
Cai Manli	2/2	0/2
Gordon Ng	2/2	0/2

Note: The percentage of attendance of members resigning or being appointed during the year has been arrived at on the basis of the number of meetings of the Export Compliance Committee held during the period while they were in office.

3. Work of the Export Compliance Committee during the year

In 2018, the Export Compliance Committee held 2 meetings to consider matters pertaining to the Company's export compliance.

(V) Corporate governance functions

The Board of Directors is charged with duties in corporate governance, procuring the management to establish a compliant organisational structure and regime and to abide by the Corporate Governance Code and other laws and regulations relevant to corporate governance in day-to-day management. During the year, the Board of Directors examined the Company's compliance with corporate governance policies and codes. In accordance with the Articles of Association and Rules of Procedure of the Board Meetings, the Board of Directors is responsible for the following corporate governance functions:

1. Formulating and reviewing the corporate governance policies and practices of the Company;

2. Reviewing and monitoring training and continuous professional development of the Directors and senior management;

3. Reviewing and monitoring the Company's policies and practices in compliance with legal and regulatory provisions;

4. Formulating, reviewing and monitoring the code of conduct and compliance guide (if any) for employees and Directors; and

5. Reviewing the Company's compliance with the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules and the disclosures in its corporate governance report.

IV. Remuneration and Interests of Directors, Supervisors and the President

(I) Remuneration

Please refer to the section of this report headed "Directors, Supervisors, Senior Management and Employees — (II) Changes in the Shareholdings and Share Options of and Annual Remuneration of the Company's Directors, Supervisors, Senior Management" for details of the annual remuneration of the Directors, Supervisors and senior management of the Company.

Further details of the remuneration of Directors and Supervisors for 2018 are set out in Note 9 to the financial statements prepared in accordance with HKFRSs.

(II) Interests

1. Service contracts and contractual interests of Directors and Supervisors

The Company did not enter into any service contract which is not determinable by the Company within one year without payment of compensation (other than statutory compensation) with any Director or Supervisor.

2. Interests of Directors and Supervisors or entities which are connected to the Directors and Supervisors in transactions, arrangements and contracts

None of the Directors and Supervisors of the Company or entities which are connected to the Directors and Supervisors was or had been materially interested, either directly or indirectly, in any transactions, arrangements and contracts of significance to which the Group is a party subsisting during or at the end of 2018.

3. Interests of 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 report headed "Directors, Supervisors, Senior Management and Employees — (II) 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.

4. Securities transactions by Directors and Supervisors

The Directors and Supervisors of the Company confirmed that the Company has adopted the Model Code. Upon due enquiry with all Directors and Supervisors of the Company, the Company is not aware of any information that reasonably indicates non-compliance with code provisions set out in the Model Code by any Director or Supervisor during the year.

V. Remuneration Package and Retirement Benefits for Employees

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees are also entitled to accident insurance, business travel insurance, housing subsidies, retirement and other benefits. In accordance with relevant regulations of countries where the employees are located, the Group also participates in social insurance plans organised by the relevant government authorities, under which the Group makes contributions towards each employee's social insurance fund in an amount equivalent to a specified percentage of his/her monthly salaries. Further details of the remuneration of top 5 employees of the Company for 2018 are set out in Note 10 to the financial statements prepared in accordance with HKFRSs.

Details of staff retirement benefits provided by the Group are set out in Note 38 to the financial statements prepared in accordance with HKFRSs.

VI. Auditors' Remuneration

Ernst & Young Hua Ming LLP ("Ernst & Young Hua Ming") and Ernst & Young acted as the Group's PRC and Hong Kong auditors, respectively.

Ernst & Young Hua Ming has been appointed the Company's PRC auditor for 14 consecutive years since 2005. Ernst & Young has been appointed the Company's Hong Kong auditor for 15 consecutive years since 2004. The undersigning accountants of Ernst & Young Hua Ming are Ms. Liao Wenjia and Ms. Ma Jing. Ms. Liao Wenjia has been providing audit services to the Company for 7 years and the year under review was the fourth year for which she acted in the capacity of undersigning accountant. Ms. Ma Jing has been providing audit services to the Company for 6 years and the year under review was the third year for which she acted in the capacity of undersigning accountant.

Corporate Governance Structure

Financial report audit fees payable to the PRC auditor and the Hong Kong auditor for 2018 were paid in a consolidated manner, whereby an aggregate audit fee of RMB8.10 million was paid to Ernst & Young Hua Ming and Ernst & Young.

Ernst & Young Hua Ming was appointed the Company's internal control auditor for 2018. The amount of 2018 internal control audit fee paid to Ernst & Young Hua Ming by the Company was RMB1.20 million.

In 2018, Ernst & Young provided audit services to ZTE HK for a fee of HKD600,000. Ernst & Young Hua Ming provided audit services to other subsidiaries of the Company for a fee of RMB539,800.

In 2018, Ernst & Young provided tax return and tax advisory services to the Company and ZTE HK for a fee of HKD49,400. EY Advisory provided advisory services to the Company concerning its 2018 sustainable development report for a fee of RMB254,400. Save as the aforesaid, Ernst & Young, Ernst & Young Hua Ming and EY Advisory did not provide other significant non-audit services to the Group.

Item	Amount	Auditor
Audit fees 2018	RMB8,100,000	Ernst & Young Hua Ming (PRC) Ernst & Young (Hong Kong)
Internal control audit fees 2018	RMB1,200,000	Ernst & Young Hua Ming
Audit fees 2018 for ZTE HK	HKD600,000	Ernst & Young
Audit fees 2018 for other subsidiaries of the Group	RMB539,800	Ernst & Young Hua Ming (PRC)
Fees for tax return and tax advisory services 2018	HKD49,400	Ernst & Young
Fees for advisory services the 2018 sustainable development report	RMB254,400	EY Advisory

VII. Company Secretary

The Company Secretary (Ms. Cao Wei) is responsible for facilitating the procedures of the Board of Directors of the Company and communications among Directors, between Directors and shareholders and among the management. A brief biography of the Company Secretary is set out in the section of this report headed "Directors, Supervisors, Senior Management and Employees (I) Brief Biographies of Directors, Supervisors and Senior Management". In 2018, the Company Secretary received more than 15 hours of training to update her professional skills and expertise.

VIII. Accountability and Audit

The Directors of the Company confirm that they are responsible for preparing the accounts and providing balanced, objective assessments which are clear and easy to understand in the consolidated financial statements of the annual reports, interim reports and quarterly reports, other inside information announcements and other financial disclosures required under the Hong Kong Listing Rules, and disclosing information to regulatory authorities in accordance with statutory requirements.

If the Directors become aware of significant uncertainties or conditions that might have an adverse material impact on the ability of the Company to operate as a going concern, the Directors must provide a clear disclosure and detailed discussion of such uncertainties in the corporate governance report.

A statement of the Company's Hong Kong auditor on its reporting responsibility and views on the financial statements of the Company for the year ended 31 December 2018 is set out in the Independent Auditors' Report on page 320-329 of this report.

IX. Risk Management and Internal Control

The Board of Directors of the Company is responsible for reviewing the Company's risk management and internal control systems to ensure their effective implementation. The Board of Directors has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the risk management and internal control systems of the Company and its subsidiaries. The Board of Directors shall ensure the adequacy of resources, staff qualifications and experience for accounting, internal audit and financial reporting functions, and of the training and budget for staff training.

Corporate Governance Structure

During the year, the Audit Committee under the Board of Directors of the Company held 2 meetings to review controls over financial, operational and compliance matters of the Company and its subsidiaries in accordance with relevant laws and regulations and to consider whether the risk management and internal control systems had been operating effectively and what further improvements could be made, and reported their findings to the Board of Directors of the Company.

The Company has developed and made ongoing improvements to its risk management and internal control systems featuring primarily a "three-tier protection" as follows: the first line of protection involves the business units and functional departments as the main units responsible for the implementation of risk management and internal control. The second line of protection involves the Internal Control Committee of the Company, which is the unit responsible for decision-making, planning, supervision, direction and enforcement in respect of risk management and internal control. The third line of protection is formed by the Audit Committee and the audit department as the supervisory unit for risk management and internal control responsible for internal audit.

The Company has formulated and put into implementation the ZTE Risk Management Regulations to further define risk management organization and duties at various levels and optimise the risk evaluation standards and risk management processes of the Company. The Company has also formulated and put into implementation the ZTE Administrative Measures for Driving Rectifications of Internal Control Deficiencies to optimise the entire process covering the confirmation of internal control deficiencies, control over rectification plans, tracking of rectification processes and closing of rectification results. The Company reviews annually the effectiveness of its risk management and internal control systems and the implementation processes and outcomes of the annual risk management and internal control action plans based on the ZTE Risk Management Regulations and Basic Rules for Corporate Internal Control with reference to the Internal Control Handbook.

The Company has formulated and put into implementation the Administrative Rules for Information Disclosure to strengthen the duty of the Company's internal institutions and staff for information disclosure and to ensure that the information disclosure of the Company is true, accurate, complete and timely. The Company has formulated and put into implementation the System of Registration of Owners of Inside Information to regulate administration of the Company's inside information, procure confidentiality of the inside information and safeguard the principle of fairness in information disclosure. During the year, the Company implemented the aforesaid systems in a meticulous manner and rigorously conducted the administration of inside information.

The risk management and internal control systems of the Company have been designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks associated with the malfunctioning of operating systems or failure to attain the Company's objectives. The Board of Directors of the Company has reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries and is of the view that the risk management and internal control systems had been effective and adequate throughout the financial year ended 31 December 2018.

During the year, the Company performed self-inspection on its corporate governance and self-assessment on its internal control. An assessment report on internal control has been prepared as a result. For details of the Company's internal control in 2018, please refer to the section headed "Part I. VIII — Internal Control" in this chapter.

Report of the PRC Auditors

Ernst & Young Hua Ming (2019) Shen Zi No. 60438556_H01
ZTE CORPORATION

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To the Shareholders of ZTE Corporation:

I. AUDIT OPINION

We have audited the accompanying financial statements of ZTE Corporation which comprise the consolidated and company balance sheets as at 31 December 2018, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2018 and notes to the financial statements.

In our opinion, the accompanying financial statements of ZTE Corporation have been prepared in accordance with the PRC ASBEs in all material aspects and give a true and fair view of the consolidated and company financial position of ZTE Corporation as at 31 December 2018 and the consolidated and company results of operation and cash flows of ZTE Corporation for the year ended 31 December 2018.

II. BASIS FOR OPINION

We conducted our audit in accordance with the PRC ASBEs. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of ZTE Corporation in accordance with the Code of Ethics for PRC certified accountants and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

III. KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements as a whole.

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III. KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of telecommunication system construction contract	
Revenue generated from telecommunication system construction contract amounted to RMB43,255,586,000 for the year ended 31 December 2018, representing 51% of the total revenue for the year. Revenue recognized in the Company's financial statement amounted to RMB45,371,068,000, accounting for 60% of the total revenue. Such contracts consisted a number of performance obligations mainly included sales of equipment, installation services and various other services. Since ZTE Corporation experienced more contract modification as a result of delay in delivery in 2018 and with the adoption of "ASBE No.14 — Revenue (Revised 2017)" since 1 January 2018, significant judgements and estimates by the management are required for the revenue recognition of telecommunication system construction contracts: I. Whether the promised goods or services represent separate performance obligations. In making such judgment, the management needs to assess whether the promised goods or services are distinct. II. Whether each distinct performance obligation is satisfied over time or at a point in time. In making such judgment, the management needs to consider how the performance obligation is being delivered to customers.	Our audit procedures mainly included: We evaluated the process of revenue recognition of telecommunication system construction contracts and the related internal controls, assessed the Group's accounting policies, and tested the effectiveness of the design and execution of key internal controls. We performed the following tests of details on a sampling basis: In respect of the judgement on whether a performance obligation is distinct and on the timing of the transfer of control, we have assessed the management's judgement, assumptions and methodology upon which it is based, as well as reviewed the key terms of the contract. In respect of the allocation of transaction price, we have assessed the expected cost plus a margin approach and compared the major parameters (e.g., cost, gross margin percentage, etc.) used in the model against historical data.

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III. KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of telecommunication system construction contracts (continued)	
III. To allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the distinct good or service underlying each performance obligation, the management adopts the expected cost plus a margin approach, which is primarily based on historic data, past experience, parts and configuration of the projects and the evaluation of risk and uncertainty inherent in the arrangement. IV. For contract modification (mainly by way of increasing performance obligations and/or reducing transaction prices) caused by delay in deliveries, the management needs to judge whether this constitute additional distinct performance obligations and whether satisfied and unsatisfied performance obligation are distinct from each other on the date of modification, in order to allocate the modified transaction prices appropriately between the delivered and undelivered performance obligation. When changes in the corresponding transaction price are yet to be confirmed, the management needs to make estimations on the change in transaction price caused by contract modification. In view of the above, the revenue recognition of telecommunication system construction contracts is relatively complicated, we have identified the recognition of revenue from telecommunication system construction as a key audit matter. For disclosure of our policy for the revenue recognition, please refer to Note III.22; for disclosure of judgements and estimates for revenue recognition, please refer to Note III.35; for disclosure of adjustment for accounting policy, please refer to Note III.36; for disclosure of categories of revenue, please refer to Note V.41; for disclosure of contract assets and liabilities, please refer to V.8 and V.27.	Our audit procedures mainly included:(continued) In respect of contract modification, we have examined the supplemental agreements signed with customers and assessed the methods for allocating transaction prices between the delivered and undelivered performance obligations; for contract modification of which amount has yet to be confirmed, we have assessed the key assumptions on which the management's estimates are based.

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III. KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss of trade receivables and contract assets	
The carrying amount of trade receivables (long-term trade receivables included) and contract assets as at 31 December 2018 was approximately RMB30,897,980,000 in aggregate, represented 24% of the Group's total asset. The corresponding amount on the company report was RMB38,499,976,000, represents 33% of the Company's total assets. The Group adopted "ASBE No.22-Recognition and measurement of financial instruments (Revised 2017) "since 1 January 2018. The adoption has changed the Group's accounting for impairment losses of trade receivables and contract assets by replacing incurred loss approach with a forward-looking expected credit loss ("ECL") approach. For trade receivables and contract assets that contain a significant financing component, the Group chooses as its accounting policy to recognise a loss allowance based on lifetime ECLs. As a result, the Group applies lifetime ECLs to recognise loss allowance for all the trade receivables and contract assets. The Management assesses the ECLs of some trade receivables and contract assets on an individual level while the others by groups of trade receivables and contract assets. For trade receivables and contract assets that are individually significant with objective evidence that the credit risk are obviously different from others, impairment losses are measured based on the present value of all cash shortfalls over the remaining expected lives of the trade receivables and contract assets. For others trade receivables and contract asset, ECLs are assessed by groups with past due information in response to shared credit risk characteristics of debtors. The management has established a provision matrix based on days past due by reference to its historical credit loss experience, adjusted for reasonable and supportable forward-looking factors specific to current and future economic environment.	Our audit procedures mainly included: We evaluated the processes relating to the ECL of trade receivables and contract assets and the related internal controls, tested the effectiveness of design and execution of key internal controls. For ECL of trade receivables and contract assets assessed on individual level,, we have examined on a sampling basis the objective evidence relating to the impairment of trade receivables and contract assets and the key assumptions used in the estimate of the present value of all cash shortfalls. We have also reviewed whether amounts have been recovered after the end of reporting period. For other trade receivables and contract assets, we have assessed whether the provision matrix established by the management was in compliance with the ECL approach and assessed the key parameters used in the provision matrix including mainly: credit rating, historical rates of bad debts, migration rates and forward-looking information, etc.

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III. KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss of trade receivables and contract assets (continued)	
The ECL of trade receivables and contract assets has a significant impact on the financial statements and is subject to significant judgments and estimates of the management. Accordingly, the ECL of trade receivables and contract assets was identified as a key audit matter. For disclosure on estimations of trade receivable impairment provision, please refer to Note III.9; for disclosure of judgements and estimates for trade receivable impairment provision, please refer to Note III.35; for disclosure of adjustment for accounting policy, please refer to Note III.36; for disclosure of the amount of bad debt provision for trade receivables, please refer to Note V.4 and V.11; for disclosure of contract impairment provision, please refer to V.8.	Our audit procedures mainly included: (continued) We have obtained debtors' credit information on a sampling basis to ascertain whether the classification of debtors is in compliance with the Group's policy. We have tested the management's ageing analysis based on days past due by examining the original documents (such as bills and bank deposit advices). We have recalculated the ECLof each type of trade receivables and contract assets according to the provision matrix.

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III. KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Write-down of inventories to net realisable value	
As at 31 December 2018, the carrying amount of inventories in the consolidated financial statements was RMB25,011,416,000, representing 19% of the Group's total assets. The corresponding amount on the company report was RMB15,343,153,000, represents 13% of th Company's total assets. The impairment provision of inventories was made based on their respective estimated net realisable value. The assessment of the estimated net realisable value was calculated based on the management's estimated selling prices, estimated costs to be incurred upon completion of production, costs to be incurred to make the sale and the relevant tax. With respect to the estimated selling price, the selling price of the inventories will be made reference to their contract price if they are held for particular contracts. For those without being earmarked to a particular contracts or held for contracts which were cancelled or modified, the management will base on their realisation method to estimate their respective realisable value. The amount of write-down of inventories to net realisable value has a significant impact on the financial statements and is subject to significant judgements and estimates and there were more contracts cancelled or modified in 2018. Therefore, write-down of inventories to net realisable value was identified as a key audit matter. For disclosure on the accounting policy and estimates for inventory impairment provision, please refer to Note III.12 and Note III.35; for disclosure on the charge of inventory impairment provision, please refer to Note V.7.	Our audit procedures mainly included: We evaluated processes of write-down of inventories to net realisable value and the related internal controls; performed testing on key controls to assess the design and execution effectiveness of key internal controls. We observed the stocktaking process to ascertain whether the damaged, slow-moving and obsolete inventories were identified; We tested the aging analysis of inventories by checking the original documents; We evaluated the key assumptions, such as selling prices, cost to be incurred upon completion, selling expense and the relevant taxes, which were used by the management in calculating net realisable value; For inventories held for particular contracts, we checked the respective contract price on a sampling basis. For others, we inspected key assumptions used by the management in estimating the net realisable value and checked whether inventories were sold subsequent to the reporting period on a sampling basis.

Report of the PRC Auditors

Ernst & Young Hua Ming (2019) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of long-term equity investments	
The carrying amount of long-term equity investments as at 31 December 2018, was approximately RMB3,015,295,000, represents 2.3% of the Group's total asset. During the current year, indications of impairment were identified in the investment in an associate. As a result, with the assistance of an independent valuer, the management performed an impairment assessment and reduce the respective carrying value of the investment in associates to its recoverable amount accordingly. The recoverable amount was the higher of the investment's fair value less cost of disposal and its value in use. When there is no binding sale agreement nor an active market for that investment, and its fair value less cost of disposal cannot be reliably estimated, value in use is the recoverable amount. In estimating the value in use of the long-term equity investments, various assumptions such as cash flow projection, growth rate, discount rate, etc. need to be made by management. Considering the fact that impairment of long-term equity investments has a significant impact on the financial statements and is subject to significant management judgement and estimation, impairment of long-term equity investments was determined to be a key audit matter. For disclosure of the accounting policy and estimates on impairment provision for investments in associates and investments in joint ventures, please refer to Note III.30 and Note III.35; for disclosure of impairment provision for long-term equity investments, please refer to NoteV.12.	Our audit procedures mainly included: We reviewed the independent valuer's report and assessed the competence, capabilities and objectivity of the independent valuer. We assessed the methodologies and key parameters used by the management with the assistance of our own specialists. In assessing the significant judgements and estimates used by the management in future cash flow projection, we interviewed the management, reviewed the future cash flows projection prepared by the management and compared the underlying forecast to vaious relavant information(such as approved budgets, historical financial data and externally available industry data).

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IV. OTHER INFORMATION

The management of ZTE Corporation are responsible for the other information. The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

V. RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The management of the Company are responsible for the preparation of the financial statements that give a true and fair view in accordance with the PRC ASBEs and for such internal control as is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management of the Company are responsible for assessing ZTE Corporation's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there are plans for liquidation or cessation or there are no other realistic alternatives.

The governance body of the Company is responsible for overseeing ZTE Corporation's financial reporting process.

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with audit standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report of the PRC Auditors

Ernst & Young Hua Ming (2019) Shen Zi No. 60438556_H01
ZTE CORPORATION

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with audit standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

(1) Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

(2) Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

(3) Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

(4) Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on ZTE Corporation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to issue a qualified opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause ZTE Corporation to cease to continue as a going concern.

(5) Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within ZTE Corporation to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

Report of the PRC Auditors

Ernst & Young Hua Ming (2019) Shen Zi No. 60438556_H01
ZTE CORPORATION

VI. AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

We communicate with the governance body regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the governance body with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the governance body, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young Hua Ming LLP
PRC certified public accountant:

Beijing, PRC

PRC certified public accountant:
Liao Wenjia (廖文佳) (Partner in charge)

PRC certified public accountant:
Ma Jing (馬婧)

27 March 2019

Consolidated Balance Sheet

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Assets	Note V	31 December 2018	31 December 2017
Current assets			
Cash	1	**24,289,798**	33,407,879
Trading financial assets	2	**1,476,823**	—
Derivative financial assets	3	**228,117**	116,794
Bills and trade receivables	4	**21,592,325**	26,398,228
Factored trade receivables	4	**587,869**	1,080,449
Prepayments	5	**615,489**	591,664
Other receivables	6	**2,004,870**	3,629,933
Inventories	7	**25,011,416**	26,234,139
Contract assets	8	**8,462,226**	—
Amount due from customers for contract works	9	**—**	9,012,909
Other current assets	21	**8,578,720**	7,758,594
Total current Assets		**92,847,653**	108,230,589
Non-current Assets			
Available-for-sale financial assets	10	**—**	3,181,668
Long-term trade receivables	11	**843,429**	1,244,760
Factored long-term trade receivables	11	**432,041**	2,608,006
Long-term equity investments	12	**3,015,295**	3,960,597
Other non-current financial assets	13	**1,502,499**	—
Investment properties	14	**2,011,999**	2,023,809
Fixed assets	15	**8,898,068**	8,694,456
Construction in progress	16	**1,296,044**	1,472,986
Intangible assets	17	**8,558,488**	4,741,615
Deferred development costs	18	**2,732,356**	1,902,077
Goodwill	19	**186,206**	308,806
Deferred tax assets	20	**2,787,790**	1,464,250
Other non-current assets	21	**4,238,881**	4,128,596
Total non-current assets		**36,503,096**	35,731,626
TOTAL ASSETS		**129,350,749**	143,962,215

The notes to the financial statements appended hereto form part of these financial statements.

Consolidated Balance Sheet

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Liabilities	Note V	**31 December 2018**	31 December 2017
Current liabilities			
Short-term loans	23	**23,739,614**	14,719,023
Bank advances on factored trade receivables	4	**591,931**	1,080,472
Derivative financial liabilities	24	**101,332**	49,830
Bills and trade payables	25	**27,443,104**	34,463,067
Amount due to customers for contract works	9	**—**	8,050,655
Advances from customers	26	**—**	8,702,351
Contract liabilities	27	**14,479,355**	—
Salary and welfare payables	28	**6,259,639**	7,389,544
Taxes payable	29	**954,021**	1,263,723
Other payables	30	**11,135,030**	7,071,421
Deferred income		**1,261,449**	454,891
Provisions	31	**2,167,614**	533,126
Non-current liabilities due within one year	32	**1,243,709**	3,816,844
Total current liabilities		**89,376,798**	87,594,947
Non-current liabilities			
Long-term loans	33	**2,366,568**	3,002,146
Bank advances on factored long-term trade receivables	11	**434,137**	2,948,006
Provision for retirement benefits	28	**136,245**	133,191
Deferred tax liabilities	20	**155,041**	338,131
Deferred income		**691,608**	1,224,978
Other non-current liabilities	34	**3,229,677**	3,340,669
Total non-current liabilities		**7,013,276**	10,987,121
Total liabilities		**96,390,074**	98,582,068

The notes to the financial statements appended hereto form part of these financial statements.

Consolidated Balance Sheet

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Shareholder's equity	Note V	31 December 2018	31 December 2017
Shareholder's equity			
Share capital	35	**4,192,672**	4,192,672
Capital reserves	36	**11,444,456**	11,304,854
Other comprehensive income	37	**(2,047,561)**	(723,770)
Surplus reserve	38	**2,324,748**	2,205,436
Retained profits	39	**6,983,261**	14,667,683
Total equity attributable to holders of ordinary shares of the parent		**22,897,576**	31,646,875
Other equity instruments			
Including: perpetual capital instruments	40	**6,252,364**	9,321,327
Non-controlling interests		**3,810,735**	4,411,945
Total shareholders' equity		**32,960,675**	45,380,147
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**129,350,749**	143,962,215

The notes to the financial statements appended hereto form part of these financial statements.

The financial statements set out on pages 139 to 319 have been signed by:

Legal Representative:	Chief Financial Officer:	Head of Finance Division:
Li Zixue	Li Ying	Xu Jianrui

Consolidated Income Statement

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	2018	2017 (Restated)
Operating revenue	41	**85,513,150**	108,815,273
Less: Operating costs	41	**57,367,578**	75,005,818
Taxes and surcharges	42	**637,725**	942,119
Selling and distribution costs	43	**9,084,489**	12,104,355
Administrative expenses	44	**3,651,498**	3,057,208
Research and development costs	45	**10,905,584**	12,962,245
Finance costs	46	**280,648**	1,043,482
Including: Interest expense		**1,328,685**	1,157,659
Interest income		**748,810**	908,082
Impairment losses	47	**2,076,863**	2,533,608
Credit impairment losses	48	**3,654,881**	—
Add: Other income	49	**2,081,455**	3,047,221
Investment income	50	**294,486**	2,540,328
Including: Share of losses of associates and joint ventures		**(797,318)**	(128,201)
(Losses)/gains from changes in fair values	51	**(861,259)**	58,301
Gains/(losses) from asset disposals	52	**19,483**	(31,275)
Operating (loss)/profit		**(611,951)**	6,781,013
Add: Non-operating income	53	**142,651**	131,194
Less: Non-operating expenses	53	**6,880,903**	193,283
Total (loss)/profit		**(7,350,203)**	6,718,924
Less: Income tax	55	**(400,863)**	1,332,582
Net (loss)/profit		**(6,949,340)**	5,386,342
Analysed by continuity of operations			
Net 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

The notes to the financial statements appended hereto form part of these financial statements.

Consolidated Income Statement

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	2018	2017 (Restated)
Other comprehensive income, net of tax		**(905,246)**	318,567
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	37	**(885,656)**	98,954
Other comprehensive income that cannot be reclassified to profit or loss			
Change in net assets arising from the re-measurement of defined benefit plans		**(477)**	15,572
		(477)	15,572
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		**(885,179)**	1,134
		(885,179)	83,382
Other comprehensive income attributable to non-controlling interests, net of tax		**(19,590)**	219,613
Total comprehensive (loss)/income		**(7,854,586)**	5,704,909
Attributable to:			
Holders of ordinary shares of the parent		**(7,869,318)**	4,667,126
Holders of perpetual capital instruments		**417,037**	501,300
Non-controlling interests		**(402,305)**	536,483
Earnings per share (RMB/share)			
Basic	56	**RMB(1.67)**	RMB1.09
Diluted	56	**RMB(1.67)**	RMB1.08

The notes to the financial statements appended hereto form part of these financial statements.

Consolidated Statement of Changes in Equity

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	2018								
	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. Closing balance of previous year	**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)**
Others	**–**	**–**	**–**	**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. 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. Distribution to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(501,300)**	**(338,167)**	**(839,467)**
III. Current year's closing balance	**4,192,672**	**11,444,456**	**(2,047,561)**	**2,324,748**	**6,983,261**	**22,897,576**	**6,252,364**	**3,810,735**	**32,960,675**

	2017								
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Share capital	Capital reserves	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	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

The notes to the financial statements appended hereto form part of these financial statements.

Consolidated Cash Flow Statement

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

		Note V	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	57	**4,652,950**	3,516,155
	Sub-total of cash inflows		**101,566,911**	127,064,942
	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	57	**18,389,881**	14,739,570
	Sub-total of cash outflows		**110,782,297**	119,844,968
	Net cash flows from operating activities	58	**(9,215,386)**	7,219,974
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	58	**498,207**	–
	Other cash received in relation to investing activities	57	**2,200,000**	1,771,000
	Sub-total of cash inflows		**6,322,170**	3,897,519
	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	57	**–**	647,838
	Sub-total of cash outflows		**7,287,870**	8,832,126
	Net cash flows from investing activities		**(965,700)**	(4,934,607)

The notes to the financial statements appended hereto form part of these financial statements.

Consolidated Cash Flow Statement

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	**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 relating 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	58	**21,134,111**	30,109,269

The notes to the financial statements appended hereto form part of these financial statements.

Balance Sheet

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Assets	Note XV	**31 December 2018**	31 December 2017
Current assets			
Cash		**11,523,002**	18,665,112
Derivative financial assets		**72,450**	1,679
Bills and trade receivables	1	**29,045,827**	29,072,067
Factored trade receivables	1	**356,134**	704,593
Prepayments		**37,194**	56,680
Other receivables	2	**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	3	**—**	461,091
Long-term trade receivables	4	**5,542,886**	5,752,524
Factored long-term trade receivables	4	**270,063**	2,491,751
Long-term equity investments	5	**13,168,721**	13,685,375
Other non-current financial assets		**658,078**	—
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
Deferred 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

The notes to the financial statements appended hereto form part of these financial statements.

Balance Sheet

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Liabilities and shareholders' equity	Note XV	**31 December 2018**	31 December 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 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

The notes to the financial statements appended hereto form part of these financial statements.

Income Statement

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note XV	2018	2017 (Restated)
Operating revenue	6	**76,115,358**	95,881,635
Less: Operating costs	6	**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 income		**247,569**	614,488
Investment income	7	**778,051**	6,878,277
Including: Share of (losses)/profits of associates and joint ventures	7	**(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 profit from continuing operations		**(6,072,253)**	6,051,419
Analysed by ownership			
Attributable to holders of ordinary shares		**(6,489,290)**	5,550,119
Attributable to holders of perpetual capital instruments		**417,037**	501,300
Other comprehensive income, net of tax		**(1,852)**	14,591
Other comprehensive income that cannot be reclassified to profit and loss			
Change in net assets arising from the re-measurement of defined benefit plans		**(477)**	15,572
Other comprehensive income will be reclassified to profit and loss			
Exchange differences on translation of foreign operations		**(1,375)**	(981)
Total comprehensive (loss)/income		**(6,074,105)**	6,066,010
Attributable to:			
Holders of ordinary shares		**(6,491,142)**	5,564,710
Holders of perpetual capital instruments		**417,037**	501,300

The notes to the financial statements appended hereto form part of these financial statements.

Statement of Changes in Equity

31 December 2018
(Prepared in accordance with PRC ASBEs)
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	2018							
	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. Redemption of perpetual capital instruments	–	(15,300)	–	–	–	(15,300)	(2,984,700)	(3,000,000)
2. Equity settled share expenses charged to equity	–	193,188	–	–	–	193,188	–	193,188
(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							
	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
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

The notes to the financial statements appended hereto form part of these financial statements.

Cash Flow Statement

31 December 2018
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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		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	**2,198,338**	2,805,440
	Sub-total of cash inflows	**86,252,972**	113,978,559
	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	**14,070,117**	11,224,343
	Sub-total of cash outflows	**96,907,387**	114,593,730
	Net cash flows from operating activities	**(10,654,415)**	(615,171)
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	**2,200,000**	1,771,000
	Sub-total of cash inflows	**3,708,118**	10,120,946
	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	**410,037**	2,132,591
	Sub-total of cash outflows	**2,212,153**	6,192,053
	Net cash flows from investing activities	**1,495,965**	3,928,893
III.	**Cash flows from financing activities**		
	Cash received from capital injection	**—**	88,239
	Cash received from borrowings	**17,594,488**	16,652,012
	Sub-total of cash inflows	**17,594,488**	16,740,251
	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	**1,242,738**	1,206,571
	Sub-total of cash outflows	**15,427,046**	18,566,310
	Net cash flows from financing activities	**2,167,442**	(1,826,059)
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	**132,220**	(233,661)
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	**17,006,734**	15,752,732
VI.	**Net balance of cash and cash equivalents at the end of the year**	**10,147,946**	17,006,734

The notes to the financial statements appended hereto form part of these financial statements.

Notes to Financial Statements

31 December 2018
(Prepared in accordance with PRC ASBEs)
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I. CORPORATE BACKGROUND

ZTE Corporation (the "Company") was a limited liability company jointly founded by Zhongxingxin Telecom Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Company Limited, Hunan Nantian (Group) Company Limited, Shaanxi Telecom Industrial Corporation, China Mobile No. 7 Research Institute, Jilin Posts and Telecommunications Equipment Company and Hebei Posts and Telecommunications Equipment Company and incorporated through a public offering of shares to the general public. On 6 October 1997, the Company issued ordinary shares to the general public within the network through the Shenzhen Stock Exchange and the shares were listed and traded on the Shenzhen Stock Exchange on 18 November 1997.

The Company and its subsidiaries (collectively the "Group") are mainly engaged in production of remote control switch systems, multimedia communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research and manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardware and software, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems, new energy power generation and application systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and monopolised merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and sending labors and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state controlled and monopolised merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialised subcontracting of telecommunications projects (subject to obtaining relevant certificate of qualification); lease of owned properties.

The controlling shareholder of the Group is Zhongxingxin Telecom Company Limited, a company incorporated in the PRC.

The financial statements were approved by the Board of Directors of the Company by way of resolution on 27 March 2019. In accordance with the Articles of Association of the Company, the financial statements will be tabled at the general meeting for consideration.

The consolidation scope for consolidated financial statement is determined based on the concept of control. For details of changes during the year, please refer to Note VI.

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

These financial statements have been prepared in accordance with the "Accounting Standards for Business Enterprises — Basic Standards" promulgated by the Ministry of Finance and the specific accounting standards, subsequent practice notes, interpretations and other relevant regulations subsequently announced and revised (collectively "ASBEs").

The financial statements are prepared on a going concern basis.

In the preparation of the financial statements, all items are recorded by using historical cost as the basis of measurement except for some financial instruments and investment properties. Impairment provision is made according to relevant regulation if the assets are impaired.

Notes to Financial Statements

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The specific accounting policies and accounting estimation prepared by the Group based on actual production and operation characteristics mainly include provisions for trade receivables and bad debts, inventory pricing, government grants, revenue recognition and measurement, deferred development costs, depreciation of fixed assets, amortisation of intangible assets and measurement of investment properties.

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2018 and the results of their operations and their cash flows for the year ended 31 December 2018.

2. Financial year

The financial year of the Group is from 1 January to 31 December of each calendar year.

3. Reporting currency

The Company's reporting currency and the currency used in preparing the financial statements were Renminbi. The amounts in the financial statements were denominated in thousands of Renminbi, unless otherwise stated.

The Group's subsidiaries, jointly-controlled entities and associates determine their reporting currency according to the major economic environment in which they operate the business, and translate into Renminbi when preparing the financial statements.

4. Business combination

Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory. The acquirer is the entity that obtains control of the other entities participating in the combination at the combination date, and the other entities participating in the combination are the acquirees. The combination date is the date on which the combining party effectively obtains control of the parties being combined.

Assets and liabilities obtained by combining party in the business combination involving entities under common control (including goodwill arising from the acquisition of the merged party by the ultimate controller) are recognised on the basis of their carrying amounts at the combination date recorded on the financial statements of the ultimate controlling party. The difference between the carrying amount of the consideration paid for the combination (or aggregate face values of the shares issued) and the carrying amount of the net assets obtained is adjusted to capital reserves. If the capital reserve is not sufficient to absorb the difference, any excess is adjusted to retained profits.

Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination. The acquirer is the entity that obtains control of the other entities participating in the combination at the acquisition date, and the other entities participating in the combination are the acquirees. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

4. Business combination (continued)

Business combinations not involving entities under common control (continued)

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

The excess of the sum of the consideration paid (or equities issued) for business combination and equity interests in the acquiree held prior to the date of acquisition over the share of the attributable net identifiable assets of the acquiree, measured at fair value, was recognised as goodwill, which is subsequently measured at cost less cumulative impairment loss. In case the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquire held prior to the date of acquisition is less than the fair value of the share of the attributable net identifiable assets of the acquiree, a review of the measurement of the fair values of the identifiable assets, liabilities and contingent liabilities, the consideration paid for the combination (or equity issued) and the equity interests in the acquiree held prior to the date of acquisition is conducted. If the review indicates that the fair value of the sum of the consideration paid (or equities issued) and equity interests in the acquiree held prior to the date of acquisition is indeed less than the fair value of the share of the attributable net identifiable assets of the acquiree, the difference is recognised in current profit or loss.

5. Consolidated financial statements

The consolidation scope for consolidated financial statement is determined based on the concept of control, including the Company and all subsidiaries' financial statements are those enterprises or entities which the Company has control over (including enterprises, separable components of investee units and structured entities controlled by the Company).

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All assets, liabilities, equities, income, costs and cash flows arising from intercompany transactions, and dividends are eliminated on consolidation.

The excess of current loss attributable to minority shareholders of a subsidiary over their entitlements to the opening balance of shareholders' equity shall be charged to minority interests.

For subsidiaries obtained through a business combination not involving entities under common control, the operating results and cash flows of the acquirees will be recognised in consolidated financial statements from the date the Group effectively obtains the control until the date that control is terminated. When consolidated financial statement is prepared, the subsidiaries' financial statements will be adjusted based on the fair values of the identifiable assets, liabilities and contingent liabilities at the acquisition date.

For subsidiaries obtained through a business combination involving entities under common control, the operating result and cash flow of the party being combined will be recognised in consolidated financial statement from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

In the event of the change in one or more elements of control as a result of changes in relevant facts and conditions, the Group reassesses whether it has control over the investee.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

6. Classification of joint venture arrangements and joint operation

Joint venture arrangements are in the form of joint operation or joint venture enterprise. A joint operation is a joint venture arrangement under which the joint venture parties are entitled to assets and undertake liabilities under the arrangement. A joint venture enterprise is a joint venture arrangement under which the joint venture parties are only entitled to the net assets under such arrangement.

The following items should be recognised by a joint venture party in relation to its share of profit in the joint operation: solely held assets, as well as jointly held assets according to its share; solely assumed liabilities, as well as jointly assumed liabilities according to its share; income derived from its entitled share of production of the joint operation; income derived from the sales of production of production of the joint operation according to its share; solely incurred expenses, as well as expenses incurred by the joint operation according to its share.

7. Cash and cash equivalents

Cash comprises cash on hand and deposits readily available for payments. Cash equivalents represent short-term highly liquid investments which are readily convertible to known amounts of cash, and subject to an insignificant risk of changes in value.

8. Foreign currency translation

For foreign currency transactions, the Group translates the foreign currency into its functional currency.

Upon initial recognition, foreign currency transactions are translated into the functional currency using the median exchange rate published by the PBOC at the beginning of the month in which transactions occur. At the balance sheet date, foreign currency monetary items are translated using the spot exchange rate at the balance sheet date. The translation differences arising from the settlement and foreign currency monetary items, except those relating to foreign currency monetary items eligible for the capitalisation shall be dealt with according to the principle of capitalisation of borrowing costs, are recognised in profit or loss. Also at the balance sheet date, foreign currency non-monetary items measured at historical cost continue to be translated using the spot exchange rate at the dates of the transactions and it does not change its carrying amount in functional currency. Foreign currency nonmonetary items measured at fair value are translated using the spot exchange rate. The differences arising from the above translations are recognised in current profit or loss or other comprehensive income according to the nature of foreign currency non-monetary items.

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained profits, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the periods when transactions occur. Translation differences arising from the aforesaid translation of financial statements denominated in foreign currency shall be recognised as other comprehensive income. When foreign operations are disposed, other comprehensive income relating to the foreign operation is transferred to current profit or loss. Partial disposal shall be recognised on a pro-rata basis.

Cash flows denominated in foreign currencies and foreign subsidiaries' cash flows are translated using the average exchange rate for the period when cash flows occur. The impact on cash by the fluctuation of exchange rates is presented as a separate line item of reconciliation in the cash flow statement.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (applicable from 1 January 2018)

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

A financial asset (or part of it, or a part of a group of similar financial asset) is derecognised when one of the following criteria is met, that is, when a financial asset is written off from its account and balance sheet:

(1) The right of receiving the cash flow generated from the financial asset has expired;

(2) The right of receiving cash flow generated by the financial assets is transferred, or an obligation of paying the full amount of cash flow received to third parties in a timely manner has been undertaken under "pass-through" agreements, where (a) substantially all risks and rewards of the ownership of Such type of financial assets have been transferred, or (b) control over Such type of financial assets has not been retained even though substantially all risks and rewards of the ownership of Such type of financial assets have been neither transferred nor retained.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognised. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability with any arising differences recognised in profit or loss.

Conventional dealings in financial assets are recognised or derecognised under the trade day accounting method. Conventional dealings refer to the receipt or delivery of financial assets within periods stipulated by the law and according to usual practices. The trade day is the date on which the Group undertakes to buy or sell a financial asset.

Classification and valuation of financial assets

At initial recognition, the Group classifies its financial assets into: financial assets at fair value through profit or loss, financial assets at amortised cost, or financial assets at fair value through other comprehensive income, according to the Group's business model for managing financial assets and the contract cash flow characteristics of the financial assets. Financial assets are measured at fair value at initial recognition, provided that trade receivables or bills receivable not containing significant financing components or for which financing components of not more than 1 year are not taken into consideration shall be measured at their transaction prices at initial recognition.

For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss; for other financial assets, the relevant transaction costs are recognised in their initial recognition amount.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (applicable from 1 January 2018) (continued)

Classification and valuation of financial assets (continued)

The subsequent measurement of financial assets is dependent on its classification:

Debt instruments at amortised cost

Financial assets fulfilling all of the following conditions are classified as financial assets at amortised cost: the objective of the Group's business management model in respect of Such type of financial assets is to generate contract cash flow; the contract terms of Such type of financial assets provide that cash flow generated on specific dates represents interest payment in relation to principal amounts based on outstanding principal amounts only. Interest income from Such type of financial assets are recognised using the effective interest rate method, and any profit or loss arising from derecognition, amendments or impairment shall be charged to current profit or loss. Such type of financial assets includes mainly cash, trade receivables, factored trade receivables, other receivables and long-term receivables. The Group shall classify debt investment and long-term receivables with a maturity of less than 1 year from the balance sheet date as non-current assets with a maturity of less than 1 year. Debt investment with an original maturity of less than 1 year shall be classified as other current assets.

Debt instrument at fair value through other comprehensive income

Financial assets fulfilling all of the following conditions are classified as financial assets at fair value through other comprehensive income: the objective of the Group's business management model in respect of Such type of financial assets is both to generate contract cash flow and to sell Such type of financial assets; the contract terms of Such type of financial assets provide that cash flow generated on specific dates represents interest payment in relation to principal amounts based on outstanding principal amounts only. Interest income from this type of financial assets are recognised using the effective interest rate method. Other than interest income, impairment loss and exchange differences which shall be recognised as current profit or loss, other fair value changes shall be included in other comprehensive income. Upon derecognition of the financial assets, the cumulative gains or losses previously included in other comprehensive income shall be transferred from other comprehensive income to current profit or loss. Such type of financial assets shall be classified as other debt investment. Other debt investment with a maturity of less than 1 year from the balance sheet date shall be classified as non-current assets with a maturity of less than 1 year. Other debt investment with an original maturity of less than 1 year shall be classified as other current assets.

Financial assets at fair value through current profit or loss

Other than financial assets measured at amortised cost and financial assets at fair value through other comprehensive income as aforementioned, all financial assets are classified as financial assets at fair value through current profit or loss, which are subsequently measured at fair value, any changes of which are recognised in current profit or loss. Such type of financial assets shall be classified as trading financial assets. Financial assets with a maturity of over 1 year from the balance sheet date and expect to be held for over 1 year shall be classified as other non-current financial assets.

A financial asset which has been designated as financial asset at fair value through current profit or loss upon initial recognition cannot be reclassified as other types of financial assets; neither can other types of financial assets be redesignated, after initial recognition, as financial assets at fair value through current profit or loss.

In accordance with the aforesaid criterion, financial assets designated by the Group as such include mainly equity investments, and have not been designated as at fair value through other comprehensive income at initial measurement.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (applicable from 1 January 2018) (continued)

Classification and valuation of financial liabilities

The Group classifies its financial liabilities at initial recognition: financial liabilities at fair value through profit or loss, other financial liabilities and derivatives designated as effective hedging instruments. For financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss; for other financial liabilities, the relevant transaction costs are recognised in their initial recognition amount.

The subsequent measurement of financial liabilities is dependent on its classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include mainly derivative financial liabilities (comprising derivatives classified as financial liabilities) and financial liabilities designated at initial recognition to be measured at fair value through current profit or loss.

Trading financial liabilities (comprising derivatives classified as financial liabilities) are subsequently measured at fair value and all changes, other than those relating to hedge accounting, are recognised in current period's profit or loss.

Other financial liabilities

Subsequent to initial recognition, these financial liabilities are carried at amortised cost using the effective interest method.

Impairment of financial instruments

The Group performs impairment treatment on financial assets at amortised cost, debt instruments at fair value through other comprehensive income and contract assets based on expected credit losses and recognises provision for losses.

Credit loss refers to the difference between all contract cash flow receivable from the contract and all cash flow expected to be received discounted at the original effective, namely, the present value of the full amount of cash shortfall. Financial assets purchased by or originated from the Group to which credit impairment has occurred should be discounted at the credit-adjusted effective interest rate of the financial assets.

For receivables, contract assets and bills receivable under other current assets that do not contain significant financing components, the Group adopts a simplified measurement method to measure provision for losses based on an amount equivalent to expected credit losses for the entire period.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Notes to Financial Statements

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (applicable from 1 January 2018) (continued)

Impairment of financial instruments (continued)

Financial assets other than those measured with simplified valuation methods, the Group evaluates at each balance sheet date whether its credit risk has significantly increased since initial recognition. The period during which credit risk has not significantly increased since initial recognition is considered the first stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the next 12 months and shall compute interest income according to the book balance and effective interest rate; the period during which credit risk has significantly increased since initial recognition although no credit impairment has occurred is considered the second stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the entire valid period and shall compute interest income according to the book balance and effective interest rate; The period during which credit impairment has occurred after initial recognition is considered the third stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the entire period and shall compute interest income according to the amortised cost and effective interest rate. For financial instruments with relatively low credit risk at the balance sheet date, the Group assumes its credit risk has not significantly increase since initial recognition.

The Group estimates the expected credit loss of financial instruments individually and on a group basis. The Group considers the credit risk features of different customers and estimates the expected credit loss of amounts receivable, contract assets and bills receivable in other current assets based on customers' credit rating portfolio and aging portfolio of overdue debts.

The Group considers past events, current conditions and reasonable and evidenced information pertaining to future economic forecasts when assessing expected credit losses.

For the Group's criteria for judging whether credit risks have significantly increased, the definition of assets subjected to credit impairment, and assumptions underlying the measurement of expected credit losses, please refer to Note VIII.3.

When the Group no longer reasonably expects to be able to fully or partially recover the contract cash flow of financial assets, the Group directly writes down the book balance of such financial assets.

Financial guarantee contracts

A financial guarantee contract is a contract under which the issuer shall indemnify the contract holder suffering losses with a specified amount in the event that the debtor fails to repay its debt in accordance with the terms of the debt instrument. Financial guarantee contracts are measured at fair value at initial recognition, other than financial guarantee contracts designated as financial liabilities at fair value through current profit or loss, other financial guarantee contracts shall be subsequently measured at the higher of the amount of provision for expected credit loss determined as at the balance sheet date after initial recognition and the amount at initial recognition less the cumulative amortised amount determined in accordance with revenue recognition principles.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Other than to the extent related to hedge accounting, profit or loss arising from changes in the fair value of derivative instruments shall be directly recognised in current profit or loss.

Notes to Financial Statements

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (applicable from 1 January 2018) (continued)

Transfer of financial assets

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognised. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognised.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may either derecognise the financial asset and recognise any associated assets and liabilities if control of the financial asset has not been retained; or recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability if control has been retained.

Assets formed by the continuing involvement by way of the provision of financial guarantee in respect of the transferred financial assets shall be recognised as the lower of the carrying value of the financial asset and the amount of financial guarantee. The amount of financial guarantee means the maximum amount among considerations received to be required for repayment.

10. Financial instruments (applicable in 2017)

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

Recognition and derecognition of financial instruments

The Group recognises a financial asset or a financial liability when it becomes a party to the contractual provisions of the financial instrument.

A financial asset (or part of it, or a part of a group of similar financial asset) is derecognised when one of the following criteria is met, that is, when a financial asset is written off from its account and balance sheet:

(1) The right of receiving the cash flow generated from the financial asset has expired;

(2) The right of receiving cash flow generated by the financial assets is transferred, or an obligation of paying the full amount of cash flow received to third parties in a timely manner has been undertaken under "pass-through" agreements, where (a) substantially all risks and rewards of the ownership of Such type of financial assets have been transferred, or (b) control over Such type of financial assets has not been retained even though substantially all risks and rewards of the ownership of Such type of financial assets have been neither transferred nor retained.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognised. If the present financial liability is substituted by the same debtor with another liability differing in substance, or the terms of the present liability have been substantially modified, this substitution or modification is treated as derecognition of a present liability and recognition of a new liability with any arising differences recognised in profit or loss.

Conventional dealings in financial assets are recognised or derecognised under the trade day accounting method. Conventional dealings refer to the receipt or delivery of financial assets within periods stipulated by the law and according to usual practices. The trade day is the date on which the Group undertakes to buy or sell a financial asset.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (applicable in 2017) (continued)

Classification and valuation of financial assets

The Group classifies its financial assets into five categories at initial recognition: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and derivatives designated as effective hedging instruments. Financial assets is measured at fair value at initial recognition. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss; for other financial assets, the relevant transaction costs are recognised in their initial recognition amount.

The subsequent measurement of financial assets is dependent on its classification:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise mainly trading financial assets. These financial assets are subsequently measured at fair value, and gain or loss from changes in fair value and derecognition are recognised in current period's profit or loss. Dividends or interest income derived from financial assets at fair value through profit or loss are also recognised in current profit or loss.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets whose maturity and redemption amount are fixed or ascertained and in respect of which the Group has clear intentions and ability to hold until maturity. Such type of financial assets are subsequently measured using the effective interest method on the basis of amortised cost. Gains or losses arising from derecognition, impairment or amortisation are recognised in the current profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Gains or losses arising from amortisation or impairment are recognised in the current profit or loss.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Discounts or premiums are amortised using the effective interest method and recognised as interest income or expense. Fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are recognised in profit or loss, are recognised as other comprehensive income until the financial assets are derecognised or impaired upon which the cumulative gains or losses are transferred out from other comprehensive income to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognised in profit or loss.

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (applicable in 2017) (continued)

Classification and valuation of financial liabilities

The Group classifies its financial liabilities at initial recognition: financial liabilities at fair value through profit or loss, other financial liabilities and derivatives designated as effective hedging instruments. For financial liabilities at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss; for other financial liabilities, the relevant transaction costs are recognised in their initial recognition amount.

The subsequent measurement of financial liabilities is dependent on its classification:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss comprise mainly derivative financial liabilities.

These financial liabilities are subsequently measured at fair value, and all realised or unrealised gain or loss are recognised in current period's profit or loss.

Other financial liabilities

Subsequent to initial recognition, these financial assets are carried at amortised cost using the effective interest method.

Financial guarantee contracts

A financial guarantee contract is a contract under which the guarantor and the creditor agree that the guarantor shall assume the debts or liability in the event of default of the debtor. Financial guarantee contracts are initially recognised as liability at fair value. Financial guarantee contracts not classified as financial liabilities designated at fair value through profit or loss, after initial recognition, are subsequently measured at the higher of: (i) the amount of the best estimates of the expenditure required to settle the present obligations at the balance sheet date; and (ii) the initial amount less accumulated amortisation, which is based on revenue recognition.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations and interest rate swaps to hedging against interest rate risks. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. Derivatives linked to and settled by way of delivery of equity investments not quoted in an active market and whose fair value cannot be reliably measured that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

Any gains or losses arising from the change in fair value on derivatives are taken directly to current profit and loss, except for the effective portion of cash flow hedging recognised as other comprehensive income which is transferred to current profit and loss when profit and loss is affected by hedged items.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (applicable in 2017) (continued)

Impairment of financial assets

The Group assesses the carrying amount of financial assets at the balance sheet date. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence, which indicates impairment of financial assets, represents events actually occurring after initial recognition of financial assets, having an impact on financial assets' estimated future cash flows, and such impact can be reliably measured. Objective evidences for impairment of financial assets include significant financial difficulties experienced by the issuer or debtor, default of contract terms (such as default or overdue of interest or principal payments) by the debtor, probable closure or other financial restructuring of the debtor and publicly available information indicating estimated future cash flow has decreased and such decrease being measurable.

Assets carried at amortised cost

If an impairment loss has been incurred, the financial asset's carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (namely the effective interest rate determined at initial recognition), taking into account the value of relevant collaterals. The reduced amount is charged to profit or loss. Interest income after impairment is recognised by adopting the discount rate used for discounting future cash flow to its present value when determining the impairment loss. Loans and receivables for which there is no realistic expectation for future recovery and all collaterals have been realised or transferred to the Group shall be written off against loans and receivables and the corresponding impairment provision.

For a financial asset that is individually significant, the Group assesses the asset individually for impairment if there is objective evidence of impairment, and recognises the amount of impairment in profit or loss. For a financial asset that is not individually significant, the Group include the asset in a group of financial assets with similar credit risk characteristics and collectively assess them for impairment. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether the financial asset is individually significant or not, the financial asset is included in a group of financial assets with similar credit risk characteristics and collectively assessed for impairment. Financial assets, for which an impairment loss is individually recognised, are not included in the collective assessment for impairment.

After the Group recognises impairment loss of financial assets carried at amortised cost, if there is objective evidence that the financial assets' value recovered and the recovery is objectively related to an event occurring after the impairment is recognised, the previously recognised impairment loss shall be reversed and recognised in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date when the impairment is reversed.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (applicable in 2017) (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets

If an available-for-sale financial asset is impaired, the cumulative loss arising from decline in fair value that had been recognised directly in capital reserves is removed from capital reserves and recognised in profit or loss. The cumulative loss that is removed from capital reserves is the difference between its acquisition cost (net of any principal repayment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss.

Objective evidence of impairment in equity instruments available-for-sale includes a significant or prolonged decline in their fair value. Whether the decline is "significant" or not shall be determined by reference to the extent to which the fair value is lower the cost. Whether the decline is "prolonged" or not shall be determined by reference to the duration in which the fair value is lower than the cost. Where objective evidence of impairment exists, the accumulated loss of the transfer is represented by the balance of acquisition cost after deduction of the current fair value and impairment loss previously charged to profit and loss. Impairment losses recognised for equity instruments classified as available-for-sale are not reversed through profit or loss. Fair value gains that arise after the impairment are directly recognised in other comprehensive income.

The exercise of judgement is required to determine the meaning of "significant" or "prolonged". The Group makes its judgement based on the duration in which the fair value is lower than the cost and other factors.

If after an impairment loss has been recognised on an available-for-sale debt instrument, the fair value of the debt instrument increases in a subsequent period whereby the increase can be objectively related to an event occurring after the impairment losses were recognised, the impairment loss is reversed which is recognised in profit or loss.

Assets carried at cost

If financial assets carried at cost are impaired, the impairment loss are recognised in profit or loss and measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses shall not be reversed.

Transfer of financial assets

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognised. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognised.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may either derecognise the financial asset and recognise any associated assets and liabilities if control of the financial asset has not been retained; or recognises the financial asset to the extent of its continuing involvement in the transferred financial asset and recognises an associated liability if control has been retained.

Assets formed by the continuing involvement by way of the provision of financial guarantee in respect of the transferred financial assets shall be recognised as the lower of the carrying value of the financial asset and the amount of financial guarantee. The amount of financial guarantee means the maximum amount among considerations received to be required for repayment.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Accounts Receivable

The Group's standards and method of bad-debt provision for amounts receivable for 2017 are set out as follows:

(1) Individually significant accounts receivable for which separate bad-debt provision is made

The Group conducts impairment tests in respect of its significant account receivables and makes provision for impairment when there is objective evidence of impairment. Objective evidence for impairment includes: (1) significant financial difficulties experienced by the debtor; (2) default on or non-payment of due interest or principal payments; (3) concessions made to the insolvent debtor by creditors owing to economic or legal considerations; (4) probable bankruptcy or other financial reorganisation of the debtor; (5) inability to recover the debt after repayments from the bankruptcy assets or the estate upon the bankruptcy or death of the debtor; and (6) material adverse changes to the market, economic, legal or national environment in which the debtor is located which makes the recovery of the credit rights by the creditor unlikely.

An account receivable is considered individually significant if it amounts to 0.1% or above of the total original value of all accounts receivable.

(2) Accounts receivable for which bad debt provision is made on the basis of credit risk characteristic groups

Individually insignificant accounts, for which there is no objective evidence under individual impairment tests warranting individual provision, are divided into different asset groups based on their credit risk characteristics, and each group is assessed in accordance with different policies to determine their impairment provision. The management divides trade receivables (other than those in respect of which individual asset impairment provision has been made) into the following asset groups as follows on the basis of credit risk rating and historical repayment records:

	Percentage of provision (%)
0–6 months	—
6–12 months	0–15
12–18 months	5–60
18–24 months	15–85
2–3 years	50–100
Over 3 years	100

For details of the Group's standards and method of bad-debt provision for amounts receivable with effect from 1 January 2018, please refer to Note III.9.

12. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, product deliveries and cost of contract performance.

Inventories are initially recorded at costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognised using the weighted moving average method.

Inventories are valued using the perpetual inventories stock-take system.

Inventories at the end of the year are stated at the lower of cost or net realisable value. Provision for impairment of inventories is made and recognised in profit or loss when the net realisable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, as a result that the net realisable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognised in profit or loss.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Inventories (continued)

Net realisable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts. Provision for impairment of inventories is made on the basis of individual categories.

13. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates.

Long-term equity investments were recorded at initial investment cost on acquisition. For long-term equity investments acquired through the business combination of entities under common control, the initial investment cost shall be the share of carrying value of the owners' equity of the merged party at the date of combination as stated in the consolidated financial statements of the ultimate controlling party. Any difference between the initial investment cost and the carrying value of the consideration for the combination shall be dealt with by adjusting the capital reserve (if the capital reserve is insufficient for setting off the difference, such difference shall be further set off against retained profits). Upon disposal of the investment, other comprehensive income prior to the date of combination shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain longterm equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. For long-term equity investments acquired through the business combination of entities not under common control, the initial investment cost shall be the cost of combination (for business combinations of entities not under common control achieved in stages through multiple transactions, the initial investment cost shall be the sum of the carrying value of the equity investment in the acquired party held at the date of acquisition and new investment cost incurred as at the date of acquisition). The cost of combination shall be the sum of assets contributed by the acquiring party, liabilities incurred or assumed by the acquiring party and the fair value of equity securities issued. Upon disposal of the investment, other comprehensive income recognised under the equity method held prior to the date of acquisition shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. The accumulated fair value change of equity investments held prior to the date of acquisition and included in the other comprehensive income as financial instruments shall be transferred in full to current profit and loss upon the change to cost method. The initial investment cost of long-term equity investments other than those acquired through business combination shall be recognised in accordance with the following: for those acquired by way of cash payments, the initial investment cost shall be the consideration actually paid plus expenses, tax amounts and other necessary outgoings directly related to the acquisition of the long-term equity investments. For long-term equity investments acquired by way of the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued. For long-term equity investments acquired by way of the swap of non-monetary assets, the initial investment cost shall be determined in accordance with "ASBE No. 7 — Swap of Non-monetary Assets." For long-term equity investments acquired by way of debt restructuring, the initial investment cost shall be determined in accordance with "ASBE No. 12 — Debt Restructuring."

In the financial statements of the Company, the cost method is used for long term equity investments in investees over which the Company exercises control. Control is defined as the power exercisable over the investee, the entitlement to variable return through involvement in the activities of the investee and the ability to influence the amount of return using the power over the investee.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

13. Long-term equity investments (continued)

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. When additional investments are made or investments are recouped, the cost of longterm equity investments shall be adjusted. Cash dividend or profit distribution declared by the investee shall be recognised as investment gains for the period.

The equity method is used to account for long-term equity investments when the Group can jointly control or has significant influence over the invested entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. When the carrying amount of the investment is less than the Company's share of the fair value of the investment's identifiable net assets, the difference is recognised in profit or loss of the current period and debited to long-term equity investment.

Under the equity method, after the long-term equity investments are acquired, investment gains or losses and other comprehensive income are recognised according to the entitled share of net profit or loss and other comprehensive income of the investee and the carrying amount of the long-term equity investment is adjusted accordingly. When recognising the Group's share of the net profit or loss of the invested entity, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date in accordance with the Group's accounting policy and accounting period to investee's net profits, eliminating pro-rata profit or loss from internal transactions with associates and joint ventures attributed to investor (except that loss from inter-group transactions deemed as asset impairment loss shall be fully recognised), provided that invested or sold assets constituting businesses shall be excluded. When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognising its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than the net-off of net profits or losses, other comprehensive income and profit allocation of the investee), and includes the corresponding adjustment in equity.

On disposal of the long-term equity investments, the difference between carrying value and market price is recognised in profit or loss for the current period. For long-term equity investments under equity method, when the use of the equity method is discontinued, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred in full to current profit and loss. If the equity method remains in use, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee and transferred to current profit and loss on a pro-rata basis. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss on a pro-rata basis.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

14. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties of the Group included houses and buildings leased to other parties.

Investment properties are initially measured at cost. Subsequent expenses relating to the investment properties are charged to investment property costs if there is a probable inflow of economic benefits relating to the asset and its cost can be reliably measured; otherwise, those expenditure are recognised in profit or loss as incurred.

Investment properties of the Group represented owned properties reclassified to investment properties measured at fair value. The amount of fair value in excess of the carrying value as at the date of reclassification is included in the other comprehensive income. After initial recognition, investment properties will be subsequently measured and presented in fair value. The difference between the fair value and the original carrying value shall be included in current profit or loss. Fair values are assessed and determined by independent valuers based on open market prices of properties of the same or similar nature and other relevant information.

15. Fixed Assets

A fixed asset is recognised when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognised in the carrying amount of the fixed asset if the above recognition criteria are met, and the carrying value of the replaced part is derecognised; otherwise, those expenditures are recognised in profit or loss as incurred.

Fixed assets are initially recognised at cost taking into account the impact of expected future disposal expenditure. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working conditions for its intended use.

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rates are as follows:

	Useful life	Estimated residual value ratio	Annual depreciation rate
Freehold land	Indefinite	—	N/A
Buildings	30–50 years	5%	1.90%–3.17%
Electronic equipment	5–10 years	5%	9.5%–19%
Machinery equipment	5–10 years	5%	9.5%–19%
Motor vehicles	5–10 years	5%	9.5%–19%
Other equipment	5 years	5%	19%

The Group reviews, at least at each year end, useful lives, estimated residual values and depreciation methods of fixed assets and makes adjustments if necessary.

16. Construction in progress

Construction in progress is measured at the actual construction expenditures, including necessary project work expenses incurred during the period while construction is in progress, borrowing costs subject to capitalisation before they can be put into use and other related fees.

Construction-in-progress is transferred into fixed assets when it is ready for its intended use.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowings of funds, which include borrowing interest, amortisation of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowings in foreign currencies.

Borrowing costs directly attributable to the acquisition or construction of assets qualified for capitalisation, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

Capitalisation of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

(3) Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Borrowing costs incurred afterwards are recognised in profit or loss.

During capitalisation, interest of each accounting period is recognised using the following methods:

(1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings.

(2) Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool.

Except for expected suspension under normal situation of qualifying assets, capitalisation should be suspended during periods in which abnormal interruption has lasted for more than three months during the process of acquisition, construction or production. The borrowing cost incurred during interruption should be recognised as expenses and recorded in the income statement until the construction resumes.

18. Intangible assets

Intangible assets are recognised only when it is probable that economic benefits relating to such intangible assets would flow into the Group and that their cost can be reliably measured. Intangible assets are initially measured at cost, provided that intangible assets which are acquired in a business combination not under common control and whose fair value can be reliably measured shall be separately recognised as intangible assets at fair value.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

18. Intangible assets (continued)

Useful life of respective intangible assets is as follows:

	Estimated useful life
Software	2–5 years
Technology know-how	2–10 years
Land use rights	30–70 years
Franchise	2–10 years
Development expenses	3–5 years

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and fixed assets, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be apportioned.

Straight-line amortisation method is used during the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, useful lives and amortisation method for intangible assets with definite lives and makes adjustment when necessary.

The Group classifies the expenses for internal research and development as research costs and development costs. All research costs are charged to the current profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits (including demonstration that the product derived from the intangible asset or the intangible asset itself will be marketable or, in the case of internal use, the usefulness of the intangible asset as such), the availability of technical and financial resources to complete the project and procure the use or sale of the intangible asset, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Corresponding projects that meet the above conditions in the Group are formed after technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

19. Provisions

Other than contingent consideration and assumed contingent liabilities in a business combination involving parties not under common control, the Group recognises as provision an obligation that is related to contingent matters when all of the following criteria are fulfilled:

(1) the obligation is a present obligation of the Group;

(2) the obligation would probably result in an outflow of economic benefits from the Group;

(3) the obligation could be reliably measured.

Provisions are initially valued according to the best estimate of expenses on fulfilling the current liabilities, in connection with the risk, uncertainty and timing value of the currency. The carrying value of the provisions would be reassessed on every balance sheet date. The carrying value will be adjusted to the best estimated value if there is certain evidence that the current carrying value is not the best estimate.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares or other equity instruments in consideration for receiving services.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognising services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each balance sheet date during the pending period based on subsequent information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc. The fair value of equity instruments is determined using the binomial option pricing model. For details see Note XI. Share-based payment.

The cost of equity-settled transactions is recognised, together with a corresponding increase in capital reserve, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest due to non-fulfillment of nonmarket conditions and/or vesting conditions. For the market or non-vesting condition under the share-based payments agreement, it should be treated as vesting irrespective of whether or not the market or nonvesting condition is satisfied, provided that other performance condition and/or vesting conditions are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the instrument ranted, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they were a modification of the original award.

21. Other equity instrument

The perpetual capital instruments issued by the Group, the term of which can be extended by the Group for an unlimited number of times upon maturity, the coupon interest payment for which can be deferred by the Group and for which the Group has no contractual obligation to pay cash or other financial assets, are classified as equity instruments.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Revenue (applicable from 1 January 2018)

The Group recognises its revenue upon the fulfilment of contractual performance obligations under a contract, namely, when the customer obtains control over the relevant products or services. The acquisition control over relevant products or services shall mean the ability to direct the use of the products or the provision of the services and receive substantially all economic benefits derived therefrom.

Contract for the sales of products

The product sales contract between the Group and its customers typically includes contractual performance obligations for the transfer of products. The Group typically recognises its revenue at the time of delivery and acceptance upon inspection taking into account the following factors: the acquisition of the current right to receive payments for the products, the transfer of major risks and rewards of ownership, the transfer of the legal title of the products, the transfer of the physical assets of the products, and customers' acceptance of the products.

Contract for the rendering of services

The service contract between the Group and its customers includes contractual performance obligations for maintenance service, operational service and engineering service. As the customer is able to forthwith obtain and consume the economic benefits brought by the Group's contractual performance when the Group performs a contract, the Group considers such contractual performance obligations to be obligations performed over a period of time, and revenue shall be recognised according the progress of performance. For contracts with specific output indicators, such as contracts for maintenance service and operational service, the Group determines the progress of performance of the service according to the output method. For a small number of contracts which do not specify output indicators, the progress of performance is determined using the input method.

Telecommunication system construction contract

The Group's Telecommunication system construction contract typically includes a range of contractual performances, such as equipment sales and installation service and their combinations. Equipment sales and installation service that are distinctly separable are accounted for standalone contractual performances. Combinations of equipment sales and installation services that are not individually separable are accounted for as standalone contractual performances, as customer can benefit from the individual use of such combinations or their use together with other readily available resources and such combinations among themselves are distinctly separable from one another. As the control of such combination of equipment and installation service is transferred to the customer upon acceptance by the customer, revenue of each standalone contractual performance is recognised after the fulfillment of such standalone contractual obligation corresponding to each combination of equipment sales and installation service.

Variable consideration

Certain contracts between the Group and its customers contain cash discount and price guarantee clauses which will give rise to variable consideration. Where a contract contains variable consideration, the Group determines the best estimates on the variable consideration based on expected values or the most probable amount, provided that transaction prices including variable consideration shall not exceed the cumulative amount of recognised revenue upon the removal of relevant uncertainties in connection with which a significant reversal is highly unlikely.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Revenue (applicable from 1 January 2018) (continued)

Consideration payable to customers

Where consideration is payable by the Group to a customer, such consideration payable shall be deducted against the transaction price, and against current revenue upon the recognition of revenue or the payment of (or the commitment to pay) the consideration to the customer (whichever is later), save for consideration payable to the customer for the purpose of acquiring from the customer other clearly separable products.

Return clauses

In connection with sales with a return clause, revenue is recognised according to the amount of consideration it expects to be entitled to for the Transfer to a customer when the customer acquires control of the relevant. Amounts expected to be refunded for the return of sales are recognised as liabilities. At the same time, the balance of the carrying value of the product expected to be returned upon transfer less expected costs for the recall of such product (including impairment loss of the recalled product) shall be recognised as an asset (i.e. cost of return receivables), and the net amount of the carrying value of the transferred product upon the transfer less the aforesaid asset cost shall be transferred to cost. At each balance sheet date, the Group reassess the future return of sales and remeasured the above assets and liabilities.

Significant financing component

Where a contract contains a significant financing component, the Group determines transaction prices based on amounts payable assumed to be settled in cash by customers immediately upon the acquisition of control over the products. The difference between such transaction price and contract consideration is amortised over the contract period using the effective interest rate method based on a ratio that discounts the nominal contractual consideration to the current selling price of the products.

The Group shall not give consideration to any significant financing component in a contract if the gap between the customer's acquisition of control over the products and payment of consideration is expected to be less than 1 year.

Warranty clauses

The Group provides quality assurance for products sold and assets built in accordance with contract terms and laws and regulations. The accounting treatment of quality assurance in the form of warranty assuring customers products sold are in compliance with required standards is set out in Note III.19. Where the Group provides a service warranty for a standalone service in addition to the assurance of compliance of products with required standards, such warranty is treated as a standalone contractual performance obligation, and a portion of the transaction price shall be allocated to the service warranty based on a percentage of the standalone price for the provision of product and service warranty. When assessing whether a warranty is rendering a standalone service in addition to providing guarantee to customers that all sold goods are in compliance with required standards, the Group will consider whether or not such warranty is a statutory requirement, the term of the warranty and the nature of the Group's undertaking to perform its obligations.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Revenue (applicable from 1 January 2018) (continued)

Contract changes

In the event of contract changes to the construction contracts between the Group and its customers:

(1) Where contract changes have added distinctly separable construction services and contract price clause that representing the standalone selling prices of newly added construction services, such contract changes are accounted for as a separate contract;

(2) Where contract changes do not fall under the description in (1) and construction services transferred are clearly separable from construction services not transferred as at the date on which contract changes occur, such changes should be deemed as the termination of the original contract, and the unfulfilled portion of the original contract and the changed portion of the contract shall be combined as a new contract for accounting treatment;

(3) Where contract changes do not fall under the description in (1) and construction services transferred are not clearly separable from construction services not transferred as at the date on which contract changes occur, the changed portion of the contract shall be accounted for as an integral part of the original contract, and the impact on recognised revenue shall be reflected by adjusting current revenue as at the date of contract changes.

23. Revenue (applicable in 2017)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of the revenue can be measured reliably. Revenue is recognised on the following bases:

Revenue from the sales of goods

Revenue from sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold and related costs incurred or to be incurred can be measured reliably. Revenue from sales of goods is determined according to amounts stipulated in contracts or agreements received or receivable from buyers, unless such amounts are deemed unfair. The receipts of amounts stipulated in contracts or agreements is recognised on a deferred basis with a financing nature are measured at the fair value of amounts stipulated in contracts or agreements.

Revenue from the rendering of services

On the balance sheet date, when transaction result of the rendering of services could be measured reliably, related revenue from rendering of services is recognised according to the percentage of completion, otherwise revenue is recognised only to the extent of cost incurred and expected to be recoverable. The transaction result of the rendering of services could be measured reliably by meeting the following conditions at the same time: Revenue can be measured reliably, the relevant economic benefits will flow to the Group, the percentage of construction work and relevant cost incurred or to be incurred can be measured reliably. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total revenue for the rendering of services is determined according to amounts stipulated in contracts or agreements received or receivable by workers, unless such amounts are deemed unfair.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Revenue (applicable in 2017) (continued)

Revenue from the rendering of services (continued)

Where the sales of goods and rendering of services are included in contracts or agreements between the Group and other enterprises, revenue is separately recognised according to the fair values of various sales items in the contracts, by reference to the aforesaid principles for revenue recognition.

Construction contracts

Construction contract revenue and cost are recognized by percentage of completion at the balance sheet date where the results of the contract could be reliably estimated, otherwise revenue is recognized on the basis of the actual contract cost amount which has been incurred and is expected to be recoverable. The results of the contract can be reliably estimated if it is probable that economic benefits relating to the contract will flow to the Group and the actually incurred contract cost can be clearly distinguished and reliably measured. For contracts with fixed prices, the following conditions should also be met: the total revenue of the contract can be reliably measured, and percentage of completion and outstanding cost for completion can be reliably estimated. The percentage of completion is based on the percentage of costs incurred to date on a contract relative to the estimated total contract costs. Total contract revenue includes initial income stipulated by the contract and income derived from contract modifications, compensation and rewards, and etc.

Rental income

Rental income generated under operating leases is recognized over the respective periods during the lease term using the straight line method. Contingent rental income is charged to current profit and loss when incurred.

Interest income

Interest income is determined by the length of time for which the Group's cash is in use by other parties and the effective interest rate.

24. Contract assets and contract liabilities (applicable from 1 January 2018)

The Group presents contract assets or contract liabilities on the balance sheet according to the relationship between contractual performance obligations and customer payments.

Contract assets

The unconditional (namely, dependent only on the passage of time) right to receive consideration from customers owned by the Group shall be presented as amounts receivable. The right to receive consideration following the transfer of products to customers which is dependent on factors other than the passage of time is presented as contract assets.

For details of the Group's determination and accounting treatment of expected credit losses from contract assets, please refer to Note III.9.

Contract liabilities

The obligation to pass products to customers in connection with customer consideration received or receivable is presented as contract liabilities, for example, amounts received prior to the transfer of the promised products.

Contract assets and contract liabilities under the same contract are presented on a net basis after set-off.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Assets relating to contract cost (applicable from 1 January 2018)

The Group's assets relating to contract costs include the contract acquisition costs and contract performance costs, presented respectively under inventories, other current assets and other noncurrent assets.

Where the Group expects the incremental costs for acquiring a contract to be recoverable, such contract acquisition costs are recognised as an asset (unless the amortisation period of the asset is not more than 1 year).

Costs incurred by the Group for the performance of a contract are recognised as an asset as contract performance costs if they do not fall under the scope of the relevant standards for inventories, fixed assets or intangible assets but meet all the following conditions:

(1) they are directly related to a current or anticipated contract, including direct labour, direct materials, manufacturing expenses (or similar expenses), to be borne by customers as specifically stipulated, and otherwise incurred solely in connection with the contract;

(2) they will increase the resources to be utilised in the Company's future performance of its contractual obligations;

(3) they are expected to be recoverable.

The Group amortises assets relating contract costs on the same basis as that for the recognition of revenue relating to such assets and recognises the amortised assets in current profit or loss.

For assets relating to contract costs whose carrying value is higher than the difference between the following two items, the Group makes provision for impairment for the excess to be recognised as asset impairment losses:

(1) The remaining consideration expected to be obtained as a result of the transfer of goods relating to such assets;

(2) Estimated costs to be incurred in connection with the transfer of relevant goods.

In the event that the difference between (1) and (2) becomes higher than the carrying value of such assets as a result of changes in the factors of impairment for previous periods, previous provisions for asset impairment losses should be written back and included in current profit or loss, provided that the carrying asset value following the write-back shall not exceed the carrying value such assets would have on the date of write-back were there no provision for impairment.

26. Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value.

In accordance with the stipulations of the government instruments, government grants applied towards acquisition or the formation of long-term assets in other manners are asset-related government grants; the instruments unspecifically refer to the exercise of judgement based on the basic conditions for receiving the asset-related grant applied towards or the formation of long-term assets in other manners. All other grants are recognised as income-related government grants.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. Government grants (continued)

Government grants relating to income and applied to make up for related costs or losses in future periods shall be recognised as deferred income, and shall be recognised in current profit or loss or written off against related costs of the period for which related costs or loss are recognised. Government grants specifically applied for the reimbursement of incurred related costs and expenses shall be directly recognised in current profit or loss or set off against related costs.

Government grants relating to assets shall be written off against the carrying value of the asset concerned or recognized as deferred income and credited to profit or loss over the useful life of the asset concerned by reasonable and systematic instalments (provided that government grants measured at nominal value shall be directly recognised in current profit or loss). Where the asset concerned is disposed of, transferred, retired or damaged prior to the end of its useful life, the balance of the deferred income yet to be allocated shall be transferred to "asset disposal" under current profit or loss.

Loans extended to the Group by borrowing banks at favourable interest rates mandated by government policies under which the borrowing banks receive interest rate subsidies from the financial authorities shall be recognised based on the actual amount of loans received, and borrowings costs shall be recognised based on the principal amount of the loan and the policy-mandated favourable interest rates.

27. Income tax

Income taxes include current and deferred tax. Income taxes are recognised in current period's profit or loss as income tax expense or income tax benefit, except for the adjustment made for goodwill in a business combination and income tax from transactions or items that directly related to equity.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them at the amount expected to be paid or recovered according to the relevant taxation regulations.

The Group recognises deferred tax assets and liabilities based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base on the balance sheet date. Temporary differences also include the differences between the carrying values and tax bases of items not recognised as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(1) where the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. Income tax (continued)

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

(1) where the deductible temporary difference arises from transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(2) deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures are recognised when all following conditions are met: it is probable that the temporary differences will reverse in the foreseeable future, it is probable that taxable profit against the deductible temporary differences will be available.

As at balance sheet date, deferred tax assets and liabilities are measured in accordance with relevant tax laws at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and reflects the tax consequences that would follow the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and deferred tax liabilities are offset and presented as a net amount if all of the following conditions are met: the Group has the legal right to set off current tax assets current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, provided that the taxable entity concerned intends either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

28. Leases

Other than leases under which substantially all risks and rewards of ownership are transferred, which are classified as finance lease, all leases are classified as operating leases.

As lessee of operating leases

Rental expenses under operating leases are recognised as relevant asset costs or in current profit or loss on the straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

As lesser of operating leases

Rental income under operating leases are recognised as profit/loss for the current period on a straightline basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Hedge accounting (applicable in 2017)

For the purpose of hedge accounting, hedges of the Group are classified as:

(1) Cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment;

(2) Net investment hedging for overseas operations.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income, while the ineffective portion is recognised immediately in profit or loss.

Amounts recognised in other comprehensive income are transferred to profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or finance cost is recognised or when a forecast sale occurs.

If the hedging instrument expires or is sold, terminated or exercised (with the expiry of rollover of the hedging strategic component or unfulfilled replacement or the termination of processing of the contract), if its designation as a hedge is revoked, or if the hedge no longer fulfills the accounting requirement of a hedge, the amounts previously taken to other comprehensive income remain in other comprehensive income until the forecast transaction or firm commitment occurs or is fulfilled in actual terms.

Net investment hedging for overseas operations

Net investment hedging for overseas operations includes currency hedging as a part of net investment and is dealt with in a similar way as cash flow hedging. The portion of gain or loss of hedging instrument designated as effective hedging shall be credited or charged to other comprehensive income, while ineffective hedging shall be dealt with in current profit and loss. Upon disposal of the overseas operations, the accumulated gains or losses previously accounted for in other comprehensive income shall be transferred to current profit and loss.

30. Impairment

The Group assesses impairment of assets other than inventories, investment properties measured at fair value, deferred tax assets and financial assets, using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed at least annually regardless of whether there are indications of impairment. Intangible assets which are not yet ready for use are also tested annually for impairment.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

31. Impairment (continued)

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised in the current period's profit or loss and provision for impairment is made accordingly.

In connection with impairment tests for goodwill, the carrying value of goodwill arising from business combination is allocated to relevant cash generating units ("CGU") from the date of acquisition on a reasonable basis. If it is difficult to allocate such goodwill to a relevant CGU, it should be allocated to a relevant CGU group. A relevant CGU or CGU group is defined as one which can benefit from the synergies of the business combination and is not larger than the reporting segments determined by the Group.

In connection with impairment tests for CGUs or CGU groups that comprise goodwill, where indications of impairment exists in a CGU or CGU group related to goodwill, impairment tests should be performed first on CGUs or CGU groups that do not comprise goodwill and recognise impairment loss after estimating the recoverable amount. Then impairment tests on CGUs or CGU groups that comprise goodwill should be performed and the carrying value and recoverable amount should be compared. Where the recoverable amount is lower than the carrying value, the impairment loss should first be offset against the carrying value of the goodwill allocated to CGUs or CGU groups and then against assets in the CGUs or CGU groups other than goodwill in proportion to the weighting of these assets.

Previously recognised impairment losses are not reversed in subsequent periods.

32. Employee remuneration

Employee remuneration includes all kinds of rewards or compensation (other than share-based payments) incurred by the Group in exchange for service rendered by employees or in the termination of employment. Employee remuneration includes short-term remuneration, retirement benefits, termination benefits and other long-term employees' benefits. Benefits provided by the Group to the spouses, children and dependents of employees and families of deceased employees are also a part of employee remuneration.

Short-term remuneration

For accounting periods during which services are rendered by employees, short-term remuneration that will incur is recognised as liability and included in current profit and loss or related capital costs.

Retirement benefit (defined deposit scheme)

Employees of the Group participated in pension insurance and unemployment insurance schemes managed by the local government. The contribution costs are charged as asset cost or to current profit or loss when incurred.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

32. Employee remuneration (continued)

Retirement benefit (defined benefit scheme)

The Group operates a defined benefit pension scheme. No funds have been injected into the scheme. The cost of benefits provided under the defined benefit scheme is calculated using the expected benefit accrual unit approach.

Remeasurement arising from defined benefit pension schemes, including actuarial gains or losses, changes in the asset cap effect (deducting amounts included in net interest) and return on scheme assets (deducting amounts included in net interest) are instantly recognised in the balance sheet and charged to shareholders' equity through other comprehensive income for the period during which it is incurred. It will not be reversed to profit and loss in subsequent periods.

Previous service costs are recognised as current expenses when: the defined benefit scheme is revised, or relevant restructuring costs or termination benefits are recognised by the Group, whichever earlier.

Net interest is arrived at by multiplying net liabilities or net assets of defined benefits with a discount rate. Changes in net obligations of defined benefits are recognised as operating costs and administration expenses in the income statement. Service costs included current services costs, past service costs and settlement of profit or loss. Net interest included interest income from scheme assets, interest expenses for scheme obligations and interest of the asset cap effect.

Termination benefits

Where termination benefits are provided to employees, liabilities in employee remuneration are recognised and charged to current profit and loss when: the company is not in a position to withdraw termination benefits provided under termination plans or redundancy plans, or costs or expenses relating to the restructuring exercise which involves the payment of termination benefits are recognised, whichever earlier.

Other long-term employees' benefits

Other long-term employees' benefits provided to employees shall be recognised and measured as net liabilities or net assets where provisions regarding post-employment benefits are applicable, provided that changes shall be included in current profit and loss or related capital costs.

33. Fair value measurement

At each balance sheet date, the Group measures the fair value of investment properties, derivative financial instruments, other debt investments and listed and unlisted equity instrument investments. Fair value means the price receivable from the disposal of an asset or required to be paid for the transfer of a liability in an orderly transaction incurred by market participants on the measurement date. The Group measures assets or liabilities at fair value with the assumption that the orderly transaction of asset disposal or the transfer of liabilities takes place in the major market for the relevant assets or liabilities. Where there is no major market, the Group assumes such transaction takes place in the most favourable market for the relevant assets or liabilities. The major market (or most favourable market) is a trading market which the Group has access to on the measurement date. The Group adopts assumptions used by market participants when they price the asset or liability with the aim of maximising its economic benefits.

The measurement of non-financial assets measured at fair value should take into account the ability of market participants to utilise the asset in the best way for generating economic benefits, or the ability to dispose of such asset to other market participants who are able to utilise the asset in the best way for generating economic benefits.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

33. Fair value measurement (continued)

The Group adopts valuation techniques that are appropriate in the current circumstances and supported by sufficient usable data and other information. Observable input will be used first and foremost. Unobservable input will only be used when it is not possible or practicable to obtain observable input.

The fair value hierarchy to which an asset or liability measured or disclosed in the financial statements at fair value will be determined on the basis of the lowest level of input which is significant for the fair value measurement as a whole. Input at the first level represents unadjusted quoted prices in an active market for the acquisition of the same asset or liability on the measurement date. Input at the second level represents directly or indirectly observable assets or liabilities apart from input at the first level. Input at the third level represents unobservable input for the asset or liability.

At each balance sheet date, the Group reassesses assets and liabilities measured at fair value on an ongoing basis recognised in the financial statements to determine whether the level of fair value measurement should be changed.

34. Profit distribution

Cash dividend of the Company is recognised as liability after approval by the general meeting.

35. Significant accounting judgements and estimates

The preparation of financial statements requires judgement and estimation of the management. Such judgement and estimation will affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities as at the balance sheet date. However, the consequence arising from the uncertain nature of such estimation may result in significant adjustment to the carrying value of the asset or liability affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Determination of standalone contractual performance obligations under telecommunication system construction contracts (applicable from 1 January 2018)

The Group's telecommunication system construction contract typically includes a range of pledged performance, such as equipment sales and installation service or a combination of both. The Group determines whether the equipment sales and installation service and their combination are distinctly separable. Where the customer can benefit from the individual use of such products or services or their use together with other readily available resources, the standalone equipment sales and installation service are accounted for as standalone contractual performances. Such standalone equipment sales and installation service are considered individual separable if: (1) the customer can receive the equipment pledged under the contract without the provision of significant installation service by the Group; (2) each of the equipment sales and the installation service do not constitute any modification or customisation to the other, nor will they modify or customise other equipment or installation service pledged under the contract; (3) such equipment sales and installation service are not significantly correlated to other equipment or installation pledged under the contract. Each of the aforesaid combinations of equipment sales and installation services that is not individually separable and not significantly correlated to other combinations and that enable the customer to benefit from its individual use or use together with other readily available resources is accounted for as a standalone contractual performances. The comprehensive application of the aforesaid judgement is significant for the determination of standalone contractual performance obligations under telecommunication system construction contracts.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

35. Significant accounting judgements and estimates (continued)

Judgement (continued)

Determination of progress of performance of service rendering contracts (applicable from 1 January 2018)

The service contract between the Group and its customers typically include obligations such as maintenance service, operational service and engineering service and revenue is recognised according to the progress of performance of each contract. For contracts with specific output indicators, such as contracts for maintenance service and operational service, the Group determines the progress of performance of the service according to the output method. For a small number of contracts which do not specify output indicators, the progress of performance is determined using the input method.

Performance of obligation at a point of time (applicable from 1 January 2018)

For performance obligations of the Group in respect of separately sold communication system equipment and terminals, as well as obligations in respect of communication system equipment sold in a block together with project construction, as the customer is unable to obtain and consume the economic benefits brought by the Group's performance of obligation at the same time as such obligations are performed or control goods in progress during the course of the Group's performance, the Group is not entitled to collect progress billing according to work completed to-date during the entire contract period. Hence, such performance is treated as performance at a point of time. Specifically, revenue corresponding to such standalone contractual performance is recognised upon acceptance by the customer after the performance of each standalone obligation.

Business model (applicable from 1 January 2018)

The classification of financial assets at initial recognition is dependent on the Group's business model for managing the assets. Factors considered by the Group in judging the business model include enterprise valuation, the method of reporting the results of financial assets to key management members, risks affecting the results of financial assets and the method for managing such risks, as well as the form of remuneration received by the management personnel of the businesses concerned. In assessing whether the business model is aimed at receiving contract cash flow, the Group is required to analyse and exercise judgment in respect of the reasons, timing, frequency and values of any disposals prior to maturity.

Characteristics of contract cash flow (applicable from 1 January 2018)

The classification of financial assets at initial recognition is dependent on the characteristics of the contract cash flow of Such type of financial assets. Judgement is required to determine whether the contract cash flow represents interest payment in relation to principal amounts based on outstanding principal amounts only, including judgement of whether it is significantly different from the benchmark cash flow when assessing modifications to the time value of currencies, and judgement of whether the fair value of early repayment features is minimal where the financial assets include such early repayment features.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

35. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (applicable in 2017)

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, our revenue recognition policies can differ depending on the level of customisation within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customisation and contractual terms with the customer. As a result, our revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

When a customer arrangement involves multiple deliverables where the deliverables are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

(1) whether the delivered item has value to the customer on a stand-alone basis;

(2) if the contract includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element contract can be treated separately for revenue recognition purposes involves significant estimates and judgement, such as whether the delivered elements have standalone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

At the inception of the arrangement, contract amounts shall be allocated to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence ("VSOE") of selling price, if it exists; otherwise, third-party evidence of selling price should be used. If neither VSOE nor third-party evidence of selling price exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the vendor can determine VSOE or third-party evidence of selling price, the vendor shall not ignore information that is reasonably available without undue cost and effort.

For instance, the Group sells hardware and post-contract services on a stand-alone basis and therefore we have evidence to establish VSOE for both of sale of goods and post-contract services.

The Group's adoption of appropriate revenue recognition policy for a deliverable involves significant judgement. For instance, the Group has to determine whether post-contract support services is more than incidental to hardware, so as to decide whether the hardware should be accounted for based on multiple-element revenue recognition guidance or general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

35. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (applicable in 2017) (continued)

For elements related to customised network solutions and certain network build-outs, revenues are recognised under the ASBE No. 15 Construction Contract, generally using the percentage-of-completion method. In using the percentage-of-completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognised in the period that such losses become known. Generally, the terms of long-term contracts provide for progress billing are based on completion of certain phases of work. Contract revenues recognised, based on costs incurred towards the completion of the project, that are unbilled are accumulated in the contracts in progress account included in amount due from customers for contract works. Billings in excess of revenues recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised to date on contracts within amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contract. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangement to establish these estimates. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

Where hardware does not require significant customisation, and any software is considered incidental, revenue should be recognised under ASBE No.14 — Revenue if: it is probable that the economic benefits associated with the transaction will flow to the Group the amount can be measured reliably; the Group has transferred to the buyer the significant risks and rewards of ownership of the goods; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss and title have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because legal title or the risk of loss on products was not transfer to the buyer until final payment had been received or where delivery had not occurred, revenue is deferred to a later period when title or the risk of loss passes either on delivery or on receipt of payment from the customer.

For further information on the Group's revenue recognition policies relating to our material revenue streams, please refer to Note III.22 to the consolidated financial statements.

Deferred tax liabilities relating to subsidiaries, associates and joint ventures

The Group is required to recognise deferred tax liabilities for taxable temporary differences relating to investments in certain subsidiaries, associates and joint ventures, unless two conditions are met as follows: the Group is able to control the timing of the reversal of the temporary difference and such temporary difference is not likely to be reversed in the foreseeable future, in which case the recognition of deferred tax liabilities is not required. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of the subsidiary and that the subsidiary will not make any profit distribution in the foreseeable future. Therefore, the Group is not required to recognise any deferred income tax liability. Whether the temporary difference related to investments in associates and joint ventures will be reversed in the foreseeable future is dependent on the expected method of recouping the investment, and the Group is required to exercise significant judgement in respect of the method of recouping the investment.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

35. Significant accounting judgements and estimates (continued)

Judgements (continued)

Derecognition of financial assets

Where the Group has transferred the right to receive cash flow arising from an asset but has not transferred or has retained substantially all risks and rewards associated with such asset, or has not transferred the controlling right in such asset, such asset shall be recognised and accounted for so long as the Group continues to be involved in such asset. If the Group has not transferred or has retained substantially all risks and rewards associated with the asset or transferred the controlling right in the asset, the exercise of significant judgment is often required, and estimations need to be made as to the extent of the Group's continued involvement in the asset.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent financial years, are discussed below.

Impairment of long-term equity investments, fixed assets, construction in progress and intangible assets

The Group assesses at each balance sheet date whether there is an indication that long-term equity investments, fixed assets, construction in progress and intangible assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. The recoverable amount is measured at the net amount of the fair value of the asset less disposal costs or the present value of the estimated future cash flow of the asset, whichever is higher. This requires an estimate of the expected future cash flows from the asset or the cash generating unit to which the asset was allocated and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is recognised when the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount. The carrying amount is written down to the recoverable amount and the write-down is charged to current profit or loss, while corresponding provision for asset impairment is also made.

Impairment of financial instruments (applicable from 1 January 2018)

The Group has adopted the expected credit loss model to evaluate the impairment of financial instruments. The application of the expected credit loss model requires significant judgement and estimates and the consideration of all reasonable and soundly based information, including forward-looking information. In making such judgement and estimates, the Group estimates the projected movements of the debtor's credit risk according to past repayment records, economic policies, macro-economic indicators and industry risks.

Impairment of trade receivables (applicable in 2017)

The Group determines whether trade receivables are impaired by estimating the future cash flow from the trade receivables. An impairment loss is recognised only if the carrying amount of an asset exceeds the present value of estimated future cash flows discounted at the trade receivable's original effective interest rate, taking into account the value of the related collateral. Where the actual future cash flows and less than expected, an impairment loss may arise.

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35. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Depreciation and amortisation

The Group depreciates items of fixed assets and amortises items of intangible assets on the straight line basis over their estimated useful lives, and after taking into account their estimated residual value, commencing from the date the items of fixed assets are placed into productive use. The estimated useful lives and dates that the Group places the items of fixed assets into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's fixed assets and intangible assets.

Deferred development costs

In determining the amount of capitalisation, the management must make assumptions concerning the expected future cash flow, applicable discount rate and expected beneficial period.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilise these unused tax losses. Significant judgments are needed from management to estimate the timing and amount of taxable profit in the future, with tax planning strategies, to determine the amount of the deferred tax assets that should be recognised.

Estimated standalone selling price (applicable from 1 January 2018)

The standalone selling price refers to the price at which the Group may independently sell pledged goods or service. Observable prices for goods or services sold to similar customers under similar circumstance on a standalone basis is the best evidence for standalone selling prices. An estimation of standalone selling prices is required if such prices cannot be directly obtained. The Group has adopted cost plus pricing according the characteristics of the goods or services and its related price and cost and the level of difficulty in obtaining it. Cost plus pricing is a method for determining standalone selling prices by adding a reasonable profit margin to the estimated cost of a product. This method is mainly concerned with internal factors and requires adjustments to profit according to different products, customers and differences in other variables. It is a more appropriate method when the direct cost for performance of obligation can be ascertained.

Provision for inventory impairment

The impairment of inventory to its net realisable value is based on the marketability and net realisable value of the inventory. The determination of the impairment value requires the acquisition of conclusive evidence by the management, who should also take into account factors such as the purpose of stocking the inventory and the impact of post-balance sheet date events before making judgments and estimates. The difference between the actual outcome and the original estimates shall affect the carrying value of the inventory and charge or reversal of impairment provision for the period during which the estimates were revised.

Warranty

The Group makes reasonable estimates on warranty fee rates in respect of contract groups with similar characteristics based on the historic data and current conditions of warranty, taking into consideration all relevant information such as product improvements and market changes, among others. The Group reassesses the warranty fee rates at least annually at each balance sheet date and determines its estimated liabilities based on the reassessed warranty fee rates.

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35. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost. The carrying value of investment property as at 31 December 2018 was RMB2,011,999,000 (31 December 2017: RMB2,023,809,000).

Fair value of non-listed equity investment (applicable from 1 January 2018)

Fair value of non-listed equity investment at fair value through profit or loss is estimated using the market-based method. The assumptions on which it is based are unobservable input. The estimation requires the management to determine comparable public companies (peers) based on industry, scale, gearing and strategy and compute appropriate price multiples in respect of each identified comparable company, such as enterprise value to EBIT ("EV/EBIT"), price to book ("P/B") or price to earnings ("P/E"), etc. Such multiples are measured and arrived at based on the relevant data of the comparable companies and discounted by a percentage for the lack of liquidity. The discounted multiple shall be used for the measurement of the profit or asset of the non-listed equity investment to arrive at its fair value. The management believes that the estimated fair value (as recorded in the balance sheet) and changes in fair value (as recorded in profit or loss and other comprehensive income) arrived at using the aforesaid valuation method were reasonable and represented the most appropriate value as the end of the reporting period. For details, please refer to Note IX.3

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic production) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Changes in accounting policies and accounting estimates

Changes in accounting policies

In 2017, the MOF announced amendments to ASBE No. 14 — Revenue" (the "New ASBE on Revenue"), "ASBE No. 22 — Recognition and Measurement of Financial Instruments", "ASBE No. 23 — Transfer of Financial Assets", "ASBE No. 24 — Hedge Accounting" and "ASBE No. 37 — Presentation of Financial Instruments" (the "New ASBEs on Financial Instruments"). The Group has adopted the aforesaid revised accounting standards with effect from 1 January 2018. In accordance with the convergence provisions, no adjustments were made to the information of comparative periods. The difference arising from the first day of implementation of the new ASBE versus the implementation of the existing ASBE is recognised by adjusting the opening balance of retained earnings or other comprehensive income for the reporting period.

New ASBE on Revenue

The New ASBE on Revenue has built a new model for revenue recognition to provide for the accounting treatment of revenue generated from contracts with customers. In accordance with the New ASBE on Revenue, the method of revenue recognition should reflect the model of the company's transfer of goods or rendering of services to customers, and the amount of revenue should reflect the amount of consideration expected to be entitled to as a result of the company's transfer of such goods and services to customers. At the same time, the New ASBE on Revenue has also provided for judgements and estimates required by each step in revenue recognition. The Group has only adjusted the cumulative effect of outstanding contracts at 1 January 2018. In respect of contract changes occurring prior to 1 January 2018, the Group has adopted a simplified approach: identifying fulfilled and unfulfilled performance obligations in connection with all contracts based on the finalised arrangements in contract changes, determining the transaction price, and allocating the transaction price between fulfilled obligations and unfulfilled obligations.

The effect of adopting the New ASBE on items in balance sheets as at 1 January 2018 set out as follows:

Consolidated balance sheet

	31 December 2017	**1 January 2018 After adjustment for New ASBEs**	Impact Increase/ (decrease)
Assets			
Inventories	26,234,139	**28,459,010**	2,224,871
Amounts due from customers for contract works	9,012,909	**—**	(9,012,909)
Contract assets	—	**6,101,416**	6,101,416
Deferred tax assets	1,464,250	**1,653,209**	188,959
	36,711,298	**36,213,635**	(497,663)
Liabilities			
Amounts due to customers for contract works	8,050,655	**—**	(8,050,655)
Advances from customers	8,702,351	**—**	(8,702,351)
Contract liabilities	—	**16,753,006**	16,753,006
Provisions	533,126	**1,114,370**	581,244
	17,286,132	**17,867,376**	581,244
Shareholders' equity			
Retained profits	14,667,683	**13,663,994**	(1,003,689)
Surplus reserve	2,205,436	**2,130,218**	(75,218)
	16,873,119	**15,794,212**	(1,078,907)

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New ASBE on Revenue (continued)

The effect of adopting the New ASBE on 2018 financial statements set out as follows:

	In accordance with new ASBE	Hypothetically in accordance with previous ASBE	Increase/ (decrease)
Operating revenue	85,513,150	84,755,551	757,599
Less: operating cost	57,367,578	56,643,645	723,933
Gross profit	28,145,572	28,111,906	33,666
Total loss	(7,350,203)	(7,383,869)	33,666
Less: income tax expense	(400,863)	(463,505)	62,642
Net loss	(6,949,340)	(6,920,364)	(28,976)
Analysed by ownership			
Ordinary shareholders of the parent company	(6,983,662)	(6,954,686)	(28,976)
Holders of perpetual capital instruments	417,037	417,037	—
Non-controlling interests	(382,715)	(382,715)	—
Earnings per share (RMB/share)			
Basic	RMB(1.67)	RMB(1.66)	RMB(0.01)
Diluted	RMB(1.67)	RMB(1.66)	RMB(0.01)
Inventory	25,011,416	25,735,349	(723,933)
Amount due from customers for contract work	—	6,210,576	(6,210,576)
Contract assets	8,462,226	—	8,462,226
Deferred income tax assets	2,787,790	2,850,432	(62,642)
Sub-total of assets	36,261,432	34,796,357	1,465,075
Amount due to customers for contract work	—	7,636,303	(7,636,303)
Advances from customers	—	6,843,052	(6,843,052)
Contract liabilities	14,479,355	—	14,479,355
Provision	2,167,614	673,563	1,494,051
Sub-total of liabilities	16,646,969	15,152,918	1,494,051
Retained profit	6,983,261	7,012,237	(28,976)
Non-controlling interests	3,810,735	3,810,735	—
Sub-total of shareholders' equity	10,793,996	10,822,972	(28,976)

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New ASBE on Revenue (continued)

The Group's customised network solutions and certain network build-outs were as a whole accounted for as a construction contract and revenue was recognised using the percentage-of-completion method prior to 1 January 2018. With effect from 1 January 2018, sales of equipment and installation services that are individually separable (breakdown into equipment and installation service), or combinations comprising sales of equipment and installation services that are not individually separable have been accounted for as standalone contractual performance. For sales of equipment and installation services that are individually separable and combinations comprising sales of equipment and installation services that are not individually separable, according to the analysis of the Group, it does not meet the condition of fulfillment of obligation over a period of time. Therefore, taking into consideration all factors, revenue is recognised at the time of the customer's acceptance following the performance of contract obligations. Save as discussed above, other aspects of the amendment do not any material impact on the Group.

New ASBEs on Financial Instruments

The New ASBEs on Financial Instruments has changed the classification and measurement of financial assets and determined three major measurement types: amortised cost; at fair value through other comprehensive income; and at fair value through current profit or loss. A company is required to consider its own business model and the characteristics of contract cash flow of its financial assets in the aforesaid classification. Equity investments are required to be measured at fair value through current profit or loss, provided that the Group may elect at initial recognition to irrevocably designate investment in non-trading equity instruments as financial assets at fair value through other comprehensive income.

The New ASBEs on Financial Instruments provides that the model for measuring financial assets impairment shall be changed from the "model of incurred losses" to the "model of expected credit losses", which is applicable to financial assets at amortised cost, financial assets at fair value through other comprehensive income, loan commitment, and financial guarantee contracts.

The new hedge accounting model has enhanced connection between corporate risk management and the financial statement, expanded the scope of hedging instruments and hedged items, cancelled the test for reviewing effectiveness, and introduced the concepts of rebalancing mechanisms and hedging costs.

Certain wealth management products held by the Group of which earnings are dependent on the yield of the subject assets were classified as loans and receivables prior to 1 January 2018. From 1 January 2018 onwards, their contract cash flow cay have been analysed as representing not only payments of interest based on principal amounts and outstanding amounts. Accordingly, such financial products have been reclassified as financial assets at fair value through current profit or loss and presented under trading financial assets.

The Group carries out bank acceptance endorsement or discounting in respect of certain bank acceptances in its daily treasury management. The business model for managing the aforesaid bills receivable is aimed at the collection of contract cash flow as well as disposal. Accordingly, such bills receivable have been reclassified as financial assets at fair value through other comprehensive income and presented under other current assets after 1 January 2018.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

The Group disposes a small portion of amounts receivable through factoring without recourse in its daily treasury management. As the amount is insignificant relative to total trade receivables, the business model for managing trade receivables is still aimed at the collection of contract cash flow. Accordingly, the Group's amounts receivable have continued to be classified as amounts measured at amortised value and presented under amounts receivable after 1 January 2018.

After 1 January 2018, certain equity investments held by the Group have been designated as financial assets at fair value through current profit or loss and presented under trading financial assets, or under other non-current financial assets if maturity is more than 1 year from the balance sheet date and the investment is expected to be held for more than 1 year.

The result of classification and measurement of financial assets on the day of first implementation date in accordance with standards for the classification and measurement of financial instruments before and after the revision is set out in the following:

The Group

	ASBE for recognition and measurement of financial instruments prior to amendment		**Revised ASBE for recognition and measurement of financial instruments**	
	Measurement type	**Carrying value**	**Measurement type**	**Carrying value**
Bills receivable/ trade receivables	Amortised cost (Loans and receivables)	26,398,228	Amortised cost	24,322,144
			At fair value through other comprehensive income	2,052,945
Equity investment	At fair value through other comprehensive income (available-for-sale assets — listed companies)	1,711,846	At fair value through current profit or loss (ASBE requirements)	1,711,846
	Cost measurement (available-for-sale assets — non-listed companies)	1,469,822	At fair value through profit or loss (ASBE requirements)	1,602,930
Wealth management products	Amortised cost (Loans and receivables)	700,000	At fair value through current profit or loss (ASBE requirements)	700,000

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

The result of classification and measurement of financial assets on the day of first implementation date in accordance with standards for the classification and measurement of financial instruments before and after the revision is set out in the following: (continued)

The Company

	ASBE for recognition and measurement of financial instruments prior to amendment		**Revised ASBE for recognition and measurement of financial instruments**	
	Measurement type	**Carrying value**	**Measurement type**	**Carrying value**
Bills receivable/ trade receivables	Amortised cost (Loans and receivables)	29,072,067	Amortised cost At fair value through other comprehensive income	27,172,292 1,888,992
Equity investment	At fair value through other comprehensive income (available-for-sale assets — listed companies)	—	At fair value through current profit or loss (ASBE requirements)	—
	Cost measurement (available-for-sale assets — non-listed companies)	461,091	At fair value through profit or loss (ASBE requirements)	616,552
Wealth management products	Amortised cost (Loans and receivables)	—	At fair value through current profit or loss (ASBE requirements)	—

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Reconciliation table relating to the adjustment of the original carrying value of financial assets to the new carrying value of financial assets following classification and measurement in accordance with the revised ASBE for recognition and measurement of financial instruments on the first date of implementation:

ASBE	Carrying value presented under previous ASBE on financial instruments 31 December 2017	Reclassified	Re-measured	**Carrying value presented under New ASBEs on Financial Instruments 1 January 2018**
Financial assets measured at amortised cost				
Cash	33,407,879	–	–	**33,407,879**
Bills receivable	2,052,945	(2,052,945)		**–**
Less: transfer to fair value through other comprehensive income		(2,052,945)	–	
Trade receivables (including long-term receivables)	25,590,043	–	(23,139)	25,566,904
Re-measured: provision for expected credit losses			(23,139)	
Factored trade receivables (including long-term receivables)	3,688,455	–	–	3,688,455
Financial assets in other receivables	2,701,831	–	–	2,701,831
Total Financial assets measured at amortised cost	67,441,153	(2,052,945)	(23,139)	65,365,069
Financial assets at fair value through other comprehensive income				
Equity investments – available-for-sale financial assets	3,181,668	(3,181,668)	–	–
Less: transfer to fair value through profit or loss (New ASBEs on Financial Instruments)		(3,181,668)	–	

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Reconciliation table relating to the adjustment of the original carrying value of financial assets to the new carrying value of financial assets following classification and measurement in accordance with the revised ASBE for recognition and measurement of financial instruments on the first date of implementation: (continued)

ASBE	Carrying value presented under previous ASBE on financial instruments 31 December 2017	Reclassified	Re-measured	**Carrying value presented under New ASBEs on Financial Instruments 1 January 2018**
Other current assets — bills receivable	–	2,052,945	–	**2,052,945**
Add: transfer from bills receivable		2,052,945		
Total financial assets at fair value through other comprehensive income	3,181,668	(1,128,723)	–	**2,052,945**
Financial assets at fair value through profit or loss				
Derivative financial assets	116,794	–	–	**116,794**
Trading financial assets	–	–	–	**–**
Add: transfer from available-for-sale financial assets		–	–	
Other non-current financial assets	–	3,181,668	133,108	**3,314,776**
Add: transfer from available-for-sale financial assets		3,181,668		
Re-measured: revaluation gain			133,108	
Total financial assets at fair value through profit or loss	116,794	3,181,668	133,108	**3,431,570**
Total financial assets	70,739,615	–	109,969	**70,849,584**

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Reconciliation table relating to the adjustment of the original amount of financial asset impairment provision as at 31 December 2017 to the new loss provision amount following classification and measurement in accordance with the revised ASBE on financial instruments on the first date of implementation:

Measurement type	Loss provision under previous ASBE on Financial Instruments/ provisions recognised under ASBE on contingent events	Re-measured	Loss provision under New ASBEs on Financial Instruments
Loans and receivables (previous ASBE on financial instruments)/financial assets at amortised cost (New ASBEs on Financial Instruments)			
Trade receivables	9,143,050	23,139	9,166,189
Bills receivable	—	—	—
Long-term receivables	32,295	—	32,295
Amount due from customers for contract works (previous ASBE on revenue)/contract assets (new ASBE on revenue)	119,011	—	119,011
Other receivables	—	—	—
Total	9,294,356	23,139	9,317,495

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Adjustments to opening balances on the financial statements for the year of initial implementation as a result of the initial implementation of the New ASBEs on Financial Instruments or New ASBEs on Revenue (consolidated balance sheet)

Assets	31 December 2017	**1 January 2018**	Adjustment
Current assets			
Cash	33,407,879	**33,407,879**	—
Trading financial assets	—	**700,000**	700,000
Derivative financial assets	116,794	**116,794**	—
Bills and trade receivables	26,398,228	**24,322,144**	(2,076,084)
Factored trade receivables	1,080,449	**1,080,449**	—
Prepayments	591,664	**591,664**	—
Other receivables	3,629,933	**2,929,933**	(700,000)
Inventories	26,234,139	**28,459,010**	2,224,871
Contract assets	—	**6,101,416**	6,101,416
Amount due from customers for contract works	9,012,909	**—**	(9,012,909)
Other current assets	7,758,594	**9,811,539**	2,052,945
Total current assets	108,230,589	**107,520,828**	(709,761)
Available-for-sale financial assets	3,181,668	**—**	(3,181,668)
Long-term receivables	1,244,760	**1,244,760**	—
Factored long-term trade receivables	2,608,006	**2,608,006**	—
Long-term equity investments	3,960,597	**3,960,597**	—
Other non-current financial assets	—	**3,314,776**	3,314,776
Investment properties	2,023,809	**2,023,809**	—
Fixed assets	8,694,456	**8,694,456**	—
Construction in progress	1,472,986	**1,472,986**	—
Intangible assets	4,741,615	**4,741,615**	—
Deferred development costs	1,902,077	**1,902,077**	—
Goodwill	308,806	**308,806**	—
Deferred tax assets	1,464,250	**1,653,209**	188,959
Other non-current assets	4,128,596	**4,128,596**	—
Total non-current assets	35,731,626	**36,053,693**	322,067
TOTAL ASSETS	143,962,215	**143,574,521**	(387,694)

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Adjustments to opening balances on the financial statements for the year of initial implementation as a result of the initial implementation of the New ASBEs on Financial Instruments or New ASBEs on Revenue (consolidated balance sheet) (continued)

	31 December 2017	**1 January 2018**	Adjustment
Current liabilities			
Short-term loans	14,719,023	**14,719,023**	—
Bank advances on factored trade receivables	1,080,472	**1,080,472**	—
Derivative financial liabilities	49,830	**49,830**	—
Bills payable and trade payables	34,463,067	**34,463,067**	—
Amount due to customers for contract works	8,050,655	**—**	(8,050,655)
Advances from customers	8,702,351	**—**	(8,702,351)
Contract liabilities	—	**16,753,006**	16,753,006
Salary and welfare payables	7,389,544	**7,389,544**	—
Taxes payable	1,263,723	**1,263,723**	—
Other payables	7,071,421	**7,071,421**	—
Deferred income	454,891	**454,891**	—
Provisions	533,126	**1,114,370**	581,244
Non-current liabilities due within one year	3,816,844	**3,816,844**	—
Total current liabilities	87,594,947	**88,176,191**	581,244
Long-term loans	3,002,146	**3,002,146**	—
Bank advances on factored long-term trade receivables	2,948,006	**2,948,006**	—
Provision for retirement benefits	133,191	**133,191**	—
Deferred tax liabilities	338,131	**361,211**	23,080
Deferred income	1,224,978	**1,224,978**	—
Other non-current liabilities	3,340,669	**3,340,669**	—
Total non-current liabilities	10,987,121	**11,010,201**	23,080
Total liabilities	98,582,068	**99,186,392**	604,324

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Adjustments to opening balances on the financial statements for the year of initial implementation as a result of the initial implementation of the New ASBEs on Financial Instruments or New ASBEs on Revenue (consolidated balance sheet) (continued)

	31 December 2017	**1 January 2018**	Adjustment
Shareholder's equity			
Share capital	4,192,672	**4,192,672**	—
Capital reserves	11,304,854	**11,304,854**	—
Other comprehensive income	(723,770)	**(1,161,905)**	(438,135)
Surplus reserve	2,205,436	**2,142,354**	(63,082)
Retained profits	14,667,683	**14,149,317**	(518,366)
Total equity attributable to holders of ordinary shares of the parent	31,646,875	**30,627,292**	(1,019,583)
Other equity instruments			
Including: perpetual capital instruments	9,321,327	**9,321,327**	—
Total shareholders' equity	4,411,945	**4,439,510**	27,565
Other equity instruments	45,380,147	**44,388,129**	(992,018)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	143,962,215	**143,574,521**	(387,694)

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Adjustments to opening balances on the financial statements for the year of initial implementation as a result of the initial implementation of the New ASBEs on Financial Instruments or New ASBEs on Revenue (balance sheet of the parent)

Assets	31 December 2017	**1 January 2018**	Adjustment
Current assets			
Cash	18,665,112	**18,665,112**	—
Trading financial assets	—	**—**	—
Derivative financial assets	1,679	**1,679**	—
Bills and trade receivables	29,072,067	**27,172,292**	(1,899,775)
Factored trade receivables	704,593	**704,593**	—
Prepayments	56,680	**56,680**	—
Other receivables	25,387,464	**25,387,464**	—
Inventories	16,484,640	**18,194,961**	1,710,321
Contract assets	—	**2,154,527**	2,154,527
Amount due from customers for contract works	4,291,058	**—**	(4,291,058)
Other current assets	4,313,873	**6,202,865**	1,888,992
Non-current Assets	98,977,166	**98,540,173**	(436,993)
Available-for-sale financial assets	461,091	**—**	(461,091)
Long-term trade receivables	5,752,524	**5,752,524**	—
Factored long-term trade receivables	2,491,751	**2,491,751**	—
Long-term equity investments	13,685,375	**13,685,375**	—
Other non-current financial assets	—	**616,552**	616,552
Investment properties	1,615,458	**1,615,458**	—
Fixed assets	4,887,175	**4,887,175**	—
Construction in progress	905,876	**905,876**	—
Intangible assets	1,235,751	**1,235,751**	—
Development costs	404,145	**404,145**	—
Deferred tax assets	566,364	**731,420**	165,056
Other non-current assets	3,452,454	**3,452,454**	—
Total non-current assets	35,457,964	**35,778,481**	320,517
TOTAL ASSETS	134,435,130	**134,318,654**	(116,476)

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Adjustments to opening balances on the financial statements for the year of initial implementation as a result of the initial implementation of the New ASBEs on Financial Instruments or New ASBEs on Revenue (balance sheet of the parent) (continued)

Liabilities	31 December 2017	1 January 2018	Adjustment
Current liabilities			
Short-term loans	7,158,482	**7,158,482**	—
Bank advances on factored trade receivables	704,617	**704,617**	—
Derivative financial liabilities	30,078	**30,078**	—
Bills payable and trade payables	52,386,859	**52,386,859**	—
Amount due to customers for contract works	5,584,395	**—**	(5,584,395)
Advances from customers	6,424,220	**—**	(6,424,220)
Contract liabilities	—	**12,008,615**	12,008,615
Salary and welfare payables	4,118,982	**4,118,982**	—
Taxes payable	155,820	**155,820**	—
Other payables	20,730,300	**20,730,300**	—
Deferred income	329,251	**329,251**	—
Provisions	301,785	**760,497**	458,712
Non-current liabilities due within one year	74,000	**74,000**	—
Total current liabilities	97,998,789	**98,457,501**	458,712
Non-current liabilities			
Long-term loans	2,121,125	**2,121,125**	—
Bank advances on factored long-term trade receivables	2,831,751	**2,831,751**	—
Provision for retirement benefits	133,191	**133,191**	—
Deferred income	149,260	**149,260**	—
Other non-current liabilities	2,781,120	**2,781,120**	—
Total non-current liabilities	8,016,447	**8,016,447**	—
Total liabilities	106,015,236	**106,473,948**	458,712

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Change in accounting policies (continued)

New ASBEs on Financial Instruments (continued)

Adjustments to opening balances on the financial statements for the year of initial implementation as a result of the initial implementation of the New ASBEs on Financial Instruments or New ASBEs on Revenue (balance sheet of the parent) (continued)

	31 December 2017	**1 January 2018**	Adjustment
Shareholder's equity			
Share capital	4,192,672	**4,192,672**	—
Capital reserves	9,067,096	**9,067,096**	—
Other comprehensive income	706,538	**706,538**	—
Surplus reserve	1,543,680	**1,486,161**	(57,519)
Retained profits	3,588,581	**3,070,912**	(517,669)
Total equity attributable to holders of ordinary shares of the parent	19,098,567	**18,523,379**	(575,188)
Other equity instruments			
Including: perpetual capital instruments	9,321,327	**9,321,327**	—
Total shareholders' equity	28,419,894	**27,844,706**	(575,188)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	134,435,130	**134,318,654**	(116,476)

Change in the reporting format of financial statements

In accordance with "Notice on the Revision and Publication of the 2018 General Corporate Financial Reporting Format" (Cai Kuai [2018] No. 15) the "New Reporting Format"), on the face of the balance sheet, bills receivable" and "trade receivables" have been consolidated into the new item of "Bills and trade receivables, "interest receivable" and "dividends receivable" have been consolidated into "other receivables", "fixed assets disposal" has been consolidated into "fixed assets", "work supplies" has been consolidated into "construction in progress", and "bills payable" and "trade payables" have been consolidated into the new item of "bills payable and trade payables". On the face of income statement, a breakdown of "finance cost" into "interest expenses" and "interest income" has been introduced. Comparable figures have been adjusted accordingly. This change in accounting policy has had no impact on the amounts of net profit and shareholders' equity on the consolidated and company statements.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

36. Change in accounting policies and accounting estimates (continued)

Accounting standards issued and effective in 2019

New ASBE on Leases

On 7 December 2018, the MOF issued the revised "ASBE 21 — Leases" ("New ASBE on Leases") in replacement of the "ASBE 21 — Leases" issued on 15 February 2006 and the "Application Guide on 'ASBE 21 — Leases'" contained in the "Notice of the MOF concerning the Publication of 'ASBE Application Guide'" issued on 30 October 2006 (Cai Kuai [2006] No. 18). Enterprises listed in both domestic and overseas markets and enterprises listed overseas adopting IFRSs or ASBEs in the preparation of their financial statements were required to adopt the New ASBE on Leases with effect from 1 January 2019.

The New ASBE on Leases contains substantial revisions in terms of the definition and identification of leases and the accounting treatment for the lessee, while existing provisions on the accounting treatment for the lessor have basically been retained. The major contents of the revisions are as follows: (I) the definition of leases has been made more comprehensive with the addition of contents on the identification, sub-division and consolidation of leases; (II) the classification of operating leases and finance leases for lessees has been removed, whereby the recognition of ownership assets and leasing liabilities in respect of all leases (with the exception of short-term leases and low-value asset leases); (III) improvements have been made to the subsequent measurement of lessees with the addition of the accounting treatment for reassessment of options and changes in leases; (IV) disclosures on lessors have been enhanced to provide additional useful information to users of the financial statements.

In accordance with relevant convergence provisions under the New ASBE on Leases, the Group has elected on the day of first implementation not to reassess whether contracts subsisting prior to that date are lease contracts or contracts containing leases. Such election has been disclosed in the notes to the financial statements and consistently applied to all contracts aforementioned. As a lessee, the Group has elected to adopt a convergence treatment without complete retrospective adjustment. The cumulative effect from the first implementation of this ASBE shall be recognised by adjusting the opening balance of retained earnings and other related items in the financial statements for the year of first implementation of this ASBE. Information of comparative periods shall not be adjusted.

For finance leases subsisting prior to the day of first implementation, lessee shall measure ownership assets and lease liabilities on the day of first implementation based on the original carrying values of hire-purchased assets and finance lease amounts payable.

For operating leases subsisting prior to the day of first implementation, lessees shall measure lease liabilities on the day of first implementation based on remaining lease payments discounted to present value using the incremental borrowing rate for lessees prevailing on the day of first implementation. Where the amount of ownership assets is equivalent to the amount of lease liabilities, necessary adjustments are made based on rental prepayments. The Group plans to adopt the simplified treatment of recognising leases which will end within 12 months after the day of first implementation as short-term leases. In 2018, the Group has conducted detailed evaluation of the impact of the adoption of the new ASBE on leases. According to the Group's estimates, assets comprising rights of use with an amount of RMB952,264,096 and lease liabilities amounting to RMB952,264,096 will be recognised on 1 January 2019 with a corresponding adjustment to the opening balance of retained earnings.

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IV. TAXATION

1. Principal tax items and tax rates

Value-added tax ("VAT")	—	Output tax payable on income generated from domestic sales of products and equipment repair services at a tax rate 17% before 1 May 2018 and 16% since 1 May 2018 (being the tax rate for general taxpayers); regarding service income, output tax is calculated at tax rates of 5%, 6% and 11% before 1 May 2018 and 5%, 6% and 10% since 1 May 2018 and VAT is payable on the difference after deduction of tax credit available for offsetting for the current period.
City maintenance and construction tax	—	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Education surcharge	—	In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Individual income tax	—	In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	—	In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income.

2. Tax concession

The Company is subject to an enterprise income tax rate of 15% for the years from 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Shenzhen Zhongxing Telecom Technology & Service Company Limited is subject to an enterprise income tax rate of 15% for the years from 2016 to 2018 as a national-grade hi-tech enterprise.

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% as a national-grade key software enterprise for 2018.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2018 as a national-grade key software enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 10% for 2018 as an IC design enterprise designated by national planning.

Shanghai Zhongxing Yilian Telecom Equipment Technology & Service Company Limited (formerly known as Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited) is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

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IV. TAXATION (continued)

2. Tax concession (continued)

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2018 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2018 as a national-grade key software enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited has applied for the status of and been confirmed as an enterprise engaged in State-endorsed industries in the current year and is subject to an enterprise income tax rate of 15% for 2018.

Shenzhen ZTE ICT Company Limited is subject to an enterprise income tax rate of 15% for years 2016 to 2018 as a national-grade hi-tech enterprise.

深圳市興意達通訊技術有限公司 is subject to an enterprise income tax rate of 15% for the years from 2016 to 2018 as a national-grade hi-tech enterprise.

中興國通通訊裝備技術 (北京) 有限公司 is subject to an enterprise income tax rate of 15% for the years from 2016 to 2018 as a national-grade hi-tech enterprise.

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and Bank Balances

	31 December 2018	31 December 2017
Cash	**1,597**	12,065
Bank Deposit	**21,230,742**	30,329,615
Other cash	**3,057,459**	3,066,199
	24,289,798	33,407,879

As at 31 December 2018, the Group did not have bank borrowings pledged against time deposits at banks (31 December 2017: RMB16,450,000).

As at 31 December 2018, the Group's overseas currency deposits amounted to RMB4,531,76,000 (31 December 2017: RMB6,601,643,000). Funds placed overseas and subject to remittance restrictions amounted to RMB59,035,000 (31 December 2017: RMB26,012,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposits varies from 7 days to 3 months. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB98,228,000 (31 December 2017: RMB232,411,000) were not included in cash and cash equivalents.

2. Trading financial assets (applicable in 2018 only)

	31 December 2018	1 January 2018
Financial assets at fair value through current profit and loss		
Investment in equity instrument	**810,411**	—
Other investment	**666,412**	700,000
	1,476,823	700,000

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Derivative financial assets

	31 December 2018	31 December 2017
Derivative financial assets at fair value through current profit or loss	**228,117**	116,794
	228,117	116,794

Trading in derivative financial assets at fair value through current profit or loss mainly comprised transactions in forward exchange contracts with reputable banks in the PRC mainland and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, they were dealt with at fair value through current profit or loss. For the year, gain arising from fair value changes of non-hedging derivative financial instruments amounting to RMB55,901,000 (2017: gain of RMB50,962,000) was dealt with in current profit or loss.

4. Bills and trade receivables

	31 December 2018	31 December 2017	1 January 2018
Bills receivables	**—**	2,052,945	—
Trade receivables	**21,592,325**	24,345,283	24,322,144
	21,592,325	26,398,228	24,322,144

Bills receivables

	31 December 2017
Commercial acceptance bills	1,457,144
Bank acceptance bills	595,801
	2,052,945

Endorsed or discounted bills receivable outstanding on the balance sheet date are analysed as follows:

	31 December 2017	
	Derecognised	Not derecognised
Commercial acceptance bills (Note 1)	263,861	—
Bank acceptance bills	215,071	—
	478,932	—

Note 1: In accordance with bank agreements signed, discounted commercial acceptance bills shall not have recourse.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Bills and trade receivables (continued)

Trade receivables

Trade receivables are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables normally ranges from 0 to 90 days, and may be extended to a maximum of 1 year depending on the credit standing of the customer. Trade receivables are interest-free.

Aging analysis of trade receivables was as follows:

	31 December 2018	31 December 2017
Within 1 year	**22,993,716**	23,443,645
1 to 2 years	**3,820,353**	3,556,881
2 to 3 years	**1,603,985**	2,346,647
Over 3 years	**5,556,254**	4,141,160
	33,974,308	33,488,333
Less: bad debt provision for trade receivables	**12,381,983**	9,143,050
	21,592,325	24,345,283

Please refer to Note V.22 for details of movements in bad debt provision for trade receivables for the year.

	31 December 2018			
	Book balance		**Bad debt provision**	
	Amount	**Percentage (%)**	**Amount**	**Percentage (%)**
Individually significant and for which bad debt provision has been separately made	**5,100,451**	**15**	**5,100,451**	**100**
For which bad debt provision has been collectively made based on credit risk characteristics	**28,873,857**	**85**	**7,281,532**	**25**
	33,974,308	**100**	**12,381,983**	**36**

	1 January 2018			
	Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	2,135,018	6	1,764,122	83
For which bad debt provision has been collectively made based on credit risk characteristics	31,353,315	94	7,402,067	24
	33,488,333	100	9,166,189	27

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Bills and trade receivables (continued)

	31 December 2017			
	Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	2,135,018	6	1,764,122	83
For which bad debt provision has been collectively made based on credit risk characteristics				
0–6 months	19,543,481	59	–	–
6–12 months	2,440,198	7	282,186	12
12–18 months	2,055,647	6	885,360	43
18–24 months	1,435,643	4	889,138	62
2–3 years	2,258,706	7	1,702,604	75
Over 3 years	3,619,640	11	3,619,640	100
	31,353,315	94	7,378,928	24
	33,488,333	100	9,143,050	

As at 31 December 2018, bad debt provisions for trade receivables which were individually made were as follows:

	Book balance	Bad debt provision	Percentage of charge
Overseas carriers 1*	835,770	835,770	100%
Overseas carriers 2*	573,370	573,370	100%
Overseas carriers 3*	513,577	513,577	100%
Overseas carriers 4*	237,836	237,836	100%
Overseas carriers 5*	137,240	137,240	100%
Overseas carriers 6*	102,918	102,918	100%
Overseas carriers 7*	101,364	101,364	100%
Others (Customer 8 to Customer 34)*	2,598,376	2,598,376	100%
	5,100,451	5,100,451	100%

* The provision was made in view of significant financial difficulty experienced by the debtors.

As at 31 December 2017, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge
Overseas carriers 1*	306,000	306,000	100%
Overseas carriers 2*	106,645	106,645	100%
Overseas carriers 3*	73,024	73,024	100%
Overseas carriers 4*	69,696	69,696	100%
Overseas carriers 5*	46,312	46,312	100%
Overseas carriers 6*	43,489	43,489	100%
Others (Customer 7 to Customer 33)*	1,489,852	1,118,956	75%
	2,135,018	1,764,122	

* The provision was made in view of significant financial difficulty experienced by the debtors.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Bills and trade receivables (continued)

For 2018, there was no reversal (2017: RMB12,553,000) or write-off (2017: RMB396,272,000) of bad-debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately.

	31 December 2018		
	Carrying amount estimated to be in default	**Expected credit loss rate (%)**	**Expected credit loss during the entire subsistence**
For which bad debt provision has been collectively made based on credit risk characteristics			
0–6 months	**18,941,685**	**4**	**726,570**
6–12 months	**2,354,877**	**10**	**237,027**
1–2 years	**1,849,365**	**39**	**723,234**
2–3 years	**1,491,167**	**91**	**1,357,938**
Over 3 years	**4,236,763**	**100**	**4,236,763**
	28,873,857		**7,281,532**

Top 5 accounts of trade receivables as at 31 December 2018 were as follows:

Customer	**Amount**	**As a percentage of total trade receivables**	**Closing balance of bad debt provision**
Customer 1	**2,246,883**	**6.61%**	**6,487**
Customer 2	**2,232,538**	**6.57%**	**11,010**
Customer 3	**1,997,586**	**5.88%**	**275,286**
Customer 4	**1,096,848**	**3.23%**	**22,311**
Customer 5	**676,670**	**1.99%**	**10,611**
	8,250,525	**24.28%**	**325,705**

Top 5 accounts of trade receivables as at 31 December 2017 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	2,741,261	8.18%	12,880
Customer 2	2,128,765	6.36%	52,040
Customer 3	882,867	2.64%	17,122
Customer 4	653,186	1.95%	—
Customer 5	597,951	1.78%	582,401
	7,004,030	20.91%	664,443

The Group factored trade receivables measured at amortised cost on a non-recourse basis to financial institutions. The carrying amount of trade receivables derecognised as at the end of the year was RMB7,766,408,000 and loss of RMB320,281,000 was recognized in finance costs for the year.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Bills and trade receivables (continued)

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables". For details of the transfer of receivables, please refer to Note VIII.2.

5. Prepayments

Aging analysis of prepayments was as follows:

	31 December 2018		31 December 2017	
	Book balance	**Percentage (%)**	Book balance	Percentage (%)
Within 1 year	**615,489**	**100%**	591,664	100%

Top 5 accounts of prepayments as at 31 December 2018 were as follows:

Supplier	**Amount**	**As a percentage of total amounts of prepayments**
Supplier 1	**44,447**	**7.22%**
Supplier 2	**41,507**	**6.74%**
Supplier 3	**30,725**	**4.99%**
Supplier 4	**29,172**	**4.74%**
Supplier 5	**18,687**	**3.04%**
	164,538	**26.73%**

Top 5 accounts of prepayments as at 31 December 2017 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	22,405	3.79%
Supplier 2	21,924	3.71%
Supplier 3	20,697	3.50%
Supplier 4	16,809	2.84%
Supplier 5	8,428	1.42%
	90,263	15.26%

6. Other receivables

	31 December 2018	31 December 2017	1 January 2018
Interests receivables	**2,189**	897	897
Dividends receivables	**5,400**	—	—
Other receivables	**1,997,281**	3,629,036	2,929,036
	2,004,870	3,629,933	2,929,933

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

Interests receivables

	31 December 2018	31 December 2017
Time deposits	2,189	—
Entrusted loans	—	897
	2,189	897

Dividends receivables

	31 December 2018	31 December 2017
前海融資租賃股份有限公司	5,400	—

Other receivables

Aging analysis of other receivables was as follows:

	31 December 2018	31 December 2017
Within 1 year	1,251,356	2,551,582
1 to 2 years	482,350	834,303
2 to 3 years	279,495	172,727
Over 3 years	122,439	71,321
	2,135,640	3,629,933
Bad-debt provision	(130,770)	—
	2,004,870	3,629,933

Other receivables analysed by nature were as follows:

	31 December 2018	31 December 2017
Staff loans	345,287	336,963
Transactions with third parties	1,651,994	2,208,110
Loans and advances	—	383,963
Others	7,589	700,897
	2,004,870	3,629,933

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

Other receivables (continued)

Top 5 accounts of other receivables as at 31 December 2018 were as follows:

Due from	Closing balance at year-end	As a percentage of the total amount of other receivables	Bad debt provision	Expected credit loss	Nature
Third-party entity 1	**361,200**	**18.02%**	**–**	**–**	**Equity disposal**
Third-party entity 2	**215,473**	**10.75%**	**–**	**–**	**Transactions with third parties**
Third-party entity 3	**120,000**	**5.99%**	**–**	**–**	**Transactions with third parties**
Third-party entity 4	**56,834**	**2.83%**	**(56,834)**	**100%**	**Loans and advances**
Third-party entity 5	**44,848**	**2.24%**	**(44,848)**	**100%**	**Transactions with third parties**
	798,355	**39.83%**	**(101,682)**		

Top 5 accounts of other receivables as at 31 December 2017 were as follows:

Due from	Closing balance at year-end	As a percentage of the total amount of other receivables	Nature
Third-party entity 1	928,102	25.57%	Transactions with third parties
Third-party entity 2	700,000	19.28%	Others
Third-party entity 3	200,000	5.51%	Loans and advances
Third-party entity 4	70,304	1.94%	Transactions with third parties
Third-party entity 5	60,000	1.65%	Loans and advances
	1,958,406	53.95%	

The above top five accounts of other receivables represent amounts receivable from third parties of the Group and were aged within 36 months.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

Other receivables (continued)

Financial assets included in other receivables was RMB1,574,910,000. For financial assets included in other receivables based on expected credit losses in the next 12 months and expected credit losses during the entire life, the change of provisions for bad debt was as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Expected credit losses during the entire life (Standalone assessment)	Stage 3 Financial assets with credit impairment occurred (During the entire life)	Total
Opening balance	–	–	–	–
Opening balance for the year	–	–	–	–
Provisions for the year	1,446	–	129,324	130,770
Balance at 31 December 2018	**1,446**	**–**	**129,324**	**130,770**

7. Inventories

	31 December 2018			31 December 2017			1 January 2018		
	Book balance	**Provision for impairment**	**Carrying value**	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Raw materials	**5,324,703**	**1,151,577**	**4,173,126**	5,569,928	521,828	5,048,100	5,569,928	521,828	5,048,100
Materials under subcontract processing	**5,612**	**131**	**5,481**	11,214	460	10,754	11,214	460	10,754
Work in progress	**1,490,805**	**31,703**	**1,459,102**	1,189,452	34,721	1,154,731	1,189,452	34,721	1,154,731
Finished goods	**4,049,168**	**767,829**	**3,281,339**	4,151,274	564,391	3,586,883	4,151,274	564,391	3,586,883
Dispatch of goods and others	**5,377,760**	**426,105**	**4,951,655**	17,801,819	1,368,148	16,433,671	8,432,618	526,023	7,906,595
Contract costs	**11,962,640**	**821,927**	**11,140,713**	–	–	–	11,594,072	842,125	10,751,947
	28,210,688	**3,199,272**	**25,011,416**	28,723,687	2,489,548	26,234,139	30,948,558	2,489,548	28,459,010

Please refer to Note V.22 for details of movements in the provision for impairment of inventory during the year.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Contract assets (Only available for 2018)

	31 December 2018			1 January 2018		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Contract assets	8,614,711	(152,485)	8,462,226	6,220,427	(119,011)	6,101,416

Contract assets refer to rights to receive consideration from customers for delivered goods. Contract assets arise when the performance of contract obligations is ahead of the payment schedule agreed under the contract.

The change of provision for impairment of contract assets was as follows:

	Opening balance	Provisions for the year	Reversal for the year	Write-back for the year	Write-off for the year	Exchange rate changes	Closing balance
2018	119,011	70,914	–	(33,603)	–	(3,837)	152,485

Contract assets for which impairment loss provision is made based on standalone bad debt provision and customer credit rating analysis were analysed as follows:

	31 December 2018		
	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire subsistence
Standalone bad debt provision	41,311	100%	41,311
For which provision for bad debt is recognized by group with credit risk characteristics	8,573,400	1.30%	111,174
	8,614,711		152,485

9. Amount due from/to customers for contract works (available for 2017 only)

	31 December 2017
Amount due from customers for contract works	9,012,909
Amount due to customers for contract works	(8,050,655)
	962,254
Contract costs incurred plus recognized profits to date	152,136,153
Less: Estimated loss	581,244
Progress billings	150,592,655
	962,254

Where estimated total contract costs exceed estimated total contract revenue, provision for estimated losses on the contract measured at the difference between the amount in excess and recognized losses on the contract should be made and charged to current profit or loss.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Available-for-sale financial assets (Only available for 2017)

	31 December 2017		
	Book value	Impairment provision	Book value
Available-for-sale equity instruments			
At fair value	1,711,846	–	1,711,846
At cost	1,567,735	97,913	1,469,822
	3,279,581	97,913	3,181,668

Available-for-sale financial assets at fair value:

	31 December 2017 Available-for-sale equity instruments
Equity instrument cost	189,922
Fair value	1,711,846
Accumulated fair value change included in other comprehensive income	1,521,924

Available-for-sale financial assets at cost:

31 December 2017

	Book balance				Impairment provision					
	Opening Balance	Increase during the year	Decrease during the year	Closing balance	Opening Balance	Increase during the year	Decrease during the year	Closing balance	Shareholding percentage	Cash dividend for the year
航天科技投資控股有限公司	201,734	–	–	201,734	–	–	–	–	2.6936%	17,276
中國教育出版傳媒股份有限公司	196,000	–	–	196,000	–	–	–	–	0.9850%	–
Others	946,848	343,589	(218,349)	1,072,088	–	97,913	–	97,913		15,042
	1,344,582	343,589	(218,349)	1,469,822	–	97,913	–	97,913		32,318

11. Long-term trade receivables

	31 December 2018	31 December 2017
Installment payments for the provision of telecommunication system construction projects	**873,726**	1,277,055
Less: Bad debt provision for long-term receivables	**30,297**	32,295
	843,429	1,244,760

The discount rates adopted for long-term receivables ranged from 4.50%–6.16%.

Long-term trade receivables was provided based on expected credit loss during the entire life. All long-term trade receivables had not expired during the year. The rate of expected credit loss was 3.47%.

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11. Long-term trade receivables (continued)

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables". For details of the transfer of long-term receivables, please refer to Note VIII.2.

Please refer to Note V.22 for details of movements in bad debt provision for long-term receivables and factored long-term trade receivables during the year.

12. Long-term equity investments

		31 December 2018	31 December 2017
Equity method			
Joint ventures	(1)	**99,905**	92,344
Associates	(2)	**3,922,089**	3,873,017
Less: provision for impairment of long-term equity investments		**1,006,699**	4,764
		3,015,295	3,960,597

2018

(1) Joint ventures

	Opening balance	Movements during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
Bestel Communications Ltd.	2,255	–	–	–	–	–	–	(2,255)	–	(2,255)
Puxing Mobile Tech Company Limited	56,687	–	–	547	–	–	–	–	57,234	–
重慶前沿大數據管理有限公司*	3,443	–	(2,060)	(1,383)	–	–	–	–	–	–
Pengzhong Xingsheng	564	–	–	5,574	–	–	–	–	6,138	–
德特賽維技術有限公司	29,395	–	–	(2,117)	–	–	–	–	27,278	–
重慶百德行置業有限公司	–	7,000	–	–	–	–	–	–	7,000	–
	92,344	7,000	(2,060)	2,621	–	–	–	(2,255)	97,650	(2,255)

* 重慶前沿大數據管理有限公司 was no longer accounted for as a joint venture for the year following the loss of joint control as a result of equity transfer.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Long-term equity investments (continued)

2018 (continued)

(2) Associates

		Movements during the year								
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	(2,477)	–	(2,477)
思卓中興 (杭州) 科技有限公司*	21,248	–	(21,248)	–	–	–	–	–	–	–
ZTE Energy Limited	421,510	–	–	5,485	–	–	–	–	426,995	–
ZTE Software Technology (Nanchang) Company Limited	3,799	–	–	148	–	–	–	–	3,947	–
Nanjing Piaoxun Network Technology Company Limited*	23	–	(23)	–	–	–	–	–	–	–
Telecom Innovations	10,698	–	–	–	518	–	–	(11,216)	–	(11,216)
Shenzhen Zhongxing Hetai Hotel Management Company Limited	3,155	–	–	(1,365)	–	–	–	–	1,790	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	4,179	–	–	181	–	–	–	–	4,360	–
中興耀維科技江蘇有限公司	3,834	–	–	(907)	–	–	–	–	2,927	–
中興智慧成都有限公司*	9,677	–	(8,618)	(1,059)	–	–	–	–	–	–
INTLIVE TECHNOLOGIES (Private) LIMITED	6,776	–	–	–	341	–	–	(7,117)	–	(7,117)
廈門智慧小區網絡科技有限公司	4,991	–	–	(1,135)	–	–	–	–	3,856	–
中山優順置業有限公司	2,000	–	–	–	–	–	–	–	2,000	–
鐵建聯和 (北京) 科技有限公司	1,836	–	–	(522)	–	–	–	–	1,314	–
西安城投智能充電股份有限公司	7,290	–	–	–	–	–	–	–	7,290	–
紹興市智慧城市集團有限公司	3,665	–	(3,665)	–	–	–	–	–	–	–
廣東福能大數據產業園建設有限公司	13,143	–	–	759	–	–	–	–	13,902	–
廣東中興城智信息技術有限公司	4,392	–	–	242	–	–	–	–	4,634	–
前海融資租賃股份有限公司	66,232	–	–	4,201	3,146	–	–	–	73,579	–
上海博色信息科技有限公司	20,909	–	–	5,225	–	–	–	–	26,134	–
New Idea Investment Pte.Ltd	13,214	–	–	–	640	–	–	(6,924)	6,930	(6,924)
中興智能科技產業有限公司	37,248	–	–	–	–	–	–	(37,248)	–	(37,248)
南京寧網科技有限公司	3,460	–	–	416	–	–	–	–	3,876	–
Hengyang ICT Real Estate Co., Ltd.	56,083	–	(3,637)	–	–	–	–	–	52,446	–
貴州中安雲網科技有限公司	2,663	1,710	–	(240)	–	–	–	–	4,133	–
陝西高能裝備與智能製造產業研究院有限公司	2,002	–	–	8	–	–	–	–	2,010	–
Laxense,Inc.	14,431	–	–	1,127	722	–	–	–	16,280	–
中教雲通 (北京) 科技有限公司	2,800	–	–	(539)	–	–	–	–	2,261	–
Kron Telekomunikasyon Hizmetleri A.S.	11,414	–	–	343	(2,272)	–	–	–	9,485	–
山東興濟置業有限公司	1,069	–	–	–	–	–	–	–	1,069	–
ZTE 9 (Wuxi) Co., Ltd	15,944	–	–	(1,247)	–	–	–	–	14,697	–
Nubia Technology Limited	3,083,500	–	–	(867,278)	–	–	–	(934,698)	1,281,524	(934,698)
Huanggang Education Valley Investment Holdings Co., Ltd.	12,591	–	–	(4,004)	–	–	–	–	8,587	–
Whale Cloud Technology Co., Ltd.	–	840,695	–	52,646	–	–	–	–	893,341	–
石家莊市智慧產業有限公司	–	48,000	–	278	–	–	–	–	48,278	–
	3,868,253	890,405	(37,191)	(807,237)	3,095	–	–	(999,680)	2,917,645	(1,004,444)

* Nanjing Piaoxun Network Technology Company and 中興智慧成都有限公司 was no longer regarded as associates for the year as the Group had ceased to exercise significant influence over such company following equity transfers.

The Group had also ceased to exercise significant influence over 思卓中興(杭州)科技有限公司 following bankruptcy and liquidation.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Long-term equity investments (continued)

2018 (continued)

(3) Impairment provision for long-term equity investment

The Company, Pingxiang Yingcai Investment Consulting Company Limited, Suning Commerce Group Co., Ltd., Nanjing Hengmian Enterprise Management Partnership (Limited Partnership), Nanchang Gaoxin New Industry Investment Co., Ltd. ("Nanchang Gaoxin") and Nubia entered into the Sale and Purchase Agreement in Nubia Technology Limited and Nubia Technology Limited Shareholders' Agreement on 27 July 2017. Pursuant to the agreements, the Company transferred 10.1% equity interests in subsidiary Nubia to Nanchang Gaoxin for a consideration of RMB727 million. The aforesaid transfer of equity interests was completed on 17 August 2017. The 49.9% equity interest in Nubia held by the Company was measured at fair value and subsequently accounted for as associate using the equity accounting method. As at 31 December 2018, before impairment test, the book balance of the Company's remaining equity interest in Nubia amounted to RMB2,375 million.

According to the valuation report prepared by Jones Lang LaSalle (Beijing) Consulting Co., Ltd., as at 31 December 2018 the recoverable amount for the Company's 49.9% equity interest in Nubia is approximately RMB1,281 million. Based on the aforesaid valuation result, the ASBEs and the Company's relevant accounting policies, the Company made an impairment of approximately RMB1,094 million for 2018 in respect of the long-term equity investment in Nubia.

The aforesaid matter has reduced the Company's total profit for 2018 by approximately RMB1,094 million (comprising investment gain of RMB-160 million and asset impairment loss of RMB934 million).

The recoverable amount of such long-term equity investment is based on the 5-year budget approved by the management and the present value of future cash flow arrived at through a detailed projection of subsequent cash flow for 5 years using a specific long-term average growth rate. The key assumptions adopted include:

	Long-term equity investment — Nubia
Growth rate for the forecast period	Detailed revenue growth rate for the 5-year forecast period determined by the management based on past experience and market forecasts.
Growth rate for the stable period	3%
Gross profit margin	Gross profit margin estimated by the management based on past experience and market forecasts.
Discount rate	14.2%

2017

(1) Joint ventures

		Movements during the year								
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
Bestel Communications Ltd.	2,255	–	–	–	–	–	–	–	2,255	–
普興移動通訊設備有限公司	54,520	–	–	2,167	–	–	–	–	56,687	–
重慶前沿大數據管理有限公司	6,982	–	–	(3,539)	–	–	–	–	3,443	–
Pengzhong Xingsheng	565	–	–	–	–	(1)	–	–	564	–
德特賽維技術有限公司	–	29,400	–	(5)	–	–	–	–	29,395	–
	64,322	29,400	–	(1,377)	–	(1)	–	–	92,344	–

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12. Long-term equity investments (continued)

2017 (continued)

(2) Associates

	Opening balance	Movements during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
思卓中興 (杭州) 科技有限公司	21,864	–	–	(616)	–	–	–	–	21,248	–
ZTE Energy Limited	396,345	–	–	25,165	–	–	–	–	421,510	–
ZTE Software Technology (Nanchang) Company Limited	4,424	–	–	(625)	–	–	–	–	3,799	–
Nanjing Piaoxun Network Technology Company Limited	23	–	–	–	–	–	–	–	23	–
Telecom Innovations	11,480	–	–	–	(782)	–	–	–	10,698	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	3,788	–	–	(633)	–	–	–	–	3,155	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	(4,764)
寧波中興興通供應鏈有限公司	11,205	–	(12,402)	1,197	–	–	–	–	–	–
寧波中興雲祥科技有限公司	–	–	–	–	–	–	–	–	–	–
江蘇中興微通信息科技有限公司	–	–	–	–	–	–	–	–	–	–
上海中興思秸通訊有限公司	8,055	–	–	(3,876)	–	–	–	–	4,179	–
中興耀維科技江蘇有限公司	4,220	–	–	(386)	–	–	–	–	3,834	–
石家莊市善理通益科技有限公司	692	–	(1,500)	808	–	–	–	–	–	–
中興智慧成都有限公司	11,181	–	–	(1,504)	–	–	–	–	9,677	–
INTLIVE TECHNOLOGIES (Private) LIMITED	7,189	–	–	–	(413)	–	–	–	6,776	–
廈門智慧小區網絡科技有限公司	5,844	–	–	(853)	–	–	–	–	4,991	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	2,645	–	(2,645)	–	–	–	–	–	–	–
中山優順置業有限公司	2,000	–	–	–	–	–	–	–	2,000	–
鐵建聯和 (北京) 科技有限公司	2,446	–	–	(610)	–	–	–	–	1,836	–
西安城投智能充電股份有限公司	6,989	–	–	301	–	–	–	–	7,290	–
紹興市智慧城市集團有限公司	4,570	–	–	(905)	–	–	–	–	3,665	–
廣東福能大數據產業園建設有限公司	3,000	10,500	–	(357)	–	–	–	–	13,143	–
廣東中興城智信息技術有限公司	3,510	–	–	882	–	–	–	–	4,392	–
前海融資租賃股份有限公司	64,127	–	–	6,739	(4,634)	–	–	–	66,232	–
上海博色信息科技有限公司	20,499	–	–	410	–	–	–	–	20,909	–
New Idea Investment Pte. Ltd	–	14,042	–	–	(828)	–	–	–	13,214	–
中興智能科技產業有限公司	–	38,000	–	(752)	–	–	–	–	37,248	–
南京寧網科技有限公司	2,981	–	–	479	–	–	–	–	3,460	–
Hengyang ICT Real Estate Co., Ltd.	–	56,442	–	(359)	–	–	–	–	56,083	–
貴州中安雲網科技有限公司	–	2,850	–	(187)	–	–	–	–	2,663	–
陝西高能裝備與智能製造產業研究院有限公司	–	2,000	–	2	–	–	–	–	2,002	–
Laxense,Inc.	–	15,331	–	(594)	(306)	–	–	–	14,431	–
中教雲通 (北京) 科技有限公司	–	2,800	–	–	–	–	–	–	2,800	–
Kron Telekomunikasyon Hizmetleri A.S.	–	9,408	–	2,161	(155)	–	–	–	11,414	–
山東興濟置業有限公司	–	1,186	–	(117)	–	–	–	–	1,069	–
ZTE 9 (Wuxi) Co., Ltd	–	18,000	–	(2,056)	–	–	–	–	15,944	–
Nubia Technology Limited	–	3,233,519	–	(150,019)	–	–	–	–	3,083,500	–
Huanggang Education Valley Investment Holdings Co., Ltd.	–	13,110	–	(519)	–	–	–	–	12,591	–
	601,554	3,417,188	(16,547)	(126,824)	(7,118)	–	–	–	3,868,253	(4,764)

13. Other non-current financial assets

	31 December 2018	1 January 2018
Financial assets at fair value through current profit and loss	**1,502,499**	3,314,776

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Investment properties

Fair value measurement:

2018

	Buildings
Opening balance	2,023,809
Fair value change (Note V.51)	(11,810)
Closing balance	2,011,999

2017

	Buildings
Opening balance	2,016,470
Fair value change (Note V.51)	7,339
Closing balance	2,023,809

During the year, the Group leased buildings of the investment properties to Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited, a related party, and other non-related parties by way of operating lease.

As at 31 December 2018, investment properties with a carrying value of RMB1,773,918,000 (31 December 2017: RMB1,825,120,000) had yet to obtain title registration certificates.

15. Fixed assets

2018

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	6,411,930	46,098	4,916,218	3,455,337	305,020	563,834	15,698,437
Acquisitions	215,662	–	789,765	191,355	25,161	29,711	1,251,654
Transfer from construction in progress	927,017	–	1,983	135,148	–	475	1,064,623
Disposal or retirement	(254,272)	–	(837,558)	(789,397)	(42,369)	(239,974)	(2,163,570)
Exchange rate adjustments	(6,341)	(4,759)	25,098	(201)	(140)	2,453	16,110
Closing balance	7,293,996	41,339	4,895,506	2,992,242	287,672	356,499	15,867,254
Accumulated depreciation							
Opening balance	1,496,406	–	3,232,567	1,747,564	166,476	300,568	6,943,581
Provision	254,305	–	577,461	275,116	27,366	63,176	1,197,424
Disposal or retirement	(60,199)	–	(713,198)	(278,469)	(27,294)	(155,173)	(1,234,333)
Exchange rate adjustments	(3,772)	–	23,455	237	(225)	1,466	21,161
Closing balance	1,686,740	–	3,120,285	1,744,448	166,323	210,037	6,927,833
Provision for impairment							
Opening balance	21,270	–	20,345	12,369	4,094	2,322	60,400
Provision	–	–	1,764	5,051	700	–	7,515
Disposal or retirement	–	–	(21,642)	(313)	(3,698)	(2,388)	(28,041)
Exchange rate adjustments	–	–	1,480	(148)	–	147	1,479
Closing balance	21,270	–	1,947	16,959	1,096	81	41,353
Net book value							
At the end of the year	5,585,986	41,339	1,773,274	1,230,835	120,253	146,381	8,898,068
At the beginning of the year	4,894,254	46,098	1,663,306	1,695,404	134,450	260,944	8,694,456

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15. Fixed assets (continued)

2017

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	5,809,786	49,560	4,375,740	3,132,567	316,818	418,442	14,102,913
Acquisitions	78,488	–	1,129,328	578,634	32,403	35,661	1,854,514
Transfer from construction in progress	882,802	–	–	38,929	–	152,003	1,073,734
Business combination not under common control	–	–	–	26,319	20	41,330	67,669
Disposal or retirement	(345,186)	–	(569,142)	(323,271)	(39,608)	(78,877)	(1,356,084)
Exchange rate adjustments	(13,960)	(3,462)	(19,708)	2,159	(4,613)	(4,725)	(44,309)
Closing balance	6,411,930	46,098	4,916,218	3,455,337	305,020	563,834	15,698,437
Accumulated depreciation							
Opening balance	1,356,668	–	3,138,058	1,657,634	169,640	214,215	6,536,215
Provision	229,460	–	536,135	292,152	29,770	111,531	1,199,048
Disposal or retirement	(84,302)	–	(422,776)	(200,774)	(31,258)	(21,431)	(760,541)
Exchange rate adjustments	(5,420)	–	(18,850)	(1,448)	(1,676)	(3,747)	(31,141)
Closing balance	1,496,406	–	3,232,567	1,747,564	166,476	300,568	6,943,581
Provision for impairment							
Opening balance	21,378	–	24,318	2,329	–	2,432	50,457
Provision	–	–	77	12,309	4,094	27	16,507
Disposal or retirement	–	–	(2,814)	(2,139)	–	(7)	(4,960)
Exchange rate adjustments	(108)	–	(1,236)	(130)	–	(130)	(1,604)
Closing balance	21,270	–	20,345	12,369	4,094	2,322	60,400
Net book value							
At the end of the year	4,894,254	46,098	1,663,306	1,695,404	134,450	260,944	8,694,456
At the beginning of the year	4,431,740	49,560	1,213,364	1,472,604	147,178	201,795	7,516,241

As at 31 December 2018, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Changsha, Xi'an and Heyuan in China with a net book value of approximately RMB3,885,897,000 (31 December 2017: RMB3,281,106,000).

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16. Construction in progress

Changes in major construction in progress during 2018 were as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Transfer to intangible assets	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Staff quarters	1,017,932	763,671	156,261	697,553	211,022	11,357	Internal funds	90.37%	In progress
Sanya R&D Base Project	119,100	105,368	2,880	–	–	108,248	Internal funds	90.89%	In progress
Heyuan R&D training Center Phase I	1,030,000	71,166	2,312	73,478	–	–	Internal funds	100.00%	Completed
Nanjing project	978,070	133,346	91,142	–	–	224,488	Internal funds	22.95%	In progress
Changsha production R&D Base Phase I	236,020	160,867	69,453	225,828	–	4,492	Internal funds	97.58%	In progress
New energy commercial vehicle production base	892,530	90,412	301,024	–	–	391,436	Internal funds	43.86%	In progress
Shanghai R&D Centre Phase III	478,000	5,091	80,778	–	54,512	31,357	Internal funds	17.96%	In progress
ZTE high energy lithium battery project Phase I	577,460	–	285,024	64,128	–	220,896	Internal funds	49.36%	In progress
ZTE headquarters	5,631,000	–	59,240	–	–	59,240	Internal funds	1.05%	In progress
Others		143,065	113,018	3,636	7,917	244,530	Internal funds		In progress
		1,472,986	1,161,132	1,064,623	273,451	1,296,044			

Changes in major construction in progress during 2017 were as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Other reductions	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Staff quarters	1,017,932	443,373	320,298	–	–	763,671	Internal funds	75.02%	In progress
Sanya R&D Base Project	119,100	82,473	22,895	–	–	105,368	Internal funds	88.47%	In progress
Heyuan R&D training Center Phase I	1,030,000	649,276	304,692	882,802	–	71,166	Internal funds	92.62%	In progress
Nanjing project	978,070	55,708	77,638	–	–	133,346	Internal funds	13.63%	In progress
IDC data centre engine room	85,000	17,450	21,479	38,929	–	–	Internal funds	100.00%	Completed
Nanjing Internet of Things office	175,000	126,094	20,155	–	146,249	–	Internal funds	83.57%	In progress
Changsha production R&D Base Phase I	230,020	139,566	21,301	–	–	160,867	Internal funds	69.94%	In progress
New energy commercial vehicle production base	892,530	–	90,412	–	–	90,412	Internal funds	10.13%	In progress
Others		215,510	84,649	152,003	–	148,156	Internal funds		In progress
		1,729,450	963,519	1,073,734	146,249	1,472,986			

As at 31 December 2018, there was no capitalized interest in the balance of the construction in progress (31 December 2017: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Intangible assets

2018

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	621,106	186,631	1,462,058	950,815	7,844,813	11,065,423
Acquisition	120,590	849	3,877,373	73,232	—	4,072,044
In-house R&D	—	—	—	—	1,181,663	1,181,663
Disposal or retirement	(117,581)	—	(31,457)	(312)	—	(149,350)
Exchange rate adjustments	6,126	—	—	2,960	—	9,086
Closing balance	630,241	187,480	5,307,974	1,026,695	9,026,476	16,178,866
Accumulated amortization						
Opening balance	194,254	73,698	175,086	469,485	5,392,953	6,305,476
Provision	103,239	43,002	112,766	126,972	948,026	1,334,005
Disposal or retirement	(97,186)	—	(6,756)	(312)	—	(104,254)
Exchange rate adjustments	5,700	167	—	1,386	—	7,253
Closing balance	206,007	116,867	281,096	597,531	6,340,979	7,542,480
Provision for impairment						
Opening balance	12,010	—	6,322	—	—	18,332
Provision	2,118	—	—	57,238	—	59,356
Exchange rate adjustments	210	—	—	—	—	210
Closing balance	14,338	—	6,322	57,238	—	77,898
Book value						
At the end of the year	409,896	70,613	5,020,556	371,926	2,685,497	8,558,488
At the beginning of the year	414,842	112,933	1,280,650	481,330	2,451,860	4,741,615

2017

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	452,728	177,606	1,425,581	523,599	6,765,449	9,344,963
Acquisition	207,032	95,512	79,684	140,932	—	523,160
In-house R&D	—	—	—	—	1,079,364	1,079,364
Business combination not under common control	65,796	92,228	—	297,769	—	455,793
Disposal or retirement	(104,450)	(178,715)	(43,207)	(11,485)	—	(337,857)
Closing balance	621,106	186,631	1,462,058	950,815	7,844,813	11,065,423
Accumulated amortization						
Opening balance	152,733	39,018	153,700	392,683	4,246,411	4,984,545
Provision	96,646	50,060	27,993	82,850	1,146,542	1,404,091
Disposal or retirement	(55,125)	(15,380)	(6,607)	(6,048)	—	(83,160)
Closing balance	194,254	73,698	175,086	469,485	5,392,953	6,305,476
Provision for impairment						
Opening balance	—	—	6,322	—	—	6,322
Provision	12,010	—	—	—	—	12,010
Closing balance	12,010	—	6,322	—	—	18,332
Book value						
At the end of the year	414,842	112,933	1,280,650	481,330	2,451,860	4,741,615
At the beginning of the year	299,995	138,588	1,265,559	130,916	2,519,038	4,354,096

As at 31 December 2018, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen and Nanjing in the PRC, with a carrying value of approximately RMB3,621,923,000 (31 December 2017: RMB284,638,000).

As at 31 December 2018, intangible assets formed through internal research and development accounted for 31% of the book value of intangible assets as at the end of the year (31 December 2017: 52%).

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18. Deferred development costs

2018

		Increase during the year	Decrease during the year		
	Opening balance	Internal development	Intangible assets recognized	Charged to current profit or loss	Closing balance
Handsets	**29,482**	**44,818**	**(44,368)**	**(484)**	**29,448**
System Products	**1,872,595**	**1,986,652**	**(1,137,295)**	**(19,044)**	**2,702,908**
	1,902,077	**2,031,470**	**(1,181,663)**	**(19,528)**	**2,732,356**

2017

		Increase during the year	Decrease during the year		
	Opening balance	Internal development	Intangible assets recognized	Charged to current profit or loss	Closing balance
Handsets	49,541	15,495	(26,859)	(8,695)	29,482
System Products	1,316,349	1,628,371	(1,052,505)	(19,620)	1,872,595
	1,365,890	1,643,866	(1,079,364)	(28,315)	1,902,077

The Group adopts the timing of the product development project listing as the starting point for capitalisation. All research and development projects were under normal implementation according to the research and development milestone schedules.

19. Goodwill

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
		Exchange rate changes	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	**186,206**	**–**	**–**	**186,206**
Suzhou Laxense Technology Co., Ltd.	**33,500**	**–**	**–**	**33,500**
NETAS TELEKOMUNIKASYON A.S.	**89,100**	**663**	**–**	**89,763**
	308,806	**663**	**–**	**309,469**

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Goodwill (continued)

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
		Business combination not under common control	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	186,206	–	–	186,206
Suzhou Laxense Technology Co., Ltd.	–	33,500	–	33,500
NETAS TELEKOMUNIKASYON A.S.	–	89,100	–	89,100
	186,206	122,600	–	308,806

Change in goodwill impairment provision was as follows:

2018

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
		Charge	**Disposal**	
Zhuhai Guangtong Bus Co., Ltd.	**–**	**–**	**–**	**–**
Suzhou Laxense Technology Co., Ltd.	**–**	**33,500**	**–**	**33,500**
NETAS TELEKOMUNIKASYON A.S.	**–**	**89,763**	**–**	**89,763**
	–	**123,263**	**–**	**123,263**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
		Charge	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	–	–	–	–
Suzhou Laxense Technology Co., Ltd.	–	–	–	–
NETAS TELEKOMUNIKASYON A.S.	–	–	–	–
	–	–	–	–

Goodwill acquired as a result of corporate merger has been allocated to the following asset groups or portfolio of asset groups for the purpose of impairment testing:

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19. Goodwill (continued)

The management is of the view that the 3 companies are relatively independent asset groups and not related to other business segments of the Group. Hence each company has been treated as an asset group.

- Zhuhai Guangtong Bus Co., Ltd. asset group
- Suzhou Laxense Technology Co., Ltd. asset group
- NETAS TELEKOMUNIKASYON A.S. asset group

Zhuhai Guangtong Bus Co., Ltd. asset group

The asset group of Zhuhai Guangtong Bus Co., Ltd. comprised mainly a product line of new energy passenger buses consistent with the asset group ascertained on the date of purchase and at the time of impairment test in previous years.

Suzhou Laxense Technology Co., Ltd. asset group

The asset group of Suzhou Laxense Technology Co., Ltd. comprised mainly a line of optical communication products consistent with the asset group ascertained on the date of purchase and at the time of impairment test in previous years.

NETAS TELEKOMUNIKASYON A.S. asset group

The asset group of NETAS comprised mainly a product line of Turkey telecom equipment and system integration service consistent with the asset group ascertained on the date of purchase and at the time of impairment test in previous years.

The carrying values of goodwill comprised in the asset groups:

	31 December 2018
Zhuhai Guangtong Bus Co., Ltd. asset group	**189,321**
Suzhou Laxense Technology Co., Ltd. asset group	**55,541**
NETAS TELEKOMUNIKASYON A.S. asset group	**1,182,033**
	1,426,895

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Goodwill (continued)

The recoverable amounts of such asset groups and portfolio of asset groups is based on the 5-year budget approved by the management and the present value of future cash flow arrived at through a detailed projection of subsequent cash flow for 5 years using a specific long-term average growth rate. The key assumptions adopted include:

	Zhuhai Guangtong Bus Co., Ltd.	Suzhou Laxense Technology Co., Ltd.	NETAS TELEKOMUNIKASYON A.S.
Growth rate for the forecast period	Detailed revenue growth rate for the 5-year forecast period determined by the management based on past experience and market forecasts.		
Growth rate for the stable period	3%	3%	3.2%
Gross profit margin	Gross profit margin estimated by the management based on past experience and market forecasts.		
Discount rate	11.71%	17%	12.1%

The Group determines the growth rate and gross profit margin based on past experience and market forecasts. The discount rate adopted reflects the specific risks of the asset groups. The growth rate for the stable period is the weighted average growth rate adopted for the detailed projection of subsequent cash flow for 5 years and is consistent with the projections set out in industry reports and does not exceed the long-term average growth rate of each product.

The Company conducted impairment tests on the aforesaid goodwill at the end of the year. In conducting such goodwill impairment tests, the Group compared the carrying values of the relevant asset groups (including goodwill) against their recoverable amounts. If the recoverable amount is lower than the carrying value, the difference is charged to current profit or loss. In the goodwill impairment test, no goodwill impairment was charged against the Zhuhai Guangtong Bus Co., Ltd. asset group, while full amounts of goodwill impairment were charged against the Suzhou Laxense Technology Co., Ltd. asset group and the NETAS TELEKOMUNIKASYON A.S. asset group.

20. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities, which are not offset:

	31 December 2018		31 December 2017		1 January 2018	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets						
Unrealized profits arising on consolidation	**1,699,679**	**400,583**	1,080,146	229,328	1,080,146	229,328
Provision for impairment in inventory	**1,307,066**	**286,420**	841,085	157,667	841,085	157,667
Foreseeable construction contract losses	**1,324,843**	**198,726**	458,712	68,807	458,712	68,807
Amortization of deferred development costs	**2,143,306**	**237,342**	2,061,240	233,972	2,061,240	233,972
Provision for warranties and returned goods	**527,320**	**83,847**	365,016	56,660	365,016	56,660
Provision for retirement benefits	**162,546**	**25,706**	142,707	22,358	142,707	22,358
Deductible tax losses	**7,264,374**	**1,104,016**	1,978,195	300,540	3,237,922	489,499
Accruals	**3,187,964**	**446,151**	2,958,511	414,825	2,958,511	414,825
Overseas taxes pending deduction	**883,782**	**132,567**	966,051	144,908	966,051	144,908
Share option scheme expenses	**404,890**	**60,734**	203,901	30,585	203,901	30,585
	18,905,770	**2,976,092**	11,055,564	1,659,650	12,315,291	1,848,609

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Deferred tax assets/liabilities (continued)

Deferred tax assets and deferred tax liabilities, which are not offset: (continued)

	31 December 2018		31 December 2017		1 January 2018	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities						
Revaluation gain of investment properties	**1,065,275**	**162,223**	1,081,607	162,662	1,081,607	162,662
Available-for-sale financial assets	**—**	**—**	689,671	135,763	—	—
Other non-current financial assets	**401,121**	**71,436**	—	—	822,779	158,843
Adjustments to fair value of business combination not under common control	**326,903**	**49,035**	391,265	78,253	391,265	78,253
Adjustments to fair value of disposal of remaining equity interests of subsidiaries	**249,940**	**37,491**	869,420	130,413	869,420	130,413
Others	**154,384**	**23,158**	176,269	26,440	176,269	26,440
	2,197,623	**343,343**	3,208,232	533,531	3,341,340	556,611

The net amount of deferred tax assets and deferred tax liabilities after set-off:

	31 December 2018		31 December 2017		1 January 2018	
	Amount of set-off	**Amount after set-off**	Amount of set-off	Amount after set-off	Amount of set-off	Amount after set-off
Deferred tax assets	**188,302**	**2,787,790**	195,400	1,464,250	195,400	1,653,209
Deferred tax liabilities	**188,302**	**155,041**	195,400	338,131	195,400	361,211

Deductible temporary differences and deductible tax losses of unrecognized deferred tax assets:

	31 December 2018	31 December 2017
Deductible tax losses	**4,171,222**	3,634,930
Deductible temporary difference	**144,992**	474,283
	4,316,214	4,109,213

Deductible tax losses of unrecognized deferred tax assets expiring in:

	31 December 2018	31 December 2017
2018	**—**	100,239
2019	**138,564**	145,954
2020	**278,465**	369,664
2021	**474,063**	640,071
2022	**374,049**	407,169
2023 and beyond	**2,906,081**	1,971,833
	4,171,222	3,634,930

The Group recognises deferred tax assets based on deductible temporary differences. In relation to deferred income tax relating to deductible tax loss and tax allowance, the Group expects to generate sufficient taxable income prior to the expiry of deductible tax loss and tax allowance.

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21. Other current assets/other non-current assets

Other current assets

	31 December 2018	31 December 2017	1 January 2018
Credit tax available for set off	5,837,157	7,566,610	7,566,610
Bills receivable	2,730,351	—	2,052,945
Others	11,212	191,984	191,984
	8,578,720	7,758,594	9,811,539

The Group endorses or discounts bills receivable in daily fund management. The business model for managing the above bills receivables is aimed at collecting contractual cash flow and sales. The Group classified bills receivables as financial assets at fair value through other comprehensive income and reported as other current assets.

Bills receivable

	31 December 2018
Commercial acceptance	2,043,565
Bank acceptance	686,786
	2,730,351

Bills receivable discounted but outstanding as at the balance sheet date:

	31 December 2018	
	Derecognised	Not derecognised
Commercial acceptance	—	229,468
Bank acceptance	167,820	423,189
	167,820	652,657

Change in bad debt provision for bills receivable is as follows:

	Opening balance	Provision for the year	Reversal for the year	Write-back for the year	Write-off for the year	Closing balance
2018	—	2,455	—	—	—	2,455

Other non-current assets

	31 December 2018	31 December 2017
Prepayments for project, equipment and land	623,530	2,325,831
Risk compensation fund	183,346	1,462,286
Guarantee deposits	355,340	305,496
Restricted cash (Note 1)	2,744,800	—
Prepaid income tax	226,578	—
Long-term deferred assets	105,287	34,983
	4,238,881	4,128,596

Note 1: Restricted funds represented deposits in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed. For details, please refer to Note XII.2

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. Provision for impairment of assets/credit impairment

2018

			Decrease during the year			
	Opening balance	Provision for the year	Reversal	Write-back/ Write-off	Effect of exchange rate	Closing balance
Bad debt provision	9,198,484	4,113,076	(531,564)	(419,730)	187,733	12,547,999
Including: Trade receivables	9,166,189	3,974,786	(531,564)	(415,443)	188,015	12,381,983
Long-term receivables	32,295	2,571	—	(4,287)	(282)	30,297
Other receivables	—	130,770	—	—	—	130,770
Factored trade receivables	—	2,853	—	—	—	2,853
Long-term factored trade receivables	—	2,096	—	—	—	2,096
Provision for impairment of inventories	2,489,548	1,036,585	(151,791)	(157,857)	(17,213)	3,199,272
Provision for impairment of contract assets	119,011	70,914	—	(33,603)	(3,837)	152,485
Provision for impairment of fixed assets	60,400	7,515	—	(28,041)	1,479	41,353
Provision for impairment of intangible assets	18,332	59,356	—	—	210	77,898
Provision for impairment of long-term equity investments	4,764	1,001,935	—	—	—	1,006,699
Goodwill impairment provision	—	123,263	—	—	—	123,263
Provision for impairment of financial assets at fair value through other comprehensive income	—	2,455	—	—	—	2,455
	11,890,539	6,415,099	(683,355)	(639,231)	168,372	17,151,424

2017

			Decrease during the year			
	Opening balance	Provision for the year	Reversal	Write-back/ Write-off	Effect of exchange rate	Closing balance
Bad debt provision	7,786,893	2,572,475	(350,379)	(781,951)	(51,693)	9,175,345
Including: Trade receivables	7,702,936	2,569,898	(349,896)	(725,483)	(54,405)	9,143,050
Long-term receivables	83,957	2,577	(483)	(56,468)	2,712	32,295
Provision for impairment of inventories	3,121,897	328,972	(198,136)	(748,902)	(14,283)	2,489,548
Provision for impairment of amount due from customers for contract works	66,326	63,092	(8,846)	(1,421)	(140)	119,011
Provision for impairment of fixed assets	50,457	16,507	—	(4,960)	(1,604)	60,400
Provision for impairment of intangible assets	6,322	12,010	—	—	—	18,332
Provision for impairment of long-term equity investments	4,764	—	—	—	—	4,764
Provision for impairment of available-for-sale financial assets	—	97,913	—	—	—	97,913
	11,036,659	3,090,969	(557,361)	(1,537,234)	(67,720)	11,965,313

The Group determines at the balance sheet date whether there is an indication of impairment in trade receivables. Where there is such indication, the Group will estimate its recoverable amount and conduct impairment tests.

Inventory is measured at the lower of cost and net realizable value. Where the cost is higher than the net realisable value, provision for impairment in inventory is recognized in current profit or loss.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23. Short-term loans

			31 December 2018 Original currency	31 December 2018 RMB equivalent	31 December 2017 Original currency	31 December 2017 RMB equivalent
Credit loans		RMB	**11,965,900**	**11,965,900**	4,368,200	4,368,200
		USD	**566,928**	**3,890,260**	1,091,567	7,130,661
		EUR	**178,000**	**1,397,407**	253,000	1,971,528
		TRY	**385,458**	**502,769**	207,390	359,177
Bills discounting loans	Note 1	RMB	**3,327,478**	**3,327,478**	–	–
Letter of credit discounting		RMB	**1,500,000**	**1,500,000**	–	–
Pledged loans	Note 2	USD	**24,891**	**170,800**	2,000	13,065
		RMB	**500,000**	**500,000**	–	–
Guaranteed loans	Note 3	USD	**–**	**–**	2,940	19,206
		EUR	**–**	**–**	110,000	857,186
Secured loans	Note 4	RMB	**485,000**	**485,000**	–	–
				23,739,614		14,719,023

As at 31 December 2018, the annual interest rate of the above loans ranged from 0%–38% (31 December 2017: 1.00%–15.70%).

Note 1: Bill discounting loans were loans obtained through the discounting of bank acceptance bills and commercial acceptance bills. For 2018, discounted bills with an amount of RMB2,674,821,000 (31 December 2017: Nil) represented bills issued among intra-group companies.

Note 2: Pledged loans were loans extended to Shenzhen ZTE Kangxun Telecom Company Limited pledged by a full guarantee amount of RMB170,800,000 and loans extended to 西安中興通訊終端科技有限公司 pledged against commercial bills (issued by ZTE Corporation) with an amount of RMB600,000,000 (31 December 2017: RMB16,450,000).

Note 3: 31 December 2018: Nil (31 December 2017: RMB876,392,000).

Note 4: The secured loans comprised loans extended to Xi'an Zhongxing New Software Company Limited secured by buildings with a book value of RMB648,245,000 and land use rights with a book value of RMB53,357,000 and loans extended to 安徽皖興通信息技術有限公司 secured by land use rights with a book value of RMB15,351,000 (31 December 2017: Nil).

24. Derivative financial liabilities

	31 December 2018	31 December 2017
Financial liabilities at fair value through current profit and loss	**101,332**	49,830
	101,332	49,830

Financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details please refer to Note V.2.

25. Bills and trade payables

	31 December 2018	31 December 2017
Bills payables	**7,915,700**	10,848,511
Trade payables	**19,527,404**	23,614,556
	27,443,104	34,463,067

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Bills and trade payables (continued)

Bills payables

	31 December 2018	31 December 2017
Bank acceptance bills	**3,573,813**	4,518,323
Commercial acceptance bills	**4,341,887**	6,330,188
	7,915,700	10,848,511

Trade payables

An aging analysis of the trade payables are as follows:

	31 December 2018	31 December 2017
0 to 6 months	**18,731,559**	22,991,445
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
	19,527,404	23,614,556

Trade payables are interest-free and repayable normally within 6 months.

As at 31 December 2018, there were no material trade payables aged over 1 year (31 December 2017: Nil).

26. Advances from customers

	31 December 2017
Advanced payments for system project work	7,675,492
Advanced payments for terminals	1,026,859
	8,702,351

27. Contract liabilities

	Opening balance	Increase during the year	Income brought forward	Other change	**Closing balance**
Rights to receive contracted consideration obtained	8,050,655	7,057,193	(7,446,193)	(25,352)	**7,636,303**
Contracted consideration received	8,702,351	5,514,178	(7,373,476)	(1)	**6,843,052**
	16,753,006	12,571,371	(14,819,669)	(25,353)	**14,479,355**

Contract liabilities refer to the obligation to transfer goods to customers in consideration of payments received or receivable from customers. Contract liabilities are incurred when the payment schedule agreed under the contract is ahead of the performance of contract obligations.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Salary and welfare payables

Salaries payable to employees

2018

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Short-term remuneration	**7,178,679**	**18,034,228**	**(19,112,327)**	**6,100,580**
Retirement benefits (Defined contribution schemes)	**200,638**	**1,354,080**	**(1,399,523)**	**155,195**
Termination benefits	**10,227**	**279,818**	**(286,181)**	**3,864**
	7,389,544	**19,668,126**	**(20,798,031)**	**6,259,639**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	5,007,924	21,110,475	(18,939,720)	7,178,679
Retirement benefits (Defined contribution schemes)	156,765	1,206,352	(1,162,479)	200,638
Termination benefits	4,362	270,162	(264,297)	10,227
	5,169,051	22,586,989	(20,366,496)	7,389,544

Short-term remuneration analysed as follows:

2018

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Salary, bonus and allowance	**6,075,445**	**15,905,580**	**(17,157,300)**	**4,823,725**
Staff welfare	**12,066**	**82,651**	**(75,484)**	**19,233**
Social insurance	**88,745**	**817,488**	**(838,441)**	**67,792**
Including: Medical	**78,961**	**753,239**	**(771,909)**	**60,291**
Work Injuries	**3,738**	**20,636**	**(21,330)**	**3,044**
Maternity	**6,046**	**43,613**	**(45,202)**	**4,457**
Housing funds	**61,678**	**553,016**	**(594,662)**	**20,032**
Labour union fund and employee education fund	**940,745**	**675,493**	**(446,440)**	**1,169,798**
	7,178,679	**18,034,228**	**(19,112,327)**	**6,100,580**

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Salary and welfare payables (continued)

Salaries payable to employees (continued)

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	3,889,284	19,236,815	(17,050,654)	6,075,445
Staff welfare	5,938	64,512	(58,384)	12,066
Social insurance	68,267	710,194	(689,716)	88,745
Including: Medical	60,861	646,716	(628,616)	78,961
Work Injuries	2,896	22,845	(22,003)	3,738
Maternity	4,510	40,633	(39,097)	6,046
Housing funds	21,931	557,350	(517,603)	61,678
Labour union fund and employee education fund	1,022,504	541,604	(623,363)	940,745
	5,007,924	21,110,475	(18,939,720)	7,178,679

Defined contribution plans are analysed as follows:

2018

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Pension Insurance	**191,817**	**1,316,416**	**(1,360,631)**	**147,602**
Unemployment Insurance	**8,821**	**37,664**	**(38,892)**	**7,593**
	200,638	**1,354,080**	**(1,399,523)**	**155,195**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension Insurance	149,293	1,170,882	(1,128,358)	191,817
Unemployment Insurance	7,472	35,470	(34,121)	8,821
	156,765	1,206,352	(1,162,479)	200,638

Long-term staff remuneration payable

	31 December 2018	31 December 2017
Net liabilities under defined benefit plan	**136,245**	133,191

The Group operates for all qualifying employees a defined benefit plan that has yet to receive capital injection. Under the plan, an employee is entitled to retirement benefits ranging from 0% to 50% of his/her last salary at the retirement age.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Salary and welfare payables (continued)

Long-term staff remuneration payable (continued)

The scheme is subject to interest rate risks and the risk of change in the life expectancy of the pension beneficiaries.

The latest actuarial valuation of assets under the plan and the present value of obligations under defined benefit plans were determined by 韜睿惠悅管理諮詢 (深圳) 有限公司 using the expected benefit accrual unit approach at 31 December 2018.

Major actuarial assumptions applied as at the balance sheet date are as follows:

	31 December 2018	31 December 2017
Discount rate %	**3.25%**	4.00%
Expected salary increase %	**5.50%**	5.50%

A quantitative sensitivity analysis of significant assumptions applied is set out as follows:

2018

	Increase	**Increase/ (decrease) in obligations under defined benefit plan**	**Decrease**	**Increase/ (decrease) in obligations under defined benefit plan**
Discount rate	**0.25%**	**(2,982)**	**0.25%**	**3,073**
Expected salary increase	**1.00%**	**13,625**	**1.00%**	**(12,262)**

2017

	Increase	Increase/ (decrease) in obligations under defined benefit plan	Decrease	Increase/ (decrease) in obligations under defined benefit plan
Discount rate	0.25%	(3,119)	0.25%	3,219
Expected salary increase	1.00%	13,319	1.00%	(11,987)

The above sensitivity analysis is based on inference of the impact of reasonable changes in key assumptions at the balance sheet date on the net amount of defined benefits. Sensitivity analysis is based on the change of the material assumption on the premise that other assumptions remain unchanged. As the changes of the assumptions are often correlated, the sensitivity analysis may not represent the actual changes of the obligations under defined benefit plans.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Salary and welfare payables (continued)

Long-term staff remuneration payable (continued)

Relevant plans recognised in the income statement are as follows:

	31 December 2018	31 December 2017
Net interest	**5,200**	4,673
Charged to administrative expenses	**5,200**	4,673

Change in the present value of obligations under defined benefit plan:

	31 December 2018	31 December 2017
Opening balance	**133,191**	146,106
Charged to current profit or loss		
Service costs for the current period	**—**	—
Service costs for the previous period	**—**	—
Settlement gains or loss	**—**	—
Interest expenses	**5,200**	4,673
Charged to other comprehensive income		
Actuary gains or loss	**—**	—
Other changes	**—**	—
Liabilities eliminated on settlement	**—**	—
Pension paid	**(2,623)**	(2,016)
Benefit costs recognized in other comprehensive income	**477**	(15,572)
Closing balance	**136,245**	133,191

Net liabilities under defined benefit plan

	31 December 2018	31 December 2017
Opening balance	**133,191**	146,106
Net interest	**5,200**	4,673
Charged to other comprehensive income		
Actuary loss	**8,686**	(8,686)
Experience-based adjustments	**(8,209)**	(6,886)
Other changes		
Benefit paid	**(2,623)**	(2,016)
Closing balance	**136,245**	133,191

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Taxes payable

	31 December 2018	31 December 2017
Value-added tax	**138,269**	314,818
Income tax	**532,281**	583,091
Including: PRC tax	**459,622**	499,345
Overseas tax	**72,659**	83,746
Individual income tax	**131,321**	172,682
City maintenance and construction tax	**55,143**	80,441
Education surcharge	**46,008**	63,717
Other taxes	**50,999**	48,974
	954,021	1,263,723

30. Other payables

	31 December 2018	31 December 2017
Interest payable	**13,563**	9,856
Dividend payable	**1,322**	1,322
Other payables	**11,120,145**	7,060,243
	11,135,030	7,071,421

Dividend payables

	31 December 2018	31 December 2017
Dividend payable to holders of restricted shares	**225**	225
Dividend payable to minority shareholders	**1,097**	1,097
	1,322	1,322

Other payables

	31 December 2018	31 December 2017
Accruals	**566,410**	826,380
Deferred income from staff housing due in 1 year	**191,846**	39,651
Payables to external parties	**9,501,176**	5,356,366
Deposits	**27,913**	27,887
Factored interests payable	**—**	28,460
Others	**832,800**	781,499
	11,120,145	7,060,243

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. Provisions

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Provision for onerous contract (Note 1)	**581,244**	**1,545,600**	**(632,793)**	**1,494,051**
Provision for litigation (Note 2)	**106,293**	**295,089**	**(35,187)**	**366,195**
Provision for warranty	**426,833**	**363,924**	**(483,389)**	**307,368**
	1,114,370	**2,204,613**	**(1,151,369)**	**2,167,614**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Provision for litigation (Note 2)	133,262	17,159	(44,128)	106,293
Provision for returned handsets	367,056	129,753	(320,781)	176,028
Provision for handsets maintenance	387,048	397,679	(533,922)	250,805
	887,366	544,591	(898,831)	533,126

Note 1: Unavoidable cost for the performance of contract in excess of expected economic benefits of the contract.

Note 2: Provisions in respect of likely compensation amounts for cases as assessed based on the advice from appointed legal counsel and the progress of such cases.

32. Non-current liabilities due within one year

	31 December 2018	31 December 2017
Long-term loans due within one year	**1,243,709**	3,816,844

33. Long-term loans

			31 December 2018		31 December 2017	
			Original currency	RMB equivalent	Original currency	RMB equivalent
Credit loans		RMB	**286,000**	**286,000**	751,123	751,123
		USD	**295,000**	**2,024,290**	250,000	1,633,125
		EUR	**290**	**2,278**	—	—
		TRY	**—**	**—**	24,044	41,642
Guaranteed loans	Note 1	RMB	**54,000**	**54,000**	183,306	183,306
		USD	**—**	**—**	60,000	391,950
		EUR	**—**	**—**	—	—
Secured loans		RMB	**—**	**—**	1,000	1,000
				2,366,568		3,002,146

Note 1: The guaranteed loans comprised mainly guaranteed loans provided by 中興新能源汽車有限公司 for 深圳市中興新能源汽車服務有限公司.

As at 31 December 2018, the annual interest rate for the aforesaid loans was 0.75%–4.75% (31 December 2017: 1.20%–16.75%).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Other non-current liabilities

	31 December 2018	31 December 2017
Factored interests payable	**—**	98,187
Deferred income relating to staff housing	**918,832**	1,077,256
Long-term payable	**539,845**	394,226
Amounts payable to third parties	**1,771,000**	1,771,000
	3,229,677	3,340,669

35. Share capital

2018

	Opening balance	**Increase/decrease during the year: Issue of new share**	**Transfer from reserves**	**Others**	**Sub-total**	**Closing balance**
Restricted shares						
Senior management shares	**3,185**	**—**	**—**	**416**	**416**	**3,601**
Total number of restricted shares	**3,185**	**—**	**—**	**416**	**416**	**3,601**
Unrestricted shares						
RMB Ordinary shares	**3,433,985**	**—**	**—**	**(416)**	**(416)**	**3,433,569**
Overseas listed foreign shares	**755,502**	**—**	**—**	**—**	**—**	**755,502**
Total number of unrestricted shares	**4,189,487**	**—**	**—**	**(416)**	**(416)**	**4,189,071**
Total number of shares	**4,192,672**	**—**	**—**	**—**	**—**	**4,192,672**

2017

	Opening balance	Increase/decrease during the year: Issue of new share	Transfer from reserves	Others	Sub-total	Closing balance
Restricted shares						
Senior management shares	4,821	276	—	(1,912)	(1,636)	3,185
Total number of restricted shares	4,821	276	—	(1,912)	(1,636)	3,185
Unrestricted shares						
RMB Ordinary shares	3,424,305	7,768	—	1,912	9,680	3,433,985
Overseas listed foreign shares	755,502	—	—	—	—	755,502
Total number of unrestricted shares	4,179,807	7,768	—	1,912	9,680	4,189,487
Total number of shares	4,184,628	8,044	—	—	8,044	4,192,672

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Capital reserves

2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note 1)	**10,979,251**	**—**	**(53,586)**	**10,925,665**
Share-based payment (Note 2)	**245,603**	**193,188**	**—**	**438,791**
Capital investment by government	**80,000**	**—**	**—**	**80,000**
	11,304,854	**193,188**	**(53,586)**	**11,444,456**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	10,628,906	350,345	—	10,979,251
Share-based payment	25,394	262,956	(42,747)	245,603
Capital investment by government	80,000	—	—	80,000
	10,734,300	613,301	(42,747)	11,304,854

Note 1: The redemption of perpetual capital instrument resulted in a reduction of share premium in capital reserve by RMB15,300,000, while the acquisition of minority interests in subsidiaries resulted in a reduction of share premium in capital reserve by RMB31,606,000. Capital injection by non-controlling shareholders resulted in a reduction of share premium in capital reserve by RMB6,680,000.

Note 2: Share options issued by the Company in July 2017 are divided into three exercise periods. Share option expenses of RMB304,097,000 was recognised for the year in respect of share options in the first and third periods. Expenses of RMB110,909,000 recognised in 2017 were reversed as a result of the non-fulfilment of exercise conditions relating to business performance for the second period. For details please refer to Note XI.

37. Other comprehensive income

Accumulated balance of other comprehensive income on the balance sheet attributable to the parent company:

	1 January 2017	Increase/ decrease	31 December 2017	Opening adjustment	Opening balance as adjusted	Increase/ decrease	**31 December 2018**
Changes in net liabilities arising from the re-measurement of defined benefit plans	(80,773)	15,572	(65,201)	–	(65,201)	(477)	**(65,678)**
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit or loss in subsequent periods upon fulfillment of certain conditions	44,350	–	44,350	–	44,350	–	**44,350**
Change in fair value of available-for-sale financial assets	343,560	94,575	438,135	(438,135)	–	–	**–**
Effective portion of hedging instruments	(55,655)	(12,327)	(67,982)	–	(67,982)	–	**(67,982)**
Differences arising from foreign currency translation	(1,866,975)	1,134	(1,865,841)	–	(1,865,841)	(885,179)	**(2,751,020)**
Fair value at date of reclassification of owned properties reclassified as investment properties at fair value in excess of book value	792,769	–	792,769	–	792,769	–	**792,769**
	(822,724)	98,954	(723,770)	(438,135)	(1,161,905)	(885,656)	**(2,047,561)**

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Other comprehensive income (continued)

Other comprehensive income on the income statement incurred during the current period:

2018

	Amount before taxation	Less: amount recognized in other comprehensive income for the previous period and profit or loss for the current period	Less: income tax	Attributable to the parent company	Attributable to non-controlling interests
Other comprehensive income that cannot be subsequently reclassified to profit or loss					
Changes in net liabilities arising from the remeasurement of defined benefit plans	(477)	–	–	(477)	–
Other comprehensive income to be subsequently reclassified to profit or loss					
Differences arising from foreign currency translation	(885,179)	–	–	(885,179)	(19,590)
	(885,656)	–	–	(885,656)	(19,590)

2017

	Amount before taxation	Less: amount recognized in other comprehensive income for the previous period and profit or loss for the current period	Less: income tax	Attributable to the parent company	Attributable to non-controlling interests
Other comprehensive income that cannot be subsequently reclassified to profit or loss					
Changes in net liabilities arising from the remeasurement of defined benefit plans	15,572	–	–	15,572	–
Other comprehensive income to be subsequently reclassified to profit or loss					
Change in fair value of available-for-sale financial assets	701,594	356,735	30,671	94,575	219,613
Effective portion of hedging instruments	(12,327)	–	–	(12,327)	–
Differences arising from foreign currency translation	1,134	–	–	1,134	–
	705,973	356,735	30,671	98,954	219,613

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. Surplus reserves

2018

	Opening balance	Opening adjustment	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	**2,142,354**	**182,394**	**—**	**—**	**2,324,748**

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	2,022,709	182,727	—	2,205,436

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company. As loss was reported for the period, no amount was credited to the surplus reserve.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalized as the Company's share capital.

39. Retained profits

	31 December 2018	31 December 2017
Retained profits at the beginning of the year	**14,149,317**	10,282,238
Opening adjustments	**(182,394)**	—
Opening balance as adjusted	**13,966,923**	10,282,238
Net (loss)/profit attributable to shareholders of the parent	**(6,983,662)**	4,568,172
Less: Statutory surplus reserves	**—**	182,727
Distribution to shareholders	**—**	—
Retained profits at the end of the year	**6,983,261**	14,667,683

In accordance with the Articles of Association of the Company, 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.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Other equity instruments

(1) General information of Medium Term Notes outstanding as at the end of the period

As at 31 December 2018, details of Preferential Shares and Medium Term Notes outstanding of the Group are as follows:

	Date of issue	Accounting classification	Dividend rate or interest rate	Issue price (RMB per unit)	Quantity (10,000)	Amount	Maturity or renewal
Tranche I	**2015.1.27**	**Perpetual capital instrument**	**0.0581**	**100**	**6,000**	**6,252,364**	**2020.1.27**
Tranche II	**2015.2.6**	**Perpetual capital instrument**	**0.0569**	**100**	**1,500**	**–**	**2018.2.6**
Tranche III	**2015.11.20**	**Perpetual capital instrument**	**0.0449**	**100**	**1,500**	**–**	**2018.11.20**
						6,252,364	

As at 31 December 2017, details of Preferential Shares and Medium Term Notes outstanding of the Group are as follows:

	Date of issue	Accounting classification	Dividend rate or interest rate	Issue price (RMB per unit)	Quantity (10,000)	Amount	Maturity or renewal
Tranche I	2015.1.27	Perpetual capital instrument	0.0581	100	6,000	6,252,364	2020.1.27
Tranche II	2015.2.6	Perpetual capital instrument	0.0569	100	1,500	1,572,198	2018.2.6
Tranche III	2015.11.20	Perpetual capital instrument	0.0449	100	1,500	1,496,765	2018.11.20
						9,321,327	

The Company issued the 2015 Tranche I Medium Term Notes with a total principal amount of RMB6,000 million on 27 January 2015. The notes will remain valid indefinitely until they are redeemed by the issuer (the Company) pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 5th interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and their accruals). The coupon interest rate for the first 5 years for which interest is accruable is 5.81% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 6th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread (the difference between the coupon interest rate and the initial benchmark rate), the initial benchmark rate being the arithmetic average (rounding to the nearest 0.01%) of the yield rates of treasury bonds with a 5-year term in the interbank fixed rate treasury bond yield curve for China bonds announced on www.chinabond.com.cn or other websites approved by CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD. 5 working days prior to the book building date. The coupon rate will thereafter remain unchanged from the 6th to the 10th interest accruing years. Thereafter, the coupon interest rate is reset every 5 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Other equity instruments (continued)

(1) General information of Medium Term Notes outstanding as at the end of the period (continued)

The Company issued the 2015 Tranche II Medium Term Notes with a total principal amount of RMB1,500 million on 6 February 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and their accruals). The coupon interest rate for the first 3 years for which interest is accruable is 5.69% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread. The Company exercised redemption pursuant to the terms of the issue on 6 February 2018.

The Company issued the 2015 Tranche III Medium Term Notes with a total principal amount of RMB1,500 million on 20 November 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and their accruals). The coupon interest rate for the first 3 years for which interest is accruable is 4.49% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread. The Company exercised redemption pursuant to the terms of the issue on 20 November 2018.

Unless an event triggering mandatory interest payment has occurred, the issuer may choose prior to each interest payment date to defer the payment of current interests and interests and their accruals deferred in full or in part to the next interest payment date pursuant to this clause. There is no limit to the timing and frequency of payment deferrals. Deferral of any interest payments under this clause shall not be deemed as default. Each deferred interest payment shall accrue interests at the current coupon rate for the period of deferral.

In the event the issuer conducts the following within 12 months prior to the current interest payment date for the Medium Term Note, it should not defer the payment of current interests and all deferred interests and their accruals:

1 Bonus distribution to holders of ordinary shares;

2 Reduction of registered capital.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Other equity instruments (continued)

(2) Change of issued Medium Term Note as at the end of the period

The change of Preferential Shares and Medium Term Notes outstanding of the Group are as follows:

2018

	Opening balance		Increase during the year		Decrease during the year		Closing balance	
	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)
Tranche I	6,000	6,000,000	–	–	–	–	6,000	6,000,000
Tranche II	1,500	1,500,000	–	–	(1,500)	(1,500,000)	–	–
Tranche III	1,500	1,500,000	–	–	(1,500)	(1,500,000)	–	–
		9,000,000		–		(3,000,000)		6,000,000

2017

	Opening balance		Increase during the year		Decrease during the year		Closing balance	
	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)	Quantity (10,000)	Carrying value (RMB'000)
Tranche I	6,000	6,000,000	–	–	–	–	6,000	6,000,000
Tranche II	1,500	1,500,000	–	–	–	–	1,500	1,500,000
Tranche III	1,500	1,500,000	–	–	–	–	1,500	1,500,000
		9,000,000		–		–		9,000,000

41. Operating revenue and costs

	2018 Revenue	2018 Cost	2017 Revenue	2017 Cost
Principal business	82,913,162	55,274,819	105,927,998	72,391,897
Other business	2,599,988	2,092,759	2,887,275	2,613,921
	85,513,150	57,367,578	108,815,273	75,005,818

Operating revenue is analysed as follows:

	2018年	2017年
Revenue from customer contract	85,375,143	–
Telecommunications systems contracts	–	71,172,810
Sales of goods and rendering of services	–	37,509,798
Revenue from other sources	–	–
Rental income	138,007	132,665
	85,513,150	108,815,273

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

41. Operating revenue and costs (continued)

Breakdown of revenue from customer contracts for 2018

Reporting segments	Carriers' network	Consumer business	Government and corporate business	Total
Major operating area				
PRC Mainland	**41,120,969**	**8,762,129**	**4,423,070**	**54,306,168**
Asia (excluding PRC Mainland)	**9,258,787**	**1,548,750**	**1,069,713**	**11,877,250**
Africa	**2,534,880**	**323,252**	**1,224,175**	**4,082,307**
Europe, America and Oceania	**4,161,136**	**8,575,459**	**2,372,823**	**15,109,418**
	57,075,772	**19,209,590**	**9,089,781**	**85,375,143**
Types of key products				
Sale of products	**7,193,140**	**19,061,135**	**3,710,515**	**29,964,790**
Rendering of services	**10,247,577**	**148,455**	**1,758,735**	**12,154,767**
Telecommunications system contracts with customers	**39,635,055**	**–**	**3,620,531**	**43,255,586**
	57,075,772	**19,209,590**	**9,089,781**	**85,375,143**
Timing of revenue recognition				
Transferred at a point in time	**46,597,854**	**19,044,047**	**7,245,566**	**72,887,467**
Transferred over time	**10,477,918**	**165,543**	**1,844,215**	**12,487,676**
	57,075,772	**19,209,590**	**9,089,781**	**85,375,143**

42. Taxes and surcharges

	2018	2017
City maintenance and construction tax	**214,670**	335,001
Education surcharge	**171,305**	259,480
Property tax	**46,514**	64,583
Land use tax	**21,168**	21,369
Vehicle and vessel tax	**323**	403
Stamp duty	**73,583**	85,517
Others	**110,162**	175,766
	637,725	942,119

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43. Selling and distribution costs

	2018	2017
Wages, welfare and bonuses	**5,133,852**	5,657,286
Consulting and services charges	**482,780**	1,124,688
Travelling expenses	**924,804**	1,135,059
Transportation and fuel charges	**381,026**	688,389
Service fees	**464,691**	594,904
Office expense	**306,554**	294,494
Advertising and promotion expenses	**631,646**	1,411,784
Rental fees	**460,803**	568,904
Communication expenses	**94,746**	106,244
Others	**203,587**	522,603
	9,084,489	12,104,355

44. Administrative expenses

	2018	2017
Wages, welfare and bonuses	**1,759,951**	1,777,549
Office expenses	**127,726**	142,046
Amortization and depreciation charges	**399,124**	267,861
Rental fees	**132,870**	123,261
Travelling expenses	**80,488**	105,673
Others	**1,151,339**	640,818
	3,651,498	3,057,208

45. Research and development expenses

	2018	2017
Wages, welfare and bonuses	**6,959,688**	8,958,707
Direct material costs	**301,511**	518,778
Amortization and depreciation charges	**1,460,914**	1,471,887
Office expenses	**279,521**	274,528
Technical cooperation fee	**886,302**	670,815
Others	**1,017,648**	1,067,530
	10,905,584	12,962,245

46. Finance costs

	2018	2017
Interest expenses	**1,328,685**	1,157,659
Including:		
Derecognised loss of financial assets at amortised cost	**320,281**	—
Derecognised loss of bills receivables at fair value through other comprehensive income	**39,874**	—
Less: Interest income	**748,810**	908,082
(Income)/loss on foreign currency exchange	**(502,130)**	420,001
Cash discounts and interest subsidy	**—**	104,767
Bank charges	**202,903**	269,137
	280,648	1,043,482

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

46. Finance costs (continued)

For 2018, interest income from ZTE Group Finance Company Limited amounted to RMB369,477,000 (2017: RMB411,891,000).

Details of interest income are as follows:

	2018	2017
Cash	600,357	651,127
Income from financing contract	148,453	256,955
	748,810	908,082

47. Assets impairment losses

	2018	2017
Bad debt provisions *(only available for 2017)*	—	2,222,096
Inventories provisions	884,794	130,836
Impairment losses on fixed assets	7,515	16,507
Impairment losses on intangible assets	59,356	12,010
Impairment losses on available-for-sale financial assets *(only available for 2017)*	—	97,913
Impairment losses on amount due from customers for contract works *(only available for 2017)*	—	54,246
Impairment loss of long-term equity investment	1,001,935	—
Goodwil impairment loss	123,263	—
	2,076,863	2,533,608

48. Credit impairment losses (only available for 2018)

	2018
Impairment loss of bills and trade receivables	3,443,222
Impairment losses on financial assets at fair value through other comprehensive income	2,455
Impairment loss of other receivables	130,770
Impairment loss of long-term receivables	2,571
Impairment losses on factored receivables	2,853
Impairment loss of long-term factored receivables	2,096
Impairment loss of contract assets	70,914
	3,654,881

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

49. Other income

Government grants relating to the ordinary course of business are set out as follows:

	2018	2017	Relating to asset/income
Refund of VAT on software products (Note 1)	**1,590,560**	2,120,301	Relating to income
Tax refund	**41,677**	28,083	Relating to income
Others	**449,218**	898,837	Relating to income
	2,081,455	3,047,221	

Note 1: Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT rate in excess of 3% in respect of software product sales by some subsidiaries of the Company, pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval of the state taxation authorities.

50. Investment income

	2018	2017
Loss from long-term equity investment under equity method	**(797,318)**	(128,201)
Investment income from available-for-sale financial assets during the period of holding	**—**	32,318
Investment income from trading financial assets during the period of holding	**16,438**	—
Investment income from non-current financial assets during the period of holding	**30,196**	—
Investment profit/(loss) arising from the disposal of financial assets at fair value through profit or loss	**6,147**	(137,534)
Investment income arising from the disposal of available-for-sale financial assets	**—**	438,454
Investment income arising from the disposal of held-for-trading financial assets	**376,460**	—
Profits remeasured at fair value by remaining equity after loss of control	**231,126**	1,747,006
Investment income from the disposal of long-term equity investment	**431,437**	588,285
	294,486	2,540,328

51. (Losses)/profits from changes in fair values

	2018	2017
Trading financial assets		
Including: financial assets at fair value through profit or loss	**(898,978)**	—
Other non-current financial assets		
Including: financial assets at fair value through profit or loss	**(6,372)**	—
Derivative financial instruments	**55,901**	50,962
Investment properties at fair value	**(11,810)**	7,339
	(861,259)	58,301

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52. Gains/(losses) from the disposal of assets

	2018	2017
Gains/(losses) from the disposal of fixed assets	**19,483**	(31,275)

53. Non-operating income/non-operating expenses

Non-operating income

	2018	2017	Amount of extraordinary gain/loss recognised for 2018
Others (Note 1)	**142,651**	131,194	142,651

Note 1: "Others" included contract penalty gains and other miscellaneous gains.

Non-operating expenses

	2018	2017	Amount of extraordinary gain/loss recognised for 2018
Compensation (Note 1)	**6,818,978**	83,440	6,818,978
Others	**61,925**	109,843	61,925
	6,880,903	193,283	6,880,903

Note 1: The USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 by the Company. For details please refer to Note XII.2.

54. Expenses by nature

Supplementary information of the Group's operating costs, selling and distribution costs, research and development expenses and administration expenses by nature were as follows:

	2018	2017
Cost of goods and services	**55,065,491**	73,735,995
Staff remuneration (including share-based payment)	**15,639,601**	19,357,511
Depreciation and amortization	**2,507,379**	2,603,222
Rent	**593,673**	692,165
Others	**7,203,005**	6,740,733
	81,009,149	103,129,626

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

55. Income tax

	2018	2017
Current income tax	**939,888**	1,062,159
Deferred income tax	**(1,340,751)**	270,423
	(400,863)	1,332,582

Reconciliation between income tax and total profit was as follows:

	2018	2017
Total profit	**(7,350,203)**	6,718,924
Tax at statutory tax rate (Note 1)	**(1,837,551)**	1,679,731
Effect of different tax rates applicable to certain subsidiaries	**564,453**	(721,458)
Adjustment to current tax in previous periods	**28,408**	22,612
Profits and losses attributable to joint ventures and associates	**119,112**	12,716
Income not subject to tax	**(42,751)**	(101,123)
Expenses not deductible for tax	**508,836**	242,954
Unrecognised deductible temporary differences	**30,448**	71,142
Utilization of tax losses from previous years	**(36,539)**	(30,517)
Unrecognized tax losses	**264,721**	156,525
Tax charge at the Group's effective rate	**(400,863)**	1,332,582

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits and applicable tax rates arising in the PRC. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

56. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to holder of ordinary shares of the Company for the period by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the period is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current period, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

56. Earnings per share (continued)

Calculations of basic and diluted earnings per shares were as follows:

	2018	2017
Earnings		
Net profit/(loss) attributable to ordinary shareholders of the Company for the year	**(6,983,662)**	4,568,172
Shares		
Weighted average number of ordinary shares of the Company ('000 shares)	**4,192,672**	4,189,228
Diluting effect — weighted average number of ordinary shares ('000 shares) (Note 1)		
Stock option	**–**	30,243
Adjusted weighted average number of ordinary shares of the Company ('000 shares)	**4,192,672**	4,219,471

Note 1: The calculation of the diluted earnings/(losses) per share is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings 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.

57. Notes to major items in cash flow statement

	2018	2017
Cash received in connection with other operating activities:		
Interest income	**747,518**	907,786
Cash paid in connection with other operating activities:		
Selling and distribution costs	**4,008,434**	5,766,678
Administrative expenses	**952,379**	1,011,798
Research and development costs	**1,054,838**	1,486,359
Penalty and deposit payments	**9,654,487**	–
Cash received in connection with other investing activities:		
Amounts relating to cooperation with Vanke received	**–**	1,771,000
Amounts received from Shenzhen Investment Holdings Co., Ltd. in connection with business cooperation	**2,200,000**	–
Cash paid in connection with investing activities:		
Cash outflow from disposal of subsidiaries	**–**	647,838
Cash paid in connection with other financing activities:		
Acquisition of non-controlling interests	**15,740**	–

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

58. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	2018	2017
Net profit/(loss)	**(6,949,340)**	5,386,342
Add: Credit impairment losses	**3,654,881**	—
Assets impairment losses	**2,076,863**	2,533,608
Depreciation of fixed assets	**1,197,424**	1,199,048
Amortization of intangible assets and deferred development costs	**1,274,972**	1,404,091
Amortization of long-term deferred assets	**34,983**	83
Loss on disposal of fixed assets, intangible assets and other long-term assets	**16,450**	80,492
Loss/(gain) from changes in fair value	**861,259**	(58,301)
Finance costs	**1,173,942**	1,288,560
Investment income	**(294,486)**	(2,540,328)
(Increase)/decrease in deferred tax assets	**(1,134,581)**	118,883
(Decrease)/increase in deferred tax liabilities	**(206,170)**	151,540
Decrease in inventories	**337,928**	445,592
Decrease in operating receivables	**6,428,744**	3,909,420
Decrease in operating payables	**(16,558,294)**	(7,759,772)
Cost of share-based payment	**193,188**	262,956
(Increase)/decrease in cash not immediately available for payments	**(1,323,149)**	797,760
Net cash flow from operating activities	**(9,215,386)**	7,219,974

(2) Information on subsidiaries and other business units acquired or disposed

	2018
Consideration at which subsidiaries and other business units were disposed of	**1,240,220**
Cash and cash equivalents received for the disposal of subsidiaries and other business units	**879,020**
Less: Cash and cash equivalents held by subsidiaries and other business units disposed of	**380,813**
Net cash received for the disposal of subsidiaries and other business units	**498,207**

(3) Net change in cash and cash equivalents:

	2018	2017
Cash		
Including: Cash on hand	**1,597**	12,065
Bank deposit readily available	**21,132,514**	30,097,204
Cash and cash equivalents at end of year	**21,134,111**	30,109,269

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

59. Assets under restrictions on ownership or right of use

	31 December 2018	31 December 2017	
Cash	**3,057,459**	3,066,199	Note 1
Fixed assets	**1,179,755**	53,294	Note 2
Intangible assets	**158,551**	26,393	Note 3
Long-term equity investment	**5,933**	—	Note 4
Other non-current assets — restricted cash	**3,100,140**	305,496	Note 5
	7,501,838	3,451,382	

Note 1: As at 31 December 2018, the Group's cash subject to ownership restriction amounted to RMB3,057,459,000 (31 December 2017: RMB3,066,199,000), including acceptance bill deposits of RMB294,949,000 (31 December 2017: RMB48,155,000), no time deposits (31 December 2017: RMB16,450,000) pledged to secure bank borrowings, letter of credit deposits of RMB667,084,000 (31 December 2017: RMB36,325,000), deposit for guarantee letter of RMB346,475,000 (31 December 2017: RMB389,398,000), dues from the People's Bank of China of RMB373,553,000 (31 December 2017: RMB852,644,000), technology grants of RMB1,118,309,000 (31 December 201: RMB1,506,213,000) and risk compensation fund to be released within one year of RMB257,089,000 (31 December 2017: RMB217,014,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 31 December 2018, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB440,435,000 (31 December 2017: RMB1,679,300,000). Risk compensation fund to be released within one year amounting to RMB257,089,000 (31 December 2017: RMB217,014,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB183,346,000 (31 December 2017: RMB1,462,286,000) was accounted for as other non-current assets.

Note 2: As at 31 December 2018, fixed assets with a carrying value of RMB648,245,000 (31 December 2017: RMB53,294,000) were pledged to secure bank borrowing; fixed assets with a carrying value of RMB531,510,000 (31 December 2017: Nil) were pledged in connection with asset acquisitions.

Note 3: As at 31 December 2018, intangible assets with a carrying value of RMB68,708,000 (31 December 2017: RMB26,393,000) were pledged to secure bank borrowings. Intangible assets with a carrying value of RMB89,843,000 (31 December 2017: Nil) were pledged as security for asset acquisitions.

Note 4: As at 31 December 2018, equity pledge with a carrying value of RMB5,933,000 (31 December 2017: Nil) was applied to equity transfers.

Note 5: As at 31 December 2018, restricted funds represented a RMB2,744,800,000 deposit in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed, the details of which are set out in Note XII.2. The RMB355,340,000 (31 December 2017: 305,496,000) performance bond with a term of over 1 year was paid to a project partner.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

60. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		31 December 2018			31 December 2017		
		Original currency	**Exchange rate**	**RMB Equivalent**	Original currency	Exchange rate	RMB Equivalent
Cash	USD	**203**	**6.8620**	**1,393**	1,331	6.5325	8,697
	SAR	**–**	**1.8299**	**–**	10	1.7420	18
	DZD	**1813**	**0.0579**	**105**	1,986	0.0569	113
	KZT	**56**	**0.0180**	**1**	–	0.0197	–
	EGP	**18**	**0.3831**	**7**	90	0.3671	33
Bank deposit	USD	**407,942**	**6.8620**	**2,799,298**	791,868	6.5325	5,172,878
	HKD	**21,169**	**0.8750**	**18,523**	43,504	0.8347	36,313
	BRL	**16,992**	**1.7711**	**30,095**	39,642	1.9749	78,289
	PKR	**1,479,636**	**0.0494**	**73,094**	596,943	0.0592	35,339
	EGP	**32,840**	**0.3831**	**12,581**	41,425	0.3671	15,207
	IDR	**196,822,000**	**0.0005**	**98,411**	732,794,000	0.0005	366,397
	EUR	**122,559**	**7.8506**	**962,162**	197,780	7.7926	1,541,220
	DZD	**96,028**	**0.0579**	**5,560**	1,244,991	0.0569	70,840
	MYR	**29,781**	**1.6511**	**49,171**	56,845	1.6082	91,418
	ETB	**240,453**	**0.2449**	**58,887**	545,221	0.2402	130,962
	CAD	**3,765**	**5.0315**	**18,944**	17,441	5.2073	90,822
	GBP	**2,247**	**8.6770**	**19,497**	3,488	8.7665	30,575
	THB	**314,957**	**0.2116**	**66,645**	566,625	0.2000	113,325
	RUB	**635,324**	**0.0988**	**62,770**	269,436	0.1134	30,554
	JPY	**1,612,488**	**0.0619**	**99,813**	2,369,845	0.0579	137,214
	VEF	**–**	**–**	**–**	11,735,000	0.0020	23,470
	COP	**1,990,476**	**0.0021**	**4,180**	4,282,273	0.0022	9,421
	NPR	**572,333**	**0.0613**	**35,084**	466,056	0.0639	29,781
	CLP	**1,415,758**	**0.0099**	**14,016**	1,015,566	0.0106	10,765
Other cash	USD	**65,995**	**6.8620**	**452,858**	46,629	6.5325	304,603
Trade receivables	USD	**972,607**	**6.8620**	**6,674,029**	1,242,466	6.5325	8,116,409
	EUR	**312,319**	**7.8506**	**2,451,888**	326,339	7.7926	2,543,029
	BRL	**39,275**	**1.7711**	**69,560**	55,389	1.9749	109,388
	THB	**69,078**	**0.2116**	**14,617**	1,106,740	0.2000	221,348
	INR	**10,590,560**	**0.0983**	**1,041,052**	17,758,358	0.1023	1,816,680

The Group's principal places of business overseas include the United States, Brazil and India. Its operating entities in these countries adopt their respective principal currency for conducting business as their functional currencies.

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION

1. Disposal of subsidiaries

		Place of registration	Business nature	Percentage of the Group's shareholding in aggregate	Percentage of the Group's voting rights in aggregate	Reasons for ceasing to be a subsidiary
Whale Cloud Technology Co., Ltd.	Note 1	Shenzhen	Scientific research and technical services	89.1%	89.1%/100%	Disposed of
南通興通智慧產業園建設有限公司	Note 2	Nantong	Property development and sales	100%	100%/100%	Disposed of
Shenzhen ZTE Jinyun Technology Company Limited	Note 3	Shenzhen	Internet data centre	100%	100%/100%	Disposed of
Closed Joint Stock Company TK Mobile	Note 4	The Republic of Tajikistan	Mobile network operation	51%	51%/100%	Bankruptcy and liquidation

Note 1: The Company entered into a share transfer agreement with Nanjing Xiruan Corporate Management Limited Partnership on 9 February 2018 to dispose of 43.66% equity interests in Whale Cloud Technology Co., Ltd. for RMB1,223 million. At the same time, Whale Cloud Technology Co., Ltd. issued 21,413,276 shares to Nanjing Xiruan at a price of RMB4.67 per share. The date of disposal was 30 September 2018. The Company held 35.19% equity interests in Whale Cloud Technology Co., Ltd. following the disposal. Hence, the Group has ceased to include Whale Cloud Technology Co., Ltd. in its consolidated statements as from October 2018. Relevant financial information of Whale Cloud Technology Co., Ltd. is set out as follows:

	30 September 2018 Book value	31 December 2017 Book value
Current assets	**3,923,313**	3,468,782
Non-current assets	**194,374**	261,393
Current liabilities	**(2,385,464)**	(1,763,456)
	1,732,223	1,966,719
Non-controlling interests	**(395,522)**	(198,639)
Fair value of remaining equity interests	**(840,695)**	
Gain/loss arising from disposal	**724,294**	
Consideration for disposal	**1,223,300**	

	1 January to 30 September 2018
Operating revenue	**906,422**
Operating cost	**505,904**
Net (loss)	**(151,858)**

Note 2: 科翔高新技術發展有限公司 made additional 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 on 24 December 2018. Following the completion of the capital increase on 24 December 2018, 南通興通 has been excluded from the consolidated financial statements of the Group.

Note 3: 深圳市中興雲服務有限公司, a subsidiary of the Group, together with 新余德坤投資合夥企業 (有限合夥) and 摩雲投資管理 (杭州) 有限公司 completed the disposal of 100% equity interests in Shenzhen ZTE Jinyun Technology Company Limited on 25 September 2018. Shenzhen ZTE Jinyun Technology Company Limited has been excluded from the consolidated financial statements of the Group as from 25 September 2018.

Note 4: The Dushanbe Economic Law Court approved the filing of bankruptcy of Closed Joint Stock Company TK Mobile ("TK"), a subsidiary of the Company, on 10 October 2018. Closed Joint Stock Company TK Mobile has been excluded from the consolidated financial statements of the Group as from 10 October 2018.

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION (CONTINUED)

2. Changes to the scope of consolidation for other reasons

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 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.

Dalian Zhongwang Realty Company Limited, a tier-three subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 4 March 2018 and had been excluded from the consolidated financial statements of the Group as from 4 March 2018. Changchun ZTE New Energy Auto Sales Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 14 May 2018 and had been excluded from the consolidated financial statements of the Group as from 14 May 2018. ZTE Xingyun Industrial Investment Management (Hangzhou) Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 5 November 2018 and had been excluded from the consolidated financial statements of the Group as from 5 November 2018. Beijing ZTE Green Energy Auto Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 14 November 2018 and had been excluded from the consolidated financial statements of the Group as from 14 November 2018. Henan ZTE Photovoltaics Technology Co., Ltd., a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 21 May 2018 and had been excluded from the consolidated financial statements of the Group as from 21 May 2018. ZTE Group Finance Holdings (Hangzhou) Limited, a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 7 November 2018 and had been excluded from the consolidated financial statements of the Group as from 7 November 2018. ZTE (Yiwu) Research Institute Company Limited, a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 28 November 2018 and had been excluded from the consolidated financial statements of the Group as from 28 November 2018. Shenyang (ZTE) Big Data Research Company Limited, a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 25 December 2018 and had been excluded from the consolidated financial statements of the Group as from 25 December 2018. Henan Zhongxing New Energy Automobile Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 27 December 2018 and had been excluded from the consolidated financial statements of the Group as from 27 December 2018.

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VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of the subsidiaries of the Company are as below:

Type of subsidiary	Place of registration/ principal places of business	Nature of business	Registered capital	Percentage of Shareholding% Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen ZTE Kangxun Telecom Company Limited	Shenzhen	Manufacturing	RMB1,755 million	100%	–
ZTE (H.K) Limited	Hong Kong	Information technology	HKD995 million	100%	–
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB51.08 million	100%	–
西安中興通訊終端科技有限公司	Xi'an	Manufacturing	RMB300 million	100%	–
Xi'an Zhongxing New Software Company Limited	Xi'an	Telecommunications and related equipment manufacturing	RMB600 million	100%	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB200 million	90%	10%

2. Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding% Direct	Indirect	Accounting method
Joint Ventures						
Bestel Communications Ltd.	Republic of Cyprus	Information technology	EUR446,915	50%	–	Equity method
Puxing Mobile Tech Company Limited	PRC	R&D, production and sales of communications equipment	RMB128,500,000	50%	–	Equity method
Pengzhong Xingsheng	Uzbekistan	Mobile terminals and smart phones	USD3,160,000	50%	–	Equity method
德特賽維技術有限公司	PRC	Software development, information technology consultant and information systems integration	RMB60,000,000	49%	–	Equity method
重慶百德行置業有限公司*	PRC	Real estate	RMB70,000,000	10%	–	Equity method

* The Group had 10% shareholdings in 重慶百德行置業有限公司, which was accounted for as joint ventures mainly owing to the fact that the articles of association of this company stipulates that its board of director shall comprise 5 members, 3 of which shall be nominated by 建歷有限公司 and 2 of which shall be nominated by 重慶中興網信科技有限公司, and that board resolutions can only be passed with the approval of over two-thirds of the directors. Hence the Group and 建歷有限公司 exercised joint control over its production and operational decisions or its finances.

During the year, the Group had no subsidiaries that were subject to significant minority interest, nor key joint ventures which had a significant impact on the Group.

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding%		Accounting method
				Direct	Indirect	
Associates						
KAZNURTEL Limited Liability Company	Kazakhstan	Manufacturing of computers and related equipment	USD3,000,000	49%	–	Equity method
思卓中興 (杭州) 科技有限公司	PRC	Sales and R&D of communications equipment	USD7,000,000	49%	–	Equity method
ZTE Energy Limited	PRC	Energy	RMB1,290,000,000	23.26%	–	Equity method
ZTE Software Technology (Nanchang) Company Limited	PRC	Computer application services	RMB15,000,000	30%	–	Equity method
Nanjing Piaoxun Network Technology Company Limited	PRC	Computer application services	RMB870,000	20%	–	Equity method
Telecom Innovations	Uzbekistan	Sales and production of communications equipment	USD1,653,294	33.91%	–	Equity method
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited*	PRC	Hotel management service	RMB30,000,000	18%	–	Equity method
北京億科三友科技發展有限公司	PRC	Computer application services	RMB34,221,649	20%	–	Equity method
ZTE 9 (Wuxi) Co., Ltd	PRC	Computer application services	RMB17,909,380	26.21%	–	Equity method
上海中興思秸通訊有限公司	PRC	R&D, sales and investments in communications and related equipment	RMB57,680,000	30%	–	Equity method
中興耀維科技江蘇有限公司	PRC	Energy	RMB20,000,000	23%	–	Equity method
中興智慧成都有限公司	PRC	R&D of smart city application service system; R&D, and manufacturing of communications equipment	RMB40,000,000	40%	–	Equity method
廈門智慧小區網絡科技有限公司	PRC	Engineering and technology research; Internet business	RMB50,000,000	35%	–	Equity method
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Zimbabwe	Colour ring and other telecommunications VAS	USD500	49%	–	Equity method
前海融資租賃股份有限公司	PRC	Finance leasing	RMB200,000,000	30%	–	Equity method
中山優順置業有限公司	PRC	Real estate	RMB10,000,000	20%	–	Equity method
鐵建聯合 (北京) 科技有限公司	PRC	Technology promotion and application services	RMB20,000,000	30%	–	Equity method

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding% Direct	Indirect	Accounting method
Associates (continued)						
西安城投智慧充電股份有限公司	PRC	Technology promotion and application services	RMB50,000,000	24%	–	Equity method
紹興市智慧城市集團有限公司	PRC	Business services	RMB200,000,000	24.50%	–	Equity method
廣東福能大數據產業園建設有限公司	PRC	Technology promotion and application services	RMB10,000,000	30%	–	Equity method
廣東中興城智信息技術有限公司	PRC	Software and IT services	RMB30,000,000	39%	–	Equity method
上海博色信息科技有限公司	PRC	Professional technical services	RMB71,379,000	29%	–	Equity method
南京寧網科技有限公司	PRC	Manufacturing of computers, communication and other electronic equipment	RMB25,487,370	21.26%	–	Equity method
New Idea Investment Pte. Ltd	Singapore	Investment company	USD10,200,000+ SGD1	20.00%	–	Equity method
中興智能科技產業有限公司*	PRC	Manufacturing of computers and related equipment	RMB200,000,000	19.00%	–	Equity method
Hengyang ICT Real Estate Co., Ltd	PRC	Real estate	RMB20,000,000	30.00%	–	Equity method
貴州中安雲網科技有限公司*	PRC	Technology and innovative IOT inter-network services	RMB30,000,000	19%	–	Equity method
陝西高端裝備與智能製造產業研究院有限公司*	PRC	High-end equipment and smart manufacturing, product research, consultation service and technology development	RMB16,000,000	12.5%	–	Equity method
Laxense, Inc.*	U.S.A.	Manufacturing of communication and other electronic equipment	USD2,460,318	18.7%	–	Equity method
中教雲通 (北京) 科技有限公司	PRC	Education	RMB15,000,000	28%	–	Equity method
Kron Telekomunikasyon Hizmetleri A.S.*	Turkey	Communication and Internet service	TRY14,268.513	10%	–	Equity method
山東興濟置業有限公司*	PRC	Real estate	RMB10,000,000	10%	–	Equity method
Nubia Technology Limited	PRC	Manufacturing of communication equipment and Internet information service	RMB118,748,300	49.9%	–	Equity method
Huanggang Education Valley Investment Holdings Co., Ltd	PRC	Education	RMB50,000,000	25%	–	Equity method
石家莊市智慧產業有限公司*	PRC	Smart City construction and operation	RMB400,000,000	12%	–	Equity method
Whale Cloud Technology Co., Ltd.	PRC	Scientific research and technical service	RMB731,074,442	35.19%	–	Equity method

* The Group listed enterprises with shareholdings less than 20% as associates mainly owing to the fact that, pursuant to the articles of association of such enterprises, the Group has the right to appoint directors to sit on the board of the investee and the Group has the power to take part in decisions of the investee relating to finances and operating policies, thereby exercising significant influence over the investee.

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

Nubia Technology Limited, an important associate of the Group engaged in the production of communication products as a strategic partner of the Group, is accounted for using the equity method. Such investment is strategic to the Group's business activities.

The following table shows the financial information of Nubia Technology Limited, adjusted for all differences accounting policies and reconciled to the book value of the financial statements:

	31 December 2018	31 December 2017
Current assets	**2,300,675**	4,360,056
Non-current assets	**411,531**	392,765
Total assets	**2,712,206**	4,752,821
Current liabilities	**1,146,038**	1,986,514
Non-current liabilities	**—**	—
Total liabilities	**1,146,038**	1,986,514
Non-controlling interests	**795**	211
Equity attributable to shareholders of the parent company	**1,565,373**	2,766,096
Attributable net assets per shareholding percentage	**781,121**	1,380,282
Adjustments	**500,403**	1,703,218
Carrying value of the investment	**1,281,524**	3,083,500

The following table sets out the combined financial information of joint ventures and associates which are insignificant to the Group:

	31 December 2018	31 December 2017
Joint ventures		
Aggregate carrying value of investments	**97,650**	92,344
Aggregate amounts of the following attributable to shareholdings:		
Net profit/(loss)	**2,621**	(1,377)
Other comprehensive income	**—**	—
Total comprehensive income	**2,621**	(1,377)
Associates		
Aggregate carrying value of investments	**1,636,121**	784,753
Aggregate amounts of the following attributable to shareholdings:		
Net profit	**60,041**	23,195
Other comprehensive income	**—**	—
Total comprehensive income	**60,041**	23,195

For 2018, there were no contingent liabilities associated with the investments in joint ventures and associates (2017: Nil).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

2018

Financial assets

	Financial assets at fair value through profit or loss	At amortized cost	Measured at fair value through other comprehensive income	Total
Cash	–	24,289,798	–	24,289,798
Derivative financial assets	228,117	–	–	228,117
Trading financial assets	1,476,823	–	–	1,476,823
Trade and bills receivable	–	21,592,325	–	21,592,325
Long-term trade receivables	–	843,429	–	843,429
Factored trade receivables and factored long-term receivables	–	1,019,910	–	1,019,910
Financial assets in other receivable	–	1,444,140	–	1,444,140
Other current assets – bills receivable	–	–	2,730,351	2,730,351
Financial assets in other non-current assets	–	3,283,486	–	3,283,486
Other non-current financial assets	1,502,499	–	–	1,502,499
	3,207,439	52,473,088	2,730,351	58,410,878

Financial liabilities

	Financial liabilities at fair value through profit or loss	At amortized cost	Total
Derivative financial liabilities	101,332	–	101,332
Bank loans	–	27,349,891	27,349,891
Bills and trade payables	–	27,443,104	27,443,104
Bank advances on factored trade receivables and long-term trade receivables	–	1,026,068	1,026,068
Other payables (excluding accruals and staff housing fund contributions)	–	10,361,889	10,361,889
Other non-current liabilities	–	539,845	539,845
	101,332	66,720,797	66,822,129

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

2017

Financial assets

	Financial assets at fair value through profit or loss	Loans and receivables	Available-for-sale financial assets	Total
Cash	–	33,407,879	–	33,407,879
Derivative financial assets	116,794	–	–	116,794
Available-for-sale financial assets	–	–	3,181,668	3,181,668
Trade and bills receivable	–	26,398,228	–	26,398,228
Long-term receivables	–	1,244,760	–	1,244,760
Factored trade receivables and factored long-term receivables	–	3,688,455	–	3,688,455
Other receivables	–	2,701,831	–	2,701,831
Other non-current assets	–	1,767,782	–	1,767,782
	116,794	69,208,935	3,181,668	72,507,397

Financial liabilities

	Financial liabilities at fair value through profit or loss	Other financial liabilities	Total
Derivative financial liabilities	49,830	–	49,830
Bank loans	–	21,538,013	21,538,013
Trade and bills payable	–	34,463,067	34,463,067
Bank advances on factored trade receivables and long-term trade receivables	–	4,028,478	4,028,478
Other payables (excluding accruals and staff housing fund contributions)	–	6,204,068	6,204,068
Other non-current liabilities	–	492,413	492,413
	49,830	66,726,039	66,775,869

2. Transfers of financial assets

Transferred financial assets that are not derecognized in their entirety

During the year, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that bills receivable with a carrying value of RMB652,657,000 (31 December 2017: Nil) retained substantially all risks and rewards upon discounting and hence did not qualify for derecognition of financial assets.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets (continued)

Transferred financial assets that are not derecognized in their entirety (continued)

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 31 December 2018, trade receivables that have been transferred but not settled by the debtors amounted to RMB413,633,000 (31 December 2017: RMB334,872,000).

According to some trade receivables factoring agreements, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognized to the extent of trade receivables transferred under continuous involvement. As at 31 December 2018 the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB26,338,984,000 (31 December 2017: RMB27,821,824,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortized cost) Trade receivables/long-term receivables	
	2018	2017
Carrying value of assets under continuous involvement	**606,277**	3,353,583
Carrying value of liabilities under continuous involvement	**610,440**	3,693,606

Factored trade receivables that did not qualify for derecognition and factored trade receivables under continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 31 December 2018, the amount of factored trade receivables was RMB1,019,910,000 (31 December 2017: RMB3,688,455,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 31 December 2018, the amount of bank advances on factored trade receivables was RMB1,026,068,000 (31 December 2017: RMB4,028,478,000).

Transferred financial assets derecognized in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the year. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB167,820,000 (31 December 2017: RMB478,932,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognized at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognized bills receivable and the undiscounted cash flow for the repurchase of such bills equal to the carrying amounts of the bills receivable. The Group is of the view that the fair value of continuous involvement in the derecognized bills receivable is not significant. For the relevant period, the Group recognized discounted interests of RMB2,615,000 (2017: RMB6,341,000) in respect of the derecognized bills receivable as at the date of transfer.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments

The Group's daily activities expose it to a variety of risks of financial instruments, mainly including credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The Group's major financial instruments included cash and bank balances, equity investments, borrowings, notes receivable and accounts receivable, notes payable and accounts payable, etc. The risks related to these financial instruments, and the risk management strategy adopted by the Group take to reduce these risks are as follows.

The Company management is responsible for planning and establishing the risk management framework of the Group, formulating risk management policies and related guidelines of the Group and supervising the implementation of risk management measures. The Group has already developed risk management policies to identify and analyse the risks faced by the Group, which have clearly identified specific risks, covering a lot of aspects such as market risk, credit risk and liquidity risk management. The Group regularly assesses the market environment and changes in the Group's business activities to determine whether or not to update the risk management policies and systems. The risk management of the Group shall be conducted by the operations and management department according to the policy approved by the Company management. The operations and management department identifies, evaluates and avoids related risks by means of close cooperation with other business units of the Group. The internal audit department of the Group conducts regular audits on risk management control and procedures and reports to the audit committee of the Group.

The Group disperses the risks of financial instruments by means of appropriate diversified investments and business portfolios, and reduces the risks of concentration on any single industry, particular region or specific trading counterparty by formulating corresponding risk management policies.

Credit risk

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the special approval of the credit control department of the Group.

Since cash and bank balances, bank acceptance bills receivable and derivative financial instruments are placed in the well-established banks with high credit ratings, the credit risk of these financial instruments is lower.

The Group's other financial assets, which comprise cash, equity investments, other receivables and certain derivatives. The Group's credit risk of financial assets and financial guarantee contract arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Credit risk (continued)

2018

Criteria for judging significant increases in credit risk

The Company assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Company takes into account the reasonable and substantiated information that is accessible without exerting unnecessary cost or effort, including qualitative and quantitative analysis based on the historical data of the Company, the external credit rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Company compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to figure out the changes of default risk in the expected lifetime of financial instruments.

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative and qualitative criteria have been met:

- Quantitative criteria are mainly that the increase in remaining lifetime probability of default at the reporting date is considered significant comparing with the one at initial recognition

- Qualitative criteria are mainly that significant adverse change in debtor's operation or financial status, the watch-list, etc

Definition of credit-impaired financial asset

The standard adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the principal factors considered are as follows:

- Significant financial difficulty of the issuer or debtor;

- Debtors are in breach of contract, such as defaulting on interest or becoming overdue on interest or principal payments overdue;

- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;

- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;

- The disappearance of an active market for that financial asset because of financial difficulties;

- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments

Credit risk (continued)

Parameters of ECL measurement

According to whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the expected credit loss model, taking into account the forward-looking information to reflect the debtor's PD under the current macroeconomic environment;

- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;

- EAD is the amount that the Company should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL.

The impact of these economic indicators on the PD and the LGD varies according to different business sectors. The Group applied experts' judgement in this process, according to the result of the experts' judgement, the Group predicts these economic indicators on a monthly basis and determines the impact of these economic indicators on the PD and the LGD.

For trade receivables and contract assets for which impairment provision for expected credit loss for the entire period has been made, a risk matric model may be provided in lieu of credit risk rating, the risk matrix may follow the example shown in Note V.4 and V.8.

31 December 2017

			Overdue for			
	Total	Not overdue/ not impaired	Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	24,345,283	5,005,100	17,067,289	1,716,792	556,102	–
Long-term receivables	1,244,760	1,244,760	–	–	–	–
Other receivables	2,701,831	–	1,623,480	834,303	172,727	71,321

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans and other interest-bearing loans.

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarized as follows:

31 December 2018

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	25,504,584	2,201,645	201,623	58,240	27,966,092
Derivative financial liabilities	–	101,332	–	–	–	101,332
Bills payable and trade payables	19,527,404	7,915,700	–	–	–	27,443,104
Bank advances on factored trade receivables and factored long-term trade receivable	–	618,664	283,390	88,042	87,439	1,077,535
Other payables (excluding accruals and staff housing fund contributions)	10,361,889	–	–	–	–	10,361,889
Other non-current liabilities	–	–	47,347	36,193	456,305	539,845
	29,889,293	34,140,280	2,532,382	325,858	601,984	67,489,797

31 December 2017

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	18,100,280	1,442,418	2,369,581	96,682	22,008,961
Derivative financial liabilities	–	49,830	–	–	–	49,830
Trade and bills payable	23,614,556	10,848,511	–	–	–	34,463,067
Bank advances on factored trade receivables and factored long-term trade receivable	–	1,113,708	470,923	765,887	1,858,955	4,209,473
Other payables (excluding accruals and staff housing fund contributions)	6,204,068	–	–	–	–	6,204,068
Other non-current liabilities	–	–	108,909	98,608	335,266	542,783
	29,818,624	30,112,329	2,022,250	3,234,076	2,290,903	67,478,182

Market risk

Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

As at 31 December 2018, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR and Euribor. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and floating rate instruments. The Group's policy is to maintain the fixed interest rate between 0.75% to 42.00%. In addition, the Group borrowed a USD900 million loan at floating interest rates. As at 31 December 2018, there were no outstanding interest rate swaps (31 December 2017: Nil). Approximately 78% (31 December 2017: 47%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD and EUR. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit or loss (through the impact on floating rate loans) and other comprehensive income (net of tax) assuming that other variables remain constant.

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2018	**25**	**(23,078)**	**–**	**(23,078)**
	(25)	**23,078**	**–**	**23,078**
2017	25	(23,945)	–	(23,945)
	(25)	23,945	–	23,945

Exchange rate risk

The Group is exposed to trading exchange rate risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimize its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses, matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Exchange rate risk (continued)

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's total profit, with all other variables held constant, as at the balance sheet date.

	Increase/ (decrease) in USD exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2018				
Weaker RMB against USD	**3%**	**330,151**	**–**	**330,151**
Stronger RMB against USD	**(3%)**	**(330,151)**	**–**	**(330,151)**
2017				
Weaker RMB against USD	3%	281,142	–	281,142
Stronger RMB against USD	(3%)	(281,142)	–	(281,142)

	Increase/ (decrease) in EUR exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2018				
Weaker RMB against EUR	**5%**	**124,333**	**–**	**124,333**
Stronger RMB against EUR	**(5%)**	**(124,333)**	**–**	**(124,333)**
2017				
Weaker RMB against EUR	5%	41,719	–	41,719
Stronger RMB against EUR	(5%)	(41,719)	–	(41,719)

4. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximize shareholders' value.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

4. Capital management (continued)

The Group makes adjustments in the light of changes in economic conditions and in the risk profiles of relevant assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years 2018 and 2017.

The Group manages capital using the financial gearing ratio, which is the ratio of interest-bearing liabilities to the sum of owners' equity and interest-bearing liabilities. The financial gearing ratio of the Group as at the balance sheet dates was as follows:

	31 December 2018	31 December 2017
Interest-bearing bank borrowings	**27,349,891**	21,538,013
Other payables	**500,000**	—
Bank advances on factored receivables and long-term trade receivables	**1,026,068**	4,028,478
Total interest-bearing liabilities	**28,875,959**	25,566,491
Owners' equity	**32,960,675**	45,380,147
Total equity and interest-bearing liabilities	**61,836,634**	70,946,638
Gearing ratio	**46.7%**	36.0%

IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

31 December 2018

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Continuous measurement of fair value				
Derivative financial assets	**—**	**228,117**	**—**	**228,117**
Trading financial assets	**761,359**	**666,412**	**49,052**	**1,476,823**
Other non-current financial assets	**—**	**—**	**1,502,499**	**1,502,499**
Other current assets- bills receivable	**—**	**2,730,351**	**—**	**2,730,351**
Investment properties				
Leased buildings	**—**	**—**	**2,011,999**	**2,011,999**
	761,359	**3,624,880**	**3,563,550**	**7,949,789**
Derivative financial liabilities	**—**	**(101,332)**	**—**	**(101,332)**
	—	**(101,332)**	**—**	**(101,332)**

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IX. DISCLOSURE OF FAIR VALUES (continued)

1. Assets and liabilities measured at fair value (continued)

31 December 2017

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Continuous measurement of fair value				
Derivative financial assets	—	116,794	—	116,794
Available-for-sale financial assets				
Investment in equity instruments	1,711,846	—	—	1,711,846
Investment properties				
Leased buildings	—	—	2,023,809	2,023,809
	1,711,846	116,794	2,023,809	3,852,449
Derivative financial liabilities	—	(49,830)	—	(49,830)
	—	(49,830)	—	(49,830)

2. Estimation of fair value

Fair value of financial assets

The management has conducted evaluations of our cash, bills receivable, trade receivables, bills payable and trade payables. The fair values approximates the book values as the remaining terms are not long.

Fair value of financial assets and financial liabilities refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows.

The fair values of long-term receivables and long/short-term loans are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics, risk profiles and outstanding term. As at 31 December 2018, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity instruments are determined on the basis of market prices. The fair values of equity investments in listed companies during the lock-up period is arrived at based on quotations in an active market discounted at a percentage reflecting the lack of liquidity during lock-up.

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IX. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value (continued)

Fair value of financial assets (continued)

Fair value of non-listed equity investment at fair value through profit or loss is estimated using the market-based method. The assumptions on which it is based are unobservable input. The estimation requires the management to determine comparable public companies (peers) based on industry, scale, gearing and strategy and compute appropriate price multiples in respect of each identified comparable company, such as enterprise value to EBITDA ("EV/EBITDA"), price to book ("P/B") or price to earnings ("P/E"), etc. Such multiples are measured and arrived at based on the relevant data of the comparable companies and discounted by a percentage for the lack of liquidity. The discounted multiple shall be used for the measurement of the profit or asset of the non-listed equity investment to arrive at its fair value. The management believes that the estimated fair value (as recorded in the balance sheet) and changes in fair value (as recorded in profit or loss and other comprehensive income) arrived at using the aforesaid valuation method were reasonable and represented the most appropriate value at the end of the reporting period.

The Group has entered into derivative financial instruments contracts with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal input of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of an interest rate swap and a forward exchange contract is identical with its fair value. As at 31 December 2018, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

The Group estimates the fair value of wealth management products at fair value through profit or loss based on the discounted cash flow model using market interest rates of instruments with similar terms and risks.

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IX. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value (continued)

Fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties at 31 December 2018 was RMB2,011,999,000 (2017: RMB2,023,809,000).

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

31 December 2018

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	**RMB2,011,999,000**	**Discounted cash flow method**	**Estimated rental value (per sq.m. and per month)**	**RMB49.5–RMB559.4**
			Rent growth (p.a.)	**2%–7%**
			Long term vacancy rate	**2.5%**
			Discount rate	**7.58%**
Equity instrument investment	**RMB1,551,551,000**	**Market method**	**Liquidity discount rate**	**4%–30%**
			P/E	**13–55**
			EV/Sales	**2–7**
			EV/EBIT	**11–23**

31 December 2017

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,023,809,000	Discounted cash flow method	Estimated rental value (per sq.m. and per month)	RMB45.5–RMB594
			Rent growth (p.a.)	1%–3%
			Long term vacancy rate	5%
			Discount rate	6%–7%

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IX. DISCLOSURE OF FAIR VALUES (continued)

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorized within Level 3 of the fair value hierarchy:

31 December 2018

	Opening balance	Transfer into Level 3	Transfer from Level 3	Included in profit or loss	Acquisition	Disposal	Closing balance	Change in unrealized profit or loss for the period of assets held at year-end included in profit and loss
Investment properties	**2,023,809**	**–**	**–**	**(11,810)**	**–**	**–**	**2,011,999**	**(11,810)**
Trading financial assets	**–**	**37,434**	**–**	**11,618**	**–**	**–**	**49,052**	**11,618**
Other non-current financial assets	**3,314,776**	**–**	**1,711,847**	**(2,227)**	**101,100**	**(199,303)**	**1,502,499**	**(6,372)**
Total	**5,338,585**	**37,434**	**1,711,847**	**(2,419)**	**101,100**	**(199,303)**	**3,563,550**	**(6,564)**

31 December 2017

	Opening balance	Transfer into Level 3	Transfer from Level 3	Total profit or less for the period		Acquisition	Closing balance	Change in unrealized profit or loss for the period of assets held at year-end included in profit and loss
				Included in profit and loss	Included in other comprehensive income			
Commercial properties	2,016,470	–	–	7,339	–	–	2,023,809	7,339

In the continuous fair value measurement at Level 3, profit and loss included in profit or loss relating to non-financial assets is analyzed as follows:

	2018 Relating to non-financial assets	2017 Relating to non-financial assets
Total profit or loss for the period included in profit or loss	**(11,810)**	7,339
Change in unrealized profit or loss for the period of assets held at year-end included in profit and loss	**(11,810)**	7,339

5. Transfers between levels of fair value measurement

During the year, there were no transfers of fair value measurements between Level 1 and Level 2.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Place of registration	Nature of business	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	Shenzhen, Guangdong	Manufacturing	RMB100 million	30.34%	30.34%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Zhongxingxin Telecom Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note VI and Note VII.1.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

4. Other related parties

	Relationship
深圳市中興新力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
Sindi Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
ZTE Quantum Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	Subsidiary of the Company's controlling shareholder
Pylon Technologies Co., Ltd. (formerly known as 上海中興派能能源科技股份有限公司)	Investee company of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd	Investee company of the Company's controlling shareholder and company for which a connected natural person of the Company acted as director
深圳市中興新雲服務有限公司	Investee company of the Company's controlling shareholder
中興儀器 (深圳) 有限公司*1	Former subsidiary of the Company's controlling shareholder
惠州中興新通訊設備有限公司*2	Former subsidiary of the Company's controlling shareholder

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
Xi'an Microelectronics Technology Research Institute	Company for which a connected natural person of the company acted as Director
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
Zhongxing Energy (Shenzhen) Limited	Subsidiary of an associate of the Company
Shenzhen Zhongxing WXT Equipment Company Limited	Company for which a connected natural person of the Company acted as director
北京中興協力科技有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
深圳市航天歐華科技發展有限責任公司	Company for which a connected natural person of the Company had previously acted as director and subsidiary of a company for which a connected natural person of the Company served as senior management
深圳市中興宜和投資發展有限公司	Company for which a connected natural person of the Company acted as director
深圳中興新源環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
上海中興科源實業有限公司	Subsidiary of a company for which a connected natural person of the Company acted as chairman
深圳中興節能環保股份有限公司	Company for which a connected natural person of the Company acted as vice chairman
Shenzhen Zhongxing Information Company Limited*3	Company for which a connected natural person of the Company acted as chairman
Lishan Microelectronics Corporation*4	Company for which a connected natural person of the Company acted as executive director and general manager
興天通訊技術有限公司*5	Company for which a former connected natural person of the Company had previously acted as chairman
Shenzhen ZTE International Investment Company Limited*6	Company for which a connected natural person of the Company acted as chairman
Tianjin ZTE International Investment Company Limited*6	Company for which a connected natural person of the Company acted as chairman
Zhongxing Development Company Limited*7	Company for which a connected natural person of the Company acted as director and executive vice president
Chongqing Zhongxing Development Company Limited*7	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
ZTE Software Technology (Shenyang) Company Limited*7	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興發展有限公司*7	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興物業服務有限公司*7	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Hangzhou Zhongxing Development Company Limited*7	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
杭州中興中投物業管理有限公司*7	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Huatong Technology Co., Ltd.*7	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Huatong Software Technology (Nanjing) Company Limited*7	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president

*1 Such company has ceased to be a subsidiary of the Controlling Shareholder of the Company as from 14 December 2017, and such company will cease to be a connected person of the Company as from 14 December 2018.

*2 The said company has ceased to be a subsidiary of the controlling shareholder of the Company as from 10 January 2018 and has ceased to be a connected party of the Company as from 10 January 2019.

*3 The chairman of the said company has ceased to be a Director of the Company as from 29 June 2018 and the said company will cease to be a connected party of the Company as from 29 June 2019.

*4 The executive director and general manager of the said company has ceased to be a Director of the Company as from 29 June 2018 and the said company will cease to be a connected party of the Company as from 29 June 2019.

*5 The former chairman of the said company has ceased to be a connected natural person of the Company as from 21 February 2018 and the said company has ceased to be a connected party of the Company as from 21 February 2018.

*6 Mr. Zhu Weimin, chairman of Shenzhen ZTE International Investment Company Limited and Tianjin ZTE International Investment Company Limited has been appointed Director of the Company with effect from 29 June 2018 and Shenzhen ZTE International Investment Company Limited and Tianjin ZTE International Investment Company Limited have become connected parties of the Company as from 29 June 2018.

*7 Ms. Fang Rong, director and executive vice president of Zhongxing Development Company Limited has been appointed Director of the Company with effect from 29 June 2018 and Zhongxing Development Company Limited and its subsidiaries have become connected parties of the Company as from 29 June 2018.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties

(1) Transaction of goods with related parties

Sales of goods to related parties

	2018 Amount	2017 Amount
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**14**	84
Mobi Antenna Technologies (Shenzhen) Company Limited	**—**	430
Puxing Mobile Tech Company Limited	**57,961**	205,167
ZTE Quantum Co., Ltd.	**3**	80
Zhongxing Development Company Limited	**20**	115
深圳市航天歐華科技發展有限責任公司	**256,667**	143,592
Telecom Innovations	**—**	8,266
興天通訊技術有限公司	**34**	2,370
ZTE 9 (Wuxi) Co., Ltd	**—**	13,565
深圳中興新材技術股份有限公司 (formerly known as: 深圳中興創新材料技術有限公司)	**—**	176
ZTE Software Technology (Shenyang) Company Limited	**—**	11
南京仄普托信息科技有限公司	**—**	1
上海中興思秸通訊有限公司	**1**	5
中興儀器 (深圳) 有限公司	**5,475**	22,831
深圳中興節能環保股份有限公司	**839**	6,225
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**—**	27
Shenzhen Xinyu Tengyue Electronics Co., Ltd	**133**	1,892
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**55**	514
廈門智慧小區網絡科技有限公司	**—**	528
南京中興和泰酒店管理有限公司	**—**	18
三河中興發展有限公司	**6**	6
Huanggang Education Valley Investment Holdings Co., Ltd.	**2,715**	1,317
廣東中興城智信息技術有限公司	**—**	1
Nubia Technology Limited	**706,326**	870,358
ZTE Energy (Tianjin) Limited	**—**	1
ZTE Energy (Shenzhen) Limited	**1**	4
上海市和而泰酒店投資管理有限公司	**1,763**	1,734
上海博色信息科技有限公司	**6,975**	—
德特賽維技術有限公司	**5**	—
深圳市中興新力精密機電技術有限公司	**56**	—
Whale Cloud Technology Co., Ltd.	**183**	—
惠州中興新通訊設備有限公司	**18**	—
	1,039,250	1,279,318

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(1) Transaction of goods with related parties (continued)

Purchases of goods and services from related parties

	2018 Amount	2017 Amount
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**65,877**	249,700
Sindi Technologies Co., Ltd.	**56,032**	47,242
Shenzhen Xinyu Tengyue Electronics Co., Ltd	**35,919**	78,692
Mobi Antenna Technologies (Shenzhen) Company Limited	**–**	318,791
Huatong Technology Company Limited	**38,880**	29,250
ZTE Software Technology (Nanchang) Company Limited	**19,787**	38,494
Shenzhen Zhongxing Information Company Limited	**–**	2,167
深圳市航天歐華科技發展有限責任公司	**–**	5,146
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**21,592**	20,010
南京中興和泰酒店管理有限公司	**3,474**	5,198
上海市和而泰酒店投資管理有限公司	**5,145**	5,908
西安中興和泰酒店管理有限公司	**2,467**	3,227
ZTE Energy (Shenzhen) Limited	**–**	1,655
ZTE Energy (Tianjin) Limited	**–**	939
Puxing Mobile Tech Company Limited	**–**	7,890
北京中興協力科技有限公司	**–**	1,359
中興儀器 (深圳) 有限公司	**239**	621
Pylon Technologies Co., Ltd. (formerly known as 上海中興派能能源科技股份有限公司)	**51,768**	6,227
Tianma Microelectronics Co., Ltd.	**–**	131,670
Zhongxing Development Company Limited	**–**	242
廣東歐科空調製冷有限公司	**–**	1,195
石家莊市善理通益科技有限公司	**–**	1,505
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**–**	5,485
Nubia Technology Limited	**756,479**	1,924,897
Laxense, Inc.	**10,745**	5,437
Kron Telekomunikasyon Hizmetleri A.S.	**–**	2,803
Zhongxing Software Technology (Shenzhen) Company Limited	**3,418**	–
深圳市中興新雲服務有限公司	**57**	–
深圳市中興新力精密機電技術有限公司	**57**	–
Whale Cloud Technology Co., Ltd.	**92,175**	–
	1,164,111	2,895,750

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties

As lessor

	Property leased	2018 Lease income	2017 Lease income
Zhongxing Development Company Limited	Office	13	117
深圳中興科揚節能環保股份有限公司	Office	–	40
Puxing Mobile Tech Company Limited	Office	655	496
中興儀器 (深圳) 有限公司	Office	1,668	1,443
深圳中興環保集團股份有限公司	Office	–	40
Hengyang ICT Real Estate Co., Ltd	Office	211	158
上海中興思秸通訊有限公司	Office	453	363
ZTE Software Technology (Ji'nan) Company Limited	Office	–	194
上海中興科源實業有限公司	Office	303	197
Huatong Software Technology (Nanjing) Company Limited	Office	184	–
Shenzhen ZTE International Investment Company Limited	Office	73	–
深圳市中興新雲服務有限公司	Office	841	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	17,826	16,489
南京中興和泰酒店管理有限公司	Property and equipment and facilities	7,848	7,110
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	29,412	27,404
西安中興和泰酒店管理有限公司	Property and equipment and facilities	28,986	26,039
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	Staff quarters	6	–
深圳市中興新力精密機電技術有限公司	Staff quarters	8	–
		88,487	80,090

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties (continued)

As lessee

	Property leased	2018 Lease expense	2017 Lease expense
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	Office	**8,827**	8,827
Zhongxing Development Company Limited	Office	**704**	27,132
Chongqing Zhongxing Development Company Limited	Office	**4,812**	4,886
三河中興發展有限公司	Office	**6,180**	5,536
三河中興物業服務有限公司	Office	**1,900**	1,828
Tianjin ZTE International Investment Company Limited	Office	**2,413**	—
Hangzhou Zhongxing Development Company Limited	Quarters and plants	**120**	601
杭州中興中投物業管理有限公司	Quarters and plants	**33**	145
鄭州中興綠色產業有限公司	Staff bus	**—**	543
		24,989	49,498

(3) Lending to/from related parties

Lending from related parties

2018

	Amount	Start date	Maturity
Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	500,000	31 October 2018	30 October 2019

(4) Other major related transactions

	2018 Amount	2017 Amount
Remuneration of key management personnel	**19,617**	50,152

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(4) Other major related transactions (continued)

Notes:

(i)	Commercial transactions with related parties:	Commercial transactions with related parties was conducted by the Group at market price.
(ii)	Leasing property from/to related parties:	Office space, equipment and facilities were leased to the aforesaid related parties by the Group during the year and lease income of RMB88,487,000 (2017: RMB80,090,000) was recognized in accordance with relevant lease contracts. Office space was leased to the Group by the aforesaid related parties during the year and lease expenses of RMB24,989,000 (2017: RMB49,498,000) was recognized in accordance with relevant lease contracts.
(iii)	Other major related transactions:	The total amount of remuneration (in the form of monetary amounts, physical rewards or otherwise) for the key management personnel of the Company incurred the Group for the year was RMB19,617,000 (2017: RMB50,152,000). The corresponding cost for share-based payment was RMB2,112,000 (2017: RMB7,724,000). Certain of the key management personnel referred to above were concurrently entitled to defined benefit plans provided by the Group, which were not included in the remuneration set out above.

6. Commitments with related parties

(1) In December 2018, the Group entered into a 3-year purchase agreement with Zhongxingxin Telecom Company Limited and its subsidiaries for the purchase of raw materials for use in production. For details of purchases incurred during the year, please refer to Note X.5(1). The maximum amounts of total purchases by the Group from the aforesaid related parties for 2019 to 2021 is estimated at RMB700 million, RMB800 million and RMB900 million (before VAT), respectively.

(2) In December 2018, the Group entered into a 3-year purchase agreement with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries for the purchase of hotel services. For details of purchases incurred during the year, please refer to Note X.5(1). The maximum amounts of total purchases of hotel services by the Group from the aforesaid related parties for 2019 to 2021 is estimated at RMB36 million, RMB36.5 million and RMB37.5 million (before VAT), respectively.

(3) In December 2018, the Group entered into a 1-year software outsourcing service cooperation agreement with Huatong Technology Company Limited for the purchase of software outsourcing services. For details of purchases incurred during the year, please refer to Note X.5(1). The maximum amounts of total purchases by the Group from the aforesaid related party for 2019 is estimated at RMB70 million (before VAT).

(4) In December 2018, the Group entered into a 1-year software outsourcing service cooperation agreement with ZTE Software Technology (Nanchang) Company Limited for the purchase of software outsourcing services. For details of purchases incurred during the year, please refer to Note X.5(1). The maximum amounts of total purchases by the Group from the aforesaid related party for 2019 is estimated at RMB30 million (before VAT).

(5) In December 2018, the Group entered into a 2-year international project service cooperation agreement with ZTE Software Technology (Nanchang) Company Limited for the purchase of software outsourcing services. For details of purchases incurred during the year, please refer to Note X.5(1). The maximum amounts of total purchases by the Group from the aforesaid related party for 2019 and 2020 is estimated at RMB1 million and RMB1 million (before VAT), respectively.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(6) In December 2018, the Group entered into a 1-year channel cooperation agreement with 深圳市航天歐華科技發展有限責任公司 for the sales of products to the latter. For details of sales incurred during the year, please refer to Note X.5(1). The maximum amounts of sales by the Group to the aforesaid related party for 2019 is estimated at RMB800 million (before VAT).

(7) In July 2017, the Group entered into a 2-year property lease contract with 上海中興思秸通訊有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2019 to be RMB186,000.

(8) In April 2018, the Group entered into a 15-month property lease contract with 上海中興思秸通訊有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2019 to be RMB107,000.

(9) In October 2017, the Group entered into a 18-month property lease contract with Puxing Mobile Tech Company Limited. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2019 to be RMB156,000.

(10) In October 2018, the Group entered into a 6-month property lease contract with Puxing Mobile Tech Company Limited. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2019 to be RMB160,000.

(11) In June 2018, the Group entered into a 1-year property lease contract with 中興儀器 (深圳) 有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2019 to be RMB695,000.

(12) In January 2016, the Group entered into a 3-year property lease contract with Hengyang ICT Real Estate Co., Ltd. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2019 to be RMB6,000.

(13) In July 2018, the Group entered into a 2-year property lease contract with 上海中興科源實業有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2019 and 2020 to be RMB416,000 and RMB208,000 respectively.

(14) In April 2018, the Group entered into a 26-month property lease contract with 深圳市中興新雲服務有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2019 and 2020 to be RMB1,122,000 and RMB467,000, respectively.

(15) In September 2017, the Group entered into a 2-year property lease contract with Huatong Software Technology (Nanjing) Company Limited. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2019 to be RMB246,000.

(16) In April 2017, the Group entered into a 2-year lease agreement with Zhongxingxin Telecom Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2019 to be RMB2,624,000.

(17) In January 2018, the Group entered into a 3-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2019 and 2020 to be RMB9,518,000 and RMB9,518,000, respectively.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(18) In April 2018, the Group entered into a 3-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2019 to 2021 to be RMB2,803,000, RMB2,803,000 and RMB833,000, respectively.

(19) In April 2018, the Group entered into a 1-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2019 to be RMB106,000.

(20) In April 2018, the Group entered into a 3-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2019 to 2021 to be RMB1,493,000, RMB1,493,000 and RMB444,000, respectively.

(21) In December 2018, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2019 to 2021 to be RMB753,000, RMB753,000 and RMB722,000, respectively.

(22) In December 2017, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2019 and 2020 to be RMB2,466,000 and RMB1,889,000, respectively.

(23) In March 2017, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2019 and 2020 to be RMB13,604,000 and RMB2,435,000, respectively.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties

Item	Name of related parties	31 December 2018 Amount	31 December 2017 Amount
Other current assets/bills receivable	深圳市航天歐華科技發展有限責任公司	**252,992**	200,800
	中興儀器 (深圳) 有限公司	**7,380**	2,440
	Nubia Technology Limited	**991**	1,311
		261,363	204,551
Dividend receivable	前海融資租賃股份有限公司	**5,400**	–
Trade receivable	Puxing Mobile Tech Company Limited	**15,801**	96,609
	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**14**	–
	Xi'an Microelectronics Technology Research Institute	**9**	9
	ZTE Quantum Co., Ltd.	**304**	319
	深圳市航天歐華科技發展有限責任公司	**13,948**	20,072
	鄂爾多斯市雲端科技有限公司	**–**	1
	興天通訊技術有限公司	**1,588**	4,043
	ZTE Software Technology (Nanchang) Company Limited	**–**	3,074
	中興儀器 (深圳) 有限公司	**5,577**	12,233
	中興智慧成都有限公司	**–**	2,701
	深圳中興節能環保股份有限公司	**–**	37
	重慶前沿城市大數據管理有限公司	**–**	18,954
	廈門智慧小區網絡科技有限公司	**1**	143
	Huanggang Education Valley Investment Holdings Co., Ltd.	**925**	96
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**2**	264
	Hengyang ICT Real Estate Co., Ltd	**–**	59
	Nubia Technology Limited	**46,423**	315,619
	Whale Cloud Technology Co., Ltd.	**172,033**	–
	Zhongxing Development Company Limited	**21**	–
		256,646	474,233

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	31 December 2018 Amount	31 December 2017 Amount
Prepayments	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**242**	242
Other receivables	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**14**	–
	南京中興和泰酒店管理有限公司	**6,962**	2
	ZTE 9 (Wuxi) Co., Ltd	**90**	121
	Shenzhen Zhongxing Information Company Limited	**14**	14
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**28,336**	31,292
	Sindi Technologies Co., Ltd.	**445**	445
	西安中興和泰酒店管理有限公司	**9,526**	226
	Zhongxing Development Company Limited	**14**	–
	Nubia Technology Limited	**–**	17
	山東興濟置業有限公司	**21,761**	21,761
	Hengyang ICT Real Estate Co., Ltd	**236**	–
	北京中興協力科技有限公司	**–**	15
	上海市和而泰酒店投資管理有限公司	**29,412**	–
	Whale Cloud Technology Co., Ltd.	**2,101**	–
		98,911	53,893

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	31 December 2018 Amount	31 December 2017 Amount
Bills payable	Shenzhen Xinyu Tengyue Electronics Co., Ltd	**220**	521
Trade payables	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**8,514**	41,437
	Shenzhen Xinyu Tengyue Electronics Co., Ltd	**3,096**	8,894
	Sindi Technologies Co., Ltd.	**3,802**	5,996
	深圳市中興新舟成套設備有限公司	**183**	183
	Shenzhen Zhongxing WXT Equipment Company Limited	**327**	327
	Shenzhen Zhongxing Information Company Limited	**3,811**	3,325
	Puxing Mobile Tech Company Limited	**–**	9,231
	深圳市航天歐華科技發展有限責任公司	**–**	1,987
	興天通訊技術有限公司	**397**	397
	上海中興思秸通訊有限公司	**–**	1
	Xi'an Microelectronics Technology Research Institute	**192**	192
	北京中興協力科技有限公司	**36**	3
	ZTE Software Technology (Nanchang) Company Limited	**50**	128
	航天科工深圳 (集團) 有限公司	**–**	3
	中興儀器 (深圳) 有限公司	**16,021**	16,210
	ZTE 9 (Wuxi) Co., Ltd	**83**	83
	Nubia Technology Limited	**134,115**	1,057,463
	Laxense, Inc.	**–**	799
	Kron Telekomunikasyon Hizmetleri A.S.	**88**	2,962
	廣東歐科空調製冷有限公司	**–**	863
	鄭州中興綠色產業有限公司	**–**	623
	Huanggang Education Valley Investment Holdings Co., Ltd.	**–**	8,040
	Pylon Technologies Co., Ltd. (formerly known as 上海中興派能能源科技股份有限公司)	**2,943**	–
	Whale Cloud Technology Co., Ltd.	**81,793**	–
		255,451	1,159,147

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	31 December 2018 Amount	31 December 2017 Amount
Contract liabilities/ advanced receipts	ZTE Software Technology (Nanchang) Company Limited	**5,025**	5,327
	Puxing Mobile Tech Company Limited	**23,704**	33,261
	Xi'an Microelectronics Technology Research Institute	**1,391**	1,628
	北京中興協力科技有限公司	**132**	155
	深圳市航天歐華科技發展有限責任公司	**53,097**	36,627
	ZTE Software Technology (Shenyang) Company Limited	**12**	–
	ZTE Energy Limited	**5**	1
	中興儀器 (深圳) 有限公司	**–**	1,800
	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)	**–**	1
	中興智慧成都有限公司	**–**	4,909
	ZTE 9 (Wuxi) Co., Ltd	**1**	1
	紹興市智慧城市集團有限公司	**476**	–
	Huanggang Education Valley Investment Holdings Co., Ltd.	**35**	–
	深圳市中興宜和投資發展有限公司	**38**	–
	深圳市中興新力精密機電技術有限公司	**5**	–
	Whale Cloud Technology Co., Ltd.	**11,434**	–
		95,355	83,710
Other payables	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Zhongxing Development Company Limited	**215**	–
	Zhongxingxin Telecom Company Limited (formerly known as Shenzhen Zhongxingxin Telecommunications Equipment Company Limited)*	**500,812**	–
	上海中興思秸通訊有限公司	**–**	70
	深圳中興新源環保股份有限公司	**4**	4
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	**5,184**	4,977
	中山優順置業有限公司	**2,000**	2,000
	Huanggang Education Valley Investment Holdings Co., Ltd.	**178**	2,106
	Hengyang ICT Real Estate Co., Ltd	**434**	434
	Nubia Technology Limited	**10**	2,439
	山東興濟置業有限公司	**272**	272
	ZTE Software Technology (Nanchang) Company Limited	**50**	–
	Lishan Microelectronics Corporation	**65**	–
	Whale Cloud Technology Co., Ltd.	**419,560**	–
		928,796	12,314

* The amount included a RMB500,000,000 loan to Zhongxingxin Telecom Company Limited. The loan is subject to an annual interest rate of 5.30% and has a 1-year term.

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivables from related parties were interest-free and unsecured with a usual credit term of 0–90 days, which may be extended to up to 1 year.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) Customer deposits

	31 December 2018 Amount	31 December 2017 Amount
前海融資租賃股份有限公司	**—**	4
Nubia Technology Limited	**—**	369
Huanggang Education Valley Investment Holdings Co., Ltd.	**—**	2,161
深圳市中興宜和投資發展有限公司	**88**	—
	88	2,534

(2) Interest expenses

	2018 Amount	2017 Amount
南京中興和泰酒店管理有限公司	**—**	50
上海市和而泰酒店投資管理有限公司	**—**	64
西安中興和泰酒店管理有限公司	**—**	117
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**—**	122
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**—**	3
南京仄普托信息科技有限公司	**—**	50
Nubia Technology Limited	**—**	588
Huanggang Education Valley Investment Holdings Co., Ltd.	**3**	8
深圳市中興宜和投資發展有限公司	**636**	—
	639	1,002

(3) Loans and advances — bills discounting

	31 December 2018 Amount	31 December 2017 Amount
Pylon Technologies Co., Ltd. (formerly known as 上海中興派能能源科技股份有限公司)	**—**	3,100

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties (continued)

(4) Interest income from loans and bills discounting

	2018 Amount	2017 Amount
Pylon Technologies Co., Ltd. (formerly known as 上海中興派能能源科技股份有限公司)	**78**	2
中廣慧觀智慧系統無錫有限公司	**—**	16
	78	18

XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:

	2018	2017
Accumulated balance of equity-settled share-based payments credited to capital reserves*	**438,791**	245,603
Total costs of equity-settled share-based payments in the period	**193,188**	262,956

* No equity-settled share-based payment cost was transferred to the share capital premium in the capital reserve for the year as a result of the exercise of share options.

2. Share option incentive scheme

2017 Share Option Incentive Scheme

Pursuant to the "Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, the date of grant was set for 6 July 2017. Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company's business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

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XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

The performance indicators for the exercise of the share options include:

(1) Rate of Return on Common Stockholders' Equity ("ROE");

(2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

For the purpose of calculating the aforesaid performance indicators under the Scheme, "net profit" shall refer to the net profit attributable to holders of ordinary shares of the listed company and "net assets" shall refer to the net assets attributable to holders of ordinary shares of the listed company.

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/3	From 7 July 2019 to 6 July 2020	ROE for 2017 shall be no less than 10% and Net Profit Growth for 2017 shall be no less than 10% on a base amount of RMB3,825 million
Second exercise period ("Second Period")	1/3	From 7 July 2020 to 6 July 2021	ROE for 2018 shall be no less than 10% and Net Profit Growth for 2018 shall be no less than 20% on a base amount of RMB3,825 million
Third exercise period ("Third Period")	1/3	From 7 July 2021 to 6 July 2022	ROE for 2019 shall be no less than 10% and Net Profit Growth for 2019 shall be no less than 30% on a base amount of RMB3,825 million

The fair value of the share options granted amounted to RMB1,477,496,000, among which the share options expense recognised by the Group in 2018 amounted to RMB193,188, including 1) the reversal of accrued share option expenses amounting to RMB110,909,000 recognised in the previous year due to the non-fulfilment of exercise conditions for the second vesting period; and 2) expenses recognised for the current year amounting to RMB304,097,000 based on the best estimates of expected number of exercisable options at the end of the period for the first vesting period and the third vesting period.

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XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

Share options issued and outstanding under the Scheme are as follows:

	2018		2017	
	Weighted average exercise price* RMB/share	**Number of share options In '000**	Weighted average exercise price* RMB/share	Number of share options In '000
At the beginning of the year	**17.06**	**149,601**	—	—
Granted		**—**	17.06	149,601
Lapsed		**67,737**		—
At the end of the period	**17.06**	**81,864**	17.06	149,601

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

31 December 2018 Number of share options In '000	**Exercise price* RMB/share**	**Valid exercise period**
40,932	**17.06**	7 July 2019 to 6 July 2020
40,932	**17.06**	7 July 2021 to 6 July 2022
81,864		

31 December 2017 Number of share options In '000	Exercise price* RMB/share	Valid exercise period
49,867	17.06	7 July 2019 to 6 July 2020
49,867	17.06	7 July 2020 to 6 July 2021
49,867	17.06	7 July 2021 to 6 July 2022
149,601		

There were no ordinary shares issued pursuant to the exercise of options under the 2017 Scheme.

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		**First**	**Second**	**Third**
Estimated dividend payment (RMB)		0.18	0.18	0.18
Volatility (%)		43.35	42.2	42.9
Risk-free interest rate (%)		3.498	3.506	3.517
Demission rate	Directors & senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

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XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	31 December 2018	31 December 2017
Contracted but not provided of		
Capital commitments	**3,414,134**	2,854,506
Investment commitments	**73,452**	113,178
	3,487,586	2,967,684

2. Contingent events

2.1 In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762,980,000 (equivalent to approximately RMB37,706,500). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB16,211,700) should be paid by the Company. The Company had made provision for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. On 23 June 2018, the district court ruled to reject the objection of the Company against the arbitration award and uphold the original arbitration award. On 19 July 2018, the Company intends to appeal to the higher court against the ruling of the district court in accordance with local laws.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated. Hence, no additional provision was made in respect of the litigation for the year.

2.2 On 11 June 2010, a lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.2 (continued)

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company and subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration ruling. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the district court of Dallas, Texas in respect of the aforesaid ruling. On 19 November 2018, the court of appeal of Dallas, Texas ruled to overturned the ruling of the district court of Dallas, Texas of annulling the arbitration award and reinstated the arbitration award. On 4 December, UTE made an application to the court of appeal of Dallas, Texas for review. On 4 January 2019, UTE made an application to the court of appeal of Dallas, Texas for the case to be heard by the full court. As of now, the court of appeal of Dallas, Texas has ruled to reject the aforesaid application of UTE.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.3 On 26 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with the United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by the Company and ZTE USA, Inc ("ZTE USA"), a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, the ITC issued its initial determination in respect of the case, ruling that one of the patents relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of the ITC.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.3 (continued)

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with the ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, the ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA have engaged a legal counsel to conduct active defence of the case and file an appeal to the United States Court of Appeals for the Federal Circuit based on the verdicts on the three patents involved in the litigation ruled by the Federal District Court of Delaware to have been subject to infringement. In November 2017, United States Court of Appeals for the Federal Circuit ruled that the Company and ZTE USA had infringed upon two out of three patents involved in the aforesaid case. No ruling has yet been made in respect of the one remaining patent involved in the case. Currently, the Federal District Court of Delaware is scheduling a trial to determine compensation in respect of the infringement of the two patents as aforesaid.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.4 In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. In November 2015, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. The company filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again in respect of the said verdict of the Federal District Court of California. In February 2019, the United States Court of Appeals for the Federal Circuit ruled to uphold the judgement of the Federal District Court of California that the Company and ZTE USA had not infringed upon the patents under litigation.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.5 In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB55,529,600). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB55,300,400), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB55,300,400) together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB55,300,400) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.5 (continued)

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB147 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.6 On 12 July 2017, the Company received a notice of arbitration filed with the London Court for International Arbitration (LCIA) against the Company by a Sudanese carrier and its Mauritanian subsidiary. On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by a Mauritanian subsidiary of the said Sudanese carrier (the "Mauritanian Subsidiary"). The Sudanese carrier and its Mauritanian Subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31.80 million in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

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

In May 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to DIFC-LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD37.45 million and other damages for breach of contract, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to DIFC-LCIA and made counter-claims against the Mauritanian Subsidiary under the arbitration.

In October 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD31.88 million, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to LCIA and made counter-claims against the Mauritanian Subsidiary under the arbitration.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this arbitration cannot be reliably estimated.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.7 On 15 April 2018, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the "15 April 2018 Denial Order"). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (its wholly-owned subsidiary) from participating in any way, whether directly or indirectly, in any transaction involving any commodity, software, or technology exported or to be exported from the United States that is subject to the U.S. Export Administration Regulations ("EAR"), or any other activities subject to control under EAR. The full text of the 15 April 2018 Denial Order was published in the United States Federal Register (Federal Register Vol. 83, p. 17644).

In June 2018, ZTE and BIS entered into a superseding settlement agreement ("2018 Superseding Settlement Agreement") to supersede the settlement agreement signed between ZTE and BIS in March 2017. The 2018 Superseding Settlement Agreement came into effect via a superseding order relating to ZTE on 8 June 2018 (the "8 June 2018 Order"). In accordance with the 2018 Superseding Settlement Agreement, the Company had paid civil monetary penalties totalling USD1.4 billion, including a lump sum payment of USD1 billion and an additional penalty of USD0.4 billion placed in an escrow account with a U.S. bank suspended during the Probationary Period (10 years from the issue of the 8 June 2018 Order) (The USD0.4 billion penalty will be waived after the end of Probation Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order (the "Probationary Period") that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR to be imposed by BIS, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE's compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To fulfill the obligations under the superseding settlement agreement of 2018 and the settlement agreement with the U.S. government in 2017, the Company is required to provide and implement a comprehensive and updated export control compliance programme that covers all levels of ZTE.

In the event of the Company's violation of obligations under the 2018 Superseding Settlement Agreement or agreement of 2017, (i) the suspended New Denial Order might be activated, which would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any transaction involving any commodity, software, or technology that is subject to the EAR; (ii) the USD0.4 billion placed in an escrow account with a U.S. bank shall become payable immediately and shall be paid in full or in part.

The Company places a strong emphasis on export control compliance and regards compliance as the cornerstone of its strategy as well as the pre-requisite condition and bottomline of its operations.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.7 (continued)

The Company has formed an export compliance committee under the Board comprising the Company's Executive Directors, Non-executive Directors and Independent Non-executive Directors. An export control compliance team comprising the chief export control compliance officer, the regional export control compliance officer and senior export control compliance experts from around the world has been formed with the support of professional external legal and consultants' teams. A number of consulting firms has been engaged to provide professional guidance for the development and improvement of the Company's administrative structure, system and processes for export control compliance. The SAP trade compliance control system (GTS) has been introduced and implemented to facilitate automated export control compliance administration. Online and offline compliance training has been provided to senior management personnel, subsidiaries, compliance coordinators, account managers and new employees. Supervisory initiatives has been carried out in support of the work of the independent compliance monitor and the Special Compliance Coordinator, complemented by ongoing input in export control compliance.

The Company will remain dedicated to export compliance and the development of updated and comprehensive export compliance programmes to avoid any risks and safeguard the sustainable development of the Company as well as protect the interests of its staff, customers and shareholders.

During the period from 1 January 2018 to the date of publication of this report, to the best of the Company's knowledge, the aforesaid contingent events will not have any material adverse impact on the current financial conditions and operating results of the Group.

2.8. As at 31 December 2018, an amount of RMB10,726,178,000 (31 December 2017: RMB8,419,135,000) was outstanding under the bank guarantee letters issued by the Group.

XIII. POST-BALANCE SHEET DATE EVENTS

There was no post-balance sheet date events for the year.

XIV. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

According to the lease contract signed with lessor, total future minimum lease payments under non-cancellable operating leases falling due are as follows:

	31 December 2018	31 December 2017
Within one year (including first year)	**479,365**	556,766
In the first to second years (including second year)	**243,953**	250,781
In the second to third years (including third year)	**154,819**	71,896
After the third year	**147,238**	84,041
	1,025,375	963,484

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XIV. OTHER SIGNIFICANT MATTERS (continued)

1. Leases (continued)

As lessor:

The Group entered into operating property leasing contracts with terms ranging from 1 year to 15 years with certain lessees, as shown in Note V.14. The leased properties were accounted for as investment properties.

According to the lease contract signed with the lessees, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2018	31 December 2017
Within one year (including first year)	**136,009**	97,220
In the first to second years (including second year)	**60,231**	60,889
In the second to third years (including third year)	**57,449**	63,209
After the third year	**372,907**	430,941
	626,596	652,259

2. Segment reporting

Operating segments

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

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

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

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

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

Segment assets exclude derivative financial instruments, deferred tax assets, cash, long-term equity investments, other receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds payables, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

2018

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
Revenue from external transactions	57,075,772	19,209,590	9,089,781	85,375,143
Rental income	—	—	138,007	138,007
Sub-total	57,075,772	19,209,590	9,227,788	85,513,150
Segment results	16,550,965	223,002	1,649,391	18,423,358
Unallocated revenue				142,651
Unallocated cost				(23,976,987)
Finance costs				(280,648)
Gain from changes in fair values				(861,259)
Investment gain from associates and joint ventures				(797,318)
Total profit				(7,350,203)
Total assets				
Segment assets	38,903,524	11,734,829	6,290,953	56,929,306
Unallocated assets				72,421,443
Sub-total				129,350,749
Total liabilities				
Segment liabilities	11,113,248	2,595,090	1,797,085	15,505,423
Unallocated liabilities				80,884,651
Sub-total				96,390,074
Supplemental information				
Depreciation and amortization expenses	1,673,551	563,255	270,573	2,507,379
Capital expenditure	3,137,583	1,055,995	507,271	4,700,849
Asset impairment losses	1,386,203	466,544	224,116	2,076,863
Credit impairment loss	2,439,451	821,029	394,401	3,654,881

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

2017

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
Revenue from external transactions	63,782,295	35,202,376	9,697,937	108,682,608
Rental income	—	—	132,665	132,665
Sub-total	63,782,295	35,202,376	9,830,602	108,815,273
Segment results	17,894,165	1,172,382	1,696,434	20,762,981
Unallocated revenue				131,194
Unallocated cost				(13,061,869)
Finance costs				(1,043,482)
Gain from changes in fair values				58,301
Investment gain from associates and joint ventures				(128,201)
Total profit				6,718,924
Total assets				
Segment assets	41,211,138	18,963,182	6,404,171	66,578,491
Unallocated assets				77,383,724
Sub-total				143,962,215
Total liabilities				
Segment liabilities	14,148,392	4,452,436	2,180,656	20,781,484
Unallocated liabilities				77,800,584
Sub-total				98,582,068
Supplemental information				
Depreciation and amortization expenses	1,525,883	842,158	235,181	2,603,222
Capital expenditure	4,329,631	2,389,587	667,315	7,386,533
Asset impairment losses	1,485,079	819,637	228,892	2,533,608

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

	2018	2017
PRC Mainland	**54,444,175**	61,958,643
Asia (excluding PRC)	**11,877,250**	15,786,666
Africa	**4,082,307**	3,766,083
Europe, America and Oceania	**15,109,418**	27,303,881
	85,513,150	108,815,273

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	31 December 2018	31 December 2017
The PRC	**20,260,245**	15,940,669
Asia (excluding the PRC)	**1,741,804**	1,217,751
Africa	**540,986**	263,883
Europe, America and Oceania	**953,920**	1,447,623
	23,496,955	18,869,926

Non-current assets, excluding long-term receivables, factored long-term receivables, long-term equity investments, other non-current financial assets, deferred tax assets, goodwill and other non-current assets, are analysed by geographic locations where the assets are located.

Information of major customers

Operating revenue of RMB21,408,710,000 was derived from carriers' network and handset terminal revenue from one major customer (2017: RMB23,151,019,000 from one major customer).

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Bills and trade receivables

	31 December 2018	31 December 2017	1 January 2018
Bills receivable	**—**	1,888,992	—
Trade receivables	**29,045,827**	27,183,075	27,172,292
	29,045,827	29,072,067	27,172,292

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

1. Bills and trade receivables (continued)

Trade receivables

The aging analysis of trade receivables is set out as follows:

	31 December 2018	31 December 2017
Within 1 year	**18,786,786**	18,664,476
1–2 years	**7,546,493**	5,441,076
2–3 years	**2,627,386**	2,288,341
Over 3 years	**9,643,102**	7,419,976
	38,603,767	33,813,869
Less: bad debt provision for trade receivables	**9,557,940**	6,630,794
	29,045,827	27,183,075

	31 December 2018				31 December 2017			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
	Amount	**Percentage (%)**	**Amount**	**Percentage (%)**	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	**4,743,118**	**12**	**4,743,118**	**100**	2,061,404	6	1,690,508	82
For which bad debt provision has been collectively made								
0–6 months	**11,660,246**	**31**	**228,095**	**2**	12,663,815	37	–	–
6–12 months	**5,282,249**	**14**	**159,596**	**3**	4,255,139	13	155,322	4
12–18 months	**3,620,399**	**9**	**187,758**	**5**	3,280,812	10	647,590	20
18–24 months	**2,086,197**	**5**	**158,751**	**8**	2,097,208	6	718,032	34
2–3 years	**2,549,977**	**7**	**1,046,319**	**41**	2,200,400	7	1,297,505	59
Over 3 years	**8,661,581**	**22**	**3,034,303**	**35**	7,255,091	21	2,121,837	29
	33,860,649	**88**	**4,814,822**	**14**	31,752,465	94	4,940,286	16
	38,603,767	**100**	**9,557,940**		33,813,869	100	6,630,794	

Movements in bad-debt provisions for trade receivables:

	Opening balance	Provision for the year	Reversed for the year	Write off	Closing balance
2018	**6,630,794**	**3,021,151**	**–**	**(94,005)**	**9,557,940**
2017	5,183,675	1,962,374	–	(515,255)	6,630,794

For 2018, there was no write-off of bad-debt provision in respect of trade receivables which were individually significant and for which bad-debt provision had been made separately (2017: RMB349,650,000). There was no reversal of bad-debt provision (2017: Nil).

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables".

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

2. Other receivables

The aging analysis of other receivables:

	31 December 2018	31 December 2017
Within 1 year	**8,898,896**	19,094,579
1–2 years	**3,085,770**	3,376,106
2–3 years	**2,615,148**	594,274
Over 3 years	**1,349,401**	2,322,505
Bad debt provision	**(13,540)**	—
Total	**15,935,675**	25,387,464

Other receivables are analysed as follows:

	31 December 2018	31 December 2017
Dividend receivable	**23,753**	23,753
Staff loans	**243,676**	136,480
Transactions with third parties	**15,668,246**	25,227,231
Total	**15,935,675**	25,387,464

3. Available-for-sale financial assets (applicable only to 2017)

	31 December 2017
Available-for-sale equity instruments	
At cost	461,091

Available-for-sale financial assets at cost:

2017

	Book balance				Shareholding percentage	Cash dividend for the period
	Opening balance	Increase during the period	Decrease during the period	Closing balance	(%)	
航天科技投資控股有限公司	201,734	–	–	201,734	2.6936%	17,276
Others	256,357	3,000	–	259,357	–	6,412
	458,091	3,000	–	461,091	–	23,688

4. Long-term trade receivables

	31 December 2018	31 December 2017
Loans granted to subsidiaries (Note 1)	**5,415,135**	5,642,311
Installment payments for the provision of telecommunication system construction projects	**130,322**	110,213
Less: Bad debt provision for long-term receivables	**2,571**	—
	5,542,886	5,752,524

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term trade receivables (continued)

Note 1: Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

Movements in bad debt provision for long-term receivables during the period are as follows:

	Opening balance	Provision for the year	Reversed for the year	Write off for the year	Closing balance
2018	**–**	**2,571**	**–**	**–**	**2,571**
2017	56,952	–	(483)	(56,469)	–

The interest rate of long-term trade receivables ranged from 4.50%–6.16%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables".

5. Long-term equity investments

		31 December 2018	31 December 2017
Equity method			
Joint ventures	(1)	**84,513**	86,082
Associates	(2)	**1,996,509**	1,894,245
Less: Provision for impairment in long-term equity investments		**7,241**	4,764
		2,073,781	1,975,563
Cost method			
Subsidiaries	(3)	**11,156,132**	11,771,004
Less: Provision for impairment in long-term equity Investments	(4)	**61,192**	61,192
		11,094,940	11,709,812
		13,168,721	13,685,375

2018

(1) Joint ventures

		Movements during the year								
	Opening book balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	56,687	–	–	547	–	–	–	–	57,234	–
德特賽維技術有限公司	29,395	–	–	(2,116)	–	–	–	–	27,279	–
	86,082	–	–	(1,569)	–	–	–	–	84,513	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2018 (continued)

(2) Associates

		Movements during the year									
	Opening book balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Others	Closing book balance	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	(2,477)	–	–	(2,477)
ZTE Software Technology (Nanchang) Company Limited	3,799	–	–	148	–	–	–	–	–	3,947	–
ZTE Energy Limited	421,510	–	–	5,485	–	–	–	–	–	426,995	–
思卓中興 (杭州) 科技有限公司	21,248	–	(21,248)	–	–	–	–	–	–	–	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	3,155	–	–	(1,365)	–	–	–	–	–	1,790	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	4,179	–	–	181	–	–	–	–	–	4,360	–
中興江蘇耀維科技	3,834	–	–	(907)	–	–	–	–	–	2,927	–
廣東中興城智信息技術有限公司	4,392	–	–	242	–	–	–	–	–	4,634	–
上海博色信息科技有限公司	20,909	–	–	5,225	–	–	–	–	–	26,134	–
南京寧網科技有限公司	3,460	–	–	416	–	–	–	–	–	3,876	–
Nubia Technology Limited	1,400,518	–	–	(599,400)	–	–	–	–	–	801,118	–
Whale Cloud Technology Co., Ltd.	–	–	–	55,723	–	–	–	–	609,486	665,209	–
石家莊市智慧產業有限公司	–	48,000	–	278	–	–	–	–	–	48,278	–
	1,889,481	48,000	(21,248)	(533,974)	–	–	–	(2,477)	609,486	1,989,268	(7,241)

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2018 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100.0%	100.0%	–
Iwhale Cloud Technology Co., Ltd	–	250,441	(250,441)	–	89.0%	89.0%	80,099
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90.0%	90.0%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100.0%	100.0%	–
ZTE Microelectronics Technology Company Limited	91,957	91,957	–	91,957	76.0%	76.0%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	–	179,767	90.0%	90.0%	4,667
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80.0%	80.0%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100.0%	100.0%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	–	40,500	83.0%	83.0%	–
Guangdong ZTE Newstart Technology Co., Ltd.	13,110	13,110	–	13,110	90.0%	90.0%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100.0%	100.0%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100.0%	100.0%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100.0%	100.0%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90.0%	90.0%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100.0%	100.0%	–
中興國通通訊裝備技術 (北京) 有限公司	15,200	15,200	–	15,200	76.0%	76.0%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100.0%	100.0%	–
PT. ZTE Indonesia	15,275	15,275	–	15,275	100.0%	100.0%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2018 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
ZTE Wistron Telecom AB	2,137	2,137	–	2,137	100.0%	100.0%	–
ZTE Holdings (Thailand) Co., Ltd	10	10	–	10	100.0%	100.0%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100.0%	100.0%	–
ZTE (USA) Inc.	190,133	190,133	–	190,133	100.0%	100.0%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	100.0%	100.0%	–
ZTE DoBrasil LTDA	18,573	18,573	–	18,573	100.0%	100.0%	–
ZTE Romania S.R.L	827	827	–	827	100.0%	100.0%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100.0%	100.0%	–
ZTE-Communication Technologies, Ltd. (Russia)	6,582	6,582	–	6,582	100.0%	100.0%	–
Zhongxing Telecom Pakistan (Private) Ltd	5,279	5,279	–	5,279	93.0%	93.0%	–
Closed Joint Stock Company TKMobile	16,871	16,871	(16,871)	–	51.0%	51.0%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100.0%	100.0%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55.0%	55.0%	57,200
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100.0%	100.0%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	–	–	–	–	31.0%	*	96,000
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100.0%	100.0%	–
北京中興網捷科技有限公司	289,341	289,341	–	289,341	100.0%	100.0%	–
北京中興高達通信技術有限公司	47,500	47,500	(4,750)	42,750	100.0%	100.0%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100.0%	100.0%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95.0%	95.0%	–
中興新能源汽車有限責任公司	112,500	112,500	105,740	218,240	85.0%	85.0%	–
西安中興通訊終端科技有限公司	300,000	300,000	–	300,000	100.0%	100.0%	–
中興健康科技有限公司	15,000	15,000	–	15,000	50.0%	50.0%	–
深圳市中興智谷科技有限公司	15,000	15,000	–	15,000	100.0%	100.0%	–
Jiaxing Xinghe Equity Investment Partnership	92,800	92,800	–	92,800	30.0%	*	–
中興捷維通訊技術有限責任公司	46,530	46,530	–	46,530	100.0%	100.0%	–
深圳市興聯達科技有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
西安中興精誠科技有限公司	9,393	9,393	–	9,393	100.0%	100.0%	–
河南中興光伏科技有限責任公司	–	3,000	(3,000)	–	100.0%	100.0%	–
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	–	19,500	65.0%	65.0%	–
長沙中興智能技術有限公司	350,000	350,000	–	350,000	100.0%	100.0%	–
深圳市中興視通科技有限公司	35,400	35,400	–	35,400	100.0%	100.0%	–
中興(溫州)軌道通訊技術有限公司	25,500	25,500	–	25,500	51.0%	51.0%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2018 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Zhongxing (Shenyang) Financial Technology Company Limited	22,000	26,500	18,500	45,000	100.0%	100.0%	–
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	–	50,000	100.0%	100.0%	–
ZTE (Huai'an) Smart Industries Company Limited	31,620	31,620	–	31,620	51.0%	51.0%	–
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	–	2,000	100.0%	100.0%	–
中興飛流信息科技有限公司	48,960	48,960	–	48,960	51.0%	51.0%	–
ZTE Gaoneng Technology Company Limited	400,000	400,000	–	400,000	80.0%	80.0%	–
Jiyuan ZTE Smart Technology Industries Company Limited	2,550	2,550	–	2,550	51.0%	51.0%	–
Shenyang (ZTE) Big Data Research Company Limited	–	2,000	(2,000)	–	100.0%	100.0%	–
ZTE Smart Auto Company Limited	790,500	790,500	–	790,500	100.0%	100.0%	–
Shijiazhuang Smart City Research Institute Company Limited	2,000	2,000	–	2,000	80.0%	80.0%	–
ZTE Group Finance Holdings (Hangzhou) Limited	–	500,000	(500,000)	–	100.0%	100.0%	–
ZTE (Yiwu) Research Institute Company Limited	–	2,800	(2,800)	–	70.0%	70.0%	–
中興光電子技術有限公司	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	300,000	300,000	–	300,000	25.0%	*	–
深圳市中瑞檢測科技有限公司	10,000	10,000	–	10,000	100.0%	100.0%	–
ZTE Kela Technology (Suzhou) Co., Ltd.	44,100	44,100	–	44,100	90.0%	90.0%	–
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	49,000	–	49,000	100.0%	100.0%	–
ZTE (Xi'an) Co., Ltd.	500,000	500,000	–	500,000	100.0%	100.0%	–
ZTE Wangkun Information Technology (Shanghai) Co., Ltd.	36,000	36,000	–	36,000	75.0%	75.0%	–
西安中興電子科技有限公司	11,250	11,250	33,750	45,000	100.0%	100.0%	–
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	3,000	–	3,000	100.0%	100.0%	–
ZTE (Kunming) ZTE Smart City Industry Research Institute Co., Ltd.	–	–	2,000	2,000	100.0%	100.0%	–
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	5,000	5,000	5,000	10,000	100.0%	100.0%	–
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
		11,771,004	(614,872)	11,156,132	–	–	237,966

* This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

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5. Long-term equity investments (continued)

2018 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the period	Closing balance
ZTE (USA) Inc.	5,381	–	5,381
Shenzhen Guoxin Electronics Development Company Limited	23,767	–	23,767
ZTE DoBrasil LTDA	10,059	–	10,059
ZTE Integration Telecom Limited	4,591	–	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	–	2,030
ZTE Corporation Mexico S.DER. LDEC.V.	41	–	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	–	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	–	9,656
ZTE Holdings (Thailand) Co., Ltd	10	–	10
ZTE (Thailand) Co., Ltd.	205	–	205
ZTE Telecom India Private Ltd.	1,654	–	1,654
ZTE Romania S.R.L.	827	–	827
	61,192	–	61,192

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2017

(1) Joint ventures

	Opening book balance	Movements during the period: Increase of investment	Decrease of investment	Investment gains/ losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	54,520	–	–	2,167	–	–	–	–	56,687	–
德特賽維技術有限公司	–	29,400	–	(5)	–	–	–	–	29,395	–
	54,520	29,400	–	2,162	–	–	–	–	86,082	–

(2) Associates

	Opening book balance	Movements during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Others	Closing book balance	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	–	2,477	–
ZTE Software Technology (Nanchang) Company Limited	4,424	–	–	(625)	–	–	–	–	–	3,799	–
ZTE Energy Limited	396,345	–	–	25,165	–	–	–	–	–	421,510	–
思卓中興(杭州)科技有限公司	21,864	–	–	(616)	–	–	–	–	–	21,248	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	3,788	–	–	(633)	–	–	–	–	–	3,155	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	8,055	–	–	(3,876)	–	–	–	–	–	4,179	–
中興江蘇耀維科技	4,220	–	–	(386)	–	–	–	–	–	3,834	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	2,645	–	(2,645)	–	–	–	–	–	–	–	–
廣東中興城智信息技術有限公司	3,510	–	–	882	–	–	–	–	–	4,392	–
上海博色信息科技有限公司	20,499	–	–	410	–	–	–	–	–	20,909	–
南京寧網科技有限公司	2,981	–	–	479	–	–	–	–	–	3,460	–
Nubia Technology Limited	–	–	–	(233,797)	–	–	–	–	1,634,315	1,400,518	–
	470,808	–	(2,645)	(212,997)	–	–	–	–	1,634,315	1,889,481	(4,764)

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2017 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100.0%	100.0%	6,000,000
Iwhale Cloud Technology Co., Ltd	250,441	250,441	–	250,441	89.0%	89.0%	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90.0%	90.0%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100.0%	100.0%	–
ZTE Microelectronics Technology Company Limited	91,957	91,957	–	91,957	76.0%	76.0%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	–	179,767	90.0%	90.0%	–
Nubia Technology Limited	–	321,407	(321,407)	–	–	–	–
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80.0%	80.0%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100.0%	100.0%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	–	40,500	83.0%	83.0%	9,130
Guangdong ZTE Newstart Technology Co., Ltd.	13,110	13,110	–	13,110	90.0%	90.0%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100.0%	100.0%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100.0%	100.0%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100.0%	100.0%	250,000
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90.0%	90.0%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100.0%	100.0%	35,000
中興國通通訊裝備技術 (北京) 有限公司	15,200	15,200	–	15,200	76.0%	76.0%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100.0%	100.0%	–
PT. ZTE Indonesia)	15,275	15,275	–	15,275	100.0%	100.0%	–
ZTE Wistron Telecom AB	2,137	2,137	–	2,137	100.0%	100.0%	–
ZTE Holdings (Thailand) Co., Ltd	10	10	–	10	100.0%	100.0%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100.0%	100.0%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2017 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
ZTE (USA) Inc.	190,133	190,133	–	190,133	100.0%	100.0%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	100.0%	100.0%	–
ZTE DoBrasil LTDA	18,573	18,573	–	18,573	100.0%	100.0%	–
ZTE Romania S.R.L	827	827	–	827	100.0%	100.0%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100.0%	100.0%	–
ZTE-Communication Technologies, Ltd. (Russia)	6,582	6,582	–	6,582	100.0%	100.0%	–
Zhongxing Telecom Pakistan (Private) Ltd	5,279	5,279	–	5,279	93.0%	93.0%	–
Closed Joint Stock Company TKMobile	16,871	16,871	–	16,871	51.0%	51.0%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100.0%	100.0%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55.0%	55.0%	10,450
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100.0%	100.0%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	–	–	–	–	31.0%	*	120,000
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100.0%	100.0%	–
ZTE Supply Chain Co., Ltd.	–	28,500	(28,500)	–	95.0%	95.0%	–
北京中興網捷科技有限公司	289,341	159,341	130,000	289,341	100.0%	100.0%	–
北京中興高達通信技術有限公司	47,500	47,500	–	47,500	100.0%	100.0%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100.0%	100.0%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95.0%	95.0%	–
中興新能源汽車有限責任公司	112,500	112,500	–	112,500	85.0%	85.0%	–
西安中興通訊終端科技有限公司	300,000	300,000	–	300,000	100.0%	100.0%	–
中興健康科技有限公司	15,000	15,000	–	15,000	50.0%	50.0%	–
深圳市中興智谷科技有限公司	15,000	15,000	–	15,000	100.0%	100.0%	–
Jiaxing Xinghe Equity Investment Partnership	92,800	92,800	–	92,800	30.0%	*	–
中興捷維通訊技術有限責任公司	46,530	46,530	–	46,530	100.0%	100.0%	–
深圳市興聯達科技有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
西安中興精誠科技有限公司	9,393	9,393	–	9,393	100.0%	100.0%	–
Beijing Zhongbao Net Shield Technology Co., Ltd.	–	20,000	(20,000)	–	100.0%	100.0%	–
河南中興光伏科技有限責任公司	3,000	3,000	–	3,000	100.0%	100.0%	–
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	–	19,500	65.0%	65.0%	–
長沙中興智能技術有限公司	350,000	350,000	–	350,000	100.0%	100.0%	–
深圳市中興視通科技有限公司	35,400	35,400	–	35,400	100.0%	100.0%	–
中興 (溫州) 軌道通訊技術有限公司	25,500	25,500	–	25,500	51.0%	51.0%	–
Zhongxing (Shenyang) Financial Technology Company Limited	22,000	22,000	4,500	26,500	100.0%	100.0%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2017 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	–	50,000	100.0%	100.0%	–
ZTE (Huai'an) Smart Industries Company Limited	31,620	31,620	–	31,620	51.0%	51.0%	–
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	–	2,000	100.0%	100.0%	–
中興飛流信息科技有限公司	48,960	20,000	28,960	48,960	51.0%	51.0%	–
ZTE Gaoneng Technology Company Limited	400,000	400,000	–	400,000	80.0%	80.0%	–
Jiyuan ZTE Smart Technology Industries Company Limited	2,550	2,550	–	2,550	51.0%	51.0%	–
Shenyang (ZTE) Big Data Research Company Limited	2,000	2,000	–	2,000	100.0%	100.0%	–
ZTE Smart Auto Company Limited	790,500	500,000	290,500	790,500	100.0%	100.0%	–
Zhuhai Guangtong Bus Service Company Limited	–	232,400	(232,400)	–	70.0%	70.0%	–
Shijiazhuang Smart City Research Institute Company Limited	2,000	2,000	–	2,000	80.0%	80.0%	–
ZTE Group Finance Holdings (Hangzhou) Limited	500,000	500,000	–	500,000	100.0%	100.0%	–
ZTE (Yiwu) Research Institute Company Limited	2,800	2,800	–	2,800	70.0%	70.0%	–
中興光電子技術有限公司	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	300,000	300,000	–	300,000	25.0%	*	–
深圳市中瑞檢測科技有限公司	10,000	–	10,000	10,000	100.0%	100.0%	–
ZTE Kela Technology (Suzhou) Co., Ltd.	44,100	–	44,100	44,100	90.0%	90.0%	–
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	–	49,000	49,000	100.0%	100.0%	–
ZTE (Xi'an) Co., Ltd.	500,000	–	500,000	500,000	100.0%	100.0%	–
ZTE Wangkun Information Technology (Shanghai) Co., Ltd.	36,000	–	36,000	36,000	75.0%	75.0%	–
Xi'an Zhongxing Softare Co., Ltd.	11,250	–	11,250	11,250	100.0%	100.0%	–
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	–	3,000	3,000	100.0%	100.0%	–
ZTE (Kunming) ZTE Smart City Industry Research Institute Co., Ltd.	–	–	–	–	100.0%	100.0%	–
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	5,000	–	5,000	5,000	100.0%	100.0%	–
ZTE (Nanjing) Co., Ltd.	1,000,000	–	1,000,000	1,000,000	100.0%	100.0%	–
		10,261,001	1,510,003	11,771,004			6,424,580

* This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2017 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/decrease during the period	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
Nubia Technology Limited	17,657	(17,657)	—
ZTE DoBrasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L.	827	—	827
	78,849	(17,657)	61,192

6. Operating revenue and costs

	2018		2017	
	Revenue	**Cost**	Revenue	Cost
Principal operations	**64,560,080**	**63,831,760**	81,637,978	80,158,150
Other businesses	**11,555,278**	**129,181**	14,243,657	224,462
	76,115,358	**63,960,941**	95,881,635	80,382,612

7. Investment income

	2018	2017
Investment loss from long-term equity investment under equity method	**(535,543)**	(210,835)
Investment income from long-term equity investment under cost method	**237,966**	6,424,580
Investment gain earned during the period of holding available-for-sale financial assets	**—**	23,688
Investment gain earned during the period of holding other non-current financial assets	**30,196**	—
Investment gain/(loss) from financial assets at fair value through profit or loss for the period of holding	**27,492**	(74,062)
Investment income from the disposal of long-term equity investment	**1,017,940**	714,906
	778,051	6,878,277

Supplementary Information to Financial Statements

(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
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1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	2018 Amount
Loss from the disposal of non-current assets	(34,212)
Investment gain from the disposal of long-term equity investments	662,563
Gain/loss from fair-value change in trading financial assets and trading financial liabilities, and investment gain from disposal of trading financial assets and trading financial liabilities, excluding effective value-protection hedges related to the ordinary business of the Company	69,708
Gain/loss from change in fair value of investment properties	(11,810)
Compensation expenses	(6,818,978)
Impairment of long-term equity investment	(1,001,935)
Other income (other than software VAT refund and refund of tax handing fees)	449,218
Net amount of other non-operating income and expenses and others other than the above	(24,823)
Other profit or loss items meeting the criteria for extraordinary profit or loss	2,501,454
	(4,208,815)
Effect of income tax	631,322
Effect of non-controlling interests (net of tax)	(10,751)
	(3,588,244)

Note 1: The Group recognizes extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items" (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

	2018 Amount	Reason
Refund of VAT on software products	1,590,560	In line with national policies and received on an ongoing basis
Return of tax refund fee	41,677	In line with national policies and received on an ongoing basis
Venture capital firm	376,460	Within the scope of business

Supplementary Information to Financial Statements

(Prepared under PRC ASBEs)
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2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

2018

	Weighted average return on net assets (%)	Earnings per share Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	**(26.10%)**	**RMB(1.67)**	**RMB(1.67)**
Net profit after extraordinary items attributable to ordinary shareholders of the Company	**(12.69%)**	**RMB(0.81)**	**RMB(0.81)**

2017

	Weighted average return on net assets (%)	Earnings per share Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	15.74%	RMB1.09	RMB1.08
Net profit after extraordinary items attributable to ordinary shareholders of the Company	3.11%	RMB0.22	RMB0.21

3. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences in net profit and net assets attributable to shareholders of the parent company between financial statements prepared under PRC ASBEs and under HKFRSs for the year. Ernst & Young acted as the international auditors of the Company.

Independent Auditors' Report

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To the shareholders of ZTE Corporation
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of ZTE Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 330 to 451, which comprise the consolidated statement of financial position as at 31 December 2018, and 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 then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of telecommunication system construction contract	
Revenue generated from telecommunication system construction contract amounted to RMB43,255,586,000 for the year ended 31 December 2018, representing 51% of the total revenue for the year. Such contracts consisted a number of performance obligations mainly included sales of equipment, installation services and various other services. Since ZTE Corporation experienced more contract modification as a result of delay in delivery in 2018 and with the adoption of HKFRS 15 since 1 January 2018, significant judgements and estimates by the management are required for the revenue recognition of telecommunication system construction contracts: I. Whether the promised goods or services represent separate performance obligations. In making such judgment, the management needs to assess whether the promised goods or services are distinct. II. Whether each distinct performance obligation is satisfied over time or at a point in time. In making such judgment, the management needs to consider how the performance obligation is being delivered to customers.	Our audit procedures mainly included: We evaluated the process of revenue recognition of telecommunication system construction contracts and the related internal controls, assessed the Group's accounting policies, and tested the effectiveness of the design and execution of key internal controls. We performed the following tests of details on a sampling basis: In respect of the judgement on whether a performance obligation is distinct and on the timing of the transfer of control, we have assessed the management's judgement, assumptions and methodology upon which it is based, as well as reviewed the key terms of the contract. In respect of the allocation of transaction price, we have assessed the expected cost plus a margin approach and compared the major parameters (e.g., cost, gross margin percentage, etc.) used in the model against historical data.

Independent Auditors' Report

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of telecommunication system construction contracts (continued)	
III. To allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the distinct good or service underlying each performance obligation, the management adopts the expected cost plus a margin approach, which is primarily based on historic data, past experience, parts and configuration of the projects and the evaluation of risk and uncertainty inherent in the arrangement. IV. For contract modification (mainly by way of increasing performance obligations and/or reducing transaction prices) caused by delay in deliveries, the management needs to judge whether this constitute additional distinct performance obligations and whether satisfied and unsatisfied performance obligation are distinct from each other on the date of modification, in order to allocate the modified transaction prices appropriately between the delivered and undelivered performance obligation. When changes in the corresponding transaction price are yet to be confirmed, the management needs to make estimations on the change in transaction price caused by contract modification. In view of the above, the revenue recognition of telecommunication system construction contracts is relatively complicated, we have identified the recognition of revenue from telecommunication system construction as a key audit matter. The relevant disclosures are contained in note 2.2 changes in accounting policies and disclosures; note 2.4 summary of significant accounting policies; note 3 significant accounting judgements and estimates; note 5 revenue, other income and gains; note 29 contract assets and note 34 contract liabilities to the financial statements.	Our audit procedures mainly included: (continued) In respect of contract modification, we have examined the supplemental agreements signed with customers and assessed the methods for allocating transaction prices between the delivered and undelivered performance obligations; for contract modification of which amount has yet to be confirmed, we have assessed the key assumptions on which the management's estimates are based.

Independent Auditors' Report

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss of trade receivables and contract assets	
The carrying amount of trade receivables (long-term trade receivables included) and contract assets as at 31 December 2018 was approximately RMB30,897,980,000 in aggregate, represented 24% of the Group's total asset. The Group adopted HKFRS 9 since 1 January 2018. The adoption has changed the Group's accounting for impairment losses of trade receivables and contract assets by replacing incurred loss approach with a forward-looking expected credit loss ("ECL") approach. For trade receivables and contract assets that contain a significant financing component, the Group chooses as its accounting policy to recognise a loss allowance based on lifetime ECLs. As a result, the Group applies lifetime ECLs to recognise loss allowance for all the trade receivables and contract assets. The Management assesses the ECLs of some trade receivables and contract assets on an individual level while the others by groups of trade receivables and contract assets. For trade receivables and contract assets that are individually significant with objective evidence that the credit risk are obviously different from others, impairment losses are measured based on the present value of all cash shortfalls over the remaining expected lives of the trade receivables and contract assets. For others trade receivables and contract assets, ECLs are assessed by groups with past due information in response to shared credit risk characteristics of debtors. The management has established a provision matrix based on days past due by reference to its historical credit loss experience, adjusted for reasonable and supportable forward-looking factors specific to current and future economic environment.	Our audit procedures mainly included: We evaluated the processes relating to the ECL of trade receivables and contract assets and the related internal controls, tested the effectiveness of design and execution of key internal controls. For ECL of trade receivables and contract assets assessed on individual level, we have examined on a sampling basis, the objective evidence relating to the impairment of trade receivables and contract assets and the key assumptions used in the estimate of the present value of all cash shortfalls. We have also reviewed whether amounts have been recovered after the end of reporting period. For other trade receivables and contract assets, we have assessed whether the provision matrix established by the management was in compliance with the ECL approach and assessed the key parameters used in the provision matrix including mainly: credit rating, historical rates of bad debts, migration rates and forward-looking information, etc.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss of trade receivables and contract assets	
The ECL of trade receivables and contract assets has a significant impact on the financial statements and is subject to significant judgments and estimates of the management. Accordingly, the ECL of trade receivables and contract assets was identified as a key audit matter. The relevant disclosures are contained in note 2.2 changes in accounting policies and disclosures; note 2.4 summary of significant accounting policies; note 3 significant accounting judgements and estimates; note 22 trade and bills receivables/long-term trade receivables and note 29 contract assets, to the financial statements.	Our audit procedures mainly included: (continued) We have obtained debtors' credit information on a sampling basis to ascertain whether the classification of debtors is in compliance with the Group's policy. We have tested the management's ageing analysis based on days past due by examining the original documents (such as bills and bank deposit advices). We have recalculated the ECL of each type of trade receivables and contract assets according to the provision matrix.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Write-down of inventories to net realisable value	
As at 31 December 2018, the carrying amount of inventories in the consolidated financial statements was approximately RMB25,011,416,000, representing 19% of the Group's total assets. The impairment provision of inventories was made based on their respective estimated net realisable value. The assessment of the estimated net realisable value was calculated based on the management's estimated selling prices, estimated costs to be incurred upon completion of production, costs to be incurred to make the sale and the relevant tax. With respect to the estimated selling price, the selling price of the inventories will be made reference to their contract price if they are held for particular contracts. For those without being earmarked to a particular contracts or held for contracts which were cancelled or modified, the management will base on their realisation method to estimate their respective realisable value. The amount of write-down of inventories to net realisable value has a significant impact on the financial statements and is subject to significant judgements and estimates and there were more contracts cancelled or modified in 2018. Therefore, write-down of inventories to net realisable value was identified as a key audit matter. The relevant disclosures are contained in note 2.4 summary of significant accounting policies; note 3 significant accounting judgements and estimates; note 27 inventories and note 6 (loss)/profit before tax to the financial statements.	Our audit procedures mainly included: We evaluated processes of write-down of inventories to net realisable value and the related internal controls; performed testing on key controls to assess the design and execution effectiveness of key internal controls. We observed the stocktaking process to ascertain whether the damaged, slow-moving and obsolete inventories were identified. We tested the aging analysis of inventories by checking the original documents. We evaluated the key assumptions, such as selling prices, cost to be incurred upon completion, selling expense and the relevant taxes, which were used by the management in calculating net realisable value. For inventories held for particular contracts, we checked the respective contract price on a sampling basis. For others, we inspected key assumptions used by the management in estimating the net realisable value and checked whether inventories were sold subsequent to the reporting period on a sampling basis.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of investments in associates	
The carrying amount of investments in associates as at 31 December 2018, was approximately RMB2,917,645,000, represents 2.2% of the Group's total asset. During the current year, indications of impairment were identified in the investment in an associate. As a result, with the assistance of an independent valuer, the management performed an impairment assessment and reduce the respective carrying value of the investment in associates to its recoverable amount accordingly. The recoverable amount was the higher of the investment's fair value less cost of disposal and its value in use. When there is no binding sale agreement nor an active market for that investment, and its fair value less cost of disposal cannot be reliably estimated, value in use is the recoverable amount. In estimating the value in use of the investments in associates, various assumptions such as cash flow projection, growth rate, discount rate, etc. need to be made by management. Considering the fact that impairment of investments in associate has a significant impact on the financial statements and is subject to significant management judgement and estimation, impairment of investment in associates was determined to be a key audit matter. The relevant disclosures are contained in note 2.4 summary of significant accounting policies; note 3 significant accounting judgements and estimates; note 20 investments in associates and note 6 (loss)/profit before tax, to the financial statements.	Our audit procedures mainly included: We reviewed the independent valuer's report and assessed the competence, capabilities and objectivity of the independent valuer. We assessed the methodologies and key parameters used by the management in the impairment test with the assistance of our own specialists. In assessing the significant judgements and estimates used by the management in future cash flow projection, we interviewed the management, reviewed the future cash flows projection prepared by the management and compared the underlying forecast to vaious relavant information(such as approved budgets, historical financial data and externally available industry data).

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Independent Auditors' Report

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is TJEN, Michael.

Certified Public Accountants
Hong Kong

27 March 2019

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Notes	2018 RMB'000	2017 RMB'000
REVENUE	5	**85,513,150**	108,815,273
Cost of sales		**(58,638,348)**	(76,116,539)
Gross profit		**26,874,802**	32,698,734
Other income and gains	5	**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 (financial assets at fair value through profit or loss and derivative financial instruments)	7	**382,607**	—
Other expenses		**(8,978,307)**	(3,184,865)
Finance costs	8	**(1,328,685)**	(1,157,659)
Share of profits and losses of:			
Joint ventures		**2,621**	(1,377)
Associates		**(799,939)**	(126,824)
(LOSS)/PROFIT BEFORE TAX	6	**(7,350,203)**	6,718,924
Income tax credit/(expense)	11	**400,863**	(1,332,582)
(LOSS)/PROFIT FOR THE YEAR		**(6,949,340)**	5,386,342
Attributable to:			
Ordinary equity holders of the parent		**(6,983,662)**	4,568,172
Perpetual capital instruments		**417,037**	501,300
Non-controlling interests		**(382,715)**	316,870
		(6,949,340)	5,386,342
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) 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		**(904,769)**	1,134
Net other comprehensive (loss)/income that may be reclassified to profit or loss in subsequent periods		**(904,769)**	302,995
Other comprehensive income that will not to be reclassified to profit or loss in subsequent periods:			
Actuarial loss on defined benefit plans	38	**(477)**	15,572
Net other comprehensive income that will not to be reclassified to profit or loss in subsequent periods		**(477)**	15,572
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(905,246)**	318,567
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(7,854,586)**	5,704,909
Attributable to:			
Ordinary equity holders of the parent		**(7,869,318)**	4,667,126
Perpetual capital instruments	43	**417,037**	501,300
Non-controlling interests		**(402,305)**	536,483
		(7,854,586)	5,704,909
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB(1.67)**	RMB1.09
Diluted		**RMB(1.67)**	RMB1.08

Consolidated Statement of Financial Position

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

	Notes	**31 December 2018 RMB'000**	31 December 2017 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	14	**10,194,112**	10,202,425
Investment properties	15	**2,011,999**	2,023,809
Prepaid land lease payments	16	**4,867,296**	1,251,535
Goodwill	17	**186,206**	308,806
Other intangible assets	18	**6,270,288**	5,363,042
Investments in joint ventures	19	**97,650**	92,344
Investments in associates	20	**2,917,645**	3,868,253
Available-for-sale investments	21	**—**	3,181,668
Financial assets at fair value through profit or loss	21	**1,502,499**	—
Long-term trade receivables	22	**843,429**	1,244,760
Factored long-term trade receivables	23	**432,041**	2,608,006
Deferred tax assets	24	**2,787,790**	1,464,250
Pledged deposits	25	**2,928,146**	1,462,286
Long-term prepayments, deposits and other receivables	26	**1,310,735**	2,631,327
Total non-current assets		**36,349,836**	35,702,511
CURRENT ASSETS			
Prepaid land lease payments	16	**153,260**	29,115
Inventories	27	**25,011,416**	26,234,139
Amount due from customers for contract works	28	**—**	9,012,909
Contract assets	29	**8,462,226**	—
Trade and bills receivables	22	**21,592,325**	26,398,228
Debt investments at fair value through other comprehensive income	30	**2,730,351**	—
Factored trade receivables	23	**587,869**	1,080,449
Prepayments, other receivables and other assets	31	**8,468,728**	11,980,191
Financial assets at fair value through profit or loss	21	**1,476,823**	—
Derivative financial instruments	32	**228,117**	116,794
Pledged deposits	25	**3,057,459**	3,066,199
Time deposits with original maturity of over three months	25	**98,228**	232,411
Cash and cash equivalents	25	**21,134,111**	30,109,269
Total current assets		**93,000,913**	108,259,704

Consolidated Statement of Financial Position

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

	Notes	**31 December 2018 RMB'000**	31 December 2017 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	33	**27,443,104**	34,463,067
Amount due to customers for contract works	28	**—**	8,050,655
Contract liabilities	34	**14,479,355**	—
Other payables and accruals	35	**19,076,536**	24,297,517
Derivative financial instruments	32	**101,332**	49,830
Interest-bearing bank borrowings	36	**24,983,323**	18,535,867
Bank advances on factored trade receivables	23	**591,931**	1,080,472
Tax payables		**532,281**	583,091
Dividend payables		**1,322**	1,322
Provision	37	**2,167,614**	533,126
Total current liabilities		**89,376,798**	87,594,947
NET CURRENT ASSETS		**3,624,115**	20,664,757
TOTAL ASSETS LESS CURRENT LIABILITIES		**39,973,951**	56,367,268
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	36	**2,366,568**	3,002,146
Bank advances on factored long-term trade receivables	23	**434,137**	2,948,006
Deferred tax liabilities	24	**155,041**	338,131
Provision for retirement benefits	38	**136,245**	133,191
Other non-current liabilities	39	**3,921,285**	4,565,647
Total non-current liabilities		**7,013,276**	10,987,121
Net assets		**32,960,675**	45,380,147
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Issued capital	40	**4,192,672**	4,192,672
Reserves	42	**18,704,904**	27,454,203
		22,897,576	31,646,875
Perpetual capital instruments	43	**6,252,364**	9,321,327
Non-controlling interests		**3,810,735**	4,411,945
Total equity		**32,960,675**	45,380,147

Li Zixue
Director

Xu Ziyang
Director

Consolidated Statement of Changes in Equity

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

		Attributable to ordinary equity holders of the parent										
	Note	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017		4,184,628	11,808,812	(55,655)	25,394	2,022,709	(1,866,975)	10,282,238	26,401,151	9,321,327	5,162,612	40,885,090
Profit for the year		–	–	–	–	–	–	4,568,172	4,568,172	501,300	316,870	5,386,342
Other comprehensive income for the year:												
Hedges, net of tax		–	–	(12,327)	–	–	–	–	(12,327)	–	–	(12,327)
Actuarial gain on defined benefit plans		–	15,572	–	–	–	–	–	15,572	–	–	15,572
Changes in fair value of available-for-sale investments, net of tax		–	94,575	–	–	–	–	–	94,575	–	219,613	314,188
Exchange differences on translation of foreign operations		–	–	–	–	–	1,134	–	1,134	–	–	1,134
Total comprehensive income/(loss) for the year		–	110,147	(12,327)	–	–	1,134	4,568,172	4,667,126	501,300	536,483	5,704,909
Issue of shares		8,044	122,942	–	(42,747)	–	–	–	88,239	–	–	88,239
Capital contributions by non-controlling shareholders		–	–	–	–	–	–	–	–	–	715,803	715,803
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(333,220)	(333,220)
Acquisition of non-controlling shareholders		–	227,403	–	–	–	–	–	227,403	–	(312,525)	(85,122)
Disposal of subsidiaries		–	–	–	–	–	–	–	–	–	(1,198,137)	(1,198,137)
Capital withdrawal by non-controlling shareholders		–	–	–	–	–	–	–	–	–	(159,071)	(159,071)
Distribution to perpetual capital instrument holders		–	–	–	–	–	–	–	–	(501,300)	–	(501,300)
Share Incentive Scheme:	41											
– Equity-settled share option expense		–	–	–	262,956	–	–	–	262,956	–	–	262,956
Transfer from retained profits		–	–	–	–	182,727	–	(182,727)	–	–	–	–
At 31 December 2017		4,192,672	12,269,304*	(67,982)*	245,603*	2,205,436*	(1,865,841)*	14,667,683*	31,646,875	9,321,327	4,411,945	45,380,147

Consolidated Statement of Changes in Equity

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

		Attributable to ordinary equity holders of the parent										
	Note	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 31 December 2017		4,192,672	12,269,304	(67,982)	245,603	2,205,436	(1,865,841)	14,667,683	31,646,875	9,321,327	4,411,945	45,380,147
Effect of adoption of HKFRS 9	2.2	–	(438,135)	–	–	12,136	–	485,323	59,324	–	27,565	86,889
Effect of adoption of HKFRS 15	2.2	–	–	–	–	(75,218)	–	(1,003,689)	(1,078,907)	–	–	(1,078,907)
Other		–	–	–	–	182,394	–	(182,394)	–	–	–	–
At 1 January 2018 (restated)		4,192,672	11,831,169	(67,982)	245,603	2,324,748	(1,865,841)	13,966,923	30,627,292	9,321,327	4,439,510	44,388,129
Profit for the year		–	–	–	–	–	–	(6,983,662)	(6,983,662)	417,037	(382,715)	(6,949,340)
Other comprehensive income for the year:												
Actuarial gain on defined benefit plans		–	(477)	–	–	–	–	–	(477)	–	–	(477)
Exchange differences on translation of foreign operations		–	–	–	–	–	(885,179)	–	(885,179)	–	(19,590)	(904,769)
Total comprehensive income/(loss) for the year		–	(477)	–	–	–	(885,179)	(6,983,662)	(7,869,318)	417,037	(402,305)	(7,854,586)
Capital contributions by non-controlling shareholders		–	(6,680)	–	–	–	–	–	(6,680)	–	187,280	180,600
Acquisition of non-controlling shareholders		–	(31,606)	–	–	–	–	–	(31,606)	–	15,866	(15,740)
Disposal of subsidiary		–	–	–	–	–	–	–	–	–	(91,449)	(91,449)
Final 2017 dividend declared		–	–	–	–	–	–	–	–	–	(338,167)	(338,167)
Distribution to perpetual capital instrument holders		–	–	–	–	–	–	–	–	(501,300)	–	(501,300)
Share Incentive Scheme:	41											
– Equity-settled share option expense		–	–	–	193,188	–	–	–	193,188	–	–	193,188
Repurchase of Perpetual capital instruments		–	(15,300)	–	–	–	–	–	(15,300)	(2,984,700)	–	(3,000,000)
At 31 December 2018		4,192,672	11,777,106*	(67,982)*	438,791*	2,324,748*	(2,751,020)*	6,983,261*	22,897,576	6,252,364	3,810,735	32,960,675

* These reserve accounts comprise the consolidated reserves of approximately RMB18,704,904,000 (2017: RMB27,454,203,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

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

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss)/profit before tax		**(7,350,203)**	6,718,924
Adjustments for:			
Finance costs	8	**1,328,685**	1,157,659
Share of profits and losses of joint ventures		**(2,621)**	1,377
Share of profits and losses of associates		**799,939**	126,824
Bank interest income	5	**(600,357)**	(651,127)
Interest income arising from revenue contracts	5	**(148,453)**	(256,955)
Dividend income from equity investments at fair value through profit or loss/available-for-sale investments	5	**(46,634)**	(32,318)
Loss on disposal of items of property, plant and equipment	6	**16,450**	80,492
Gain on disposal of subsidiaries	6	**(662,563)**	(2,286,581)
Gain on disposal of associates	6	**—**	(48,710)
Gain on disposal of available-for-sale investments	6	**—**	(438,454)
Gain on disposal of equity investments at fair value through profit or loss	7	**(376,460)**	—
Fair value (gains)/losses, net:			
Derivative instruments — transactions not qualifying as hedges	6	**(55,901)**	(50,962)
Equity investments at fair value through profit or loss	6	**913,010**	—
Wealth management products	5	**(7,660)**	—
(Gain)/loss on disposal of derivative financial instruments	6	**(6,147)**	137,534
Depreciation	14	**1,232,407**	1,199,131
Recognition of prepaid land lease payments		**53,733**	27,993
Amortisation of intangible assets	18	**1,221,239**	1,376,098
Write-down of inventories to net realisable value	6	**884,794**	130,836
Impairment of trade receivables	6	**3,445,793**	2,222,096
Impairment of other receivables	6	**130,770**	—
Impairment of factored trade receivables	6	**2,853**	—
Impairment of factored long-term trade receivables	6	**2,096**	—
Impairment of property, plant and equipment	6	**7,515**	16,507
Impairment of debt investments at fair value through other comprehensive income	6	**2,455**	—
Impairment of available-for-sale investments	6	**—**	97,913
Impairment of investments in associates	6	**999,680**	—
Impairment of investments in joint ventures	6	**2,255**	—
Impairment of the amount due from customers for contract works	6	**—**	54,246
Impairment of contract assets	6	**70,914**	—
Impairment of intangible assets	6	**59,356**	12,010
Impairment of goodwill	6	**123,263**	—
Equity-settled share option expense	6	**193,188**	262,956
Changes in fair value of investment properties	6	**11,810**	(7,339)
		2,245,206	9,850,150

Consolidated Statement of Cash Flows

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

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES (Continued)			
Increase in inventories		**(2,314,884)**	(1,300,152)
Decrease in the amount due from customers for contract works		**9,012,909**	277,968
Increase in contract assets		**(8,533,140)**	—
Increase in trade receivables		**(384,092)**	(396,047)
Increase in debt investments at fair value through other comprehensive income		**(2,732,806)**	—
Decrease in long-term trade receivables		**398,760**	298,205
Decrease/(increase) in factored trade receivables		**2,663,596**	(35,429)
Decrease in prepayments other receivables and other assets		**3,111,981**	1,071,119
Decrease in trade and bills payables		**(5,337,437)**	(994,118)
(Decrease)/Increase in the amount due to customers for contract works		**(8,050,655)**	2,173,865
Increase in contract liabilities		**14,479,355**	—
Decrease in other payables and accruals		**(11,919,607)**	(4,255,489)
Increase in provision for retirement benefits		**3,531**	2,657
(Increase)/decrease in other non-current assets		**(469,562)**	21,832
Cash generated from operations		**(7,826,845)**	6,714,561
Interest received		**747,518**	907,786
Interest and other finance costs paid		**(1,323,770)**	(1,078,545)
Hong Kong profits tax and overseas taxes paid		**(310,698)**	(478,379)
PRC taxes paid		**(679,999)**	(721,754)
Dividends paid to non-controlling shareholders		**(338,167)**	(382,215)
Interest paid to perpetual bondholders		**(501,300)**	(501,300)
Net cash flows (used in)/from operating activities		**(10,233,261)**	4,460,154

Consolidated Statement of Cash Flows

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

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to prepaid land lease payments		**(268,158)**	(1,814,084)
Purchases of items of property, plant and equipment		**(2,387,573)**	(2,340,339)
Purchases of intangible assets		**(2,226,141)**	(1,829,582)
Proceeds from disposal of items of property, plant and equipment		**374,948**	128,716
Receipt of government grants for property, plant and equipment		**177,576**	—
Acquisition of joint ventures		**(7,000)**	(29,399)
Capital contribution to associates		**(81,710)**	(64,568)
Purchases of equity investments at fair value through profit/available-for-sale investments		**(65,100)**	(337,161)
Addition to other receivables		**—**	476,907
Disposal of subsidiaries		**498,207**	(647,838)
Disposal of associates		**—**	52,852
Increase of other non-current liabilities		**—**	1,771,000
Increase of other payables and accruals		**2,200,000**	—
Acquisition of subsidiaries		**—**	(582,656)
Dividend received from associates		**—**	32,244
Dividend received from equity investments at fair value through profit or loss/available-for-sale investments		**46,634**	32,318
Proceeds from disposal of equity investments at fair value through profit or loss/available-for-sale investments		**466,017**	555,183
Purchases of wealth management products		**(1,810,274)**	—
Receipt from maturity of wealth management products		**2,272,595**	—
Proceeds from settlement of derivative financial instruments		**21,855**	(253,078)
Decrease in time deposits with original maturity of over three months		**134,183**	853,792
Increase in pledged bank deposits		**(1,457,120)**	(56,032)
Net cash flows used in investing activities		**(2,111,061)**	(4,051,725)

Consolidated Statement of Cash Flows

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

	Notes	2018 RMB'000	2017 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		**—**	88,239
Capital contribution by non-controlling shareholders		**180,600**	14,200
Acquisition of non-controlling interests		**(15,740)**	(85,122)
Repayment of perpetual capital instruments		**(3,000,000)**	—
New bank loans		**29,123,900**	35,148,401
Repayment of bank loans		**(22,811,035)**	(35,422,108)
(Decrease)/increase in bank advances on factored trade receivables		**(426,402)**	373,717
Net cash flows from financing activities		**3,051,323**	117,327
NET INCREASE IN CASH AND CASH EQUIVALENTS		**(9,292,999)**	525,756
Cash and cash equivalents at beginning of year		**30,109,269**	30,049,791
Effect of foreign exchange rate changes, net		**317,841**	(466,278)
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	**21,134,111**	30,109,269
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	25	**20,964,655**	23,261,237
Time deposits with original maturity of less than three months	25	**169,456**	6,848,032
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**21,134,111**	30,109,269

Notes to Financial Statements

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

1. CORPORATE AND GROUP INFORMATION

ZTE Corporation (the "Company") is a limited liability company established in the People's Republic of China (the "PRC").

The registered office of the Company is located at ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen 518057, the PRC.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in the design, development, manufacture and sale of telecommunication system equipment and solutions.

In the opinion of the directors, in accordance with Chapter 8 "Qualifications For Listing" of the Rules Governing The Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), the controlling shareholder of the Group is Zhongxingxin Telecom Company Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ZTE Kangxun Telecom Company Limited# (i) (深圳市中興康訊電子有限公司)	The PRC/ Mainland China	RMB1,755,000,000	100%	—	Manufacture and sale of electronic components
Zhongxing Software Company Limited# (i) (深圳市中興軟件有限責任公司)	The PRC/ Mainland China	RMB51,080,000	100%	—	Development of telecommunication software systems and provision of related consultancy services
Xi'an Zhongxing New Software Company Limited# (i) (西安中興新軟件有限責任公司)	The PRC/ Mainland China	RMB600,000,000	100%	—	Development of telecommunication software systems and provision of related consultancy services
Xi'an Zhongxing Terminal Technology Company Limited# (i) (西安中興通訊終端科技有限公司)	The PRC/ Mainland China	RMB300,000,000	100%	—	Development, manufacture and sale of telecommunication related products
ZTE (H.K.) Limited (中興通訊(香港)有限公司)	Hong Kong	HK$995,000,000	100%	—	Marketing and sale of telecommunication system equipment and provision of management services
ZTE Technology & Service Company Limited# (i) (深圳市中興通訊技術服務有限責任公司)	The PRC/ Mainland China	RMB200,000,000	90%	10%	Development, manufacture and sale of telecommunication related products

(i) These subsidiaries are registered as limited companies under PRC law.

The English names of these subsidiaries are directly translated from their Chinese names.

Notes to Financial Statements

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

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

There are three limited partnership entities whose general partner is controlled by the Company, so the Company controls three limited partnership entities even though it holds less than half of the ownership percentage in them.

2.1 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 arranges; and

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

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

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

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

Notes to Financial Statements

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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.

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

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:

Notes to Financial Statements

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

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:

		HKAS 39 measurement				HKFRS 9 measurement	
	Notes	Category	Amount RMB'000	Reclassification RMB'000	Remeasurement RMB'000	Amount RMB'000	Category
Financial assets							
Financial assets at fair value through profit or loss			–	3,181,668	133,108	3,314,776	FVPL[1] (equity)
From: Available-for-sale investments	(i)		–	3,181,668	133,108	–	
Available-for-sale investments		AFS[2]	3,181,668	(3,181,668)	–	–	
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			–	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
			72,812,893	–	109,969	72,922,862	

Notes to Financial Statements

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

Classification and measurement (continued)

	Notes	HKAS 39 measurement Category	Amount RMB'000	Reclassification RMB'000	Remeasurement RMB'000	HKFRS 9 measurement Amount RMB'000	Category
Other assets							
Contract assets			–	9,012,909	–	9,012,909	
From: Amount due from customers for contract works			–	9,012,909	–	–	
Amount due from customers for contract works			9,012,909	(9,012,909)	–	–	
To: Contract assets	(iii)		–	(9,012,909)	–	–	
Total assets			81,825,802	–	109,969	81,935,771	
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
Financial liabilities included in other non-current liabilities		AC	492,413	–	–	492,413	AC
Bank advances on factored long-term trade receivables		AC	2,948,006	–	–	2,948,006	AC
Other liabilities							
Deferred tax liabilities			338,131	–	23,080	361,211	
Total liabilities			67,114,000	–	23,080	67,137,080	

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 classified its unlisted investments previously classified as available-for-sale investments as financial assets measured at fair value through profit or loss as these non-equity investments did not pass the contractual cash flow characteristics test in HKFRS 9.

(ii) The gross carrying amounts of the trade and bills 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 its bills receivable are managed within a business model to collect contractual cash flows and to sell the financial assets. Accordingly, the Group has classified bills receivable as debt investments measured at fair value through other comprehensive income.

Notes to Financial Statements

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) (continued)

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 RMB'000	**Remeasurement** RMB'000	**ECL allowances under HKFRS 9 at 1 January 2018** RMB'000
Trade receivables	9,143,050	23,139	9,166,189
Contract assets	119,011	—	119,011
	9,262,061	23,139	9,285,200

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 RMB'000
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	—
Balance as at 1 January 2018 under HKFRS 9	—
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)
Balance as at 1 January 2018 under HKFRS 9	15,153,006

Notes to Financial Statements

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(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	188,959
Total assets	(497,663)
Liabilities	
Amount due to customers for contract works	(8,050,655)
Other payables and accruals	(8,702,351)
Contract liabilities	16,753,006
Provision	581,244
Total liabilities	581,244
Equity	
Retained profits	(1,003,689)
Statutory reserves	(75,218)
Total equity	(1,078,907)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

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 RMB'000	Previous HKFRS 15 RMB'000	Increase/ (decrease) RMB'000
Revenue	85,513,150	84,755,551	757,599
Cost of sales	(58,638,348)	(57,914,415)	(723,933)
Gross profit	26,874,802	26,841,136	33,666
Loss before tax	(7,350,203)	(7,383,869)	33,666
Income tax credit	(400,863)	(463,505)	62,642
Loss for the year	(6,949,340)	(6,920,364)	(28,976)
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	(382,715)	(382,715)	—
	(6,949,340)	(6,920,364)	(28,976)
Loss per share attributable to ordinary equity holders of the parent			
Basic	RMB(1.67)	RMB(1.66)	RMB(0.01)
Diluted	RMB(1.67)	RMB(1.66)	RMB(0.01)

Consolidated statement of financial position as at 31 December 2018:

	Amounts prepared under		
	HKFRS 15 RMB'000	Previous HKFRS RMB'000	Increase/ (decrease) 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	2,787,790	2,850,432	(62,642)
Total assets	36,261,432	34,796,357	1,465,075
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	2,167,614	673,563	1,494,051
Total liabilities	35,723,505	34,229,454	1,494,051
Retained profits	6,983,261	7,012,237	(28,976)
Non-controlling interests	3,810,735	3,810,735	—
Total equity	10,793,996	10,822,972	(28,976)

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

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 profit or loss for the year ended 31 December 2018 are described below:

(i) Sale of telecommunications system construction contracts

Revenue from telecommunication system construction contracts were previously recognised 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 the transaction price allocated each performance obligation is recognised as revenue when that performance obligation is satisfied by transferring a promised good or service or a bundle of good and service to a customer (which is the point in time when the customer obtains control of that good or service or a bundle of goods and services).

Accordingly, upon adoption of HKFRS 15, contract assets decreased by RMB3,230,000,000, inventories and deferred tax assets increased by RMB2,891,000,000 and RMB148,000,000 as at 1 January 2018, respectively, which resulted in a 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 also increased by RMB897,000,000 and RMB754,000,000, respectively.

(ii) Amount due from customers for contract works

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 the 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 the 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 the amount due to customers for contract works or advances from customers 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, RMB6,843,000,000 was reclassified from other payables and RMB7,636,000,000 from the 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.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(c) (continued)

(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.

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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 elective 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.

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, investment properties, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	30 to 50 years
Leasehold improvements	Over the shorter of the lease terms and 10 years
Machinery, computers and office equipment	5 to 10 years
Motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction or installation during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under “Property, plant and equipment and depreciation” up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under “Property, plant and equipment and depreciation” above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technology know-how

Purchased technology know-how is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over its estimated useful life of not more than 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Computer software

Purchased computer software is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over its estimated useful life of not more than 5 years.

Franchise

Franchise is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis for 3 to 10 years, being the period that the franchise is granted to the Group.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Initial recognition and measurement (continued)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

- The financial asset is held within a business model with the objective of both holding to collect contractual cash flows and selling.

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

Financial assets at fair value through other comprehensive income (debt instruments) (continued)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial investments, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for “Revenue recognition (applicable before 1 January 2018)” below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Initial recognition and measurement

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

Held-to-maturity investments

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other gains or losses.

Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for "Revenue recognition(applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, Group continues to recognise the transferred asset to the extent of the Group's continuing involvement in the asset. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (continued)

General approach (continued)

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group assesses ECLs on an individual level for trade and bills receivable and contract assets that are individually significant and there is objective evidence that the expected credit risk are obviously different from others. For others, the Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses individually whether objective evidence of impairment exists individually for financial assets that are individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) (continued)

Financial assets carried at amortised cost (continued)

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss — is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, derivative financial instruments, interest-bearing bank and other borrowings, bank advances on factored trade receivables and bank advances on factored long-term trade receivables.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Subsequent measurement (continued)

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

The Group uses derivative financial instruments, such as forward currency contracts and interest rate swaps, to hedge its foreign currency risk and interest rate risk, respectively. These derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Initial recognition and subsequent measurement (continued)

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or
- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or
- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge.

Before 1 January 2018, the documentation included identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group assessed the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges were expected to be highly effective in achieving offsetting changes in fair value or cash flows and were assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Starting from 1 January 2018, the documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour, an appropriate proportion of overheads and/or subcontracting fees. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Construction contracts (applicable before 1 January 2018)

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of telecommunication system contracts. Contract costs incurred comprise direct materials, the costs of subcontracting, direct labour and an appropriate proportion of variable and fixed construction overheads.

Revenue from fixed price telecommunication system contracts is recognised using the percentage of completion method when the contract activities have progressed to a stage where an economic benefit can be reasonably foreseen and is measured by reference to the proportion of costs incurred to date to the estimated total cost of the relevant contract.

Provision is made for foreseeable losses as soon as they are anticipated by management. Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is treated as an amount due from customers for contract works. Where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is treated as an amount due to customers for contract works.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

The Group provides for warranties in relation to the sale of certain hardware products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with the general guidance for provisions above; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with the guidance for revenue recognition.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as a deduction against the related expense, which it is intended to compensate. When the grant related to income does not compensate any expense item, it is recognised in other revenue and gains. Where the grant relates to an asset, including non-monetary grants at fair value, shall be presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of goods

The product sales contracts between the Group and its customers typically include contractual performance obligations for the transfer of products. The Group typically recognizes its revenue at the time of delivery and acceptance upon inspection taking into account the following factors: the acquisition of the current right to receive payments for the products, the transfer of major risks and rewards of ownership, the transfer of the legal right of the products, the transfer of the physical assets of the products, and customers' acceptance of the products.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

Rendering of services

The service contracts between the Group and its customers usually include performance obligations such as service-type warranty; management and maintenance services; engineering services. As the customer simultaneously receives and consumes the benefits provided by the Group's contractual performance, the Group considers such contractual performance obligations to be obligations performed over a period of time, and revenue shall be recognized according the progress of performance. For contracts with direct measurements, such as service-type warranty; management and maintenance services, the Group determines the progress of performance of the service according to the output method. For a small number of service contracts which output indicators cannot be reliably measured, input method is used to determine the progress of performance.

Telecommunication system construction services

Telecommunication system construction services usually contains equipment sales, installation services etc. There are two models to distinct performance obligations.

In some cases, the promises to transfer the equipment and provide installation services are capable of being distinct and separately identifiable. In other cases, the equipment and installation services are highly interdependent thus customers can benefit from each bundle of equipment sales or installation services either on its own or together with other resources that are readily available to the customer. A bundle of equipment sales and installation services is accounted as a single performance obligation. Performance obligations in those contracts are identified and transaction price allocated each performance obligation is recognised 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 those distinct equipment and installation services or a bundle of equipment sales and installation services.

Variable consideration

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Significant financing component

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from contracts with customers (continued)

Consideration paid or payable to a customer

A consideration payable to a customer should be accounted for as a reduction of the transaction price and the Group will recognise the reduction of revenue when (or as) the later of either of the following events occurs, except when the consideration payable to a customer is a payment for a distinct good or service from the customer.

Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Contract modifications

When a change in the scope or price (or both) of a contract is approved by the parties to the contract:

(a) when the scope of the contract increases because of the addition of promised goods or services that are distinct, and the price of the contract increases by an amount of consideration that reflects the Group's stand-alone selling prices of the additional promised goods or services, the Group shall account for a contract modification as a separate contract.

(b) If a contract modification is not accounted for as a separate contract in accordance with paragraph (a), and the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, the Group shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract.

(c) If a contract modification is not accounted for as a separate contract in accordance with paragraph (a), and the remaining goods or services are not distinct from the goods or services transferred on or before the date of the contract modification, the Group shall account for the contract modification as if it were a part of the existing contract. The effect that the contract modification has on the transaction price, and on the Group's measure of progress towards complete satisfaction of the performance obligation, is recognised as an adjustment to revenue at the date of the contract modification.

Warranties

Warranties are commonly included in arrangements to sell goods or services. They can be explicitly stated, required by law or implied based on the Group's customary business practices. The assurance-type warranties are accounted referring to note 2.4 Provisions. The service-type warranties represent a distinct service and are separate performance obligations. Therefore, using the estimated stand-alone selling price of the warranty, the Group allocates a portion of the transaction price to the service-type warranty. The Group then recognises the allocated revenue over the period in which the service-type warranty service is provided. In assessing whether a warranty provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications, the Group will consider factors such as,(a)whether the warranty is required by law, (b) the length of the warranty coverage period and (c) the nature of the tasks that the Group promises to perform.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) from the telecommunication system contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts (applicable before 1 January 2018)" above;

(c) from the rendering of services, when services are rendered;

(d) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument to the net carrying amount of the financial asset;

(e) dividend income, when the shareholders' right to receive payment has been established; and

(f) for contracts involving multiple deliverables, where the deliverables are governed by more than one authoritative accounting standard, the Group generally evaluates each deliverable to determine whether it represents a separate unit of accounting based on the following criteria: (i) whether the delivered item has value to the customer on a stand-alone basis and (ii) whether the contract that includes a general right of return relative to the delivered item, delivery or performance of the undelivered item(s) is considered probable and substantially in the control of the Group. Arrangement consideration shall be allocated at the inception of the arrangement to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence of selling price, if it exists; otherwise, third-party evidence of selling price. If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the Group shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the Group can determine vendor-specific objective evidence or third-party evidence of selling price, the Group shall not ignore information that is reasonably available without undue cost and effort.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Contract assets (applicable from 1 January 2018)

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

Contract costs (applicable from 1 January 2018)

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

Right-of-return assets (applicable from 1 January 2018)

A right-of-return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned goods.

Employee benefits

Defined contribution pension schemes

The Company and certain of its subsidiaries established in the PRC have joined a number of defined contribution pension schemes organised by the relevant provincial and municipal social insurance management bodies of the PRC government for those employees who are eligible to participate in the schemes. The Company, these subsidiaries and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the year. The contributions payable are charged as an expense to profit or loss as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit pension scheme (continued)

In addition, the Group provides certain employees, who joined the Group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefit pension scheme is actuarially determined and recognised over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees and no contribution has been made to fund future obligations since the commencement of the defined benefit pension scheme. Therefore, there are no assets in respect of this scheme held separately from those of the Group in independently administered funds and no actuarial valuation for the plan assets has been conducted.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to the capital reserve through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and

- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements

- net interest expense or income

Share-based payments

The Company operates a share incentive scheme (the "Share Incentive Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate valuation method, further details of which are given in note 41 to the financial statements.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of the outstanding subject shares is reflected as additional share dilution in the computation of earnings per share.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into Renminbi at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Renminbi at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue from contracts with customers (applicable from 1 January 2018)

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Performance of obligations under telecommunication system construction contracts (applicable from 1 January 2018)

The Group's telecommunication system construction contracts typically include equipment sales and installation service or a combination of both. The Group determines whether the equipment sales and installation service and their combination are distinct. Where the customer can benefit from the individual use of such equipment or installation service or their use together with other readily available resources, the standalone equipment sales and installation service are accounted for as single contractual performances. Such standalone equipment sales and installation service are considered distinct as: (a) the Group doesn't provide a significant service of integrating the equipment or installation service with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted; (b) one or more of the equipment or installation service doesn't significantly modifies or customizes, nor will they be significantly modified or customized by, one or more of the other goods or services promised in the contract; and (c) the equipment or installation service is not highly interdependent nor highly interrelated. For a number of bundles of equipment sales and installation services that are not distinct, if these bundles are not highly interdependent nor highly interrelated, and customers can benefit individually from each bundle or from using it with other easily accessible resources, each of the aforementioned performance obligations (distinct equipment sales, distinct installation services or each bundle of the equipment sales and installation services) is treated as a single performance obligation. The comprehensive application of the aforesaid judgement is significant for identifying performance obligations.

Measuring progress towards complete satisfaction of service rendering contracts (applicable from 1 January 2018)

The service contracts between the Group and its customers usually include performance obligations such as service-type warranty; management and maintenance services; engineering services and etc. The Group satisfies such performance obligations and recognises revenue over time by measuring the progress towards complete satisfaction of those performance obligations. For contracts with explicit measures of output, such as service-type warranty; management and maintenance services, the Group measures the progress towards complete satisfaction using output method. For a certain service contracts in which no measure of output can be reliably measured, input method is used to measure the progress towards complete satisfaction.

Performance of obligation at a point in time (applicable from 1 January 2018)

For performance obligations of the Group such as sale of telecommunication system equipment and terminals, installation service in a telecommunication system construction contract and bundles of equipment sales and installation services that are not distinct from each other, as: (a) the customer is unable to receive and consume the benefits provided by the Group's performance; (b) the Group's performance does not create or enhance an asset (e.g., work in progress) that the customer controls as the asset is created or enhanced; and (c) the Group does not have an enforceable right to payment for performance completed to date. Hence, such performance obligations are satisfied at a point in time. Specifically, revenue of those performance obligations is recognised upon acceptance by the customers after the respective performance obligations are satisfied.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (applicable from 1 January 2018) (continued)

Business model (applicable from 1 January 2018)

The classification of financial assets at initial recognition depends the Group's business model for managing the financial assets. In determining the business model, the Group considers how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within) and, in particular, the way those risks are managed and how managers of the business are compensated. In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, it is necessary for the Group to consider the reason, timing, frequency, and value of sales prior to maturity date.

Characteristics of contract cash flow (applicable from 1 January 2018)

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics, judgement is required to determine whether they are 'solely payments of principal and interest on the principal amount outstanding'. The Group needs to determine whether the resulting cash flows from an instrument with modified time value of money element is significantly different from an instrument that has an unmodified time value of money element when assessing modification to time value of money element and the Group needs to determine whether the fair value of the prepayment feature is insignificant when assessing a financial asset with a prepayment feature.

Revenue recognition (applicable before 1 January 2018)

The Group's material revenue streams are the result of a wide range of activities, from custom design and installation over a period of time to a single delivery of equipment to a customer. The Group's networking solutions also cover a broad range of technologies and are offered on a global basis. As a result, the Group's revenue recognition policies may differ depending on the level of customisation within the solution and the contractual terms with the customer. Newer technologies within one of the Group's reporting segments may also have different revenue recognition policies, depending on, among other factors, the specific performance and acceptance criteria within the applicable contracts. Therefore, management must use significant judgement in determining how to apply the current accounting standards and interpretations, not only based on the networking solutions, but also within networking solutions based on reviewing the level of customisation and contractual terms with the customer. As a result, the Group's revenues may fluctuate from period to period based on the mix of solutions sold and the geographic regions in which they are sold.

When a customer arrangement involves multiple deliverables which are governed by more than one authoritative standard, the Group evaluates all deliverables to determine whether they represent separate units of accounting based on the following criteria:

- whether the delivered item has value to the customer on a stand-alone basis;
- whether the contract that includes a general right of return relative to the delivered item, and whether delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgements, such as whether delivered elements have stand-alone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (applicable before 1 January 2018) (continued)

Characteristics of contract cash flow (applicable from 1 January 2018) (continued)

Arrangement consideration shall be allocated at the inception of the arrangement to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence ("VSOE") of selling price, if it exists; otherwise, third-party evidence of selling price. If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the vendor can determine vendor-specific objective evidence or third-party evidence of selling price, the vendor shall not ignore information that is reasonably available without undue cost and effort.

For instance, the Group sells hardware and post-contract support services on a stand-alone basis and therefore it has evidence to establish VSOE for both the sale of goods and post-contract support.

The Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also involves significant judgement. For instance, the determination of whether post-contract support services are more than incidental to hardware may impact on whether the hardware is accounted for based on multiple-element revenue recognition guidance or based on general revenue recognition guidance. This assessment could significantly impact the amount and timing of revenue recognition.

For elements related to customised network solutions and certain network build-outs, revenues are recognised under HKAS 11 Construction Contracts, generally using the percentage of completion method. In using the percentage of completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognised in the period that such losses become known. Generally, the terms of long-term contracts that provide for progress billings are based on completion of certain phases of work. Contract revenues recognised, based on costs incurred towards the completion of the project that are unbilled, are accumulated in the contracts in progress account included in the amount due from customers for contract works. Billings in excess of revenues recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised to date on contracts within the amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contracts. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangements to establish these judgements. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognised under HKAS 18 Revenue, where revenue is recognised provided that the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the amount of revenue can be measured reliably; it is probable that the economic benefits associated with the transaction will flow to the entity; and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (applicable before 1 January 2018) (continued)

Characteristics of contract cash flow (applicable from 1 January 2018) (continued)

For hardware, delivery is considered to have occurred upon shipment provided that the risk of loss and the title in certain jurisdictions have been transferred to the customer. For arrangements where the criteria for revenue recognition have not been met because the legal title or risk of loss on products has not been transferred to the buyer until final payment has been received or where delivery has not occurred, revenue is deferred to a later period when the title or risk of loss passes either on delivery or on receipt of final payment from the customer.

For further information on the Group's revenue recognition policies relating to the Group's material revenue streams, please refer to note 2.4 to the financial statements.

Derecognition of financial assets

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Significant judgement is often required when the Group has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, and estimates the extent of the Group's continuing involvement in the asset.

Recognition of deferred tax liability for investments in associates and joint ventures

Deferred tax liability should be recognised for all taxable temporary differences associated with investments in associates and joint ventures, except for when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Significant management judgement is required to determine whether or not the temporary differences related to investments in associates and joint ventures will reverse in the foreseeable future, based upon the way investments in associates and joint ventures being recovered. More details are set out in note 24.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimating the stand-alone selling price of a good or service (applicable from 1 January 2018)

The stand-alone selling price refers to the price at which the Group can independently sell goods or services. The observable price of a good or service sold separately provides the best evidence of a stand-alone selling price. If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price. The Group has adopted the expected cost plus a margin approach according the characteristics of the goods or services and its related price and cost and the level of difficulty in obtaining it. Under this approach, an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service and thus to determine its stand-alone selling price. This approach focuses more on internal factors. The margin may have to be adjusted for differences in products, geographies, customers and other factors, when the performance obligation has a determinable direct fulfilment cost.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the telecommunication sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 22 and note 29 to the financial statements, respectively.

Fair value of unlisted equity investments (applicable from 1 January 2018)

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 21 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was RMB186,206,000 (2017: RMB308,806,000). Further details are given in note 17.

Depreciation and amortisation

Depreciation and amortisation are calculated on the straight-line basis to write off the cost of each item of property, plant and equipment and intangible asset to its residual value over its estimated useful life. The estimated useful lives and dates that the Group places the items of property, plant and equipment into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets.

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(Prepared under Hong Kong Financial Reporting Standards)
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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of investments in associates, intangible assets and property, plant and equipment

The carrying amount of investments in associates at 31 December 2018 was RMB2,917,645,000 (2017: RMB3,868,253,000). The carrying amount of investments in joint ventures at 31 December 2018 was RMB97,650,000 (2017: RMB92,344,000). The carrying amount of property, plant and equipment as at 31 December 2018 was approximately RMB10,194,112,000 (2017: RMB10,202,425,000). The carrying amount of intangible assets as at 31 December 2018 was RMB6,270,288,000 (2017: RMB5,363,042,000). More details are set out in notes 14, 18, 19 and 20.

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Indefinite life intangible assets are tested for impairment annually and at other times when such an indicator exists. Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

Impairment of trade receivables (applicable before 1 January 2018)

The carrying amount of trade receivables as at 31 December 2018 was approximately RMB22,435,754,000 (2017: RMB27,642,988,000).

In determining whether there is objective evidence of an impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2018 was RMB1,104,016,000 (2017: RMB300,540,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2018 was RMB4,316,214,000 (2017: RMB4,109,213,000). Further details are contained in note 24 to the financial statements.

Deferred development costs

Deferred development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2018, the best estimate of the carrying amount of capitalised development costs was RMB5,417,853,000 (2017: RMB4,353,937,000).

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Write-down of inventories to net realisable value

The Group, pursuant to the accounting policy for inventories, writes down inventories from cost to net realisable value and makes provision against obsolete and slow-moving items by using the lower of cost and net realisable value rule. The assessment of the write-down required involves management's judgement and estimates. Where the actual outcome or expectation in future is different from the original estimate, the differences will have an impact on the carrying amounts of inventories and the write-down/ write-back of inventories in the period in which the estimate has been changed. At 31 December 2018, the carrying amount of inventories was RMB25,011,416,000 (2017: RMB26,234,139,000).

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 to the financial statements. The carrying amount of investment properties at 31 December 2018 was RMB2,011,999,000 (2017: RMB2,023,809,000).

Provision for warranties

Provision for warranties granted by the Group on handsets is recognised based on sales volume and past experience of the level of repairs and returns. The carrying amount of provision for warranties at 31 December 2018 was RMB307,368,000 (2017: RMB426,833,000).

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 for carriers by providing wireless networks, wireline networks, core networks, telecommunication software systems and services and other innovative technologies and product solutions.

(b) The Consumer Business segment focuses on bringing experience in smart devices to customers while also catering for 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, proving top-level design and consultation services as well as implementation, operation and maintenance of integrated informatisation solutions for the government and corporate informatisation projects through the application of Cloud Computing, communications networks, Internet of Things, Big Data technologies and other related products.

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4. OPERATING SEGMENT INFORMATION (continued)

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 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 and 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
	57,075,772	19,209,590	9,227,788	85,513,150
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				(7,350,203)
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				129,350,749
Segment liabilities	11,113,248	2,595,090	1,797,085	15,505,423
Corporate and other unallocated liabilities				80,884,651
Total liabilities				96,390,074
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.

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4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017	Carriers' Networks RMB'000	Consumer Business RMB'000	Government and 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
	63,782,295	35,202,376	9,830,602	108,815,273
Segment results	17,894,165	1,172,382	1,696,434	20,762,981
Bank and other interest income				908,082
Dividend income and unallocated gains				6,042,780
Corporate and other unallocated expenses				(19,709,059)
Finance costs				(1,157,659)
Share of profits and losses of associates and joint ventures				(128,201)
Profit before tax				6,718,924
Segment assets	41,211,138	18,963,182	6,404,171	66,578,491
Investments in joint ventures				92,344
Investments in associates				3,868,253
Corporate and other unallocated assets				73,423,127
Total assets				143,962,215
Segment liabilities	14,148,392	4,452,436	2,180,656	20,781,484
Corporate and other unallocated liabilities				77,800,584
Total liabilities				98,582,068
Other segment information:				
Impairment losses recognised in profit or loss	1,485,079	819,637	228,892	2,533,608
Depreciation and amortisation	1,525,883	842,158	235,181	2,603,222
Capital expenditure*	4,329,631	2,389,587	667,315	7,386,533

Geographical information

(a) Revenue from external customers

	2018 RMB'000	2017 RMB'000
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	**15,109,418**	27,303,881
	85,513,150	108,815,273

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

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information (continued)

(b) Non-current assets

	2018 RMB'000	2017 RMB'000
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	**953,920**	1,447,623
	18,629,659	18,840,811

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.

Information about major customers

Revenue from the Carriers' Networks and Consumer Business segments from one single customer individually accounted for more than 10% of the Group's consolidated revenue for 2018 in the amount of RMB21,409,000,000 (2017: one single customer individually accounted for more than 10% of the Group's consolidated revenue for 2017 in the amount of RMB23,151,000,000).

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018 RMB'000
Revenue from contracts with customers	**85,375,143**
Rental income	**138,007**
	85,513,150

	2017 RMB'000
Telecommunications system contracts	71,172,810
Sale of goods and services	37,509,798
Rental income	132,665
	108,815,273

Notes to Financial Statements

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5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2018

Segments	Carriers' Networks RMB'000	Consumer Business RMB'000	Government and Corporate Business RMB'000	Total RMB'000
Type of goods or services				
Sale of goods	7,193,140	19,061,135	3,710,515	29,964,790
Sale of services	10,247,577	148,455	1,758,735	12,154,767
Telecommunication system construction contracts	39,635,055	–	3,620,531	43,255,586
Total revenue from contracts with customers	57,075,772	19,209,590	9,089,781	85,375,143
Geographical markets				
The PRC (place of domicile)	41,120,969	8,762,129	4,423,070	54,306,168
Asia (excluding the PRC)	9,258,787	1,548,750	1,069,713	11,877,250
Africa	2,534,880	323,252	1,224,175	4,082,307
Europe, Americas and Oceania	4,161,136	8,575,459	2,372,823	15,109,418
Total revenue from contracts with customers	57,075,772	19,209,590	9,089,781	85,375,143
Timing of revenue recognition				
Transferred at a point in time	46,597,854	19,044,047	7,245,566	72,887,467
Transferred over time	10,477,918	165,543	1,844,215	12,487,676
Total revenue from contracts with customers	57,075,772	19,209,590	9,089,781	85,375,143

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	14,819,669

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of hardware products

The performance obligation is satisfied upon delivery of the hardware products and payment is generally due within 60 to 120 days from delivery.

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5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

Installation services

The performance obligation is satisfied when the services are rendered and accepted by customer.

A bundle of sales of equipment and installation services

The sale of equipment and installation services are highly interdependent thus customers cannot benefit from the equipment or installation services either on their own or together with other resources that are readily available to the customer. A bundle of sales of equipment and installation services is accounted for as a single performance obligation. The performance obligation is satisfied upon the completion of equipment and installation and acceptance.

Maintenance services

Revenue from the provision of maintenance services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

	2018 RMB'000	2017 RMB'000
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
	3,019,550	4,118,816
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**	—
	1,228,254	2,832,046
	4,247,804	6,950,862

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).

Refunds of VAT on software products represent 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.

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6. (LOSS)/PROFIT BEFORE TAX

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

	Notes	**2018 RMB'000**	2017 RMB'000
Cost of goods and services		**55,065,491**	73,735,995
Depreciation	14	**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	18	**948,026**	1,146,542
Current year expenditure		**11,969,500**	13,431,254
Less: Deferred capitalised 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	15	**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	22	**3,445,793**	2,222,096
Impairment of contract assets, net	29	**70,914**	—
Impairment of other receivables	31	**130,770**	—
Impairment of debt investments at fair value through other comprehensive income	30	**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**	37	**1,545,600**	—
Provision for warranties**	37	**363,924**	527,432
Provision for legal obligation*	37	**295,089**	17,159
Costs 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*	14	**7,515**	16,507

Notes to Financial Statements

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6. (LOSS)/PROFIT BEFORE TAX (continued)

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

	Notes	2018 RMB'000	2017 RMB'000
Impairment of intangible assets*	18	**59,356**	12,010
Impairment of goodwill*	17	**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	48(a)	**(5,689)**	(23,424)
Auditor's remuneration		**10,662**	9,128
Staff costs (including directors', chief executives' and supervisors' remuneration in note 9):			
Wages, salaries, bonuses, allowances and welfare		**14,124,797**	17,919,000
Equity-settled share option expense	41	**193,188**	262,956
Retirement benefit scheme contributions:			
Defined benefit pension scheme	38	**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	5	**(662,563)**	(2,286,581)
Gain on disposal of associates	5	**—**	(48,710)
(Gain)/loss on disposal of derivative financial instruments	7	**(6,147)**	137,534
Gain on disposal of available-for-sale investments	5	**—**	(438,454)
Gain on disposal of financial assets at fair value through profit or loss	7	**376,460**	—

* The fair value losses, the impairment of items of property, plant and equipment, the impairment of intangible assets, the provision for legal obligation, the costs related to the comprehensive settlement with US authorities, the loss on disposal of items of property, plant and equipment, foreign exchange loss, the impairment of goodwill, the impairment of investments in associates and the impairment of investments in joint ventures are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

** The 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. GAIN ON DISPOSAL OF FINANCIAL ASSETS

	2018 RMB'000	2017 RMB'000
Gain on disposal of derivative financial instruments	**6,147**	—
Gain on disposal of financial assets at fair value through profit or loss	**376,460**	—
	382,607	—

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8. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 RMB'000	2017 RMB'000
Interest on bank loans and other loans	**766,393**	729,205
Total interest expense on financial liabilities not at fair value through profit or loss	**766,393**	729,205
Other finance costs:		
Finance costs on factored trade receivables and bills discounted	**562,292**	428,454
	1,328,685	1,157,659

9. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION

Directors' and chief executives' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 RMB'000	2017 RMB'000
Other emoluments of directors, chief executives and supervisors:		
Salaries, bonuses, allowances and welfare	**7,968**	7,496
Performance-related bonuses*	**2,614**	18,136
Retirement benefit scheme contributions	**207**	278
	10,789	25,910

* Certain executive directors of the Company are entitled to bonus payments which are determined based on their work performance.

(a) Independent non-executive directors

The salaries, bonuses, allowances and welfare paid to independent non-executive directors during the year were as follows:

Independent non-executive directors in office as at the end of the year:

	2018 RMB'000	2017 RMB'000
Cai Manli	**125**	—
Bao Yuming	**125**	—
Wu Jundong	**125**	—
	375	—

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9. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors (continued)

Independent non-executive directors who resigned during the year:

	2018 **RMB'000**	2017 RMB'000
Zhang Xike	**65**	130
Chen Shaohua	**65**	130
Lv Hongbing	**65**	130
Teng Binsheng	**65**	130
Zhu Wuxiang	**65**	130
	325	650

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors, non-executive directors, chief executives and supervisors

Executive directors, non-executive directors, chief executives and supervisors in office as at the end of the year:

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Share Incentive Scheme* RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2018						
Executive directors:						
Li Zixue	–	537	–	–	–	537
Xu Ziyang	–	861	1,053	610	43	2,567
Gu Junying	–	468	–	–	–	468
	–	1,866	1,053	610	43	3,572
Non-executive directors:						
Li Buqing	–	50	–	–	–	50
Zhu Weimin	–	50	–	–	–	50
Fang Rong	–	50	–	–	–	50
	–	150	–	–	–	150
	–	2,016	1,053	610	43	3,722
Supervisors:						
Xie Daxiong	–	798	733	–	40	1,571
Wang Junfeng	–	–	–	–	–	–
Xia Xiaoyue	–	452	348	–	40	840
Li Quancai	–	535	480	–	40	1,055
	–	1,785	1,561	–	120	3,466

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9. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors (continued)

Executive directors, non-executive directors, chief executives and supervisors who resigned during the year:

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Share Incentive Scheme* RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2018						
Executive directors:						
Yin Yimin	–	1,166	–	–	22	1,188
Zhao Xianming	–	1,470	–	–	22	1,492
	–	2,636	–	–	44	2,680
Non-executive directors:						
Zhang Jianheng	–	50	–	–	–	50
Luan Jubao	–	50	–	–	–	50
Wang Yawen	–	50	–	–	–	50
Tian Dongfang	–	50	–	–	–	50
Zhan Yichao	–	50	–	–	–	50
Wei Zaisheng	–	50	–	–	–	50
Zhai Weidong	–	50	–	–	–	50
	–	350	–	–	–	350
	–	2,986	–	–	44	3,030
Supervisors:						
Xu Weiyan	–	481	–	–	–	481
	–	481	–	–	–	481

* On 6 July 2017, the "Resolution on Adjustments to the List of Participants and the Number of share options to be Granted under the 2017 Share Option Incentive Scheme of the Company" was considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors of the Company and the Seventeenth Meetings of Seventh Session of the Supervisory Committee of the Company. The date of grant was set for 6 July 2017. Pursuant to the scheme the Company proposed to grant 149,601,200 share options to 1,996 participants of the scheme. The fair value of the share options granted amounted to RMB1,477,496,000, and the share option expense recognised by the Company in 2018 amounted to RMB193,188,000, among which share the option expense related to executive directors, non-executive directors, chief executives and supervisors amounted to approximately RMB610,000. There were no ordinary shares issued pursuant to the exercise of options under the 2017 Scheme.

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9. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors (continued)

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Share Incentive Scheme* RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2017						
Executive directors:						
Yin Yimin	–	1,179	4,676	–	36	5,891
Zhao Xianming	–	1,164	4,252	1,407	36	6,859
	–	2,343	8,928	1,407	72	12,750
Non-executive directors:						
Zhang Jianheng	–	100	–	88	–	188
Luan Jubao	–	100	–	88	–	188
Wang Yawen	–	100	–	88	–	188
Tian Dongfang	–	100	–	88	–	188
Zhan Yichao	–	100	–	88	–	188
Wei Zaisheng	–	842	2,031	–	30	2,903
Zhai Weidong	–	53	–	–	–	53
Shi Lirong	–	269	–	–	6	275
	–	1,664	2,031	440	36	4,171
	–	4,007	10,959	1,847	108	16,921
Supervisors:						
Xie Daxiong	–	800	2,116	–	36	2,952
Xu Weiyan	–	735	3,039	–	36	3,810
Wang Junfeng	–	–	–	–	–	–
Xia Xiaoyue	–	386	826	–	36	1,248
Li Quancai	–	546	1,100	–	36	1,682
Zhou Huidong	–	371	96	–	26	493
	–	2,838	7,177	–	170	10,185

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10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2017: Nil) directors, chief executives or supervisors, details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the five (2017: five) highest paid employees who are neither a director, chief executive nor supervisor of the Company are as follows:

	2018 RMB'000	2017 RMB'000
Salaries, bonuses, allowances and welfare	**9,295**	9,554
Performance-related bonuses	**9,972**	31,191
Share option incentive scheme	**1,172**	4,423
Retirement benefit scheme contributions	**120**	292
	20,559	45,460

The number of non-director, non-supervisor, non-chief executive and highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees 2018	2017
RMB2,000,001 to RMB3,000,000	**1**	—
RMB3,000,001 to RMB4,000,000	**1**	—
RMB4,000,001 to RMB5,000,000	**2**	—
RMB5,000,001 to RMB6,000,000	**1**	2
RMB6,000,001 to RMB7,000,000	**—**	—
RMB7,000,001 to RMB8,000,000	**—**	—
RMB8,000,001 to RMB9,000,000	**—**	—
RMB9,000,001 to RMB10,000,000	**—**	1
RMB10,000,001 to RMB11,000,000	**—**	—
RMB11,000,001 to RMB12,000,000	**—**	—
RMB12,000,001 to RMB13,000,000	**—**	2
	5	5

During the year, no director, chief executive or supervisor waived or agreed to waive any emolument, and no emoluments were paid by the Group to the directors, chief executives, supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX

	2018 RMB'000	2017 RMB'000
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 (note 24)	**(1,340,751)**	270,423
Total tax charge for the year	**(400,863)**	1,332,582

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11. INCOME TAX (continued)

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.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Shenzhen Zhongxing Technology Service Company Limited was subject to an enterprise income tax rate of 15% from 2016 to 2018 as a National High and New Technology Enterprise.

Xi'an Zhongxing New Software Company Limited was subject to an enterprise income tax rate of 10% for the current year as a National Key Software Enterprise.

Shenzhen Zhongxing Software Company Limited was subject to an enterprise income tax rate of 10% for the current year as a National Key Software Enterprise.

ZTE Microelectronics Technology Company Limited was subject to an enterprise income tax rate of 10% for the current year as an Integrated Circuit Design Enterprise within nationally planned areas.

Shanghai Zhongxing Yilian Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2017 to 2019 as a National High and New Technology Enterprise.

Shanghai Zhongxing Software Company Limited was subject to an enterprise income tax rate of 10% for the current year as a National Key Software Enterprise.

Nanjing Zhongxing Software Company Limited was subject to an enterprise income tax rate of 10% for the current year as a National Key Software Enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited was subject to an enterprise income tax rate of 15% for the current year as a national-encouraged industry enterprise.

Shenzhen Zhongxing ICT Company Limited was subject to an enterprise income tax rate of 15% from 2016 to 2018 as a National High and New Technology Enterprise.

Shenzhen Xingyida Communication Technology Company Limited was subject to an enterprise income tax rate of 15% from 2016 to 2018 as a National High and New Technology Enterprise.

Zhongxing Guotong Telecom Equipment Technology Company Limited was subject to an enterprise income tax rate of 15% from 2016 to 2018 as a National High and New Technology Enterprise.

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11. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rate, are as follows:

	2018		2017	
	RMB'000	**%**	RMB'000	%
(Loss)/profit before tax	**(7,350,203)**		6,718,924	
Tax at the statutory tax rate	**(1,837,551)**	**25.0**	1,679,731	25.0
Lower tax rate for specific provinces or enacted by local authority	**564,453**	**(7.7)**	(721,458)	(10.7)
Adjustments in respect of current tax of previous periods	**28,408**	**(0.4)**	22,612	0.3
Profits and losses attributable to associates and joint ventures	**119,112**	**(1.6)**	12,716	0.2
Income not subject to tax	**(42,751)**	**0.6**	(101,123)	(1.5)
Expenses not deductible for tax	**508,836**	**(6.9)**	242,954	3.6
Unrecognised deductible temporary differences	**30,448**	**(0.4)**	71,142	1.1
Tax losses utilised from previous years	**(36,539)**	**0.5**	(30,517)	(0.5)
Tax losses of subsidiaries not recognised	**264,721**	**(3.6)**	156,525	2.3
Tax charge at the Group's effective rate	**(400,863)**	**5.5**	1,332,582	19.8

The share of tax attributable to associates amounting to RMB12,434,000 (2017: RMB1,701,000) is included in "Share of profits and losses of associates" on the face of the consolidated statement of profit or loss and other comprehensive income.

12. DIVIDEND

	2018	2017
	RMB'000	RMB'000
Proposed final–Nil (2017: Nil) per ordinary share	**–**	–

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13. (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 of all dilutive potential ordinary shares into ordinary shares.

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

	2018 RMB'000	2017 RMB'000
(Loss)/Earnings		
(Loss)/Profit for the year attributable to ordinary equity holders of the parent	**(6,983,662)**	4,568,172

	Number of shares 2018 '000	 2017 '000
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	**—**	30,243
Adjusted weighted average number of ordinary shares in issue	**4,192,672**	4,219,471

The calculation of the diluted (loss)/profit 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 period, as used in the basic (loss)/profit 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.

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14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	6,303,495	154,533	9,061,495	305,020	1,472,986	17,297,529
Accumulated depreciation and impairment	(1,419,004)	(98,672)	(5,406,858)	(170,570)	—	(7,095,104)
Net carrying amount	4,884,491	55,861	3,654,637	134,450	1,472,986	10,202,425
At 1 January 2018, net of accumulated depreciation and impairment	4,884,491	55,861	3,654,637	134,450	1,472,986	10,202,425
Additions	30,321	185,341	1,010,831	25,161	1,161,132	2,412,786
Disposals	(183,324)	(10,749)	(695,746)	(11,377)	—	(901,196)
Depreciation provided during the year	(197,588)	(56,717)	(950,736)	(27,366)	—	(1,232,407)
Transfers	927,017	—	137,606	—	(1,064,623)	—
Transfer to prepaid land lease payments	—	—	—	—	(273,451)	(273,451)
Exchange realignments	(6,816)	(512)	713	85	—	(6,530)
Impairment	—	—	(6,815)	(700)	—	(7,515)
At 31 December 2018, net of accumulated depreciation and impairment	5,454,101	173,224	3,150,490	120,253	1,296,044	10,194,112
At 31 December 2018:						
Cost	7,018,734	316,601	8,244,247	287,672	1,296,044	17,163,298
Accumulated depreciation and impairment	(1,564,633)	(143,377)	(5,093,757)	(167,419)	—	(6,969,186)
Net carrying amount	5,454,101	173,224	3,150,490	120,253	1,296,044	10,194,112

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14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2017						
At 31 December 2016 and at 1 January 2017:						
Cost	5,711,902	147,444	8,052,739	316,818	1,729,450	15,958,353
Accumulated depreciation and impairment	(1,279,080)	(98,966)	(5,130,023)	(169,640)	—	(6,677,709)
Net carrying amount	4,432,822	48,478	2,922,716	147,178	1,729,450	9,280,644
At 1 January 2017, net of accumulated depreciation and impairment	4,432,822	48,478	2,922,716	147,178	1,729,450	9,280,644
Additions	988	77,500	1,743,736	32,403	963,519	2,818,146
Acquisition of a subsidiary	—	—	67,649	20	—	67,669
Disposals	(239,940)	(20,944)	(321,349)	(8,350)	(146,249)	(736,832)
Depreciation provided during the year	(180,673)	(48,787)	(939,901)	(29,770)	—	(1,199,131)
Transfers	882,802	—	190,932	—	(1,073,734)	—
Exchange realignments	(11,508)	(386)	3,267	(2,937)	—	(11,564)
Impairment	—	—	(12,413)	(4,094)	—	(16,507)
At 31 December 2017, net of accumulated depreciation and impairment	4,884,491	55,861	3,654,637	134,450	1,472,986	10,202,425
At 31 December 2017:						
Cost	6,303,495	154,533	9,061,495	305,020	1,472,986	17,297,529
Accumulated depreciation and impairment	(1,419,004)	(98,672)	(5,406,858)	(170,570)	—	(7,095,104)
Net carrying amount	4,884,491	55,861	3,654,637	134,450	1,472,986	10,202,425

As at 31 December 2018, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen, Shanghai, Heyuan, Xi'an and Changsha, the PRC, with net carrying values of approximately RMB520,134,000 (2017: RMB619,401,000), RMB1,938,504,000 (2017: RMB1,318,545,000), RMB163,576,000 (2017: RMB171,493,000), RMB746,590,000 (2017: RMB867,887,000), RMB292,457,000 (2017: RMB303,780,000) and RMB224,636,000 (2017: Nil), respectively.

15. INVESTMENT PROPERTIES

	2018 RMB'000	2017 RMB'000
Fair value		
Carrying amount at 1 January	**2,023,809**	2,016,470
Net (loss)/gain from a fair value adjustment (note 6)	**(11,810)**	7,339
Carrying amount at 31 December	**2,011,999**	2,023,809

The Group's investment properties consist of five commercial properties in Mainland China. The Group's investment properties were revalued on 31 December 2018 based on valuations performed by 北京天健興業資產評估有限公司, an independent professionally qualified valuer, at RMB2,011,999,000. Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to a related party, Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and third parties under operating leases, further summarised details of which are included in note 48 to the financial statements.

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Recurring fair value measurement for:				
Commercial properties	**–**	**–**	**2,011,999**	**2,011,999**

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	–	–	2,023,809	2,023,809

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

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15. INVESTMENT PROPERTIES (continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties RMB'000
Carrying amount at 1 January 2017	2,016,470
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	7,339
Carrying amount at 31 December 2017	2,023,809
Carrying amount at 1 January 2018	**2,023,809**
Net loss from a fair value adjustment recognised in other expenses in profit or loss	**(11,810)**
Carrying amount at 31 December 2018	**2,011,999**

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	Significant unobservable inputs	Range or weighted average 2018	2017
Commercial properties	Discounted cash flow method	Estimated rental value (per sq.m. and per month)	**RMB49.5 to RMB559.4**	RMB45.5 to RMB594
		Rent growth (p.a.)	**2% to 7%**	1% to 3%
		Long-term vacancy rate	**2.5%**	5%
		Discount rate	**7.58%**	6% to 7%

Valuations were based on the capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The resultant figures are adjusted back to present values to reflect the existing state of the properties at the end of the reporting period.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flows in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flows are estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase in the discount rate in isolation would result in a significant decrease in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long-term vacancy rate.

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16. PREPAID LAND LEASE PAYMENTS

	2018 RMB'000	2017 RMB'000
Carrying amount at 1 January	**1,280,650**	1,265,559
Additions during the year	**3,603,922**	79,684
Transfer from construction in progress	**273,451**	—
Disposals	**(24,701)**	(36,600)
Recognised during the year	**(112,766)**	(27,993)
Carrying amount at 31 December	**5,020,556**	1,280,650
Current portion included in prepayments, other receivables and other assets	**(153,260)**	(29,115)
Non-current portion	**4,867,296**	1,251,535

As at 31 December 2018, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen and Nanjing in the PRC, with a net carrying value of approximately RMB3,621,923,000 (2017: RMB284,638,000).

As at 31 December 2018, subsidiaries of the Group pledged its land use rights with a net carrying value of RMB68,708,000 (2017: RMB26,393,000) as securities for bank loans (note 36). The Group pledged its land use rights with a net carrying value of RMB89,843,000 (2017: Nil) to fulfil performance.

17. GOODWILL

	RMB'000
Cost at 1 January 2018, net of accumulated impairment	**308,806**
Impairment during the year	**(123,263)**
Exchange realignment	**663**
Net carrying amount at 31 December 2018	**186,206**
At 31 December 2018:	
Cost	**309,469**
Accumulated impairment	**(123,263)**
Net carrying amount	**186,206**

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the following cash-generating units ("CGUs") for impairment testing:

- Suzhou Laxense Technology Co., Ltd. ("Suzhou Laxense Technology CGU")
- Netas Telekomünikasyon Anonim Sirketi ("Netas CGU")
- Zhuhai Guangtong Bus Co., Ltd. ("Zhuhai Guangtong Bus CGU")

Suzhou Laxense CGU

The recoverable amount of the Suzhou Laxense CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections is 17% (2017: 17%). The cash flows beyond the five-year period were extrapolated using a growth rate of 3.2% (2017: 3%).

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17. GOODWILL (continued)

Impairment testing of goodwill (continued)

Netas CGU

The recoverable amount of the Netas CGU was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 12.1% and cash flows beyond the five-year period were extrapolated using a growth rate of 3.2%.

Zhuhai Guangtong Bus CGU

The recoverable amount of the Zhuhai Guangtong Bus CGU was determined based on a value in use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 11.71% and cash flows beyond the five-year period were extrapolated using a growth rate of 3%.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	Suzhou Laxense CGU	Netas CGU	Zhuhai Guangtong Bus CGU	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2017	33,500	89,100	186,206	308,806
As at 31 December 2018	**33,500**	**89,763**	**186,206**	**309,469**

Assumptions were used in the value in use calculation of the Suzhou Laxense Technology, Netas and Zhuhai Guangtong Bus cash-generating units at 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

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18. OTHER INTANGIBLE ASSETS

	Technology know-how RMB'000	Computer software RMB'000	Franchise RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2018					
Cost at 1 January 2018, net of accumulated amortisation and impairment	**112,933**	**414,842**	**481,330**	**4,353,937**	**5,363,042**
Additions	**849**	**120,590**	**73,232**	**2,031,470**	**2,226,141**
Retirements and disposals	**—**	**(20,395)**	**—**	**(19,528)**	**(39,923)**
Amortisation provided during the year	**(43,002)**	**(103,239)**	**(126,972)**	**(948,026)**	**(1,221,239)**
Impairment during the year	**—**	**(2,118)**	**(57,238)**	**—**	**(59,356)**
Exchange realignment	**(167)**	**216**	**1,574**	**—**	**1,623**
At 31 December 2018	**70,613**	**409,896**	**371,926**	**5,417,853**	**6,270,288**
At 31 December 2018:					
Cost	**187,480**	**630,241**	**1,026,695**	**11,758,832**	**13,603,248**
Accumulated amortisation and impairment	**(116,867)**	**(220,345)**	**(654,769)**	**(6,340,979)**	**(7,332,960)**
Net carrying amount	**70,613**	**409,896**	**371,926**	**5,417,853**	**6,270,288**
31 December 2017					
Cost at 1 January 2017, net of accumulated amortisation and impairment	138,588	299,995	130,916	3,884,928	4,454,427
Additions	95,512	207,032	140,932	1,643,866	2,087,342
Acquisition of a subsidiary	92,228	65,796	297,769	—	455,793
Retirements and disposals	(163,335)	(49,325)	(5,437)	(28,315)	(246,412)
Amortisation provided during the year	(50,060)	(96,646)	(82,850)	(1,146,542)	(1,376,098)
Impairment during the year	—	(12,010)	—	—	(12,010)
At 31 December 2017	112,933	414,842	481,330	4,353,937	5,363,042
At 31 December 2017:					
Cost	186,631	621,106	950,815	9,746,890	11,505,442
Accumulated amortisation and impairment	(73,698)	(206,264)	(469,485)	(5,392,953)	(6,142,400)
Net carrying amount	112,933	414,842	481,330	4,353,937	5,363,042

19. INVESTMENTS IN JOINT VENTURES

	2018 RMB'000	2017 RMB'000
Share of net assets	**73,313**	65,752
Goodwill on acquisition	**26,592**	26,592
Provision for impairment	**(2,255)**	—
	97,650	92,344

The Group's balances of trade receivables with joint ventures are disclosed in note 22 to the financial statements. The amounts due from joint ventures are unsecured and interest-free.

There is no individually material joint venture of the Group.

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19. INVESTMENTS IN JOINT VENTURES (continued)

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2018 RMB'000	2017 RMB'000
Share of the joint ventures' profit/(loss) for the year	**2,622**	(1,377)
Share of the joint ventures' total comprehensive income/(loss)	**2,622**	(1,377)
Aggregate carrying amount of the Group's investments in the joint ventures	**97,650**	92,344

20. INVESTMENTS IN ASSOCIATES

	2018 RMB'000	2017 RMB'000
Share of net assets	**2,705,974**	2,888,028
Goodwill on acquisition	**1,216,115**	984,989
	3,922,089	3,873,017
Provision for impairment	**(1,004,444)**	(4,764)
	2,917,645	3,868,253

The Group's balances of trade receivables and trade payables with associates are disclosed in notes 22 and 33 to the financial statements, respectively.

Provision for impairment

Investment in an associate Nubia Technology Co., Ltd. ("Nubia Technology")

The recoverable amount of the investment in an associate Nubia Technology has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 14.2%. The cash flows beyond the five-year period were extrapolated using a growth rate of 3.2%.

Assumptions were used in the value in use calculation of the investment in an associate Nubia Technology at 31 December 2018 and 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margin achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

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20. INVESTMENTS IN ASSOCIATES (continued)

Provision for impairment (continued)

Investment in associate of Nubia Technology Co., Ltd. ("Nubia Technology") (continued)

Particulars of the Group's material associate is as follows:

Name	Particulars of registered capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Nubia Technology Co., Ltd.* ("Nubia Technology")	RMB118,748,300	PRC/ Mainland China	49.9	Note

* The English name of the company is not official and is the direct translation from its Chinese name for identification purposes only.

The associate has been accounted for using the equity method in the financial statements. The accounting year end of the associate is coterminous with that of the Group.

Note:

Nubia Technology

Nubia Technology, which is considered a material associate of the Group, is a strategic partner of the Group engaged in the trading of handset products and is accounted for using the equity method.

The following table illustrates the summarised financial information of Nubia Technology, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	Nubia Technology	
	2018	2017
	RMB'000	RMB'000
Current assets	**2,300,675**	4,360,056
Non-current assets	**411,531**	392,765
Current liabilities	**(1,146,038)**	(1,986,514)
Non-controlling interest	**795**	211
Net assets attributable to parent	**1,565,373**	2,766,096
Reconciliation to the Group's interest in the associate:		
Percentage of the Group's interest	**49.9%**	49.9%
Group's share of net assets of the associate, excluding goodwill	**781,121**	1,380,282
Goodwill on acquisition (less cumulative impairment)	**—**	934,698
Other adjustments	**500,403**	768,520
Carrying amount of the investment	**1,281,524**	3,083,500

20. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 **RMB'000**	2017 RMB'000
Share of the associates' profit for the year	**60,041**	23,195
Share of the associates' total comprehensive profit	**60,041**	23,195
Aggregate carrying amount of the Group's investments in the associates	**1,636,121**	784,753

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS

		2018 **RMB'000**	2017 RMB'000
Current assets			
Equity investments at fair value through profit or loss	(i)		
— Listed equity investments, at fair value		**810,411**	—
— Unlisted equity investments, at fair value		**—**	—
Wealth management products	(ii)	**666,412**	—
		1,476,823	—
Non-current assets			
Equity investments designated at fair value through profit or loss	(i)		
— Listed equity investments, at fair value		**—**	—
— Unlisted equity investments, at fair value		**1,502,499**	—
		1,502,499	—
Available-for-sale investments			
— Listed equity investment, at market value		**—**	1,711,846
— Unlisted equity investments, at cost		**—**	1,469,822
		—	3,181,668
		2,979,322	3,181,668

(i) The above equity investments at 31 December 2018 were classified as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The fair values of the listed equity investments determined are based on the closing prices quoted in active markets. They are accounted for using their fair values based on the quoted market prices (level 1: quoted price (unadjusted) in active markets) without deduction for transaction costs. The fair value of the equity investment in the listed company which was subject to a lockup period has been estimated using the closing price quoted in the active stock market discounted by the percentage of the lack of marketability during the lockup period (level 3: significant unobservable inputs).

The fair values of the unlisted equity investments are measured using a valuation technique with unobservable inputs and hence categorised within level 3 of the fair value hierarchy. The major assumptions used in the valuation for investments in private companies are disclosed in note 52 to the financial statements.

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21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE INVESTMENTS (continued)

(ii) The above debt investments at 31 December 2018 were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

None of these investments are past due. The fair values are based on cash flows discounted using the expected return based on management judgement and are within level 2 of the fair value hierarchy.

(iii) Amounts recognised in profit or loss

	2018 RMB'000
Fair value changes on:	
Equity investments at fair value through profit or loss	
— Listed equity investments, at fair value	**(906,638)**
— Unlisted equity investments, at fair value	**(6,372)**
Wealth management products	**7,660**
	(905,350)

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

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

Progress payment for telecommunication 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 RMB'000	2017 RMB'000
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 bills receivable	**—**	(2,052,945)
Long-term portion	**843,429**	1,244,760

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22. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

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

	2018 RMB'000	2017 RMB'000
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 (note 6)	**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

	Past due					
	Within 6 months	**6 to 12 months**	**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 related to customers that were in financial difficulties, and were not expected to be recovered or only a portion of the receivables was expected to be recovered. Trade receivables were 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 RMB'000
Neither past due nor impaired	6,249,860
Less than one year past due	16,131,233
	22,381,093

22. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

Impairment under HKAS 39 for the year ended 31 December 2017 (continued)

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

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 receivable to secure the bank borrowings (2017: nil (note 36)).

23. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES

As part of its normal business, the Group enters into some trade receivables factoring arrangements (the "Arrangements") and transferred certain trade receivables to banks. None of these financial assets are past due. Some of the trade receivables are not derecognised in their entirety and some of them are derecognised in their entirety but for which the Group retains continuing involvement. More details are set out in note 44.

24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	2018 **RMB'000**	2017 RMB'000
Deferred tax assets and liabilities:		
At 1 January	**1,126,119**	1,506,195
Effect of adoption of HKFRS 9	**(23,080)**	—
Effect of adoption of HKFRS 15	**188,959**	—
At 1 January 2018 (restated)	**1,291,998**	1,506,195
Deferred tax credited to profit or loss during the year (note 11)	**1,340,751**	(270,423)
Deferred tax charged to other comprehensive income	**—**	(31,400)
Deferred tax charged to goodwill	**—**	(78,253)
At 31 December	**2,632,749**	1,126,119

24. DEFERRED TAX (continued)

	2018 RMB'000	2017 RMB'000
Deferred tax assets:		
Unrealised profits arising on consolidation	**400,583**	229,328
Provision against inventories	**286,420**	157,667
Foreseeable contract losses	**198,726**	68,807
Amortisation of intangible assets	**237,342**	233,972
Provision for warranties	**83,847**	56,660
Provision for retirement benefits	**25,706**	22,358
Other payables and accruals	**446,151**	414,825
Equity-settled share options	**60,734**	30,585
Tax losses	**1,104,016**	300,540
Overseas tax	**132,567**	144,908
	2,976,092	1,659,650
Deferred tax liabilities:		
Changes in fair value of investment property	**(162,223)**	(162,662)
Changes in fair value of available-for-sale investments	**—**	(135,763)
Changes in fair value of financial assets at fair value through profit or loss	**(71,436)**	—
Fair value adjustment of business combinations not under common control	**(49,035)**	(78,253)
Fair value adjustment on the remaining equity of disposal of subsidiaries	**(37,491)**	(130,413)
Others	**(23,158)**	(26,440)
	(343,343)	(533,531)
	2,632,749	1,126,119

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2018 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**2,787,790**
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(155,041)**
	2,632,749

Deferred tax assets have not been recognised in respect of the following items:

	2018 RMB'000	2017 RMB'000
Tax losses	**4,171,222**	3,634,930
Deductible temporary differences	**144,992**	474,283
	4,316,214	4,109,213

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24. DEFERRED TAX (continued)

The tax losses that have not been recognised as deferred tax assets will expire as follows:

	2018 **RMB'000**	2017 RMB'000
2018	**—**	100,239
2019	**138,564**	145,954
2020	**278,465**	369,664
2021	**474,063**	640,071
2022	**374,049**	407,169
2023, and thereafter	**2,906,081**	1,971,833
	4,171,222	3,634,930

The Group recognises deferred tax assets based on deductible temporary differences. In relation to deferred income tax relating to deductible tax loss and tax allowance, the Group expects to generate sufficient taxable income prior to the expiry of deductible tax loss and tax allowance.

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 **RMB'000**	2017 RMB'000
Cash and bank balances	**27,217,944**	34,870,165
Less:		
Pledged deposits — non-current	**(2,928,146)**	(1,462,286)
Pledged deposits — current	**(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
Time deposits with original maturity of less than three months	**(169,456)**	(6,848,032)
Unrestricted cash and bank balances	**20,964,655**	23,261,237

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB18,214,459,000 (2017: RMB23,246,171,000). The Renminbi is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange Renminbi for other currencies through banks authorised to conduct foreign exchange business.

Pledged deposits included the deposits as at 31 December 2018 of RMB373,553,000(2017: RMB852,644,000) with the People's Bank of China, at a statutory reserve rate of 7% (2017: 7%) for RMB on customer deposits held by ZTE Group Finance Company Limited.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and over three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Time deposits with original maturity of over three months are not included in cash and cash equivalents. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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26. LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 RMB'000	2017 RMB'000
Prepayments for purchase of property, plant and equipment and prepaid land lease payments	**623,530**	2,325,831
Prepayments for corporate income tax	**226,578**	—
Long-term deposits	**355,340**	305,496
Other assets	**105,287**	—
	1,310,735	2,631,327

27. INVENTORIES

	2018 RMB'000	2017 RMB'000
Raw materials	**4,178,607**	5,058,854
Work in progress	**1,459,102**	1,154,731
Finished goods	**3,281,339**	3,586,883
Contract costs	**11,140,713**	—
Contract works in progress and others	**4,951,655**	16,433,671
	25,011,416	26,234,139

28. AMOUNT DUE FROM/TO CUSTOMERS FOR CONTRACT WORKS

	2018 RMB'000	2017 RMB'000
Amount due from customers for contract works	**—**	9,012,909
Amount due to customers for contract works	**—**	(8,050,655)
	—	962,254
Contract costs incurred plus recognised profits	**—**	152,136,153
Less: Recognised losses to date	**—**	581,244
Less: Progress billings	**—**	150,592,655
	—	962,254

29. CONTRACT ASSETS

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Contract assets	**8,614,711**	6,220,427	—
Impairment	**(152,485)**	(119,011)	—
	8,462,226	6,101,416	—

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29. CONTRACT ASSETS (continued)

During the year ended 31 December 2018, RMB152,485,000 was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 22 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December 2018 is as follows:

	RMB'000
Within one year	**8,462,226**

The movements in the loss allowance for impairment of contract assets are as follows:

	2018 RMB'000
At beginning of year	**119,011**
Impairment losses recognised (note 6)	**70,914**
Amount written off as uncollectible	**(33,603)**
Fluctuation in exchange	**(3,837)**
At end of year	**152,485**

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases.

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

As at 31 December 2018

Expected credit loss rate	**1.77%**
	RMB'000
Gross carrying amount	**8,614,711**
Expected credit losses	**152,485**

30. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 RMB'000	2017 RMB'000
Debt investments at fair value through other comprehensive income	2,732,806	—
Impairment (note 6)	(2,455)	—
	2,730,351	—

Bills receivable are classified as debt investments at fair value through other comprehensive income under HKFRS 9, as these were held within a business model with the objective of both holding to collect contractual cash flows and selling.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

31. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2018 RMB'000	2017 RMB'000
Prepayments	615,489	591,664
Deposits and other receivables	7,919,586	11,003,667
Dividends receivable	5,400	—
Interest receivable	2,189	897
Advances and loans	56,834	383,963
Impairment allowance (note 6)	(130,770)	—
	8,468,728	11,980,191

Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate. The loss rates applied as at 31 December 2018 were 0.1% and 100% for stage 1 and stage 3, respectively.

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

	2018 RMB'000	2017 RMB'000
The controlling shareholder	256	242
Associates	52,524	53,191
Other related companies	46,373	702
	99,153	54,135

The amounts due from the controlling shareholder, associates and other related companies are unsecured, non-interest-bearing and are repayable on demand.

32. DERIVATIVE FINANCIAL INSTRUMENTS

	2018		2017	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	**228,117**	**(101,332)**	116,794	(49,830)
Current portion	**228,117**	**(101,332)**	116,794	(49,830)

Forward currency contracts

The carrying amounts of forward currency contracts were the same as their fair values. The above transactions involving derivative financial instruments were with various well-known banks in Mainland China and Hong Kong with A- or above credit ratings.

33. 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 RMB'000	2017 RMB'000
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
	27,443,104	34,463,067

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

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

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.

34. CONTRACT LIABILITIES

	31 December 2018 RMB'000	1 January 2018 RMB'000	31 December 2017 RMB'000
Right to an amount of consideration	**7,636,303**	8,050,655	—
Consideration received	**6,843,052**	8,702,351	—
	14,479,355	16,753,006	—

Contract liabilities include short-term advances received to deliver hardware products and render installation, construction and management services.

35. OTHER PAYABLES AND ACCRUALS

	Notes	**2018 RMB'000**	2017 RMB'000
Receipts in advance		**—**	8,702,351
Other payables	(a)	**12,565,759**	8,612,915
Factoring costs payable		**—**	28,460
Advance receipts for the staff housing scheme		**191,846**	39,651
Accruals		**5,390,135**	6,901,826
Due to the controlling shareholder	(b)	**500,812**	—
Due to other related companies	(c)	**427,984**	12,314
		19,076,536	24,297,517

Notes:

(a) Other payables are non-interest-bearing and have an average term of three months.

(b) The balance includes a loan of RMB500,000,000 (2017: Nil) which accrues interest at a rate of 5.30% per annum and is repayable within 1 year.

(c) The balance is unsecured, non-interest-bearing and is repayable on demand.

36. INTEREST-BEARING BANK BORROWINGS

	2018			2017		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**0–18.2500**	**2019**	**17,196,944**	0–18.2500	2018	9,013,831
Bank loans — unsecured	**26.0000–42.0000**	**2019**	**95,409**	–	–	–
Bank loans — unsecured	**3MLibor+1.3500–2.2000**	**2019**	**1,283,194**	3MLibor+1.3500–2.2000	2018	633,653
Bank loans — unsecured	**6MLibor+0.7000–1.6000**	**2019**	**2,195,491**	6MLibor+0.7000–1.6000	2018	2,613,000
Bank loans — unsecured	**LPR+0.2575–0.6925**	**2019**	**2,359,000**	LPR+0.2575–0.6925	2018	256,000
Bank loans — unsecured	**9MEuribor+1.9600**	**2019**	**157,012**	–	–	–
Bank loans — guaranteed	**–**	**–**	**–**	3MEuribor+1.0000–1.2000	2018	1,387,083
Bank loans — guaranteed	**4.7500–5.5000**	**2019**	**128,753**	–	–	–
Bank loans — guaranteed	**3MLibor+1.3500–2.2000**	**2019**	**411,720**	3MLibor+1.3500–2.2000	2018	19,206
Bank loans — guaranteed	**–**	**–**	**–**	3MEuribor+1.2500–1.9000	2018	1,658,420
Bank loans — secured	**–**	**–**	**–**	Libor+2.2500	2018	2,931,609
Bank loans — secured	**LRP+0.4850–0.6925**	**2019**	**485,000**	–	–	–
Bank loans — secured	**2.7800–5.0025**	**2019**	**670,800**	2.7800–5.0025	2018	23,065
			24,983,323			18,535,867
Non-current						
Bank loans — guaranteed	**–**	**–**	**–**	4.7500	2019	126,306
Bank loans — guaranteed	**–**	**–**	**–**	3MLibor+2.2000	2019	391,950
Bank loans — guaranteed	**1.2000**	**2027**	**54,000**	1.2000	2027	57,000
Bank loans — secured	**–**	**–**	**–**	4.9000–5.1450	2021	1,000
Bank loans — unsecured	**–**	**–**	**–**	4.7500–16.7500	2019	695,765
Bank loans — unsecured	**6MLibor+1.7000**	**2020**	**2,024,290**	6MLibor+1.7000	2020	1,633,125
Bank loans — unsecured	**4.7500–5.2500**	**2020**	**91,000**	4.7500–5.2500	2020	97,000
Bank loans — unsecured	**4.7500**	**2021**	**195,000**	–	–	–
Bank loans — unsecured	**0.7500**	**2023**	**2,278**	–	–	–
			2,366,568			3,002,146
			27,349,891			21,538,013

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36. INTEREST-BEARING BANK BORROWINGS (continued)

	2018 RMB'000	2017 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**24,983,323**	18,535,867
In the second year	**2,115,290**	1,214,021
In the third to fifth years, inclusive	**197,278**	1,731,125
Over five years	**54,000**	57,000
	27,349,891	21,538,013

Notes:

Except for bank loans of approximately RMB18,817,000 (2017: RMB5,387,629,000) which are denominated in Renminbi, all the Group's borrowings are in United States dollars and other foreign currencies.

Except for bank loans with a carrying amount of RMB21,278,000 (2017: RMB10,269,967,000), all borrowings of the Group bear interest at floating interest rates.

The Group's secured bank loans and banking facilities are secured by:

	2018 RMB'000	2017 RMB'000
Land use rights	**68,708**	26,393
Pledged bank deposits	**4,867,296**	4,528,485
Fixed assets	**648,245**	53,294
	5,584,249	4,608,172

Certain of the Group's bank loans are guaranteed by:

	2018 RMB'000	2017 RMB'000
Entities within the Group	**594,473**	5,184,491

The carrying amounts of the Group's borrowings approximate to their fair values which have been calculated by discounting the expected future cash flows at the prevailing interest rates.

37. PROVISION

	Provision for onerous contract*	Provision for litigation**	Provision for warranty***	Total
At 1 January 2017	—	133,262	754,104	887,366
Additional provision	—	17,159	527,432	544,591
Amounts utilised during the year	—	(44,128)	(854,703)	(898,831)
At 31 December 2017	—	106,293	426,833	533,126
At 1 January 2018	**581,244**	**106,293**	**426,833**	**1,114,370**
Additional provision	**1,545,600**	**295,089**	**363,924**	**2,204,613**
Amounts utilised during the year	**(632,793)**	**(35,187)**	**(483,389)**	**(1,151,369)**
At 31 December 2018	**1,494,051**	**366,195**	**307,368**	**2,167,614**

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37. PROVISION (continued)

* The present obligation recognised under contract in which unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be received under it.

** Based on the legal opinion furnished by the legal counsel engaged by the Group and the progress of the case, the Group makes provisions for cases that can be reliably estimated.

*** In respect of handsets, the Group generally provides a one-year warranty to their customers for general repairs of defects occurring during the warranty period. The amount of provision for warranties is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

38. PROVISION FOR RETIREMENT BENEFITS

The Group and the Company provide certain of the eligible staff with post-retirement benefits pursuant to a retirement benefit plan. The plan is funded solely by the Group on an actual payment basis.

The latest actuarial valuation of the plan was conducted as at 31 December 2018 in accordance with HKAS 19 *Employee Benefits*. The present values of defined benefit obligations and current service costs are determined actuarially based on the projected unit credit method.

The principal actuarial assumptions used as at the end of the reporting period are as follows:

	2018	2017
Discount rate (%)	**3.25**	4.00
Expected rate of salary increases (%)	**5.50**	5.50

A quantitative sensitivity analysis for significant assumptions as at 31 December 2018 is shown below:

	Increase in rate %	**Increase/ (decrease) in net defined benefit obligation**	**Decrease in rate %**	**Increase/ (decrease) in net defined benefit obligation**
Discount rate	**0.25**	**(2,982)**	**0.25**	**3,073**
Future salary increase	**1.00**	**13,625**	**1.00**	**(12,262)**

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The total expenses recognised in profit or loss in respect of the plan are as follows:

	2018 RMB'000	2017 RMB'000
Interest cost	**5,200**	4,673
Net benefit expenses	**5,200**	4,673
Recognised in administrative expenses	**5,200**	4,673

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38. PROVISION FOR RETIREMENT BENEFITS (continued)

The movements in the present value of the defined benefit obligations are as follows:

	2018 RMB'000	2017 RMB'000
At 1 January	**133,191**	146,106
Interest cost	**5,200**	4,673
Pension payments made	**(2,623)**	(2,016)
Benefit expenses recognised in other comprehensive income	**477**	(15,572)
At 31 December	**136,245**	133,191

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2018

	1 January 2018 RMB'000	Net interest RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	31 December 2018 RMB'000
Defined benefit obligations	**133,191**	**5,200**	**5,200**	**(2,623)**	**8,686**	**(8,209)**	**477**	**136,245**
Benefit liability	**133,191**	**5,200**	**5,200**	**(2,623)**	**8,686**	**(8,209)**	**477**	**136,245**

2017

	1 January 2017 RMB'000	Net interest RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	31 December 2017 RMB'000
Defined benefit obligations	146,106	4,673	4,673	(2,016)	(8,686)	(6,886)	(15,572)	133,191
Benefit liability	146,106	4,673	4,673	(2,016)	(8,686)	(6,886)	(15,572)	133,191

39. OTHER NON-CURRENT LIABILITIES

	2018 RMB'000	2017 RMB'000
Factoring costs payable	**–**	98,187
Deferred income for the staff housing scheme	**918,832**	1,077,256
Government grants	**691,608**	1,224,978
Long-term payables	**539,845**	394,226
Other payables	**1,771,000**	1,771,000
	3,921,285	4,565,647

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40. ISSUED CAPITAL

	2018 **RMB'000**	2017 RMB'000
Restricted shares		
Senior management shares	**3,601**	3,185
	3,601	3,185
Unrestricted shares		
RMB ordinary shares	**3,433,569**	3,433,985
Overseas listed foreign shares	**755,502**	755,502
	4,189,071	4,189,487
	4,192,672	4,192,672

41. SHARE OPTION INCENTIVE SCHEME

2017 Share Option Incentive Scheme

Pursuant to the "Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee, the date of grant was set for 6 July 2017. Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company's business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

(1) Weighted average rate of Return on Common Stockholders' Equity (ROE);

(2) The growth rate of net profit attributable the shareholders of the listed company (The growth rate of net profit).

For the purpose of calculating the aforesaid performance indicators under the Scheme, "net profit" shall refer to the net profit attributable to holders of ordinary shares of the listed company and "net assets" shall refer to the net assets attributable to holders of ordinary shares of the listed company.

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41. SHARE OPTION INCENTIVE SCHEME (continued)

2017 Share Option Incentive Scheme (continued)

The detailed conditions for the exercise of the share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	1/3	From 7 July 2019 to 6 July 2020	ROE for 2017 shall be no less than 10% and Net Profit Growth for 2017 shall be no less than 10% on a base amount of RMB3,825,000,000
Second exercise period	1/3	From 7 July 2020 to 6 July 2021	ROE for 2018 shall be no less than 10% and Net Profit Growth for 2018 shall be no less than 20% on a base amount of RMB3,825,000,000
Third exercise period	1/3	From 7 July 2021 to 6 July 2022	ROE for 2019 shall be no less than 10% and Net Profit Growth for 2019 shall be no less than 30% on a base amount of RMB3,825,000,000

The fair value of the share options granted amounted to RMB1,477,496,000, among which the share option expense recognised by the Company in 2018 amounted to RMB193,188,000, including 1) reversing accrued share option expense of RMB110,909,000 in 2017 due to the failure of meeting the exercise conditions of the second vesting period and the adjustment of the expected turnover rate and 2) expenses recognised for the current year amounting to RMB304,097,000 based on the best estimates of expected number of exercisable options at the end of the period for the first vesting period and the third vesting period.

The following share options were outstanding under the Scheme during the year:

	2018		2017	
	Weighted average exercise price RMB per share	**Number of options '000**	Weighted average exercise price RMB per share	Number of options '000
At 1 January	**17.06**	**149,601**	—	—
Granted during the year		**—**	17.06	149,601
Forfeited during the year		**67,737**		—
At 31 December	**17.06**	**81,864**	17.06	149,601

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41. SHARE OPTION INCENTIVE SCHEME (continued)

2017 Share Option Incentive Scheme (continued)

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2018 Number of options '000	Exercise price* RMB per share	Exercise period
40,932	**17.06**	From 7 July 2019 to 6 July 2020
40,932	**17.06**	From 7 July 2021 to 6 July 2022
81,864		

2017 Number of options '000	Exercise price* RMB per share	Exercise period
49,867	17.06	From 7 July 2019 to 6 July 2020
49,867	17.06	From 7 July 2020 to 6 July 2021
49,867	17.06	From 7 July 2021 to 6 July 2022
149,601		

There were no ordinary shares issued pursuant to the exercise of options under the 2017 Scheme.

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		First	Second	Third
Proposed dividend (RMB)		0.18	0.18	0.18
Volatility (%)		43.35	42.2	42.9
Risk-free interest rate (%)		3.498	3.506	3.517
Demission rate	Directors and senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

42. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 333 and 334 of the financial statements.

The capital reserve of the Group includes the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations in the PRC.

42. RESERVES (continued)

In accordance with the PRC Company Law and the Company's articles of association, the Company and its subsidiaries registered in the PRC are required to appropriate a certain percentage of the statutory profit after tax to the statutory reserve fund. Subject to certain restrictions set out in the relevant PRC regulations and in the subsidiaries' articles of association, the statutory reserve fund may be used either to offset losses, or for capitalisation issue by way of paid-up capital. The fund cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The Share Incentive Scheme reserve was created for the Share Incentive Scheme launched by the Company that provides incentives and rewards to certain employees of the Company and its subsidiaries.

43. PERPETUAL CAPITAL INSTRUMENTS

(a) General information of Medium Term Notes outstanding as at the end of the period

The Company issued the 2015 Tranche I Medium Term Notes with a total principal amount of RMB6,000,000,000 on 27 January 2015. The notes will remain valid indefinitely until they are redeemed by the issuer (the Company) pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 5th interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests. The coupon interest rate for the first 5 years for which interest is accruable is 5.81% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 6th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread (the difference between the coupon interest rate and the initial benchmark rate), the initial benchmark rate being the arithmetic average (rounding to the nearest 0.01%) of the yield rates of treasury bonds with a 5-year term in the interbank fixed rate treasury bond yield curve for China bonds announced on www.chinabond.com.cn or other websites approved by CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD. 5 working days prior to the book building date. The coupon rate will thereafter remain unchanged from the 6th to the 10th interest accruing years. Thereafter, the coupon interest rate is reset every 5 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

The Company issued the 2015 Tranche II Medium Term Notes with a total principal amount of RMB1,500,000,000 on 6 February 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests. The coupon interest rate for the first 3 years for which interest is accruable is 5.69% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread. The Company redeemed the 2015 Tranche II Medium Term Notes pursuant to the terms of the issue on 6 February 2018.

43. PERPETUAL CAPITAL INSTRUMENTS (continued)

(a) General information of Medium Term Notes outstanding as at the end of the period (continued)

The Company issued the 2015 Tranche III Medium Term Notes with a total principal amount of RMB1,500,000,000 on 20 November 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests. The coupon interest rate for the first 3 years for which interest is accruable is 4.49% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread. The Company redeemed the 2015 Tranche III Medium Term Notes pursuant to the terms of the issue on 20 November 2018.

Unless an event triggering mandatory interest payment has occurred, the issuer may choose prior to each interest payment date to defer the payment of current interests and interests and their accruals deferred in full or in part to the next interest payment date pursuant to this clause. There is no limit to the timing and frequency of payment deferrals. Deferral of any interest payments under this clause shall not be deemed as default. Each deferred interest payment shall accrue interests at the current coupon rate for the period of deferral.

In the event the issuer conducts the following within 12 months prior to the current interest payment date for the Medium Term Notes it should not defer the payment of current interests and all deferred interests and their accruals:

1. Dividend distribution to holders of ordinary shares;

2. Reduction of registered capital.

(b) Movement of the issued Medium Term Notes as at the end of the year

Face value RMB'000	Issue date	Volume	Issue amount RMB'000	Opening balance RMB'000	Interest charged for the year RMB'000	Principal paid during the year RMB'000	Interest paid during the year RMB'000	**Closing balance RMB'000**
6,000,000	1/27/2015	60,000,000	6,000,000	6,252,364	348,600	–	(348,600)	**6,252,364**
1,500,000	2/6/2015	15,000,000	1,500,000	1,572,198	8,652	(1,495,500)	(85,350)	**–**
1,500,000	11/20/2015	15,000,000	1,500,000	1,496,765	59,785	(1,489,200)	(67,350)	**–**
9,000,000		90,000,000	9,000,000	9,321,327	417,037	(2,984,700)	(501,300)	**6,252,364**

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44. TRANSFERS OF FINANCIAL ASSETS

Bills receivable

Financial assets that are derecognised in their entirety but for which the Company retains continuing involvement

Bills discount

At 31 December 2018, certain bills receivable were discounted by banks in the PRC (the "Discounted Bills") with a carrying amount of RMB167,820,000 (2017: RMB478,932,000). In the opinion of the directors, the Group has transferred substantially all risks and rewards relating to the Discounted Bills. Accordingly, it has derecognised the full carrying amounts of the Discounted Bills. The maximum exposure to loss from the Group's continuing involvement in the Discounted Bills and the undiscounted cash flows to repurchase these Discounted Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the Discounted Bills are not significant.

During the year ended 31 December 2018, the Group has recognised loss of RMB2,615,000 on the date of transfer of the Discounted Bills (2017: Loss of RMB6,341,000). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

Trade receivables factoring

As part of its normal business, the Group enters into some trade receivables factoring arrangements (the "Arrangements") and transferred certain trade receivables to banks. Some of the trade receivables are not derecognised in their entirety and some of them are derecognised in their entirety but for which the Group retains continuing involvement.

Transferred trade receivables that are not derecognised in their entirety

According to some factoring arrangements, the Group is exposed to default risks of the trade debtors after the transfer and accordingly, it continues to recognise the full carrying amounts of the trade receivables. The carrying value of trade receivables transferred under the Arrangements that have not been settled as at 31 December 2018 amounted to RMB413,633,000 (2017: RMB334,872,000).

Transferred financial assets that are not derecognised in their entirety but for which the Company retains continuing involvement

According to some factoring arrangements, the Group may be required to reimburse the banks for loss of a certain proportion of the principal ranging from 0% to 100% if any trade debtors default and to reimburse interest if any trade debtors have late payment up to 180 days. The Group is not exposed to significant default risks of the trade debtors after the transfer. Subsequent to the transfer, the Group does not retain any rights on the use of the trade receivables, including sale, transfer or pledge of the trade receivables to any other third parties. The original carrying value of trade receivables transferred under the Arrangements that have not been settled as at 31 December 2018 amounted to RMB26,338,984,000 (2017: RMB27,821,824,000). The continuing involvement and associated liabilities are summarised as follows:

	RMB'000
Carrying amount of assets that continue to be recognised	606,277
Carrying amount of liabilities that continue to be recognised	610,440

45. DISPOSAL OF SUBSIDIARIES

	2018 RMB'000 Iwhalecloud
Net assets disposed of:	
Current assets	3,923,313
Non-current assets	194,374
Current liabilities	(2,385,464)
Non-controlling interests	(395,522)
Fair value of the equity interests retained after the disposal	(840,695)
Gain on disposal of subsidiaries	724,294
	1,223,300
Satisfied by:	
Cash	1,223,300

An analysis of the net cash flow in respect of the disposal of subsidiaries is as follows:

	2018 RMB'000 Iwhalecloud
Cash consideration	862,100
Cash and bank balances disposed of	(337,008)
Net cash flows of cash and cash equivalents in respect of the disposal of subsidiary	525,092

46. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2018 RMB'000	2017 RMB'000
Guarantees given to banks in respect of performance bonds	10,726,178	8,419,135
	10,726,178	8,419,135

(b) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762,980,000 (equivalent to approximately RMB37,706,500). Meanwhile, the Company instituted a counter-claim against the customer's breach of contract demanding for damages and payment of outstanding contract amounts. In February 2008, the arbitration authority issued its award ruling that an indemnity of PKR328.04 million (equivalent to approximately RMB16,211,700) should be paid by the Company. The Company had made a provision for the amount. In accordance with local laws, the Company had filed with the local court an objection against the arbitration award and a claim against the customer's breach of contract. On 23 June 2018, the district court ruled to reject the objection of the Company against the arbitration award and uphold the original arbitration award. On 19 July 2018, the Company intends to appeal to the higher court against the ruling of the district court in accordance with local laws.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated. Hence, no additional provision was made in respect of the litigation for the year.

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46. CONTINGENT LIABILITIES (continued)

(c) On 11 June 2010, a lawsuit on breach of agreement and infringement of rights was instituted against the Company and its wholly-owned subsidiary ZTE (USA), Inc. ("ZTE USA") by Universal Telephone Exchange, Inc. ("UTE") at the district court of Dallas, Texas, the United States, alleging that the Company and ZTE USA had violated a confidential agreement between UTE and ZTE USA, for which UTE was seeking a compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract, which otherwise should have been secured, as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking a compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, an attorney has been appointed by the Company to defend its case.

On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed an agreement with the Company. The agreement has been submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company and subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration ruling. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the district court of Dallas, Texas in respect of the aforesaid ruling. On 19 November 2018, the court of appeal of Dallas, Texas ruled to overturn the ruling of the district court of Dallas, Texas of annulling the arbitration award and reinstated the arbitration award. On 4 December 2018, UTE made an application to the court of appeal of Dallas, Texas for review. On 4 January 2019, UTE made an application to the court of appeal of Dallas, Texas for the case to be heard by the full court. As of now, the court of appeal of Dallas, Texas has ruled to reject the aforesaid application of UTE.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

(d) On 26 July 2011, InterDigital Communications, LLC, InterDigital Technology Corporation and IPR Licensing, Inc (all three of which being wholly-owned subsidiaries of InterDigital, Inc.) filed a claim with the United States International Trade Commission ("ITC") and the Federal District Court of Delaware alleging infringement upon their 3G patent rights by the Company and ZTE USA, Inc ("ZTE USA"), a wholly-owned subsidiary of the Company. Defendants in this case included other companies in the industry. In the ITC case, the three said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, the ITC issued its initial determination in respect of the case, ruling that one of the patents relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of the ITC.

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46. CONTINGENT LIABILITIES (continued)

(d) (continued)

On 2 January 2013, the three said companies and InterDigital Holdings, Inc. (also a wholly-owned subsidiary of InterDigital, Inc.) filed a claim with the ITC and the Federal District Court of Delaware alleging infringement upon their 3G and 4G patent rights by ZTE and ZTE USA. Defendants in this case included other companies in the industry. In the ITC case, the four said companies demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, the ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, the ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA have engaged a legal counsel to conduct active defence of the case and file an appeal to the United States Court of Appeals for the Federal Circuit based on the verdicts on the three patents involved in the litigation ruled by the Federal District Court of Delaware to have been subject to infringement. In November 2017, United States Court of Appeals for the Federal Circuit ruled that the Company and ZTE USA had infringed upon two out of three patents involved in the aforesaid case. No ruling has yet been made in respect of the one remaining patent involved in the case. Currently, the Federal District Court of Delaware is scheduling a trial to determine compensation in respect of the infringement of the two patents as aforesaid.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

(e) In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its initial determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August 2014, the Federal District Court of California resumed litigation procedures for the case. In November 2015, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. The company filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again in respect of the said verdict of the Federal District Court of California. In February 2019, the United States Court of Appeals for the Federal Circuit ruled to uphold the judgement of the Federal District Court of California that the Company and ZTE USA had not infringed upon the patents under litigation.

46. CONTINGENT LIABILITIES (continued)

(e) (continued)

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

(f) In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB55,529,600). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB55,300,400), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB55,300,400) together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB55,300,400) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB147 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

(g) On 12 July 2017, the Company received a notice of arbitration filed with the London Court for International Arbitration (LCIA) against the Company by a Sudanese carrier and its Mauritanian subsidiary. On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by a Mauritanian subsidiary of the said Sudanese carrier (the "Mauritanian Subsidiary"). The Sudanese carrier and its Mauritanian Subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31.80 million in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

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

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46. CONTINGENT LIABILITIES (continued)

(g) (continued)

In May 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to DIFC-LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD37.45 million and other damages for breach of contract, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to DIFC-LCIA and made counter-claims against the Mauritanian Subsidiary under the arbitration.

In October 2018, the Company received the application for arbitration and other evidences submitted by the Mauritanian Subsidiary to LCIA. In the said application for arbitration, the Mauritanian Subsidiary demanded compensation amounting to approximately USD31.88 million, as well as the settlement of other related costs by the Company. Upon receipt of the said information, the Company submitted a written defense to LCIA and made counter-claims against the Mauritanian Subsidiary under the arbitration.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this arbitration cannot be reliably estimated.

(h) The Bureau of Industry and Security of the United States (the "U.S.") Department of Commerce ("BIS") issued an order on 15 April 2018 that activated the suspended denial order (the "15 April 2018 Denial Order") for seven years, with effect from 15 April 2018 until 13 March 2025. Among other things, the 15 April 2018 Denial Order restricted and prohibited the Company and its wholly-owned subsidiary, ZTE Kangxun (collectively with the Company, "ZTE") from directly or indirectly participating in any way in any transaction involving any commodity, software or technology exported or to be exported from U.S. that is subject to the U.S. Export Administration Regulations (the "EAR") or in any other activity subject to the EAR. The full text of the 15 April 2018 Denial Order was published in the Federal Register of the United States on April 23, 2018 (83 Fed. Reg. 17644).

In June 2018, ZTE reached a superseding settlement agreement (the "2018 SSA") with BIS that supplanted the settlement agreement entered into in March 2017 between BIS and ZTE (the "2017 SA"). The 2018 SSA took effect by a superseding order relating to ZTE dated 8 June 2018 issued by BIS (the "8 June 2018 Order"). Under the 2018 SSA, ZTE has paid civil monetary penalties totaling $1.4 billion, including a lump sum payment of $1 billion and an additional suspended penalty of $400 million to be placed in an escrow account with a U.S. bank for the probationary period (a period of ten years from the issuance of the 8 June 2018 Order) and thereafter to be waived if ZTE complies with the probationary conditions set forth in the 2018 SSA and the 8 June 2018 Order during the probationary period. ZTE is required to comply with all applicable terms and conditions of the 2018 SSA, which include but are not limited to the following: A new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order (the "Probationary Period") that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to the EAR shall be imposed, but the New Denial Order shall be suspended during the Probationary Period, and thereafter be waived subject to ZTE's compliance with the 2018 SSA and the 8 June 2018 Order. Other terms and conditions please refer to the ""INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To meet the obligations under the 2018 SSA and the 2017 settlement agreements with the U.S. government, the Company shall provide and implement a comprehensive and updated export control compliance program that transcends through all corporate levels of ZTE.

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46. CONTINGENT LIABILITIES (continued)

(h) (continued)

If ZTE breaches its obligations under the 2018 SSA or the 2017 settlement agreements with the U.S. government, (i) the suspended New Denial Order might be activated that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to the EAR shall be imposed; (ii) the $400 million penalty placed in an escrow account with a U.S. bank may immediately become due and owing in full or in part.

The Company attaches significant importance to the work on export control compliance, regarding compliance as foundation to the Company's strategy and condition and bottom-line for the Company's operations.

The Company has established the Export Compliance Committee of the Board of Directors, which includes the company's executive directors, non-executive directors and independent non-executive directors; with the support of professional external counsel team and consultants, built a team composed of Chief Export Control Compliance Officer, Regional Export Control Compliance Directors and sophisticated export control compliance experts with global coverage; engaged a number of counsels and consultants to provide professional guidance in order to establish and optimize the Company's export control compliance management structure, system and procedure; introduced and implemented SAP Global Trade System to automate export compliance management; continued to provide comprehensive online and offline compliance training for senior management, subsidiaries, compliance liaisons, account managers and new employees; cooperated with the independent compliance monitor and special compliance coordinator to conduct various monitoring; and made continuous investment on the work on export control compliance.

The Company continues its commitment to export compliance and developing an updated and enhanced export compliance program to prevent risks, ensure the sustainable development of the Company, and protect the interests of employees, customers and shareholders.

During the year (from 1 January 2018 to the date of this report), to the best of the Company's knowledge, the aforesaid contingent liabilities will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

47. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 36 to the financial statements.

48. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group was entitled to share a portion of the profit generated from the telecommunications network up to year 2018. During the year, operating lease rental income of RMB5,689,000 (2017: RMB23,424,000) has been recognised under this arrangement.

The Group leases its investment properties (note 15 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from six months to fifteen years. The terms of the leases generally require the tenants to pay security deposits and periodic rent according to the lease contracts.

At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**136,009**	97,220
In the second to fifth years, inclusive	**226,279**	240,920
After five years	**264,308**	314,119
	626,596	652,259

(b) As lessee

The Group leases certain of its offices under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **RMB'000**	2017 RMB'000
Within one year	**479,365**	556,766
In the second to fifth years, inclusive	**531,882**	378,807
After five years	**14,128**	27,911
	1,025,375	963,484

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49. COMMITMENTS

	2018 RMB'000	2017 RMB'000
Contracted, but not provided for,		
Land and buildings	**3,414,134**	2,854,506
Investments in associates	**65,312**	110,328
	3,479,446	2,964,834

50. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the year:

	Notes	2018 RMB'000	2017 RMB'000
The controlling shareholder:			
Purchases of raw materials	(a)	**65,877**	249,700
Sales of finished goods	(b)	**14**	84
Rental expense	(c)	**8,827**	8,827
Rental income	(e)	**6**	—
Associates:			
Purchases of raw materials and other service	(a)	**880,991**	1,998,631
Sales of finished goods	(b)	**716,255**	894,582
Rental income	(e)	**18,490**	17,010
Interest expense	(f)	**3**	771
Joint ventures:			
Purchases of raw materials	(a)	**—**	7,890
Sales of finished goods	(b)	**57,966**	205,167
Rental income	(e)	**655**	496
Entities controlled by the controlling shareholder:			
Purchases of raw materials	(a)	**144,072**	132,782
Sales of finished goods	(b)	**5,667**	24,979
Rental income	(e)	**2,517**	1,443
Interest income	(f)	**78**	2
Other related parties:			
Purchases of raw materials	(a)	**73,171**	506,747
Sales of finished goods	(b)	**259,348**	154,506
Rental expense	(d)	**16,162**	40,671
Rental income	(e)	**66,819**	61,141
Interest expense	(f)	**636**	231
Interest income	(f)	**—**	16

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

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50. RELATED PARTY TRANSACTIONS (continued)

(I) Transactions with related parties (continued)

Notes:

(a) The purchases of raw materials and other service were made with reference to published prices and conditions offered by the suppliers to their major customers.

(b) The sales of finished goods were made with reference to published prices and conditions offered to major customers of the Group.

(c) The rental expense was charged at rates of RMB40 per square metre and RMB200 per car parking space.

(d) The rental expense was charged at rates ranging from RMB13.04 to RMB60 per square metre.

(e) The rental income was earned from RMB34.5 to RMB157.5 per square metre.

(f) The interest rates for deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

(II) Commitments with related parties

(i) The Group leases certain of its office premises from related parties under non-cancellable operating lease arrangements. The Group expected the lease payments to related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	**In the second year** RMB'000	**In the third year** RMB'000
The controlling shareholder	2,624	—	—
Other related parties	30,743	18,891	1,999

(ii) A subsidiary of the Group entered into a series of agreements with related parties to purchase raw materials for the Group's future production. The maximum amounts of total purchases from related parties in the following year were expected as follows:

	Within one year RMB'000	**In the second year** RMB'000	**In the third year** RMB'000
The controlling shareholder	700,000	800,000	900,000
Associates	67,000	37,500	37,500
Other related parties	70,000	—	—

(iii) The Group leases certain of its office premises to related parties under non-cancellable operating lease arrangements. The Group expected the lease receivables from related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	**In the second year** RMB'000	**In the third year** RMB'000
Associates	299	—	—
Joint ventures	316	—	—
Entities controlled by the controlling shareholder	1,817	467	—
Other related parties	662	208	—

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50. RELATED PARTY TRANSACTIONS (continued)

(II) Commitments with related parties (continued)

(iv) A subsidiary of the Group entered into a series of agreements with related parties to sell products and services. The maximum amount of total sales to related parties in the following year was expected as follows:

	Within one year RMB'000	**In the second year** RMB'000	**In the third year** RMB'000
Other related parties	800,000	—	—

(III) Outstanding balances with related parties

(i) Details of the Group's trade balances with the controlling shareholder, joint ventures, associates and other related parties as at the end of the reporting period are disclosed in notes 22 and 33 to the financial statements.

(ii) Details of the Group's balances of receivables and payables which are not trade in nature with the controlling shareholder, associates and other related parties as at the end of the reporting period are disclosed in notes 31 and 35 to the financial statements.

(IV) Compensation of key management personnel of the Group

	2018 **RMB'000**	2017 RMB'000
Short-term employee benefits	**17,173**	41,963
Post-employment benefits	**332**	465
Share option incentive scheme	**2,112**	7,724
Total compensation paid to key management personnel	**19,617**	50,152

Certain key management personnel mentioned above were simultaneously entitled to defined benefit plans provided by the Group, the amounts of which are not included in the aforesaid remuneration.

The related party transactions in respect of purchases of raw materials amounting to approximately RMB210,000,000 (2017: RMB382,000,000) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. For details, please refer to the section headed "Material Matters (X) Significant Connected Transactions of the Group 2. Continuing Connected Transactions under the Hong Kong Listing Rules" of the Annual Report.

51. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

2018

Financial assets	Financial assets at fair value through profit or loss Held for trading RMB'000	Financial assets at fair value through other comprehensive income Debt investments RMB'000	 Equity investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	2,312,910	–	–	–	2,312,910
Wealth management products	666,412	–	–	–	666,412
Debt investments at fair value through other comprehensive income	–	2,730,351	–	–	2,730,351
Trade and bills receivables long-term trade receivables	–	–	–	22,435,754	22,435,754
Factored trade receivables/factored long-term trade receivables	–	–	–	1,019,910	1,019,910
Financial assets included in prepayments, other receivables and other assets	–	–	–	1,444,140	1,444,140
Financial assets included in long-term prepayments, deposits and other receivables	–	–	–	355,340	355,340
Pledged deposits	–	–	–	5,985,605	5,985,605
Time deposits with original maturity of over three months	–	–	–	98,228	98,228
Cash and cash equivalents	–	–	–	21,134,111	21,134,111
Derivative financial instruments	228,117	–	–	–	228,117
	3,207,439	2,730,351	–	52,473,088	58,410,878

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51. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2018

Financial liabilities	Financial liabilities at fair value through profit or loss Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	27,443,104	27,443,104
Bank advances on factored trade receivables/ bank advances on factored long-term trade receivables	–	1,026,068	1,026,068
Financial liabilities included in other payables and accruals	–	10,361,889	10,361,889
Interest-bearing bank borrowings	–	27,349,891	27,349,891
Long-term payable	–	539,845	539,845
Derivative financial instruments	101,332	–	101,332
	101,332	66,720,797	66,822,129

2017

Financial assets	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Derivatives designated as hedging instruments in effective hedges RMB'000	Total RMB'000
Available-for-sale investments	–	–	3,181,668	–	3,181,668
Trade and bills receivables/ long-term trade receivables	–	27,642,988	–	–	27,642,988
Factored trade receivables/ factored long-term trade receivables	–	3,688,455	–	–	3,688,455
Financial assets included in prepayments, other receivables and other assets	–	3,007,327	–	–	3,007,327
Pledged deposits	–	4,528,485	–	–	4,528,485
Time deposits with original maturity of over three months	–	232,411	–	–	232,411
Cash and cash equivalents	–	30,109,269	–	–	30,109,269
Derivative financial instruments	116,794	–	–	–	116,794
	116,794	69,208,935	3,181,668	–	72,507,397

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51. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2017

Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Derivatives designated as hedging instruments in effective hedges RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	—	34,463,067	—	—	34,463,067
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	4,028,478	—	—	4,028,478
Financial liabilities included in other payables and accruals	—	6,204,068	—	—	6,204,068
Interest-bearing bank borrowings	—	21,538,013	—	—	21,538,013
Factoring costs payable	—	98,187	—	—	98,187
Long-term payable	—	394,226	—	—	394,226
Derivative financial instruments	49,830	—	—	—	49,830
	49,830	66,726,039	—	—	66,775,869

52. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts of the Group's financial instruments approximate to their fair values.

Management has assessed that the fair values of cash and cash equivalents, the current portion of pledged deposits, trade and bills receivables, trade and bills payables, financial assets included in prepayments, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, an amount due to the ultimate holding company and loans from associates approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

52. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of the non-current portion of pledged deposits, trade receivables, other receivables and other assets and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2018 was assessed to be insignificant.

The fair value of a listed equity investment is based on quoted market prices. The fair value of the equity investment in the listed company which was subject to a lockup period has been estimated using the closing price quoted in the active stock market discounted by the percentage of the lack of marketability during the lockup period.

The fair values of unlisted equity investments designated at fair value through profit or loss, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and calculates an appropriate price multiple, such as enterprise value to earnings before interest and taxes ("EV/EBIT") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in debt investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A- or above credit ratings. Derivative financial instruments, including forward currency contracts and interest rate swaps are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2018 and 2017:

	Valuation technique	Significant unobservable input	Range
Listed equity investment with lock up period	Market approach	Discount for lack of marketability %	4 ~ 10
Non-Listed equity investment	Market approach	Discount for lack of marketability %	30
		Price-Earnings ratio ("P/E ratio")	13 ~ 55
		Entity Value/Revenue ratio ("EV/Revenue ratio")	2 ~ 7
		Entity Value/EBIT ratio ("EV/EBIT ratio")	11 ~ 23

52. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair value of equity investments designated at fair value through profit or loss is affected by changes in the discount for lack of marketability, P/E ratio, EV/Revenue ratio and EV/EBIT ratio. If the discount for lack of marketability had increased/decreased by 10% with all other variables held constant, the fair value of equity investments designated at fair value through profit or loss for the year ended 31 December 2018 would have been approximately RMB76,301,000 lower/higher.

If the P/E ratio, EV/Revenue ratio and EV/EBIT ratio had increased/decreased by 10% with all other variables held constant, the fair value of equity investments designated at fair value through profit or loss for the year ended 31 December 2018 would have been approximately RMB71,396,000, higher/lower.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Equity investments designated at fair value through profit or loss				
— listed entities	**761,359**	**—**	**49,052**	**810,411**
— unlisted entities	**—**	**—**	**1,502,499**	**1,502,499**
Wealth management product	**—**	**666,412**	**—**	**666,412**
Derivative financial instruments	**—**	**228,117**	**—**	**228,117**
Debt investments designated at fair value through other comprehensive income	**—**	**2,730,351**	**—**	**2,730,351**
	761,359	**3,624,880**	**1,551,551**	**5,937,790**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Available-for-sale investments	1,711,846	—	—	1,711,846
Derivative financial instruments	—	116,794	—	116,794
	1,711,846	116,794	—	1,828,640

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52. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**(101,332)**	**—**	**(101,332)**

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(49,830)	—	(49,830)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

The movements in fair value measurements within Level 3 during the year are as follows:

	2018 RMB'000
Equity investments at fair value through profit or loss/ available-for-sale investments — unlisted:	
At 1 January	**1,469,822**
Effect of adoption of HKFRS 9	**133,108**
At 1 January (restated)	**1,602,930**
Total (losses)/gains recognised in the profit or loss included in other income	**(2,228)**
Purchases	**101,100**
Disposals	**(199,303)**
At 31 December	**1,502,499**

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. Generally, the Group introduces conservative strategies on its risk management. The Group also enters into derivative transactions to manage the interest rate and currency risks arising from the Group's operations and its sources of finance, but is forbidden to engage in speculative activities for profit-making. The board of directors reviews and agrees policies for managing each of these risks and they are summarised as follows:

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53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Interest rate risk

At 31 December 2018, the bank loans of the Group included fixed and variable rate debts.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As the Group borrowed a USD861,949,000 floating interest rate loan, at 31 December 2018, there were no interest rate swaps (2017: USD1,200,000,000), and approximately 78% (2017: 47%) of the Group's interest-bearing borrowings bore interest at fixed rates.

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's (loss)/profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit/(loss) before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2018	**25**	**(27,151)**	**—**
	(25)	**27,151**	**—**
2017	25	(28,170)	—
	(25)	28,170	—

* Excluding retained profits

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue is predominately in USD, EUR and a certain portion of the bank loans is denominated in USD. The Group has entered into forward currency contracts and tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts to minimise its transactional currency exposures. The Group takes a rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and EUR exchange rate, with all other variables held constant, of the Group's (loss)/profit before tax (due to changes in the fair values of monetary assets and liabilities). There would be no change in other components of equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in loss before tax RMB'000
2018		
If RMB weakens against USD	**3%**	**338,413**
If RMB strengthens against USD	**(3%)**	**(338,413)**
If RMB weakens against EUR	**5%**	**146,274**
If RMB strengthens against EUR	**(5%)**	**(146,274)**

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2017		
If RMB weakens against USD	3%	330,755
If RMB strengthens against USD	(3%)	(330,755)
If RMB weakens against EUR	5%	49,081
If RMB strengthens against EUR	(5%)	(49,081)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. For listed debt investments, the Group also monitors them by using external credit ratings. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Debt investments at fair value through other comprehensive income	2,730,351	–	–	–	2,730,351
Contract assets*	–	–	–	8,462,226	8,462,226
Trade receivables/long-term trade receivables*	–	–	–	22,435,754	22,435,754
Financial assets included in prepayments, other receivables and other assets					
– Normal**	1,444,140	–	–	–	1,444,140
– Doubtful**	–	–	–	–	–
Financial assets included in long-term prepayments, deposits and other receivables	355,340	–	–	–	355,340
Pledged deposits					
– Not yet past due	5,985,605	–	–	–	5,985,605
Time deposits with original maturity of over three months					
– Not yet past due	98,228	–	–	–	98,228
Cash and cash equivalents					
– Not yet past due	21,134,111	–	–	–	21,134,111
	30,303,635	–	–	30,897,980	62,645,755

53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Maximum exposure and year-end staging as at 31 December 2018 (continued)

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 22 and 29 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis, by counterparty, by geographical region and by industry sector. Although the top five customers accounted for 24.28% (2017: 20.91%) of the total trade receivables, their risk profiles were relatively low and did not give rise to a significant concentration of credit risk for the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2018

	On demand RMB'000	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	–	25,504,584	2,201,645	201,623	58,240	27,966,092
Trade and bills payables	19,527,404	7,915,700	–	–	–	27,443,104
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	–	618,664	283,390	88,042	87,439	1,077,535
Other payables	10,361,889	–	–	–	–	10,361,889
Derivative financial instruments	–	101,332	–	–	–	101,332
Long-term payable	–	–	47,347	36,193	456,305	539,845
	29,889,293	34,140,280	2,532,382	325,858	601,984	67,489,797

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53. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

2017

	On demand RMB'000	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	18,100,280	1,442,418	2,369,581	96,682	22,008,961
Trade and bills payables	23,614,556	10,848,511	—	—	—	34,463,067
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	1,113,708	470,923	765,887	1,858,955	4,209,473
Other payables	6,204,068	—	—	—	—	6,204,068
Factoring costs payable	—	—	54,143	41,071	53,344	148,558
Derivative financial instruments	—	49,830	—	—	—	49,830
Long-term payable	—	—	54,766	57,537	281,922	394,225
	29,818,624	30,112,329	2,022,250	3,234,076	2,290,903	67,478,182

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a gearing ratio, which are interest-bearing liabilities divided by the sum of total equity and interest-bearing liabilities. The gearing ratios as at the end of the reporting periods were as follows:

	2018 RMB'000	2017 RMB'000
Interest-bearing borrowings	**27,349,891**	21,538,013
Other payables	**500,000**	—
Bank advances on factored trade receivables and long-term trade receivables	**1,026,068**	4,028,478
Total interest-bearing liabilities	**28,875,959**	25,566,491
Total equity	**32,960,675**	45,380,147
Total equity and interest-bearing liabilities	**61,836,634**	70,946,638
Gearing ratio	**46.7%**	36.0%

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54. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, acquisition of prepaid land lease payments of RMB3,542,000,000 was by assuming directly related liabilities of RMB1,771,000,000 and a previous year prepayment of RMB1,771,000,000. In 2017, acquisition of property, plant and equipment of RMB469,876,000 was by assuming directly related liabilities.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings RMB'000	Due to the controlling shareholder RMB'000	Bank advances on factored trade receivables RMB'000	Bank advances on factored long-term trade receivables RMB'000
At 1 January 2018	21,538,013	—	1,080,472	2,948,006
Changes from financing cash flows	5,811,878	500,000	(488,541)	(2,513,869)
Interest expense	—	812	—	—
At 31 December 2018	27,349,891	500,812	591,931	434,137

55. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting period.

56. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, due to the adoption of the new and revised HKFRSs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior year adjustments have been made, and certain comparative amounts have been reclassified and restated to conform with the current year's presentation and accounting treatment.

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57. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2018 RMB'000	31 December 2017 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**5,569,630**	5,828,042
Prepaid land lease payments	**3,927,067**	326,293
Intangible assets	**1,530,859**	1,304,900
Investment properties	**1,556,775**	1,615,458
Investments in subsidiaries	**16,510,075**	17,352,123
Investments in joint ventures	**84,948**	84,948
Investments in associates	**729,695**	549,505
Available-for-sale investments	**—**	461,091
Financial assets at fair value through profit or loss	**658,078**	—
Long-term trade receivables	**127,752**	110,214
Factored long-term trade receivables	**270,063**	2,491,751
Deferred tax assets	**1,383,311**	658,417
Pledged deposits	**2,928,146**	1,462,286
Long-term prepayments, deposits and other receivables	**166,803**	1,955,177
Total non-current assets	**35,443,202**	34,200,205
CURRENT ASSETS		
Prepaid land lease payments	**132,239**	8,703
Inventories	**15,343,153**	16,484,640
Amount due from customers for contract works	**—**	4,291,058
Contract assets	**3,911,263**	—
Trade and bills receivables	**27,015,401**	29,072,067
Debt investments at fair value through other comprehensive income	**2,030,426**	—
Factored trade receivables	**356,134**	704,593
Prepayments, other receivables and other assets	**21,222,227**	29,761,374
Derivative financial instruments	**72,450**	1,679
Pledged deposits	**1,375,055**	1,658,378
Cash and cash equivalents	**10,147,947**	17,006,734
Total current assets	**81,606,295**	98,989,226

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57. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2018 RMB'000	31 December 2017 RMB'000
CURRENT LIABILITIES		
Trade and bills payables	**46,554,829**	52,386,859
Amount due to customers for contract works	**—**	5,584,395
Contract liabilities	**9,204,928**	—
Other payables and accruals	**22,605,031**	31,098,734
Provision	**1,757,603**	887,366
Interest-bearing bank borrowings	**13,442,700**	7,232,482
Bank advances on factored trade receivables	**360,196**	704,617
Derivative financial instruments	**14,041**	30,078
Tax payable	**—**	74,033
Dividends payable	**225**	225
Total current liabilities	**93,939,553**	97,998,789
NET CURRENT ASSETS/(LIABILITIES)	**(12,333,258)**	990,437
TOTAL ASSETS LESS CURRENT LIABILITIES	**23,109,944**	35,190,642
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**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
Other long-term payables	**2,889,553**	2,930,380
Total non-current liabilities	**5,413,247**	8,016,447
Net assets	**17,696,697**	27,174,195
EQUITY		
Issued capital	**4,192,672**	4,192,672
Reserves (note)	**7,251,661**	13,660,196
Perpetual capital instruments	**6,252,364**	9,321,327
Total equity	**17,696,697**	27,174,195

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57. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of Company's reserves is as follows:

	Issued capital RMB'000	Capital reserve RMB'000	Share incentive scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Perpetual capital instruments RMB'000	Total RMB'000
At 31 December 2016 and 1 January 2017	4,184,628	9,397,551	25,394	1,360,953	(16,823)	(3,225,576)	9,321,327	21,047,454
Final 2016 dividend declared	–	–	–	–	–	–	(501,300)	(501,300)
Total comprehensive income for the year	–	15,572	–	–	(981)	5,760,955	501,300	6,276,846
Share Incentive Scheme:								
– Equity-settled share option expense	–	–	262,956	–	–	–	–	262,956
– Issue of shares	8,044	122,942	(42,747)	–	–	–	–	88,239
Transfer from retained profits	–	–	–	182,727	–	(182,727)	–	–
At 31 December 2017	4,192,672	9,536,065	245,603	1,543,680	(17,804)	2,352,652	9,321,327	27,174,195
Effect of adoption of HKFRS 9	**–**	**–**	**–**	**12,136**	**–**	**109,223**	**–**	**121,359**
Effect of adoption of HKFRS 15	**–**	**–**	**–**	**(75,218)**	**–**	**(676,965)**	**–**	**(752,183)**
At 1 January 2018 (restated)	**4,192,672**	**9,536,065**	**245,603**	**1,480,598**	**(17,804)**	**1,784,910**	**9,321,327**	**26,543,371**
Final 2017 dividend declared	**–**	**–**	**–**	**–**	**–**	**–**	**(501,300)**	**(501,300)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(1,852)**	**(5,953,747)**	**417,037**	**(5,538,562)**
Share Incentive Scheme:								
– Equity-settled share option expense	**–**	**–**	**193,188**	**–**	**–**	**–**	**–**	**193,188**
Repurchase of Perpetual capital instruments	**–**	**(15,300)**	**–**	**–**	**–**	**–**	**(2,984,700)**	**(3,000,000)**
At 31 December 2018	**4,192,672**	**9,520,765**	**438,791**	**1,480,598**	**(19,656)**	**(4,168,837)**	**6,252,364**	**17,696,697**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

58. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 27 March 2019.

Documents Available for Inspection

(I) Text of the 2018 annual report signed by the Chairman of the Board of Directors;

(II) Original copies of the Group's audited financial reports and consolidated financial statements for the year ended 31 December 2018 prepared in accordance with the PRC ASBEs and HKFRSs duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

(III) Original copy of the auditors' report affixed with seal of the accountants' firm and duly signed under the hand and seal of the certified public accountants;

(IV) Original copies of all of the Company's documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News and posted on http://www.cninfo.com.cn during the year; and

(V) Articles of Association.

By order of the Board
Li Zixue
Chairman

28 March 2019