ZTE 中兴通讯股份有限公司
ZTE CORPORATION

Annual Report 2016

stock code : 000063.SZ 763.HK

Important

The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of the Company confirm that this report does not contain any false information, misleading statements or material omissions, and collectively and individually accept responsibility for the truthfulness, accuracy and completeness of the contents of this report.

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 Fifteenth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Richard Xike Zhang, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Zhu Wuxiang, Independent Non-executive Director, to vote on his behalf. Mr. Bingsheng Teng, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Zhu Wuxiang, Independent Non-executive Director, to vote on his behalf. Mr. Lü Hongbing, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Chen Shaohua, Independent Non-executive Director, to vote on his behalf.

The respective financial statements of the Group for the year ended 31 December 2016 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. Yin Yimin, Chairman of the Company, Mr. Wei Zaisheng, Chief Financial Officer of the Company and Mr. Shi Chunmao, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in this report.

No profit distribution is proposed by the Company for 2016. 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 for 2017 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, of 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. Only information of the Company published in the aforesaid media should be relied upon. Investors are asked to beware of investment risks.

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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
ITU	International Telecommunications Union, is a specialised agency of the United Nations for information and communication technologies
MOF	PRC Ministry of Finance
NDRC	National Development Reform Commission of China
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
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)
NEEQ	National Equities Exchange and Quotations
Xunlian Zhifu	深圳市訊聯智付網絡有限公司
Tianjin Zhilian	天津中興智聯科技有限公司
ZTE We Link	Shenzhen ZTE We Link Technology Company Limited (深圳市中興物聯科技有限公司)

ZTE HK	ZTE (H.K.) Limited
Nubia	Nubia Technology Limited
Gongjin Electronics	Shenzhen Gongjin Electronics Co., Ltd.
Great Power	Guangzhou Great Power Energy & Technology Co., Ltd.
Eoptolink	Eoptolink Technology Inc., Ltd.
Lianchuang Electronic	Lianchuang Electronic Technology Co.,Ltd.
Enablence Technologies	Enablence Technologies Inc.
Giga Device	Giga Device Semiconductor (Beijing) Inc.
Laimu	Shanghai Laimu Electronics Co., Ltd.
ZTE Capital	Shenzhen ZTE Capital Management Company Limited
Zhonghe Chunsheng Fund	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I
Jiaxing Fund	Jiaxing Xinghe Equity Investment Partnership
Medium Term Note(s) or perpetual capital instruments	Perpetual Medium Term Notes
Xinghe Capital	Jiaxing Xinghe Capital Management Company Limited
Zhongxingxin	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited
Mobi Antenna	Mobi Antenna Technologies (Shenzhen) Co., Ltd.
Huatong	Huatong Technology Company Limited
Nanchang Software	Zhongxing Software Technology (Nanchang) Company Limited
Zhongxing Hetai	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
Zhongxing Development	Zhongxing Development Company Limited
Chongqing Zhongxing Development	Chongqing Zhongxing Development 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
Zhongxing Software	Shenzhen Zhongxing Software Company Limited
ZTE Kangxun	Shenzhen ZTE Kangxun Telecom Company Limited
ZTE Group Finance	ZTE Group Finance Co., Ltd.
ZTE Microelectronics	ZTE Microelectronics Technology Company Limited
Relevant U.S. authorities	Bureau of Industry and Security of the United States Department of Commerce, United States Department of Justice and the Office of Foreign Assets Control of the United States Department of Treasury
Latest Practicable Date	30 March 2017, being the latest practicable date for ascertaining the contents set out in 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 battery life, large capacity and low cost, it is capable of long-distance transmission and applicable mainly to license-free frequency bands.

LTE	LTE (Long Term Evolution) which is the long-term evolution of 3G technology, refers to fourth-generation mobile communication technologies with OFDM as its core technology. LTE is being promoted by 3GPP and is continuously under 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.
M-ICT strategy	The strategy of ZTE is to be an "Enabler@M-ICT that facilitates the creation of value through information." The letter "M" denotes a variety of meanings, which include: 1) Mobile: as handheld smart terminals become increasingly popular, ICT services are present everywhere; 2) M2M: the inter-connection of all things (Man-Man, Man-Machine, Machine-Machine); 3) Multiple connection: all-present connection; 4) Multiservice, More coverage and accessibility; 5) More secure, More reliable and easier to use.
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 configuration 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.

Glossary

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.
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 dataflow 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 onto 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 device	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.
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 is 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.
VR	Virtual Reality, 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.
Smart City	The application of information technologies such as Cloud Computing, Internet of Things and Big Data in combination with wireline and wireless broadband communication technologies to sense, analyse and integrate various key information of the core operation systems of the city, so as to make automated responses to various requirements such as livelihood, environmental protection, public security, urban services and industrial/commercial activities, in realisation of smart management and operation of cities, creating better lives for citizens and facilitating harmony in and sustainable development for the city.
Intelligent manufacturing	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.
AR	Augmented Reality, 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 global communication and information 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 design, development, production, distribution and installation of a broad range of advanced ICT-related systems, equipment and terminals, including carriers' networks, government and corporate business and consumer business.

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, and is recognised as a "benchmark enterprise in smart city services." 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 more than 160 countries and regions, making contributions to facilitate communication services 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)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2	Legal representative	Yin Yimin
3	Secretary to the Board of Directors/ Company Secretary	Cao Wei
	Securities affairs representatives	Xu Yulong
	Correspondence Address	No. 55, Keji 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	36/F, Tower Two, Times Square 1 Matheson Street, Causeway Bay Hong Kong
5	Authorised representatives	Zhao Xianming 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, Keji Road South, Shenzhen, Guangdong Province The People's Republic of China

Corporate Information

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
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

Registration as at the beginning of the reporting period	
Date of registration	23 October 2013
Registered address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China
Corporate business licence registration number	440301103852869
Tax registration	44030127939873X
Entity code	27939873-X
As at the end of the current year	
Date of registration	21 April 2016
Registered address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China
Standardised 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.

Chairman's Statement

DEAR SHAREHOLDERS,

I hereby present the annual report of the Group for the year ended 31 December 2016, 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 2016, the Company reported operating revenue of RMB101.23 billion, representing growth of 1.0% as compared to the previous year which mainly reflected slight growth in operating revenue from carriers' networks and consumer business. Operating profit surged 263.7% to RMB1.17 billion, attributable mainly to relatively strong exchange gains thanks to flexible management of foreign exchange risk exposures, substantial decrease in net interest expense under an optimised structure for interest-bearing liabilities, and substantial growth in investment income generated through equity transactions. For 2016, the Group reported net loss attributable to holders of ordinary shares of the listed company of RMB2.36 billion, which were primarily attributable to a provision for relating losses amounting to approximately USD892 million in respect of post-balance sheet date events in accordance with accounting standards in relation to the agreements reached by the Company with relevant U.S. authorities. Excluding the effect of the aforesaid provision for losses, the Company would have reported net profit attributable to holders of ordinary shares of the listed company of RMB3.83 billion, representing a year-on-year increase of 19.2%.

For 2016, the Group's operating revenue from the domestic market and the international market amounted to RMB58.55 billion and RMB42.68 billion, respectively.

BUSINESS DEVELOPMENT

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

In the domestic market, the Group sustained stable market shares in 2016 with stronger customer approval and satisfaction on the back of proactive efforts supporting the network construction requirements of domestic carriers. Comprehensive solutions built upon the core smart city strategy were provided to government and corporate clients. Innovations were introduced on an ongoing basis to improve user's experience, as well as to enhance our brand recognition and influence. In the international market, the Group achieved new breakthroughs in certain regions and started to reshape market distribution as it persisted in the strategy of focusing on populous nations and mainstream carriers. The Group offered extensive services to government and corporate customers to meet their requirements for informatisation services and IT services. Moreover, the Group has built a positive brand image and snatched new market shares with the launch of boutique smart terminal products designed to enhance user's experience.

CORPORATE GOVERNANCE

In 2016, the Company continued to improve its corporate governance systems and regimes, regulate operations and optimise internal control regimes in accordance with the requirements of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies, the Hong Kong Listing Rules and other relevant laws and regulations. During the year, the Company formulated its "2015 Summary Report and 2016 Work Plan for Internal Control and Audit" to confirm key tasks in internal control for 2016 and effectively rolled out internal control tasks as planned to enhance the standard of the Company's operations and management and risk aversion ability.

The Company was penalised by relevant U.S. authorities as a resulting of violating U.S. export control laws and other U.S. laws and regulations. The Company will continue to review its organisation and structure, business procedures and internal control and adopt necessary measures to ensure compliance with U.S. export control laws and performance of agreements with relevant U.S. authorities.

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 ensure the incorporation of sustainable development as part of our corporate strategies and continuous improvements in our fulfilment of corporate social responsibility. 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 operation 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 bridge up digital gaps. The Group's efforts in sustainable development and corporate social responsibility have been widely recognised by governments, international bodies and the media.

FUTURE PROSPECTS

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

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

Yin Yimin
Chairman

Shenzhen, the PRC

24 March 2017

Major Events of the Group

2016

February	2016	ZTE's Pre-5G Massive MIMO won the "Best Breakthrough in Mobile Technology Award" at the GSMA Global Mobile Awards.
March	2016	ZTE won the largest share of RAN ER contracts in China Telecom's IP RAN centralised procurement for 2016.
March	2016	ZTE cooperated with and Ethiopian Telecommunications Corporation to build a 100G wavelength division backbone net to increase network capacity by 10 times.
March	2016	ZTE ranked among the top 3 in applications for international patents for the 6th year in a row.
May	2016	ZTE joined forces with Tencent to build a world-advanced mobile energy-conservation data centre.
June	2016	Telefonica joined forces with ZTE to build to first VoLTE and FMC commercial network in Latin America.
August	2016	ZTE LTE products were named as a leader in Gartner Magic Quadrant.
August	2016	ZTE won the bid for China Unicom's centralised procurement for IP city LAN with its T8000 core router.
October	2016	OVUM: ZTE's next-generation PON ranked 1st globally.
November	2016	R&D investment of USD1,900 million, or R&D expenditure ratio of 12.2%, rendered ZTE one of the top 70 global innovative enterprises.
November	2016	Zhongxing Microelectronics released the SoC chips to provide a full solution to VR/AR and big video.
December	2016	ZTE gained further ground in Pre-5G as it helped Telenet of Belgium to achieve the fastest network speed in Europe.

Highlights of Accounting Data and Financial Indicators

(I) WHETHER THE COMPANY HAS MADE RETROSPECTIVE ADJUSTMENTS TO OR RESTATED ACCOUNTING DATA OF THE PREVIOUS YEAR BECAUSE OF CHANGES IN ACCOUNTING POLICIES OR FOR THE RECTIFICATION OF ACCOUNTING ERRORS

✓ Yes ☐ No

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

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

Unit: RMB in millions

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

Highlights of Accounting Data and Financial Indicators

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

Unit: RMB in millions

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

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

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

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

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

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

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

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

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

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

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

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

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

Unit: RMB in millions

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

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

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

Unit: RMB in millions

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

2. Major financial indicators of the group for the past five years prepared in accordance with HKFRSs

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

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

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

(IV) THE AMOUNTS OF NET PROFIT AND NET ASSETS OF THE GROUP FOR THE YEAR ENDED AND AS AT 31 DECEMBER 2016 CALCULATED IN ACCORDANCE WITH PRC ASBEs ARE ENTIRELY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.

Summary of the Company's Business

I. PRINCIPAL BUSINESSES

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

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

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

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

II. THE INDUSTRY IN WHICH WE OPERATE

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

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

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 2016, the Group proposed a new dual approach of technological innovation and model innovation based on its perception of the future development of the ICT industry. Persistent Efforts were made to foster technological capabilities and develop new products to seize opportunities in the ICT sector. The Group announced the white paper for the M-ICT 2.0 strategy on the back of the M-ICT strategy announced in 2014 to further ascertain the five major strategic directions of VOICE going into the future: Virtuality, Openness, Intelligence, Cloudification and Internet of Everything. We have been of the view that the economy will continue to evolve towards an open, shared digital model in future. Business deployment will generally be characterised by cloudification, the Internet of Everything and ubiquitous intelligence, as the integration of virtuality and physical reality will become a dominant feature. The Group actively explore the "carriers' market, government and corporate market, consumers' market and strategic emerging markets" to empower the digital transition of enterprises.

In terms of product strategy, broadband 5G, routers, big data, PTN, WDM, OTN, PON, IPTV, multimedia video, IDC, cloud computing, smart terminal continued to feature as our mainline products, while the government and corporate market and service sector, which promises larger market potential, was also a focus for development.

In connection with wireless, we completed the delivery of the new-generation baseband multi-mode chip V2.0, which continued to be a leader among its peers in terms of overall performance offering support for the application for new technologies such as 5G and network virtualisation. Our Pre-5G Massive MIMO solution won the "Best Mobile Technology Breakthrough Award" and the "Outstanding Overall Mobile Technology — The CTO's Choice 2016" at the Mobile World Congress, as well as the "Best Wireless Broadband Innovation Award" at the World Broadband Forum. It was put to large-scale commercial application by Softbank of Japan, while bringing us partnerships with China Mobile's NFV Laboratory and Deutsche Telekom's 5G Innovation Laboratory as one of their first partners. Our Group became the world's first company to launch the FDD Massive MIMO solution, as we completed the site testing of the innovative centre in Quanzhou, Fujian, a joint effort with the China Unicom Fujian Sub-branch. We also concluded phase-one 5G tests in China ahead of our peers with excellent results. In the network architecture test, the Group ranked first in terms of timing, passing rate and coverage rate. Our leading position has been firmly established following the signing of respective 5G strategic cooperation agreements with China Mobile, Softbank of Japan, KT of Korea, Telefonica of Spain, and T-Mobile of Germany.

In connection with wireline, the T8000 400G core router was selected for large-scale commercial application as it won the 1st position in China Unicom's centralised procurement for IP city LAN core routers. The Group launched OLT TITAN, a next-generation flagship platform featuring full-service optical access designed for network reconstruction, in strong support of the big video era to meet the need for network reconstruction in the next decade. The Group has also launched the world's first XG-SPON terminal to maintain its technological edge in access products, as well as the serialised SDN/NFV network integrated solutions, including the flexible virtual data centre solution that has won the "Best SDN Implementation in China Award" of the SDN/NFV Alliance.

In connection with clouding computing and IT, the trend of information amalgamation became increasingly dominant, as smart analysis based on cloud computing and big data grew into a major direction for development. At the level of IaaS infrastructure building, the Group was contracted to build the first Tier4 standard data centre in Asia — the National Data Centre of Bangladesh. We signed up such high-profile financial institutions as the Agricultural Bank of China and China Construction Bank for our PaaS-enhancing second financial platform solution, positioning ourselves as a herald for reforming the IT architecture of the financial sector. In SaaS application, we undertook the RCS project of China Mobile and completed the Amazon-based cloud deployment to support conversions and upgrades of Internet businesses. Our IPTV set-top box business sustained strong growth momentum with the blending of set-top box, CDN and family media terminal, while our big video solution was put to large-scale commercial application in the carriers' market.

Summary of the Company's Business

In connection with government and corporate business, the Group continued to make strong efforts in key areas such as smart city, public security and the internet of things. Our smart city solution was evolving from version 2.0 to version 3.0, featuring better adaptation to diversity in data collection at the lower end and in-depth data retrieval and analysis at the upper end based on the "Cloud-Net-Map" technical structure and an open-ended smart ICT infrastructure integrating cloud computing, big data, artificial intelligence, city internet of things and 5G.

In connection with the internet of things, the Group made dedicated efforts in the building of IOT ecospheres and hosted the 2016 Internet of Things Business Summit as a leader of GIA. Sub-ecospheres comprising the internet of vehicles, smart home, China LoRa Application Alliance (CLAA) were developed, as we became an IOT leader in China.

In connection with the consumer business, the Group continued to focus on high-end key models in its smart phone products, with a special emphasis on user's experience and safety. Based on an innovative concept on virtual reality, the Group launched the A7 Max handset supporting virtual reality photo-taking functions such as naked-eye 3D and double camera, such that users could view the 3D virtual reality contents captured by them without wearing helmets or glasses. Moreover, A7 Max was also the world's first handset featuring biometric functions capable of bio-detection, affording better security and user's experience as compared to traditional fingerprint sensors.

In 2016, the Group continued with efforts in the development of the "CGO Laboratory" and ascertained its role as the vehicle for operating innovative projects in new strategic business sectors, as the incubation of innovative projects and the expansion into new businesses and frontiers were further enhanced. The CGO Laboratory developed innovative solutions for smart manufacturing, smart water works, marine communication, and low-orbit communication through cross-disciplinary innovation in adherence to its "Cool, Green and Open" philosophy, as it eyed the future of M-ICT.

The Group's annual R&D expenditure is equivalent to more than 10% of its sales revenue. We have established 20 R&D centres in China, the United States, Sweden, France, Japan and Canada, as well as more than 10 joint innovation centres established in association with leading carriers to ensure success in the market through better assessment of market demand and customers' experience.

As at 31 December 2016, the Group held patent assets of over 68,000 items, including granted patents of over 28,000 items. With memberships at more than 70 international standardisation organisations and forums, convenorships and presenter roles at major international standardisation organisations taken up by more than 30 experts from the Group, the presentation of over 34,000 research papers in aggregate to international standardisation organisations and editorships and authorships for more than 280 international standards, the Group continued to foster strengths in technologies and patents for key products and technologies in 5G/4G, smart terminal, optical communication, cloud computing and big data, ensuring ongoing enhancement in its ability to counter patent risks.

In 2016, the "Key Technologies and Application of 4th Generation Mobile Communication Systems (TD-LTE)" project in which our Group participated won the National Award for Scientific and Technological Progress (Special Class), while another project we participated in, "Key Technologies, Systems and Industrial Application of Scalable Router Switch Supporting Service Innovation", won the National Award for Scientific and Technological Inventions — Class II". "Research and Application of Key Technologies for Mobile Internet Broadband Access System Frequency", a joint project led by the Group, won the Class I Technology Award of Chinese Radio Amateurs Club. Another project under our leadership, "Technologies and Application of Pre-5G-oriented Multi-antenna and Ultra-large Antenna" garnered the Class I Progress Award of China Institute of Communications. The autonomous operating system of the Group, meanwhile, was honoured with the Grand Industrial Award of China.

During 2016, the Group undertook leading roles for a number of key national technological programmes for the "new-generation broadband wireless mobile communication network", as well as the R&D and industrialisation of numerous projects, including key R&D programmes of the Ministry of Science and Technology, the industrial conversion and upgrade project of the Ministry of Industry and Information Technology.

The "ZTE Forum for Cooperation of Enterprises, Academies and Research Institutes" has been formed to solicit memberships among leading domestic colleges and research institutes specialising in telecommunications technologies, in support of the government's call for the formation of a regime for cooperation in technological innovation, where the enterprise, academic and research sectors join forces in market-oriented initiatives under the leadership of business enterprises. By far 30 institutions have joined the Forum and 3 united innovation centres at tertiary institution have been established to jointly undertake key national projects and industrialisation projects of the National Development and Reform Commission.

Report of the Board of Directors

The Board of Directors hereby presents its audited operating results report together with the financial statements of the Group for the year ended 31 December 2016.

BUSINESS OF THE GROUP

The Group is principally engaged in the design, development, production, distribution and installation of a broad range of advanced ICT-related systems, equipment and terminals, including carriers' networks, government and corporate business and consumer business.

FINANCIAL RESULTS

Please refer to page 168 and page 337 of this report for the results of the Group for the year ended 31 December 2016 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

FINANCIAL SUMMARY

Set out on pages 19–21 of this report are the results and financial position of the Group for the three financial years ended 31 December 2016 prepared in accordance with the PRC ASBEs.

Set out on page 22–23 of this report are the results and financial position of the Group for the five financial years ended 31 December 2016 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 2012, 2013, 2014, 2015 and 2016 prepared in accordance with HKFRSs.

(I) Business Review for 2016

1. Overview of the domestic telecommunications industry for 2016

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

2. Overview of the global telecommunications industry for 2016

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

3. Operating results of the Group for 2016

For 2016, the Company reported operating revenue of RMB101.23 billion, representing growth of 1.0% as compared to the previous year which mainly reflected slight growth in operating revenue from carriers' networks and consumer business. Operating profit surged 263.7% to RMB1.17 billion, attributable mainly to relatively strong exchange gains thanks to flexible management of foreign exchange risk exposures, substantial decrease in net interest expense under an optimised structure for interest-bearing liabilities, and substantial growth in investment income generated through equity transactions. For 2016, the Group reported net loss attributable to holders of ordinary shares of the listed company of RMB2.36 billion, which were primarily attributable to a provision for relating losses amounting to approximately USD892 million in respect of post-balance sheet date events in accordance with accounting standards in relation to the agreements reached by the Company with relevant U.S. authorities (the details of which are set out in the "INSIDE INFORMATION — UPDATED INFORMATION IN RELATION TO THE EXPORT RESTRICTIONS BY THE UNITED STATES DEPARTMENT OF COMMERCE" published by the Company on 8 March 2017). Excluding the effect of the aforesaid provision for losses, the Company would have reported net profit attributable to holders of ordinary shares of the listed company of RMB3.83 billion, representing a year-on-year increase of 19.2%.

(1) By market

The domestic market

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

The international market

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

(2) By business segment

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

Report of the Board of Directors

Carriers' networks

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

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

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

Government and corporate business

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

Consumer business

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

For financial results of the year analysed by major financial indicators adopted by the Group, please refer to section (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 (XXVII) Performance of corporate social responsibility by the Company" in this report.

(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

RMB in millions

Revenue mix	Operating revenue	As a percentage of operating revenue	Operating costs	Gross profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in gross profit margin (percentage points)
I. By industry							
Manufacturing of communication equipment	101,233.2	100%	70,100.7	30.75%	1.04%	1.45%	(0.28)
Total	**101,233.2**	**100%**	**70,100.7**	**30.75%**	**1.04%**	**1.45%**	**(0.28)**
II. By business segment							
Carriers' networks	58,880.5	58.16%	35,847.8	39.12%	2.90%	(0.47%)	2.06
Government and corporate business	8,903.7	8.80%	5,601.5	37.09%	(15.18%)	(10.10%)	(3.55)
Consumer business	33,449.0	33.04%	28,651.4	14.34%	3.02%	6.70%	(2.95)
Total	**101,233.2**	**100%**	**70,100.7**	**30.75%**	**1.04%**	**1.45%**	**(0.28)**
III. By region							
The PRC	58,550.1	57.84%	38,956.8	33.46%	10.25%	13.13%	(1.70)
Asia (excluding the PRC)	14,564.6	14.39%	10,499.4	27.91%	(1.73%)	(5.30%)	2.72
Africa	5,751.2	5.68%	3,229.2	43.85%	(17.60%)	(20.57%)	2.10
Europe, Americas and Oceania	22,367.3	22.09%	17,415.3	22.14%	(11.52%)	(10.75%)	(0.66)
Total	**101,233.2**	**100%**	**70,100.7**	**30.75%**	**1.04%**	**1.45%**	**(0.28)**

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(1) Analysis of change in revenue

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

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

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

Unit: RMB in millions

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

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

Newinfo Holdings Limited ("Newinfo"), a wholly-owned subsidiary of ZTE HK, which is in turn a wholly-owned subsidiary of the Company, completed the disposal of 51% equity interests in LiveCom Limited ("LiveCom") in January 2016 and LiveCom had been excluded from the consolidated statements of the Group as from February 2016. The Company completed the disposal of 84.86% equity interests in Tianjin Zhilian in July 2016 and Tianjin Zhilian had been excluded from the consolidated statements of the Group as from August 2016. Zhongxing Software, a wholly-owned subsidiary of the Company, completed the disposal of 90% equity interests in Xunlian Zhifu in August 2016 and Xunlian Zhifu had been excluded from the consolidated statements of the Group as from September 2016. Nubia, a subsidiary of the Group, completed the disposal of 85.50% equity interests in ZTE We Link on 8 December 2016 and ZTE We Link had been excluded from the consolidated statements of the Group as from 8 December 2016. Excluding the operating revenue and operating costs of LiveCom, Tianjin Zhilian, Xunlian Zhifu and ZTE We Link for the corresponding period of 2015, the operating revenue and operating costs of the Group for 2016 grew by 1.20% and 1.63%, respectively, as compared to the same period last year, while gross profit margin dropped by 0.29 percentage points, year-on-year.

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

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

Unit: RMB in millions

		2016		2015		
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	**56,065.2**	**79.98%**	54,436.1	78.78%	2.99%
	Engineering costs	**11,866.8**	**16.93%**	12,796.6	18.52%	(7.27%)
	Total	**67,932.0**	**96.91%**	67,232.7	97.30%	1.04%

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

Unit: RMB in millions

Item	**2016**	2015	Year-on-year increase/ decrease
Selling and distribution expenses	**12,458.2**	11,771.7	5.83%
Administrative expenses	**2,487.9**	2,383.4	4.38%
Finance expenses	**207.8**	1,430.8	(85.48%)[Note]
Income tax	**640.1**	563.3	13.63%

Note: Reflecting exchange gains arising from exchange rate volatility for the period versus exchange losses for the same period last year.

4. *Research and development expense of the Group*

Item	**2016**	2015	Year-on-year increase/decrease
Headcount of R&D personnel	**30,086**	31,703	(5.10%)
R&D personnel as a percentage of total headcount	**36.93%**	37.46%	Decreased by 0.53 percentage point
Amount of R&D expense (RMB in million)	**12,762.1**	12,200.5	4.60%
R&D expense as a percentage of operating revenue	**12.61%**	12.18%	Increased by 0.43 percentage point
Amount of capitalised R&D expense (RMB in million)	**1,447.3**	820.9	76.31%[Note]
Capitalised R&D expense as a percentage of R&D expense	**11.34%**	6.73%	Increased by 4.61 percentage point

Note: Attributable mainly to increased investment in the research and development of Pre-5G, 5G, high-end routers, SDN, OTN and core chips and the extensive application of these products in the market during the period.

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5. Breakdown of the Group's cash flow

Unit: RMB in millions

Item	**2016**	2015	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**124,230.6**	117,862.3	5.40%
Sub-total of cash outflows from operating activities	**118,970.4**	110,457.6	7.71%
Net cash flows from operating activities	**5,260.2**	7,404.7	(28.96%)
Sub-total of cash inflows from investing activities	**4,070.9**	2,299.7	77.02%[Note 1]
Sub-total of cash outflows from investing activities	**7,089.9**	3,875.1	82.96%[Note 2]
Net cash flows from investing activities	**(3,019.0)**	(1,575.4)	(91.63%)[Note 2]
Sub-total of cash inflows from financing activities	**32,958.4**	29,649.5	11.16%
Sub-total of cash outflows from financing activities	**31,731.9**	26,067.5	21.73%
Net cash flows from financing activities	**1,226.5**	3,582.0	(65.76%)[Note 3]
Net increase in cash and cash equivalents	**3,432.8**	9,386.9	(63.43%)

Note 1: Reflecting mainly the increase in cash received from the disposals of subsidiaries including ZTE We Link;

Note 2: Reflecting mainly the investment increased in cash paid by ZTE Capital;

Note 3: Reflecting mainly to the issue of perpetual capital instruments during the same period last year.

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 54. Supplemental information on the cash flow statement to the financial statements prepared under PRC ASBEs.

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

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

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

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

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

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

7. Analysis of the Group's assets and liabilities

(1) Change in assets

Unit: RMB in millions

	As at 31 December 2016		As at 31 December 2015 (Restated)		Year-on-year increase/ decrease in percentage of total assets (percentage points)
Item	**Amount**	**As a percentage of total assets**	Amount	As a percentage of total assets	
Total assets	**141,640.9**	**100%**	124,831.7	100%	—
Cash	**32,349.9**	**22.84%**	28,025.0	22.45%	0.39
Trade receivables	**25,998.2**	**18.36%**	25,251.3	20.23%	(1.87)
Inventories	**26,810.6**	**18.93%**	19,731.7	15.81%	3.12
Investment properties	**2,016.5**	**1.42%**	2,010.4	1.61%	(0.19)
Long-term equity investments	**665.9**	**0.47%**	560.9	0.45%	0.02
Fixed assets	**7,516.2**	**5.31%**	7,692.2	6.16%	(0.85)
Construction in progress	**1,729.5**	**1.22%**	643.8	0.52%	0.70

(2) Change in liabilities

Unit: RMB in millions

	As at 31 December 2016		As at 31 December 2015		Year-on-year increase/ decrease in percentage of total assets (percentage points)
Item	**Amount**	**As a percentage of total assets**	Amount	As a percentage of total assets	
Short-term loans	**15,132.1**	**10.68%**	7,907.6	6.33%	4.35
Long-term loans due within one year	**1,932.0**	**1.36%**	4,617.6	3.70%	(2.34)
Long-term loans	**5,018.3**	**3.54%**	6,016.3	4.82%	(1.28)

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(3) 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							
Including: 1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	—	—	—	—	—	—	—
2. Derivative financial assets	10,110	45,011	(264)	—	—	—	54,857
3. Available-for-sale financial assets	1,093,001	—	1,175,918	—	21,902	546,232	1,315,085
Sub-total of financial assets	1,103,111	45,011	1,175,654	—	21,902	546,232	1,369,942
Investment properties	2,010,396	6,074	—	—	—	—	2,016,470
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	**3,113,507**	**51,085**	**1,175,654**	**—**	**21,902**	**546,232**	**3,386,412**
Financial liabilities [Note]	19,840	(21,107)	(56,783)	—	—	—	40,148

Note: Financial liabilities comprise derivative financial liabilities.

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

② Fair value changes in items measured at fair value and their impact on the Company's profit

Assets of the Company are stated at historical costs, except for derivative financial instruments, equity investments at fair value through profit or loss, a small number of available-for-sale financial assets and investment properties which are measured at fair value. Gains or losses arising from fair value changes in the Company's derivative financial instruments measured at fair value were subject to uncertainties relating to fluctuations in RMB/JPY and RMB/EUR forward exchange rates.

③ Internal control systems relating to fair value measurement

The Company has established a fair value measurement internal control system to be operated through collaboration of various departments under the leadership of the Chief Financial Officer. The "Fair Value Measurement Internal Control Measures" (《公允價值計量的內部控制辦法》) has been formulated as a complement to the "ZTE Accounting Policies" (《中興通訊會計政策》) and the "ZTE Internal Control System" (《中興通訊內部控制制度》) to regulate the application and disclosure of fair value measurements.

(4) Financial assets and financial liabilities held in foreign currencies

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	Closing balance
Financial assets							
Including:	1.	Financial assets at fair value through profit or loss	–	–	–	–	–
		Including: derivative financial assets	10,110	45,011	(264)	–	54,857
	2.	Loans and receivables	38,473,229	–	–	1,366,311	36,178,872
	3.	Available-for-sale financial assets	131,928	–	(7,245)	–	38,490
	4.	Held-to-maturity investments	–	–	–	–	–
Sub-total of financial assets			**38,615,267**	**45,011**	**(7,509)**	**1,366,311**	**36,272,219**
Financial liabilities			10,205,951	(21,107)	(56,783)	–	13,157,636

(5) Impounded, seized, frozen or collateralised or pledged major assets of the Company which are not realisable barring the fulfilment of certain conditions or at all and which are not available for setting off debts, and restrictions on the rights to possess, use, benefit from and dispose of such assets and related arrangements as at the end of the year

☐ Applicable ✓ N/A

8. Major customers and suppliers

The Company provides comprehensive services to global telecommunications service providers and government and corporate clients. Through the provision of innovative technology and product solutions to telecommunications service providers and government and corporate clients in more than 160 countries and regions, the Company enables communication services via multiple means, such as voice, data, multi-media, wireless broadband and wireline broadband for users all over the world. The 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 2016 to its largest customer amounted to RMB18,166.0 million, accounting for 17.94% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB44,226.8 million, accounting for 43.69% 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).

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Purchases by the Group from its largest supplier amounted to RMB2,557.6 million in 2016, accounting for 3.96% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB9,384.3 million, accounting for 14.54% of the total purchases of the Group for the year. 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 Group's third-party investments as at the end of 2016 amounted to approximately RMB665,876,000, representing a growth of 18.71% compared to approximately RMB560,939,000 as at the end of 2015.

(2) The Company did not conduct any significant equity investment or significant non-equity investment during the year.

(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	Gain/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	603118	Gongjin Electronics Note 1	4,274.93	Fair-value measurement	48,798.08	–	–	–	37,347.69	32,258.73	–	Available-for-sale financial assets	Issue proceeds
Stock	300438	Great Power Note 1	3,095.24	Fair-value measurement	37,350.00	–	12,627.38	–	17,275.51	15,237.11	14,175.00	Available-for-sale financial assets	Issue proceeds
Stock	300502	Eoptolink Note 1	1,385.12	Fair-value measurement	1,385.12	–	29,376.66	–	–	–	30,761.78	Available-for-sale financial assets	Issue proceeds
Stock	603986	Giga Device Note 1	1,800.00	Fair-value measurement	1,800.00	–	54,711.70	–	–	–	56,511.70	Available-for-sale financial assets	Issue proceeds
Stock	603633	Laimu Note 1	2,000.00	Fair-value measurement	2,000.00	–	11,670.00	–	–	–	13,670.00	Available-for-sale financial assets	Issue proceeds
Stock	002036	Lianchuang Electronic Note 2	3,266.00	Fair-value measurement	22,170.63	–	9,930.56	–	–	–	13,196.56	Available-for-sale financial assets	Issue proceeds
Stock	ENA: TSV	Enablence Technologies Note 3	3,583.26	Fair-value measurement	981.36	–	(724.90)	2,190.16	–	–	3,193.45	Available-for-sale financial assets	Internal funds
Other securities investments held at the end of the period			–	–	–	–	–	–	–	–	–	–	–
Total			**19,404.55**	**–**	**114,485.19**	**–**	**117,591.40**	**2,190.16**	**54,623.20**	**47,495.84**	**131,508.49**	**–**	**–**

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

Note 2: Figures corresponding to Lianchuang Electronic (formerly named "China-Hemp Industrial Investment Co., Ltd.") 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 HKD35,655,100, equivalent to approximately RMB31,934,500 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.89565) on 31 December 2016.

B. Details in investment in securities

a. Shareholdings in Gongjin Electronics

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. Zhonghe Chunsheng Fund disposed of 8.37 million shares in Gongjin Electronics (a company listed on the Shanghai Stock Exchange) through the block trading system and transferred a total of 2,001,500 shares in Gongjin Electronics in the secondary market in 2016. As at the end of the year, Zhonghe Chunsheng Fund no longer held any shares in Gongjin Electronics.

b. Shareholdings in Great Power

On 16 May 2016, Zhonghe Chunsheng Fund transferred the 1.50 million 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 4.50 million shares in Great Power (following the implementation of the 2015 equity distribution plan), accounting for 1.79% of the total share capital of Great Power.

c. Shareholdings in Eoptolink

As at the end of the year, Zhonghe Chunsheng Fund held 2,611,800 shares in Eoptolink, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.37% of the total share capital of Eoptolink.

d. Shareholdings in Giga Device

As at the end of the year, Zhonghe Chunsheng Fund held 3,175,400 shares in Giga Device, a company listed on the Shanghai Stock Exchange, accounting for 3.18% of the total share capital of Giga Device.

e. Shareholdings in Laimu

As at the end of the year, Zhonghe Chunsheng Fund held 3,333,300 shares in Laimu, a company listed on the Shanghai Stock Exchange, accounting for 2.77% of the total share capital of Laimu.

f. 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, a partnership reported in the consolidated financial statements of the Company. As a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, Lianchuang Electronic was required to repurchase shares held by its shareholders for cancellation as compensation following its failure to meet the net profit undertaking for 2015. As a result, Lianchuang Electronic repurchased 310,700 shares held by Jiaxing Fund. As at the end of the year, Jiaxing Fund held 6,887,600 shares in Lianchuang Electronic, accounting for 1.18% of the total share capital of Lianchuang Electronic.

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g. 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 17.29% of its total share capital.

h 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 year.

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	Purchase during the period	Disposal during the period	Impairment provision (if any)	Closing balance of investment amount	Closing balance of investment amount as a percentage of net assets Note 2 of the Company at the end of the period (%)	Actual profit or loss for the reporting period
Financial institution	N/A	No	Interest rate swap Note 3	–	2011/12/19	2016/7/8	32,470.00	–	33,344.00	–	–	–	–
Financial institution	N/A	No	Interest rate swap Note 3	–	2011/12/22	2016/7/8	32,470.00	–	33,344.00	–	–	–	–
Financial institution	N/A	No	Foreign exchange forwards	–	2016/6/29	2017/4/3	23,484.25	197,710.93	180,302.28	–	40,892.90	1.55%	(1,157.78)
Financial institution	N/A	No	Foreign exchange forwards	–	2016/9/26	2017/5/27	22,481.58	267,390.36	170,917.96	–	118,953.98	4.51%	(3,367.88)
Financial institution	N/A	No	Foreign exchange forwards	–	2016/7/8	2017/5/13	10,463.78	255,700.53	163,193.22	–	102,971.09	3.90%	(2,915.36)
Financial institution	N/A	No	Foreign exchange forwards	–	2016/9/23	2017/5/25	140,123.64	535,819.38	531,704.05	–	144,238.96	5.46%	(4,084.09)
Total				**–**	**–**	**–**	**261,493.25**	**1,256,621.20**	**1,111,057.51** Note 4	**–**	**407,056.93**	**15.42%**	**(11,525.11)**

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 Twenty-fifth Meeting of the Sixth Session of the Board of Directors" and "Announcement on the Application for Derivative Investment Limits for 2015," both dated 25 March 2015, and "Announcement Resolutions of the Second Meeting of the Seventh Session of the Board of Directors" and "Announcement on the Application for Derivative Investment Limits for 2016," both dated 6 April 2016.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	"Announcement on Resolutions of the 2014 Annual General Meeting" dated 28 May 2015 and "Announcement on Resolutions of the 2015 Annual General Meeting" dated 2 June 2016.

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	Value-protection derivative investments were conducted by the Company during 2016. The major risks and control measures 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; 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 from investments in derivatives during the reporting period. Total loss recognised for the reporting period amounted to RMB115.25 million, comprising gains from fair-value change of RMB23.90 million and recognised investment loss of RMB139.15 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.

Report of the Board of Directors

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. We are of the view that the derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with relevant laws and regulations.

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

Note 2: 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;

Note 3: The difference between the amount of disposal and the investment amount at the beginning of the period for interest rate swaps was owing to differences in exchange rates adopted for translation, while there had been no change in the amount denominated in the original currency; interest rate swaps were dealt with as value protection hedging for accounting purposes and the gain or loss arising from interest rate swaps was recognised in other comprehensive income;

Note 4: The difference between the total amount of disposals for the reporting period and the sum of amounts with various financial institutions was owing to revaluation of interest rate swaps.

(4) Entrusted fund management and entrusted loans

① Entrusted fund management

Unit: RMB in ten thousands

Name of trustee	Whether a connected transaction	Product type	Amount of entrusted investment	Commencement date	Maturity date	Method for determining remuneration	Principal amount returned for the period	Impairment provision amount (if any)	Estimated gain	Actual profit or loss for the reporting period	Actual recovery of profit or loss for the reporting period
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	200[Note 1]	2015–07–23	2016–01–20	Settlement upon maturity on an as-incurred basis	200	–	–	4.66	4.66
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	900[Note 1]	2016–01–04	2016–03–07	Settlement upon maturity on an as-incurred basis	900	–	–	6.21	6.21

Name of trustee	Whether a connected transaction	Product type	Amount of entrusted investment	Commencement date	Maturity date	Method for determining remuneration	Principal amount returned for the period	Impairment provision amount (if any)	Estimated gain	Actual profit or loss for the reporting period	Actual recovery of profit or loss for the reporting period
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000[Note 1]	2016–01–04	2016–04–12	Settlement upon maturity on an as-incurred basis	1,000	–	–	11.01	11.01
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000[Note 1]	2016–01–04	2016–07–07	Settlement upon maturity on an as-incurred basis	1,000	–	–	21.44	21.44
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	650[Note 1]	2016–03–22	2016–06–23	Settlement upon maturity on an as-incurred basis	650	–	–	6.32	6.32
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000[Note 1]	2016–04–27	2016–07–13	Settlement upon maturity on an as-incurred basis	1,000	–	–	6.90	6.90
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	700[Note 1]	2016–07–04	2016–08–15	Settlement upon maturity on an as-incurred basis	700	–	–	2.74	2.74
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000[Note 1]	2016–07–14	2017–01–05	Settlement upon maturity on an as-incurred basis	–	–	17.02	16.63	–
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000[Note 1]	2016–07–20	2016–10–19	Settlement upon maturity on an as-incurred basis	1,000	–	–	8.73	8.73
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	700[Note 1]	2016–09–01	2016–11–30	Settlement upon maturity on an as-incurred basis	700	–	–	6.11	6.11
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,000[Note 1]	2016–10–27	2017–04–20	Settlement upon maturity on an as-incurred basis	–	–	16.54	6.24	–
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	750[Note 1]	2016–12–14	2017–04–25	Settlement upon maturity on an as-incurred basis	–	–	9.90	1.35	–
China Merchants Bank, Zhangjiang Sub-branch, Shanghai	No	Bank investment product	1,315[Note 1]	2016–01–04	T+1 redemption	Investment income for the previous month settled on the dividend record date of each month	956	–	6.64	6.64	6.04
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	150[Note 2]	2015–12–16	2016–01–20	Settlement upon maturity on an as-incurred basis	150	–	–	0.35	0.35
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	350[Note 2]	2015–12–16	2016–03–16	Settlement upon maturity on an as-incurred basis	350	–	–	2.36	2.36
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	2,000[Note 2]	2015–10–09	2016–01–11	Settlement upon maturity on an as-incurred basis	2,000	–	–	13.91	13.91
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	1,950[Note 2]	2016–01–12	2016–04–12	Settlement upon maturity on an as-incurred basis	1,950	–	–	12.15	12.15
Bank of China Corporation, Sichuan Road Sub-branch, Yining City Border Area Economic Cooperation Zone	No	Bank investment product	40[Note 2]	2016–01–02	2016–04–26 (drawn on demand)	Investment income for the previous month settled on the dividend record date of each month	40	–	–	0.49	0.49
Minsheng Bank, Shenzhen Branch	No	Bank investment product	30,000[Note 3]	2016–10–25	2017–10–24	Settlement upon maturity on an as-incurred basis	–	–	1,230	–	–
Minsheng Bank, Shenzhen Branch	No	Bank investment product	20,000[Note 3]	2016–12–13	2017–06–12	Settlement upon maturity on an as-incurred basis	–	–	390	–	–
Minsheng Bank, Shenzhen Branch	No	Bank investment product	10,000[Note 3]	2016–12–20	2017–03–20	Settlement upon maturity on an as-incurred basis	–	–	100	–	–
Total			**75,705**	**–**	**–**	**–**	**12,596**	**–**	**1,770.10**	**134.24**	**109.42**

Report of the Board of Directors

Source of funds for entrusted investment	Internal funds, issue proceeds
Aggregate amount of overdue and outstanding principal and gain	Nil
Litigation incurred (if applicable)	N/A
Date of announcement of the Board of Directors regarding the approval of entrusted investment (if any)	N/A
Date of announcement of the general meeting regarding the approval of entrusted investment (if any)	N/A
Whether there are entrusted investment plans in future	Yes

Note 1: Thirteen bank investment products listed above were purchased with internal funds by 中興健康科技有限公司 ("ZTE Health"), which was held as to 49.999998% by the Company and 50.000002% by 上海和寧投資管理有限公司.

Note 2: Five bank investment products listed above were purchased with internal funds by Xinjiang ZTE Silk Road Network Technology Company Limited ("ZTE Silk Road"), which was held as to 65% by the Company and 35% by 伊犁合新盛通市政工程有限責任公司.

Note 3: Three bank investment products listed above were purchased with issue proceeds by Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership) ("Zhonghe Chunsheng Fund III"), in which the Company and Changshu Changxing Capital Investment Management Company, a wholly-owned subsidiary of ZTE Capital held held 25.83% equity interests in aggregate.

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 during the year, 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 business sector	Registered capital	Total assets	Net assets	Operating revenue	Operating profit/ (loss)	Net profit/ (loss)
ZTE Microelectronics	Subsidiary	Design, production and sales of integrated circuits	RMB131,578,947	6,164.6	3,867.9	5,567.8	198.2	267.2
Zhongxing Software	Subsidiary	Software development	RMB51.08 million	23,515.0	7,437.5	19,856.5	(401.6)	1,977.9
Xi'an Zhongxing New Software Company Limited	Subsidiary	Communications equipment/ terminal equipment	RMB600 million	2,637.2	1,637.7	2,041.5	32.6	320.2
ZTE Capital	Subsidiary	Trustee management of venture funds	RMB30 million	3,287.4	3,241.5	–	606.4	601.7
西安中興通訊終端科技有限公司	Subsidiary	Production and sales of mobile terminals	RMB300 million	1,407.7	630.5	14,953.3	206.3	252.2
ZTE Telecom India Private Ltd.	Subsidiary	Sales of and technical support for communications products	INR2,250 million	3,574.0	(1,042.0)	1,543.5	290.4	293.4
ZTE Do Brasil LTDA	Subsidiary	Production and sales of communications products	BRL6.50 million	449.4	(2,144.3)	392.0	378.3	248.7
Closed Joint Stock Company TK Mobile	Subsidiary	Sales of and technical support for communications products	USD60,000	5.0	(575.1)	3.3	(265.6)	(265.6)

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, 8 subsidiaries reported year-on-year difference in operating results of more than 30%, resulting in a material impact on the consolidated operating results of the Company. ZTE Microelectronics reported year-on-year decrease in net profit growth of 41.82%, reflecting mainly increased investment in research and development. Zhongxing Software reported year-on-year net profit growth of 37.43%, reflecting mainly investment income from the disposal of Xunlian Zhifu during the period. Xi'an Zhongxing New Software Company Limited reported year-on-year net profit growth of 37.29% in line with the increase in gross profit. ZTE Capital reported year-on-year net profit growth of 280.37% which was mainly attributable to investment income from the disposal of available-for-sale financial assets. 西安中興通訊終端科技有限公司 reported year-on-year net profit growth of 1,022.15%, which was mainly attributable to the increase in sales and gross profit. Net profit of ZTE Telecom India Private Ltd. reported year-on-year increase in net profit of 173.35%, reflecting mainly the increase in gross profit and the decrease in asset impairment losses. ZTE Do Brazil LTDA reported year-on-year increase in net profit of 135.21%, reflecting mainly exchange gains for the period versus exchange losses for the same period last year. Net profit of Closed Joint Stock Company TK Mobile decreased by 358.14% as a result of substantial decline in gross profit and increase in asset impairment losses.

For details of subsidiaries acquired or disposed of during the year and their effect, 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."

Report of the Board of Directors

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

REVENUE ANALYSIS BY BUSINESS SEGMENT AND REGION

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

Unit: RMB in millions

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

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

Unit: RMB in millions

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

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

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

Report of the Board of Directors

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

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

Unit: RMB in millions

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

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

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

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

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

OTHER INCOME AND GAINS

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

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2016 increased by 4.6% to RMB12,762.1 million from RMB12,200.5 million for 2015, and rose by 0.4 percentage point from 12.2% for 2015 to 12.6% for 2016 as a percentage of operating revenue, attributable mainly to the continuous increase in the Group's investment in the research and development of products such as Pre-5G, 5G, high-end routers, SDN, OTN and core chips for the period.

SELLING AND DISTRIBUTION EXPENSES

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

ADMINISTRATIVE EXPENSES

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

OTHER EXPENSES

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

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2016 amounted to RMB343.1 million, as compared to RMB5,509.3 million for 2015, while operating profit margin was 0.3% as compared to 5.5% for 2015, reflecting mainly to the provision for related losses amounting to RMB6,182.5 million by the Group for the period in respect of the post-balance sheet date event in accordance with accounting standards in relation to the agreements reached by the Company with relevant U.S. authorities.

FINANCE COSTS

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

Report of the Board of Directors

INCOME TAX EXPENSE

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

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

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

OTHER COMPREHENSIVE INCOME

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

DEBT-EQUITY RATIO AND THE BASIS OF CALCULATION

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

The Group's debt-equity ratio for 2016 was 38.6%, increasing by 1.6 percentage points as compared to 37.0% for 2015.

LIQUIDITY AND CAPITAL RESOURCES

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

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

CASH FLOW DATA

Unit: RMB in millions

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

OPERATING ACTIVITIES

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

INVESTING ACTIVITIES

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

FINANCING ACTIVITIES

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

CAPITAL EXPENDITURE

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

INDEBTEDNESS

Unit: RMB in millions

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

Unit: RMB in millions

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

Report of the Board of Directors

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

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

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

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

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

CONTINGENT LIABILITIES

Unit: RMB in millions

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

CAPITAL COMMITMENTS

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

Unit: RMB in millions

Item	31 December 2016	2015
Land and buildings:		
Contracted, but not provided for	**1,052. 8**	904.4
Investment in associates:		
Contracted, but not provided for	**128.4**	28.6

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

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

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

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

The Group did not conduct any significant acquisitions or disposals related to subsidiaries, associates and joint ventures in 2016. Details of progress of acquisitions and disposals related to subsidiaries, associates and joint ventures commenced by the Company in previous years and 2016 are set out in the section headed "Material Matters — (V) Asset Transactions" in 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 2016 are set out in the sections headed "Directors, Supervisors, Senior Management and Employees," "Corporate Governance Structure" and "Material Matters — (VI) Implementation and Impact of the Company's Share Option Incentive Scheme" in this report.

CHARGES ON ASSETS

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

Report of the Board of Directors

PLANS FOR INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

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

Details of future plans for investments or acquisition of capital assets are set out in the section headed "Report of the Board of Directors" in 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 2017 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 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 its businesses and operations are conducted in compliance 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, whilst each operating unit will be responsible for compliance with laws and regulations pertaining to its daily operations and reports to the Group's Compliance Management Committee. The Group also seeks advice on a regular basis from external legal counsels on compliance with domestic and international laws and regulations.

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

The Group had in all material respects complied with laws and regulations which have a significant impact on the Group's operations during the year.

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

During the year, the Company hosted 30 receptions of investors for research purposes, receiving 85 institutional investors but no individual investor or other researchers. 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	Index of research
External meetings	January 2016	Shanghai	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	January 2016	Hong Kong	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	January 2016	Hong Kong	Citibank investors' meeting	Customers of Citibank	Day-to-day operations of the Company	Published announcements and regular reports
	April 2016	Chongqing	Guotai Jun'an investors' meeting	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	April 2016	Hangzhou	Haitong Securities investors' meeting	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2016	Xiamen	Shenwan Hongyuan investors' meeting	Customers of Shenwan Hongyuan	Day-to-day operations of the Company	Published announcements and regular reports
	May 2016	Hangzhou	CITIC Securities investors' meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2016	Hong Kong	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2016	Hong Kong	Goldman Sachs investors' meeting	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	May 2016	Beijing	Morgan Stanley investors' meeting	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	June 2016	Hong Kong	UBS investors' meeting	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	June 2016	Shanghai	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	June 2016	Shenzhen	BOCI investors' meeting	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
	June 2016	Chengdu	Changjiang Securities investors' meeting	Customers of Changjiang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	July 2016	Shanghai	Founder Securities investors' meeting	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
	July 2016	Shanghai	Industrial Securities investors' meeting	Customers of Industrial Securities	Day-to-day operations of the Company	Published announcements and regular reports
	August 2016	Shanghai	China Merchants Securities investors' meeting	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2016	Shanghai	Hua Chuang Securities investors' meeting	Customers of Hua Chuang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2016	Hangzhou	Haitong Securities investors' meeting	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2016	Shenzhen	Huatai Securities investors' meeting	Customers of Huatai Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2016	Shenzhen	Founder Securities investors' meeting	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2016	Shenzhen	Guosen Securities investors' meeting	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports

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Nature	Time	Location	Mode	Audience received	Key contents discussed	Index of research
	November 2016	Beijing	Merrill Lynch investors' meeting	Customers of Merrill Lynch	Day-to-day operations of the Company	Published announcements and regular reports
	November 2016	Beijing	CICC investors' meeting	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	November 2016	Hong Kong	CIMB Securities investors' meeting	Customers of CIMB Securities	Day-to-day operations of the Company	Published announcements and regular reports
	November 2016	Shenzhen	CITIC Securities investors' meeting	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	November 2016	Shenzhen	Guotai Jun'an investors' meeting	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	November 2016	Shanghai	Haitong Securities investors' meeting	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	November 2016	Shanghai	Hua Chuang Securities investors' meeting	Customers of Hua Chuang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2016	Tokyo	Nomura Securities investors' meeting	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2016	Haikou	Essence Securities investors' meeting	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2016	Shenzhen	China Securities investors' meeting	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2016	Hangzhou	Founder Securities investors' meeting	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
				Overseas investors		
Company visits by investors	January to December 2016	Company	Verbal	Turiya Advisors, BNP Paribas Inv Partners, Tybourne Capital Mgmt (HK) Ltd, Generali Invs Asia Ltd, Goldman Sachs Inv Partners, INVESCO Asia Ltd, Karst Peak Capital Ltd, Telligent Capital Mgmt Ltd, Deutsche Bank, Tokai Tokyo Securities Asia, SinoPac Securities, Macquarie Capital Securities Limited, Resona Bank, 3D Investment Partners, Proa Partners Pte. Ltd, China Merchants Securities (HK), South China PE Investment Fund, Nikko Asset Management, Value Partners, UBS Asset Management (Singapore) Ltd, BBL Asset Management Co. Ltd, Morgan Stanley, Cathay Life, UG Investment Advisers Limited, Claw Capital, Deutsche Asset& Wealth Management, CLSA, Pacific Crest Securities, Samsung Securities, Goldman Sachs, 普林斯特資本管理, CloudAlpha Capital Management, PV CAPITAL, APS Asset Management, BNP Paribas Securities, P Morgan Asset Management, Matthews Global Investors(HK) Ltd, Daiwa AM, KIARA Advisors, BOCI	Day-to-day operations of the Company	Published announcements and regular reports
				Domestic investors		
	January to December 2016	Company	Verbal	Huatai United, Baiyi Capital Management Co., Ltd., Neo Capital, Sealand Securities, Soochow Securities, China Securities, Changjiang Securities, Guosen Securities, Dongxing Securities, Qianhai Ruiyuan Capital Management, Industrial Securities, Shenzhen Sanmu Investment Limited, Shenzhen Elitimes Fund, Shenzhen Qianhai Xingxin Fuying Asset Management Limited, Shenzhen Gaoxie Hi-tech Industrialization Promotion Center, Jilin Province Jimei Investment Limited, China Merchants Securities, Mingyuan Ruida, Northeast Securities, BOC Investment Management, Da Cheng Asset Management, E Fund, Great Wall Securities, Shenyin Wanguo,, First State Cinda Fund, 中天證券, Fortune Securities, Matrix Partners Capital, Golden Eagle Fund, Shanghai JiYuan Asset Management, China Merchants Fund, Jiaying Investment, Tiger Trend, Orient Capital, Soochow Asset Management, China AMC, Baoying Fund, Yong Rong Asset, ZhongRong Fund, JT Asset Management, Munsun Asset Management, Da Cheng Asset Management	Day-to-day operations of the Company	Published announcements and regular reports

(VI) Business outlook and risk exposures of 2017

1. Business outlook of 2017

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

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

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

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

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

2. Risk exposures

(1) Country risk

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

(2) Risk associated with intellectual property rights

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

Report of the Board of Directors

(3) Exchange risks

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

(4) Interest rate risk

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

(5) Credit risk

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

(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 13 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 2016 are set out in Note 31 to the financial statements prepared in accordance with HKFRSs.

3. Reserves

Details of the reserves and changes in the reserves of the Group and the Company for the year are set out in Note 39 and Note 55 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 the share capital and the reasons therefor, are set out in Note 37 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 had been effective throughout the financial year ended 31 December 2016 and was effective 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 for 2016

Audited net profit of the Company for the year 2016 calculated in accordance with PRC ASBEs amounted to approximately RMB-4,725,445,000. Together with undistributed profit of approximately RMB2,710,245,000 carried forward at the beginning of the year and after deducting 2015 dividend distribution to shareholders of RMB1,038,566,000 and statutory surplus reserves of approximately RMB0, profit available for distribution to shareholders amounted to approximately RMB-3,053,766,000.

Audited net profit of the Company for the year 2016 calculated in accordance with HKFRSs amounted to approximately RMB-4,777,527,000. Together with undistributed profit of approximately RMB2,590,517,000 carried forward at the beginning of the year and after deducting 2015 dividend distribution to shareholders of RMB1,038,566,000 and statutory surplus reserves of approximately RMB0, profit available for distribution to shareholders amounted to approximately RMB-3,225,576,000.

In accordance with MOF requirements and the Articles of Association, profit available for distribution shall be the lower of profit available for distribution as calculated in accordance with PRC ASBEs and that calculated in accordance with HKFRSs. Therefore the amount of profit available for distribution is approximately RMB-3,225,576,000.

No profit distribution by the Company is proposed for 2016. The aforesaid matter shall be subject to 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 profit distribution proposal for 2015 of the Company was considered and approved at the 2015 Annual General Meeting held on 2 June 2016 and distribution was completed on 15 July 2016. A cash dividend of RMB2.5 (before tax) was paid for every 10 shares held on the basis of the total share capital of the Company of 4,154,262,354 as at the record date (comprising 3,398,759,820 A shares and 755,502,534 H shares). The record date for A shares is 14 July 2016 and the ex-dividend date for A shares is 15 July 2016. The record date for H shares is 13 June 2016 and the dividend payment date for H shares is 15 July 2016. For details, please refer to the "INFORMATION ON PAYMENT OF FINAL DIVIDENDS" published by the Company on 8 July 2016.

Aggregate profit distribution of the Company in the form of cash in 2014–2016 accounted for 603.15% of the annual average profit available for distribution in the past three years, in compliance with Article 234 of the Articles of Association which states that "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 Company did not make any adjustments or changes to its profit distribution policy during the year.

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

Year	Profit distribution or conversion of capital reserve plan or proposal	Implementation
2016	The profit distribution proposal: No profit distribution by the Company is proposed.	Subject to consideration and approval at the 2016 Annual General Meeting of the Company.
2015	The plan for profit distribution: Proposed payment of RMB2.5 in cash (before tax) for every 10 shares held based on the total share capital of 4,154,262,354 shares of the Company (comprising 3,398,759,820 A shares and 755,502,534 H shares) as at the record date.	Considered and approved at the 2015 Annual General Meeting of the Company.
2014	The plan for profit distribution and conversion of capital reserve: Cash dividend of RMB2.0 (before tax) for every 10 shares held and bonus issue of 2 shares for every 10 shares by way of conversion of capital reserve held based on the total share capital of 3,437,541,278 shares of the Company as at 31 December 2014.	Considered and approved at the 2014 Annual General Meeting of the Company.

Details of 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	Cash 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
2016	—	(235,741.80)	—	(322,557.60)
2015	103,856.56	320,788.50	32.38%	259,051.70
2014	68,750.83	263,357.10	26.11%	149,358.90
Accumulated cash distribution amount in the past three years as a percentage of average annual profit available for distribution (%)				603.15%

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

Material Matters

(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 is 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 received the application for the enforcement of arbitration award re-submitted by the said consultant firm, and the case is currently pending judgement by the court.

   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.

2. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB50,433,000). 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 RMB21,683,400) be paid by the Company. 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. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. There was no substantial progress of the case during the reporting period.

   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.

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 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.

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. Currently, the above cases are under trial suspension.

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 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.

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. Currently, the above case is under trial suspension.

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.

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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. As at the end of the reporting period, the arbitration court had yet to make a final ruling. 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. The court has yet to issue its ruling.

   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. In May 2011 and May 2012, ZTE Deutschland GmbH ("ZTE Deutschland"), a wholly-owned subsidiary of the Company, and the Company respectively received statements of claim filed by Huawei Technologies Co., Ltd ("Huawei") to the District Court of Dusseldorf, Germany, claiming that ZTE Deutschland and the Company had infringed 4 of its patents. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 21 March 2013, the district court rejected all allegations of Huawei in connection with the infringement on its EP 2033335 patent by the Company's LTE systems products and terminals. Huawei appealed to the Court of Appeal on 22 April 2013 and applied for the appeal case to be terminated on 3 May 2013.

   In May 2012, ZTE Deutschland received statements of claim filed by Huawei to the Court of Mannheim, Germany, claiming that ZTE Deutschland had infringed its patent rights. The amount in dispute for this case was estimated by Huawei at EUR1 million. On 15 March 2013, the Court of Mannheim, Germany made a judgement to reject all allegations of Huawei in connection with the infringement by the LTE terminals of ZTE Deutschland, but was of the view that the LTE systems products sold by ZTE Deutschland in Germany had infringed on "a derived encryption function" of the said patent. In respect of the infringement ruled by the judgement, ZTE Deutschland and Huawei each filed an appeal to the High Court of Karlsruhe, Germany on 19 April 2013. Court trial of the case has been suspended following the ruling made by the European Court of Justice on relevant principles for the standard patents.

   On 12 November, 21 November and 2 December 2011, respectively, ZTE Hungary Kft. ("ZTE Hungary"), a wholly-owned subsidiary of the Company, received statements of claim filed by Huawei with the Metropolitan Court of Hungary alleging infringement of 4 of its patents by ZTE Hungary, although no specific amount of compensation was named by Huawei in the statements of claim. ZTE Hungary submitted defenses to the court on 12 January and 1 February 2012, respectively. In respect of the 4 patents which is the subject of Huawei's litigation, ZTE Hungary filed an application to the Patent Bureau of Hungary to claim the invalidity of the patents. The court had ruled to suspend trial in respect of all of the 4 patents under litigation.

As at the disclosure date of this report, the relevant courts aforementioned had ruled to terminate the cases concerned based on the applications of two parties.

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.

6. 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 initial determination in respect 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 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, 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 defense of the case and will file an appeal 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.

   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.

7. On 20 May 2013, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed

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non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB205 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that: (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527. A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil received the judgement of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. The case is currently pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State.

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. In May 2012, Flashpoint Technology, Inc., a U.S. company, filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in image processing technologies. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a limited 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 Delaware, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of Delaware has been suspended. On 1 October 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 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

   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 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. There has been no substantial progress in the litigation process. 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. The United States Court of Appeals for the Federal Circuit has yet to issue its verdict.

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.

10. 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 RMB66,686,200). 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 an compensation amount of BRL31,224,300 (equivalent to approximately RMB66,411,000) 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 RMB66,411,000) 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 execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB66,411,000) 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.

    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 RMB176 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.

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2016 where PKR amounts are translated at the exchange rate of PKR1:RMB0.0661 and BRL amounts are translated at the exchange rate of BRL1:RMB2.1269.

(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 on Amounts Receivable from the Controlling Shareholder and Other Connected Parties by ZTE Corporation" issued by Ernst & Young Hua Ming LLP was set out in the overseas regulatory announcement published by the Company on 23 March 2017.

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

(V) ASSET TRANSACTIONS

1. Updates on asset disposal disclosed in previous periods

(1) Disposal of equity interests in LiveCom Limited

Newinfo, a wholly-owned subsidiary of ZTE HK which is, in turn, a wholly-owned subsidiary of the Company, holds 56% equity interests in LiveCom. As considered and approved at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors and the Thirty-sixth Meeting of the Sixth Session of the Board of Directors, Newinfo proposed to dispose of its 51% equity interests in LiveCom to Jufei (Hong Kong) Development Limited (聚飛（香港）發展有限公司) for a consideration of RMB90 million. The closing of the aforesaid transfer of equity interests was completed in January 2016.

(2) Asset Reorganisation by Shenzhen Xingfei Technology Company Limited, an investee of the Company, with Fujian Start Group Co., Ltd.

On 14 August 2015, the Company entered into the "Agreement for Asset Purchase with the Issue of Shares and Cash Payment Between Fujian Start Group Co., Ltd. and Shenzhen Changfei Investment Company Limited, Shenzhen Teng Xing Wang Da Company Limited, ZTE Corporation, Chen Feng, and 深圳市隆興茂達投資管理有限合夥企業（有限合夥）" (the "Asset Purchase Agreement") and the "Profit Forecast Compensation Agreement Between Fujian Start Group Co., Ltd. and Shenzhen Teng Xing Wang Da Company Limited, ZTE Corporation, Chen Feng, and 深圳市隆興茂達投資管理有限合夥企業（有限合夥）" (the "Profit Forecast Compensation Agreement"). Pursuant to the Asset Purchase Agreement, the Company will dispose of 4.9% equity interests in Shenzhen Xingfei Technology Company Limited ("Xingfei") to Fujian Start Group Co., Ltd. ("Start Group") for a consideration of RMB10 million in cash plus 9,482,218 consideration shares to be issued by Fujian Start Group Co., Ltd. to the Company. Pursuant to the Profit Forecast Compensation Agreement, the Company has given an undertaking for compensation in respect of the future (namely, the year during which the material asset reorganisation of Start Group is completed and all subsequent accounting years thereafter up to 31 December 2018) business results of Xingfei, under which the number of the aforesaid consideration shares might be adjusted. The aforesaid matter was considered and approved at the Twenty-ninth Meeting of the Sixth Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Twenty-ninth Meeting of the Sixth Session of the Board of Directors" published by the Company on 14 August 2015. The Company and Fujian Start Group Co., Ltd. completed the closing of the equity transaction and the payment by cash and shares in May 2016.

2. Asset disposal disclosed in the year

Counterparty	Equity interests disposed of	Date of execution of agreement	Transaction price (in RMB100 million)	Net profit contributions of such equity interests from the beginning of the period to the date of execution of agreement (in RMB100 million)	Impact of the disposal on the Company	Net profit contributions to the listed company of such equity interest disposal as a percentage of net profit Note 1 (absolute value)	Pricing principle for the equity disposal	Whether a connected transaction Note 2	Connected relationship with the counterparty	Whether equity interests involved have been transferred in full Note 3	Whether implemented as planned and scheduled, reasons for not being implemented as planned and measures adopted by the Company	Date of domestic announcement	Index of domestic announcement
上海沃芮歐信息科技有限公司	90% equity interests of Xunlian Zhifu	16 June 2016	3.825	(0.08)	Increase of RMB351 million in investment gains on the face of the consolidated statements of the Company	14.89%	Determined through negotiations with reference to asset valuation report	No	N/A	Yes	Yes	2016-6-17	Announcement No. 201648 "Announcement on Strategic Cooperation with E-Capital Transfer Co., Ltd. and Disposal of Equity Interests in Subsidiary"
Gosuncn Technology Group Co., Ltd	84.86% equity interests of Tianjin Zhilian	24 June 2016	1.484	(0.16)	Increase of RMB147 million in investment gains on the face of the consolidated statements of the Company	6.23%	Determined through negotiations with reference to asset valuation report	No	N/A	Yes	Yes	2016-06-25	Announcement No. 201650 "Announcement Resolutions of the Sixth Meeting of the Seventh Session of the Board of Directors"
Gosuncn Technology Group Co., Ltd and Zhuhai Kaiteng Investment Partnership (Limited Partnership)	85.50% equity interests of ZTE We Link	30 November 2016	6.9255	0.29	Increase of RMB594 million in investment gains on the face of the consolidated statements of the Company	15.10%	Determined through negotiations with reference to asset valuation report	No	N/A	Yes	Yes	2016-12-01	Announcement No. 201679 "Announcement on the Disposal of Equity Interests in a Subsidiary"

Note 1: Net profit attributable to the holders of ordinary shares of the listed company for the year;

Note 2: Connected transactions as defined under the Shenzhen Listing Rules and other domestic securities regulatory provisions;

Note 3: Disclosure of "whether equity interests involved have been transferred in full" refers to disclosure of information as at the date of this report (i.e., 24 March 2017).

(1) Disposal of equity interests in Xunlian Zhifu

On 16 June 2016, the Company, E-Capital Transfer Co., Ltd. ("E-Capital"), Zhongxing Software (a wholly-owned subsidiary of the Company) and 上海沃芮歐信息科技有限公司 ("Shanghai Wo Rui Ou", a wholly-owned subsidiary of E-Capital), entered into a strategic cooperation agreement providing for extensive cooperation between the Company and E-Capital in areas such as payment services and internet finance with a view to achieving complementary effects and mutual benefits, following friendly consultation between the Company and E-Capital for the purpose of comprehensive strategic cooperation in major business areas.

On 16 June 2016, Zhongxing Software and Shanghai Wo Rui Ou entered into the "Equity Transfer Agreement for the Transfer of 90% Equity Interests in 深圳市訊聯智付網絡有限公司", pursuant to which Zhongxing Software agreed to dispose of 90% equity interests in Xunlian Zhifu, a wholly-owned subsidiary of Zhongxing Software, to Shanghai Wo Rui Ou for a consideration of RMB382.5 million (the "Transaction"). Upon the completion of the Transaction, Zhongxing Software will hold 10% equity interests in Xunlian Zhifu.

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The aforesaid matter was considered and approved at the Fifth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Fifth Meeting of the Seventh Session of the Board of Directors" and "Announcement on Strategic Cooperation with E-Capital Transfer Co., Ltd. And Disposal of Equity Interests in Subsidiary" published by the Company on 16 June 2016.

Xunlian Zhifu has received a "Reply of Approval for the Change in the Shareholding Structure of 深圳市訊聯智付網絡有限公司" (《關於深圳市訊聯智付網絡有限公司變更股權結構的批復》) from the Shenzhen City Centre Sub-Branch of the People's Bank of China. For details, please refer to the "Announcement The People's Bank of China's Approval of the Disposal by a Wholly-owned Subsidiary of 90% Equity Interests in Xunlian Zhifu" published by the Company on 10 August 2016.

(2) Disposal of equity interests in Tianjin Zhilian

The Company holds 90% equity interests in Tianjin Zhilian, its subsidiary. In order to pursue development in a more focused manner so as to enhance the competitiveness of its principal business, the Company entered into the "Equity Transfer Agreement for the Transfer of 84.86% equity interests in 天津中興智聯科技有限公司 with Gosuncn Technology Group Co., Ltd ("Gosuncn")" on 24 June 2016, pursuant to which the Company proposed to dispose of the 84.86% equity interests in Tianjin Zhilian to Gosuncn for RMB148,406,897 (the "Transfer"). Following the completion of the Transfer, the Company will hold 5.14% equity interests in Tianjin Zhilian.

The aforesaid matter was considered and approved at the Sixth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Sixth Meeting of the Seventh Session of the Board of Directors" published by the Company on 24 June 2016.

(3) Disposal of equity interests in ZTE We Link

With a view to advancing the implementation of its core M-ICT strategy, the Company, Nubia, a subsidiary of the Company, Gosuncn and Zhuhai Kaiteng entered on 30 November 2016 into the "Equity Transfer Agreement for the Transfer of 85.50% Equity Interests in Shenzhen ZTE We Link Technology Company Limited" (《關於轉讓深圳市中興物聯科技有限公司85.50%股權之股權轉讓協議》), pursuant to which Nubia shall dispose of an aggregate of 85.50% equity interests in ZTE We Link, a subsidiary of Nubia, to Gosuncn and Zhuhai Kaiteng for a consideration of RMB692.55 million, comprising the disposal of 11.43% equity interests in ZTE We Link to Gosuncn and 74.07% equity interests in ZTE We Link to Zhuhai Kaiteng by Nubia. At the same time, ZTE and Nubia entered on 30 November 2016 into the "Equity Transfer Contract", pursuant to which ZTE shall acquire 4.50% equity interests in ZTE We Link from Nubia for a consideration of RMB36.45 million (the two aforementioned transactions are hereinafter collectively referred to as the "Transactions"). The principal business of ZTE We Link does not fall within the scope of the core businesses of ZTE and Nubia. Following the Transactions, ZTE shall directly hold 4.50% equity interests in ZTE We Link, while Nubia shall no longer hold any equity interests in ZTE We Link. The Company's existing businesses and the implementation of its IOT-related strategies will not be affected.

The aforesaid matter was considered and approved at the Tenth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Tenth Meeting of the Seventh Session of the Board of Directors" and "Announcement on the Disposal of Equity Interests in a Subsidiary" published by the Company on 30 November 2016.

3. Asset acquisition disclosed during the reporting period

Counterparty or ultimate controller	Assets acquired or transferred in	Transaction price	Progress Note 1	Impact on the operations of the listed company	Effect on the profit or loss of the listed company	Net profit contributions to the listed company of such assets as a percentage of net profit Note 2 (absolute value)	Whether a connected transaction Note 3	Connected relationship with the counterparty	Date of domestic announcement	Index of domestic announcement
OEP Turkey Tech. B.V.	48.04% equity interests in NETAŞ TELEKOMÜNİKASYON A.Ş.	USD101,280,539	Transfer of equity interests yet to be completed.	The Transaction will enable the Company to drive its business expansion in Turkey utilizing the privileged resources of Netaş.	The Transaction will not have any material impact on the current financial conditions and operating results of the Company.	N/A Note 4	No	N/A	2016–12–6	Announcement No. 201683 "Announcement Acquisition of 48.04% Equity Interests in Netaş, a Listed Turkish Company"

Note 1: Disclosure of "whether equity interests involved have been transferred in full"and "Whether creditor rights and debts involved have been transferred in full" refers to disclosure of information as at the date of this report (i.e., 24 March 2017).

Note 2: Net profit attributable to holders of ordinary shares of the listed company for the year;

Note 3: Connected transactions as defined under the Shenzhen Listing Rules and other domestic securities regulatory provisions.

Note 4: As at the end of the reporting period, the transfer of the aforesaid assets was not completed.

Owing to requirements of its business development, the Company entered, through ZTE Cooperatief U.A. ("ZTE Cooperatief"), its wholly-owned subsidiary, into the "SHARE PURCHASE AGREEMENT related to NETAŞ TELEKOMÜNİKASYON A.Ş." with OEP Turkey Tech. B. V. ("OEP") on 6 December 2016. Pursuant to the agreement, ZTE Cooperatief acquired from OEP its holdings of 48.04% equity interests in NETAŞ TELEKOMÜNİKASYON A.Ş. ("Netaş"), a listed Turkish company, for a price of not more than USD101,280,539 (the "Transaction"). Following the completion of the Transaction, ZTE Cooperatief shall hold 48.04% equity interests in Netaş and become the largest shareholder of Netaş. Netaş's business scope and corporate direction is coherent with the M-ICT strategy of the Company. As one of the largest systems integration providers of Turkey, Netaş owns extensive customer resources and the Transaction will enable the Company to drive its business expansion in Turkey utilizing the privileged resources of Netaş. The Transaction will not have any material impact on the current financial conditions and operating results of the Company.

The aforesaid matter was considered and approved at the Eleventh Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Eleventh Meeting of the Seventh Session of the Board of Directors" and "Announcement Acquisition of 48.04% Equity Interests in Netaş, a Listed Turkish Company" published by the Company on 6 December 2016.

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

1. Summary of the Scheme

(1) Objective

The 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 responsibilities 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.

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(2) Scheme participants, the number and exercise price of share options and their adjustments

Scheme participants of the 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 "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" ("Share Option Incentive Scheme (Revised Draft)") considered and passed at the Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 of the Company, it was resolved that a total of 103,200,000 share options shall be granted to the Directors, senior management and key business personnel of the Company.

Prior to the grant of share options under the Scheme of the Company, 3 persons were removed from the list of qualified participants of the Scheme and a total of 211,000 share options were cancelled pursuant to the Share Option Incentive Scheme (Revised Draft), pertinent laws and regulations and the approval granted by the Eleventh Meeting of the Sixth Session of the Board of Directors of the Company held on 31 October 2013. As a result, the number of scheme participants was adjusted from 1,531 to 1,528 and the number of share options to be granted under the Scheme was adjusted from 103,200,000 to 102,989,000.

Pursuant to the "Resolution on the Adjustment of the Number and Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules" considered and passed at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors of the Company held on 22 July 2015, it was approved that the exercise price of the share options shall be adjusted to RMB13.66 after the implementation of the 2013 profit distribution plan; after the implementation of the 2014 plan for profit distribution and conversion of capital reserve, the number of share options was adjusted to 123,586,800 and the exercise price was adjusted to RMB11.22.

Pursuant to the "Resolution on the Adjustment of Participants and Number of Share Options for the First Exercise Period of the Share Option Incentive Scheme" considered and approved at the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, the adjustment of the number of participants and the number of share options granted under the Scheme was approved. After the adjustment, the number of participants under the Scheme was adjusted from 1,528 to 1,429, the number of share options granted from 123,586,800 to 116,613,000, the number of participants entitled to exercise share options for the first exercise period from 1,528 to 1,424, and the number of exercisable share options for the first exercise period from 37,076,040 to 34,884,360.

Pursuant to the "Resolution on the Adjustment of the Exercise Price of Share Options under the Share Option Incentive Scheme Pursuant to the Rules" considered and approved at the Seventh Meeting of the Seventh Session of the Board of Directors of the Company held on 15 July 2016, it was approved that the exercise price would be adjusted to RMB10.97 after the implementation of the 2015 profit distribution plan.

Pursuant to the "Resolution on the Adjustment of Participants and Number of Share Options for the Second Exercise Period of the Share Option Incentive Scheme" considered and approved at the Ninth Meeting of the Seventh Session of the Board of Directors of the Company held on 27 October 2016, the adjustment of the number of participants under the Scheme from 1,429 to 1,357 and the number of share options granted under the Scheme from 116,613,000 to 112,014,630 was approved. The number of participants entitled to exercise share options for the second exercise period was adjusted from 1,429 to 1,350, and the number of exercisable share options for the second exercise period was adjusted from 35,026,560 to 33,101,640.

Pursuant to the "Resolution on the non-fulfillment of exercise conditions for the third exercise period under the share option incentive scheme" considered and approved at the Fifteenth Meeting of the Seventh Session of the Board of Directors held on 23 March 2017, the exercise conditions for the third exercise period under the

share option incentive scheme have not been fulfilled, and share options that cannot be exercised owing to the non-fulfillment of conditions pertaining to business results will lapse with immediate effect and be withdrawn and cancelled by the Company without compensation in accordance with the Scheme. A total of 44,356,320 share options have been granted in respect of the third exercise period. The Company will carry out the procedures for the cancellation of such share options following the consideration and approval of the 2016 financial report at the general meeting. For details, please refer to the "Announcement Non-fulfillment of exercise conditions for the third exercise period under the share option incentive scheme" published by the Company on 23 March 2017.

(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 Scheme at the exercise price and subject to the conditions of exercise. The source of shares under the 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 Scheme is 112,014,630 A shares, accounting for approximately 2.7% of the Company's total share capital in issue and approximately 3.3% of its A shares in issue as at Latest Practicable Date prior to the printing of this report.

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 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 Scheme shall remain in force for 5 years from the date of grant (i.e. 31 October 2013). Subject to the fulfillment of the exercise conditions, share options granted under the Scheme can be exercised after the expiry of the 2-year vesting period from the date of grant according to the following proportion:

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	30%
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	30%
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	40%

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Pursuant to the "Resolution on the Fulfillment of Exercise Conditions for the First Exercise Period of the Share Option Incentive Scheme" considered and approved at the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, the exercise conditions for the first exercise period under the Share Option Incentive Scheme of the Company was deemed fulfilled and the exercise period shall be from 2 November 2015 to 31 October 2016.

Pursuant to the "Resolution on the Fulfillment of Exercise Conditions for the Second Exercise Period of the Share Option Incentive Scheme" considered and approved at the Ninth Meeting of the Seventh Session of the Board of Directors of the Company held on 27 October 2016, the exercise conditions for the second exercise period under the Share Option Incentive Scheme of the Company was deemed fulfilled and the exercise period shall be from 1 November 2016 to 31 October 2017.

(5) Exercise price and basis of determination

The initial exercise price of the share options shall be RMB13.69 per A share. The initial exercise price is the higher of the following:

① closing price of the A Shares quoted on the Shenzhen Stock Exchange on the last trading day immediately preceding the date on which the Scheme was announced (i.e. 12 July 2013), which was RMB13.69 per A share; and

② the average closing price of the A Shares quoted on the Shenzhen Stock Exchange for the last 30 trading days immediately preceding the date on which the Scheme was announced, which was RMB12.61 per A share.

During the validity period of the Scheme, in the event of any dividend distribution, capitalisation issue, 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.

Following the implementation of the 2013 profit distribution plan, the 2014 plan for profit distribution and conversion of capital reserve and the 2015 profit distribution plan of the Company, the exercise price of the share options was adjusted to RMB10.97. For details, please refer to the section headed "(2) Scheme participants, the number and exercise price of share options and their adjustments" above. 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 RMB10.97 per A share.

(6) Approval procedures fulfilled

The Scheme implemented by the Company has been approved by regulatory authorities including SASAC, CSRC and Hong Kong Stock Exchange and 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 Share Options" published by the Company on 31 October 2013.

2. Share options granted to scheme participants during the year and the exercise thereof

Share options under the Scheme shall be exercised on a voluntary basis. During the year, a total of 33,836,957 share options were exercised, increasing the number of A shares of the Company by 33,836,957 shares. Proceeds received were placed in a designated account of the Company. The closing price of A shares as at the end of the year was of RMB15.95. As considered and approved at the Ninth Meeting of the Seventh Session of the Board of Directors held on 27 October 2016, the Company cancelled a total of 4,598,370 share options which were either: unexercised and outstanding as at the close of the exercisable period of the first exercise period, held by grantees who no longer met the conditions for becoming a participant under the Scheme, or held by participants who did not fulfill the exercise conditions for the second exercise period under the Scheme. Details of share options held by participants and the exercise of such options during the year are set out in the following table:

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 exercised during the reporting period	Number of outstanding options at the end of the reporting period	Number of options cancelled during the reporting period	Number of options lapsed during the reporting period	Weighted average closing price (RMB/share) Note
Zhao Xianming	Former Chairman, Executive Director and President	500,000	0	260,000	260,000	240,000	0	0	17.01
Zhang Jianheng	Non-executive Director	36,000	0	21,600	0	25,200	10,800	0	–
Xu Huijun	Executive Vice President	294,000	0	126,000	0	294,000	0	0	–
Zhang Zhenhui	Executive Vice President	163,800	0	70,200	70,200	93,600	0	0	16.38
Pang Shengqing	Executive Vice President	378,000	0	162,000	162,000	216,000	0	0	16.29
Zeng Xuezhong	Executive Vice President	378,000	0	162,000	0	378,000	0	0	–
Xiong Hui	Executive Vice President	428,300	0	236,300	184,600	243,700	0	0	15.96
Fan Qingfeng	Former Executive Vice President	420,000	0	180,000	180,000	240,000	0	0	16.32
Chen Jianzhou	Former Executive Vice President	460,000	0	244,000	82,000	378,000	0	0	15.46
Tian Wenguo	Former Executive Vice President	168,000	0	72,000	70,000	98,000	0	0	15.49
Qiu Weizhao	Former Executive Vice President	420,000	0	180,000	134,000	286,000	0	0	15.53
Ye Weimin	Former Senior Vice President	336,000	0	144,000	144,000	192,000	0	0	16.38
Zhu Jinyun	Former Senior Vice President	378,000	0	162,000	162,000	216,000	0	0	16.84
Zhang Renjun	Former Senior Vice President	420,000	0	252,000	126,000	294,000	0	0	14.60
Cheng Lixin	Former Senior Vice President	168,000	0	72,000	10,000	158,000	0	0	15.80
Huang Dabin	Former Senior Vice President	210,000	0	90,000	90,000	120,000	0	0	16.20
Cao Wei	Board Secretary	58,800	0	25,200	0	58,800	0	0	–
Feng Jianxiong	Former Board Secretary	336,000	0	144,000	0	336,000	0	0	–
Other scheme participants	–	85,318,418	0	39,641,018	32,162,157	48,568,691	4,587,570	0	16.14
Total	**–**	**90,871,318**	**0**	**42,244,318**	**33,836,957**	**52,435,991**	**4,598,370**	**0**	**16.14**

Note: The weighted average closing price of the A shares of the Company on the trading date immediately preceding the exercise date.

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

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 share options. The date of grant (31 October 2013) has been adopted as the measurement date and the estimated value of the share options is RMB5.36 per A share, representing 35.31% 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
Exercise price	RMB13.69 per A share
Market price	RMB15.18 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 year, the fourth year and the 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 40.25%, 39.69% and 43.18% 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 being 3.34%, 3.40% and 3.46% respectively.
Value of share options per A share	RMB5.36

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

Note 2: The Company adopted the three-year, four-year and five-year national bond yield rates as quoted by Reuters as at the date of grant as the risk-free interest rates for the first, second and third exercise period, respectively.

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 38 to the financial statements prepared under HKFRSs.

(VII) EXTERNAL INVESTMENTS

1. Changsha Base Project

To provide support for its future business development, the Company has proposed to make an investment to construct the "ZTE Changsha Base Project" in Changsha Development Zone for Hi-tech Industries, and to enter into a "Project Investment Contract" with the Management Committee of Changsha Development Zone for Hi-tech Industries. The total investment of the Project is estimated at RMB4 billion. The aforesaid matter has been considered and approved at the Thirty-seventh Meeting of the Sixth Session of the Board of Directors and the First Extraordinary Meeting of 2016 of the Company. For details, please refer to the "Announcement Resolutions of the Thirty-seventh Meeting of the Sixth Session of the Board of Directors" and "Announcement of External Investments" published on 28 December 2015 and the "Announcement of Resolutions of the First Extraordinary Meeting of 2016" published on 3 March 2016 by the Company.

2. Guangzhou Research Institute Project

In view of its strategic requirements and future needs for technological development, the Company has proposed to make an investment to construct the "ZTE Guangzhou Research Institute Project" and to enter into the "ZTE Guangzhou Research Institute Project Cooperation Agreement" with the Guangzhou Municipal People's Government. The total investment of the Project is estimated to be not less than RMB5.6 billion. The aforesaid matter has been considered and approved at the Thirty-ninth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary Meeting of 2016 of the Company. For details, please refer to the "Announcement Resolutions of the Thirty-ninth Meeting of the Sixth Session of the Board of Directors" and "Announcement of External Investments" published on 7 January 2016 and the "Announcement of Resolutions of the First Extraordinary Meeting of 2016" published on 3 March 2016 by the Company.

3. External Investment and Connected Transaction of the Company

Xinghe Capital, a wholly-owned subsidiary of ZTE Capital, which is in turn a subsidiary of the Company, established Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership) ("Suzhou Partnership") by way of promotion as general partner. Suzhou Partnership is focused on the equity investment of unlisted companies within the TMT (technology, media and telecommunication) industry. Suzhou Partnership has raised a total of RMB1,200 million, comprising capital contribution in cash of RMB10 million by Xinghe Capital as general partner, capital contribution in cash of RMB300 million and RMB15 million by the Company and Mr. Yin Yimin, respectively, as limited partners and capital contribution in cash of RMB875 million in aggregate by other limited partners in accordance with the partnership agreement signed by them. Mr. Yin Yimin is a connected party of the Company under the Shenzhen Listing Rules and the Hong Kong Listing Rules. The capital contributions by Xinghe Capital, the Company and Mr. Yin Yimin, to subscribe for Suzhou Partnership constitute a connected transaction.

The aforesaid matter was considered and approved at the Fourth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Fourth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement" published by the Company on 31 May 2016. The Partnership Agreement in relation to the Suzhou Partnership was executed on 30 June 2016. For details, please refer to the announcement entitled "Connected transaction — Establishment of Partnership" published by the Company on 30 June 2016. Suzhou Partnership has been approved by the Suzhou Bureau for the Administration of Industry and Commerce and completed registration as a partnership. For details, please refer to the "Announcement Progress of External Investments" published by the Company on 25 July 2016. In November 2016, Changshu Changxing Capital Investment Management Company Limited ("Changshu Capital") replaced Xinghe Capital as the general partner of Suzhou Partnership. Both Xinghe Capital and Changshu Capital are wholly-owned subsidiaries of ZTE Capital, a subsidiary of the Company.

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4. Participation in the establishment of Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership)

To drive the development of the government and corporate business and related operations of the Company and to fulfill funding requirements for project investment and financing, ZTE Xingyun Industrial Investment Management (Hangzhou) Company Limited ("ZTE Xingyun"), a subsidiary of ZTE Group Financial Holdings (Hangzhou) Limited ("ZTE FH"), which is in turn a wholly-owned subsidiary of the Company, has proposed to establish by way of promotion, together with Guangfa Hexin Industrial Investment Management Company Limited ("Guangfa Hexin") as joint general partners, Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership) (tentative name subject to the final approval of the industrial and commercial administrative authorities, hereinafter referred to as the "Industrial Fund"). ZTE FH will also make a capital contribution of RMB400 million to participate in the subscription for the shares of the Industrial Fund as a subordinate limited partner.

The aforesaid matter has been considered and approved at the Ninth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Ninth Meeting of the Seventh Session of the Board of Directors" and the "Announcement on the participation in the establishment of Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership)" published by the Company on 27 October 2016.

(VIII) QUOTATION OF SUBSIDIARIES OF THE COMPANY ON NEEQ

1. Application by Shanghai Zhongxing for quotation on NEEQ

The Company has proposed the conversion of Shanghai Zhongxing Telecom Equipment Technologies Company Limited ("Shanghai Zhongxing"), a subsidiary of the Company, into a joint stock company and, following the completion of such conversion, and the application by Shanghai Zhongxing for quotation on NEEQ subject to compliance with relevant national laws, regulations and policies. The aforesaid matter has been considered and approved at the Thirty-third Meeting of the Sixth Session of the Board of Directors of the Company. The inaugural meeting of Shanghai Zhongxing was held on 28 December 2015 and the company was renamed Shanghai Zhongxing Telecom Equipment Technologies Corporation. On 29 March 2016, Shanghai Zhongxing Telecom Equipment Technologies Corporation filed an application for quotation on NEEQ. On 24 January 2017, Shanghai Zhongxing received the "Letter regarding Approval of the Quotation of Shanghai Zhongxing Telecom Equipment Technologies Corporation on the National Equities Exchange and Quotations" (《關於同意上海中興通訊技術股份有限公司股票在全國中小企業股份轉讓系統掛牌的函》) issued by the National Equities Exchange and Quotations Co. Ltd, granting approval for the quotation of Shanghai Zhongxing shares on NEEQ. The shares of Shanghai Zhongxing was listed on the NEEQ on 21 February 2017. For details of the aforesaid matter, please refer to the relevant announcements published by the Company on 11 November 2015, 29 March 2016, 2 February 2017 and 20 February 2017.

2. Application by ZTE We Link for quotation on NEEQ

The Company has proposed to convert ZTE We Link, a subsidiary of Nubia, which is in turn a subsidiary of the Company, into a joint stock company and, upon the completion of such conversion, the application by ZTE We Link for quotation on NEEQ subject to compliance with relevant national laws, regulations and policies. The aforesaid matter has been considered and approved at the Thirty-sixth Meeting of the Sixth Session of the Board of Directors of the Company. ZTE We Link has completed its conversion to a joint stock company and been renamed 深圳市中興物聯科技股份有限公司. On 31 May 2016, 深圳市中興物聯科技股份有限公司 filed an application for quotation on NEEQ. ZTE We Link has subsequently withdrawn its application for quotation submitted to NEEQ. For details, please refer to the relevant announcements published by the Company on 23 December 2015, 31 May 2016 and 30 November 2016.

3. Application by ZTEsoft for quotation on NEEQ

ZTEsoft Technology Company Limited ("ZTEsoft"), a subsidiary of the Company, has proposed to apply for quotation on NEEQ subject to compliance with relevant national laws, regulations and policies. The aforesaid matter has been considered and approved at the Second Meeting of the Seventh Session of the Board of Directors of the Company. ZTEsoft filed an application for quotation on NEEQ on 28 April 2016. In connection with the proposed quotation of ZTEsoft, the Company submitted an application for spin-off to the Hong Kong Stock Exchange pursuant to Practice Note 15 of the Hong Kong Listing Rules on 6 April 2016. On 18 May 2016, the Company received a notice from the Hong Kong Stock Exchange confirming that, pursuant to Practice Note 15 of the Hong Kong Listing Rules, the Company may proceed to seek the quotation of ZTEsoft on NEEQ. On 27 July 2016, ZTEsoft received the "Letter regarding Approval of the Quotation of ZTEsoft Technology Co., Ltd on the National Equities Exchange and Quotations" (《關於同意中興軟創科技股份有限公司股票在全國中小企業股份轉讓系統掛牌的函》) issued by the NEEQ Co. Ltd, granting approval for the quotation of ZTEsoft shares on NEEQ. The shares of ZTEsoft was listed on the NEEQ on 19 August 2016. For details of the aforesaid matters, please refer to the relevant announcements published by the Company on 6 April, 29 April, 19 May, 29 July and 18 August 2016, respectively.

(IX) REGISTRATION AND ISSUE OF SUPER AND SHORT-TERM COMMERCIAL PAPER BY THE COMPANY

To meet the working capital requirements of the Company, optimise debt structure and lower finance cost, approval was granted for the Company's application to the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會) for the registration and issue of super and short-term commercial paper ("SCP") with an amount of not more than RMB8,000 million pursuant to the "Resolution on the Proposed Registration for the Issue of Super and Short-term Commercial Paper" was considered and approved at the Twenty-fifth Meeting of the Six Session of the Board of Directors and the 2014 Annual General Meeting of the Company. The National Association of Financial Market Institutional Investors has accepted the registration of the RMB8,000 million SCP of the Company.

On 9 September 2015, the Company completed the issue of 2015 Tranche I SCP for an issue amount of RMB4 billion. On 6 June 2016, the Company completed the payment of the principal and interests of the 2015 Tranche I SCP in the total amount of RMB4,100,327,868.85. For details, please refer to the "Announcement of Completion of Payment in respect of the 2015 Tranche I Super and Short-term Commercial Paper" published by the Company on 6 June 2016.

(X) WAIVER OF RIGHTS BY THE COMPANY

1. WAIVER OF PREFERENTIAL RIGHT FOR SUBSCRIPTION AND CAPITAL CONTRIBUTION IN RESPECT OF XI'AN ZHONGXING NEW SOFTWARE COMPANY LIMITED

To meet the requirements of business development, the Company and Xi'an Zhongxing New Software Company Limited ("Xi'an New Software"), its wholly-owned subsidiary, have proposed to enter into the "CDB Development Fund Investment Agreement" (the "Investment Agreement") with CDB Development Fund Co., Ltd. ("CDB Development Fund"), pursuant to which CDB Development Fund has proposed to invest RMB675 million in Xi'an New Software by way of capital increase (the "Capital Increase"). The Company shall waive its preferential right of subscription and capital contribution in connection with the Capital Increase. The term of investment of CDB Development Fund shall be 11 years from the date of completion of the capital increase payment. The required investment return rate shall be: 1.2% per annum. At the same time, the Company shall repurchase all equity interests in Xi'an New Software held by CDB Development Fund in accordance with the provisions of the Investment Agreement. In respect of the obligation for the payment of investment gains, obligation for the refund of capital contributions and obligations for repurchase, the Company and Xi'an New Software shall assume joint liability to each other for a total guarantee amount of RMB754.22 million for a term commencing on the date on which the Investment Agreement becomes effective and ending on the date on which the fulfillment of the obligations of the Company and Xi'an New Software under the Investment Agreement is completed in full. The amounts of Capital

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Increase contributed by CDB Development Fund shall be applied to the "Xi'an Zhongxing New Software Company Limited Integrated Circuit Design Industrial Base Project". The aforesaid matter was considered and approved at the Eighth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Eighth Meeting of the Seventh Session of the Board of Directors" and the "Announcement on the Investment by CDB Development Fund Co., Ltd. in Zhongxing New Software Company Limited, a wholly-owned subsidiary of the Company" published by the Company on 25 August 2016.

2. WAIVER OF PREFERENTIAL RIGHT FOR SUBSCRIPTION AND CAPITAL CONTRIBUTION IN RESPECT OF ZTESOFT TECHNOLOGY COMPANY LIMITED

To incentivise staff and drive the long-term development of subsidiaries, ZTEsoft, a subsidiary of Company, has proposed to establish its phase I staff shareholding plan and incorporate the ZTEsoft No. 1 Designated Asset Management Plan (中興軟創1號定向資產管理計劃) ("ZTEsoft #1") as entrusted by the staff shareholding plan, and to conduct a private placing of shares to ZTEsoft #1" (the "Private Placing"). In respect of the aforesaid share capital increase proposed by ZTEsoft, the Company will waive its preemptive rights for subscription and capital contribution, and has pledged not to transfer its shares prior to the record date (the record date for the general meeting of ZTEsoft held to consider the Private Placing) in connection with the Private Placing. The aforesaid matter was considered and approved at the Twelfth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Twelfth Meeting of the Seventh Session of the Board of Directors" and the "Announcement Private Placing of Shares by a Subsidiary and Waiver of Preemptive Subscription Rights by the Company" published by the Company on 28 December 2016.

(XI) EXPORT RESTRICTIONS IMPOSED ON THE COMPANY BY THE U.S. DEPARTMENT OF COMMERCE

The Company published announcements in respect of matters pertaining to the decision of the Bureau of Industry and Security of the Department of Commerce ("BIS") to implement export restrictions against the Company and their updates on 9 March 2016, 23 March 2016, 28 March 2016, 6 April 2016, 28 June 2016, 19 August 2016, 18 November 2016, 14 February 2017 and 24 February 2017, respectively.

The Company has reached agreements with the BIS, United States Department of Justice ("DOJ") and the Office of Foreign Assets Control of the United States Department of Treasury ("OFAC") in respect of the investigations in the Company's compliance with U.S. export control regulations and U.S. sanction laws (the "Agreements"). As the Company had violated U.S. export control laws, and had violated pertinent U.S. laws and regulations in connection with the supply of information and other acts in the investigation process, the Company agreed to plead guilty and pay fines amounting to USD892,360,064. Moreover, BIS charged the Company with an additional fine of USD300 million, which would be suspended and exempted after a 7-year probationary period subject to the Company's performance of its agreement with BIS during such period. The agreement between the Company and OFAC came into effect immediately upon execution. The agreement between the Company and DOJ would come into effect upon approval by the U.S. district court for the Northern District of Texas (the "Court"). Court approval of the agreement between the Company and DOJ is a precedent condition to the issue of a settlement order by BIS. BIS will recommend the removal of the Company from the Entity List following Court approval of the agreement between the Company and DOJ, the guilty plea by the Company and the signing and issue of a settlement order by the Assistant Secretary of BIS. For details of the aforesaid matter, please refer to the "INSIDE INFORMATION — UPDATED INFORMATION IN RELATION TO THE EXPORT RESTRICTIONS BY THE UNITED STATES DEPARTMENT OF COMMERCE" published by the Company on 8 March 2017.

The Company will continue to review its organisational structure, business processes and internal control and has adopted necessary measure to ensure the Company' compliance with U.S. export control laws and performance of obligations under the Agreements.

(XII) 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 2016 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	Controlling shareholder of the Company and its subsidiaries	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 and lease of properties 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. Continuing connected transactions in respect of the Group's purchases from connected parties were conducted in the ordinary course of business of the two parties on normal commercial terms and terms no less favourable than those available to or from (as the case may be) independent third parties. Prices at which the Group leased properties from connected parties were not higher than market rent levels for similar properties in neighbouring areas. The prices of leased properties 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 depending on level of sophistication; 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.	40,895.81	0.68%	No	Commercial 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"
Mobi Antenna *	A company at which a former supervisor of Zhongxingxin, the controlling shareholder of the Company, acted as director	Purchase of raw materials	The purchase of various products such as communications antennas, radio frequency transmitter, feeder and terminal antenna by the Company from the connected party		Communication antenna: RMB100-RMB9,999 per piece depending on technical parameters and functional features; Radio frequency transmitter: RMB100–9,999 per unit depending on technical parameters and functional features; Feeder: RMB1–200 per unit depending on technical parameters and functional features; Terminal antenna: RMB0.1–100 per piece depending on technical parameters and functional features.	82,243.08	1.37%	No	Commercial acceptance bill	N/A	2015–9–23 2015–11–26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
Huatong**	Subsidiary of a company for which a natural person related to the Company previously acted as director	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450–680 per head/day; Intermediate-grade engineer at a price ranging from RMB330–520 per head/day; Junior engineer at a price ranging from RMB230–400 per head/day; Technician at a price ranging from RMB190–230 per head/day.	6,130.51	0.10%	No	Tele-transfer	N/A	2014–12–24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software **	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company previously acted as director	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Senior engineer at a price ranging from RMB450–680 per head/day; Intermediate-grade engineer at a price ranging from RMB330–520 per head/day; Junior engineer at a price ranging from RMB230–400 per head/day; Technician at a price ranging from RMB190–230 per head/day.	4,529.58	0.08%	No	Tele-transfer	N/A	2014–12–24	Announcement No. 201451 "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
Zhongxing Hetai and its subsidiaries **	Subsidiary of a company for which a natural person related to the Company previously acted as director	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.	3,954.12	0.07%	No	Tele-transfer	N/A	2015–4–24 2016–4–29	Announcement No. 201515 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Development **	A company for which a natural person related to the Company previously acted as director	Property leasing	Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 32,000 sq.m.; Lease of parking spaces: 25 ground level parking spaces and 127 underground parking spaces by the Company from the connected party		Monthly rent of RMB145/sq.m.; monthly rent of ground level parking spaces of RMB350 each; monthly rent of underground parking spaces of RMB600 each. (Property management undertaken by ZTE and no management fees were payable).	4,520.89	5.11%	No	Tele-transfer	N/A	2015–3–26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange
Chongqing Zhongxing Development **	Subsidiary of a company for which a natural person related to the Company previously acted as director	Property leasing	Lease of property located at No. 3 Xing Guang Wu Road, North New District, Chongqing with an intended leased area of 20,000 sq.m. and 97 parking spaces by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, from the connected party		Monthly rent of RMB50/sq.m. for the office (for a maximum leased area of 18,532.08 sq.m.) and RMB45/sq.m. for the cafeteria (for a maximum leased area of 1,467.92 sq.m.) respectively; monthly management fee of RMB3/sq.m. based on actual area leased; monthly rent of parking space: RMB150 each.	891.04	1.01%	No	Tele-transfer	N/A	2014–12–24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries **	Subsidiary of a company for which a natural person related to the Company previously acted as director	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		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.	7,704.20	21.51%	No	Tele-transfer	N/A	2015–4–24 2016–4–29	Announcement No. 201515 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"; Announcement No. 201635 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai and its subsidiaries **	Subsidiary of a company for which a natural person related to the Company previously acted as director	Financial services	The provision of deposit services by ZTE Group Finance to the connected party		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; where the interest rate announced by PBOC was not applicable, ZTE Group Finance would pay interest to the connected party at a rate not higher than the interest rate level adopted by similar businesses carried out by other independent financial institutions.	3,864.71 Note 1	0.24%	No	Tele-transfer	N/A	2015–3–26	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"

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
Mobi Antenna *	A company at which a former supervisor of Zhongxingxin, the controlling shareholder of the Company, acted as director	Financial services	The provision of bill discounting services by ZTE Group Finance to the connected party		Bill discounting services were conducted during the ordinary course of business of the two parties based on normal commercial terms. The interest rate for discounting was determined on the basis of the rediscount rate announced by the PBOC taking into account prevailing market levels and in compliance with relevant guidelines and requirements of the PBOC.	– Note 2	–	No	Tele-transfer	N/A	2015–9–23 2015–11–26	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201571 "Announcement on Resolutions of the First Extraordinary General Meeting of 2015"
航天歌華	Subsidiary of a company for which a Director of the Company acted as director	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.	43,997.04	0.43%	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"
Nanchang Software **	A company of which the majority of board members can be controlled by another company for which a natural person related to the Company previously acted as director	Sales of products and rendering of services	The provision by the Company to the connected party of software and hardware equipment and engineering services required for smart campus and campus IT development, and integrated solutions for smart traffic, city emergency command system and government/ corporate IT systems		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.	–	–	No	Tele-transfer	N/A	2014–12–24	Announcement No. 201451 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				–	–	**198,730.98**	**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 and services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners 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 Company in 2016 be capped at RMB800 million (before VAT);

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At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the estimated purchases of raw materials from Mobi Antenna, a connected party, by the Company in 2016 be capped at RMB1,700 million (before VAT);

At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, by the Company in 2016 be capped at RMB67 million and RMB63 million, respectively (before VAT);

At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the estimated sales of products and rendering of services to Nanchang Software, a connected party, by the Company in 2016 be capped at RMB30 million (before VAT);

At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the annual rent payable by the Company to Zhongxing Development, a connected party, for property lease, be capped at RMB54 million for a term commencing on 18 April 2015 and ending on 17 April 2017;

At the Twenty-third Meeting of the Sixth Session of the Board of Directors of the Company held on 23 December 2014, it was considered and approved that the annual rent payable by Chongqing Zhongxing Software Company Limited, a wholly-owned subsidiary of the Company, to Chongqing Zhongxing Development, a connected party, for property lease, be capped at RMB13 million for a term commencing on 1 January 2015 and ending on 31 December 2017;

At the Twenty-sixth Meeting of the Sixth Session of the Board of Directors of the Company held on 23 April 2015, 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 2015 and ending on 30 June 2016; 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 2015 and end on 30 June 2016; 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 2016 and ending on 30 June 2017; 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 2016 and end on 30 June 2017;

	At the Twenty-fifth Meeting of the Sixth Session of the Board of Directors of the Company held on 25 March 2015, it was considered and approved that the estimated daily deposit balance (principal cum interest) of the deposit service provided by ZTE Group Finance to Zhongxing Hetai and its subsidiaries in 2016 shall be capped at RMB85 million; At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the First Extraordinary General Meeting of 2015 held on 25 November 2015, it was considered and approved that the estimated daily balance of outstanding discounted bills (principal cum interest) of the bill discounting service provided by ZTE Group Finance to Mobi Antenna in 2016 shall be capped at RMB400 million; 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 by the Company in 2016 be capped at RMB1,000 million (before VAT); and Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.
Reason for substantial differences between transaction prices and referential market prices (if applicable)	N/A

* As the natural person related to the Company has ceased to be supervisor of Zhongxingxin, controlling shareholder of the Company, as from 23 June 2016, Mobi Antenna will cease to be a connected party of the Company as from 23 June 2017.

** As the natural person related to the Company has ceased to be director of Zhongxing Development as from 19 July 2016, Zhongxing Development will cease to be a connected person of the Company as from 19 July 2017, and Chongqing Zhongxing Development, Huatong, Zhongxing Hetai and its subsidiaries, and Nanchang Software, subsidiaries of Zhongxing Development, will cease to be connected parties of the Company as from 19 July 2017.

*** In accordance with Rule 10.1.6 of the Shenzhen Listing Rules, corporations or natural persons falling within the scope of the following are deemed as connected persons of a listed company: (II) Meeting any of the conditions set out in Rule 10.1.3 or Rule 10.1.5 within the past 12 months.

Note 1: The amount represented the estimated maximum daily deposit balance (principal cum interest) for the year ended 31 December 2016.

Note 2: The amount represented the estimated maximum daily balance of outstanding discounted bills (principal cum interest) for the year ended 31 December 2016.

Note 3: ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2016, and the funds utilised for settlement were limited to the cash deposits placed with ZTE Group Finance by Zhongxing Hetai and its subsidiaries. No handling fees were charged for such settlement service.

Note 4: 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 5: For details of the connected transactions, please refer to Note X to the financial statements prepared under PRC ASBEs.

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

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

For details of connected transactions involving joint external investments by the Company during the year, please refer to the section headed "(VII) EXTERNAL INVESTMENTS — 3. External Investment and Connected Transaction of the Company" in this chapter.

(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.

(5) Other material connected transactions

As approved at the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, the Company and Zhongxingxin entered into a supplemental agreement to the Zhongxingxin Purchase Framework Agreement to extend the scope of the Zhongxingxin Purchase Framework Agreement to cover Zhongxingxin, its subsidiaries and investee companies (namely, companies in which Zhongxingxin directly or indirectly holds equity interests of 30% or above). Apart from the aforesaid amendment, all other terms and conditions of the Zhongxingxin Purchase Framework Agreement disclosed in the "Overseas Regulatory Announcement" published on 22 September 2015 have remained unchanged.

The following connected transactions were considered and approved at the Fifteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 23 March 2017. For details, please refer to the "Announcement Resolutions of the Fifteenth Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement" published by the Company on 23 March 2017.

The maximum rental amount for the lease of properties by the Company from Zhongxing Development, a connected party, for the contract period is RMB40 million. The contract period will last from 18 April 2017 to 17 December 2017.

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 disclosure requirements under Chapter 14A of the Hong Kong Listing Rules have been complied with.

(1) Continuing connected transactions — purchases 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 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.

① **Purchases of raw materials by the Company from Zhongxingxin and its subsidiaries 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. As associates of Zhongxingxin, the subsidiaries of Zhongxingxin are connected persons of the Company under the Hong Kong Listing Rules.

- *Total transaction amount in 2016:*

Approximately RMB408,958,000

- *Price and other terms:*

As 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, the "Zhongxingxin Purchase Framework Agreement" was 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 effective from 1 January 2016 to 31 December 2018 with the purchase amounts for 2016–2018 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 and its subsidiaries 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 and its subsidiaries are made on an arm's length basis and on normal commercial terms without compromising the interests of the Group and its 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 products.

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 and its subsidiaries 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 its subsidiaries. The annual cap for purchase in 2016 was estimated at RMB800 million (before VAT).

- *Purpose of the transaction:*

Zhongxingxin and its subsidiaries were selected as suppliers through the Group's qualification and bidding procedures as they have 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 and its subsidiaries allows the Group to secure essential control over the supply of most of such raw materials required by our production by being able 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 had 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;

- 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.

As approved at the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, the Company and Zhongxingxin entered into a supplemental agreement to the Zhongxingxin Purchase Framework Agreement to extend the scope of the Zhongxingxin Purchase Framework Agreement to cover Zhongxingxin, its subsidiaries and investee companies (namely, companies in which Zhongxingxin directly or indirectly holds equity interests of 30% or above). Apart from the aforesaid amendment, all other terms and conditions of the Zhongxingxin Purchase Framework Agreement disclosed in the "Continuing Connected Transactions — Purchases of Raw Materials from Zhongxingxin" published on 22 September 2015 have remained unchanged.

(2) Connected transactions

During 2016, the Group was engaged in certain transactions with its connected parties under HKFRSs, the details of which are set out in Note 49 to the financial statements.

The transaction of 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, falls within the scope of connected transaction defined under Chapter 14A of the Hong Kong Listing Rules. Such transaction is exempted from compliance with provisions relating to connected transactions under Rule 14A.76 or Rule 14A.95. Moreover, the transaction of 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 falls within the scope of connected transaction defined under Chapter 14A of the Hong Kong Listing Rules. Such transaction is exempted from compliance with provisions relating to connected transactions under Rule 14A.92 (3).

Chengdu ZTE Software Company Limited (成都中興軟件有限責任公司) ("Chengdu Software"), a subsidiary of the Company entered into a leasing agreement with Zhongxingxin for the lease by Zhongxingxin to Chengdu Software of the premises at 800 Tianfu Avenue (Mid Section) in Chengdu, Sichuan Province with a lease area of 17,919.65 square metres and 94 underground parking spaces for a period starting from 18 April 2015 and ending on 17

April 2017 for a rental fee of RMB40/square metre/month and a carparking fee of RMB200/parking space/month, subject to an annual rental cap of RMB9.00 million. Such transaction is exempted from compliance with connected transaction provisions under 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.

(XIII) 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

(1) Third-party guarantees considered during the year

A. Guarantee for ZTE Malaysia

The Company proposed to increase the amount of guarantee for the joint liability guarantee provided in respect of the performance of the "CONTRACT FOR THE DELIVERY, SUPPLY, INSTALLATION, TESTING AND COMMISSIONING OF EQUIPMENT AND SOFTWARE AND PROVISION OF SERVICES FOR U MOBILE'S 3G/LTE SYSTEM CONTRACT" ("UM Wireless Capacity Expansion Contract") by ZTE (Malaysia) Corporation SDN BHD ("ZTE Malaysia") by USD40 million (namely, the increase of the total amount of guarantee to not more than USD60 million) for a term commencing on the date on which the UM Wireless Capacity Expansion Contract came into effect upon execution and ending on the date on which the performance of obligations under the UM Wireless Capacity Expansion Contract by ZTE Malaysia is completed.

The aforesaid matter has been considered and approved 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. For details, please refer to the "Announcement Resolutions of the Thirty-ninth Meeting of the Sixth Session of the Board of Directors" and the "Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary" published on 7 January 2016 and the "Announcement on Resolutions of the First Extraordinary General Meeting of 2016" published on 3 March 2016 by the Company.

B. Guarantee for ZTE Indonesia

The Company proposed to apply to Bank of China Corporation ("BOC") on behalf of PT. ZTE Indonesia ("ZTE Indonesia") for credit facilities in connection with the issuance of bank letters of guarantee and provide guarantee by way of joint liability assurance for a total amount of not more than USD50 million for ZTE Indonesia for a term of five years commencing on the date on which the guarantee agreement between the Company and BOC comes into effect, during which credit facilities will be available on a revolving basis subject to the aforesaid guarantee amounts.

The aforesaid matter has been considered and approved at the Second Meeting of the Seventh Session of the Board of Directors and the 2015 Annual General Meeting of the Company. For details, please refer to the "Announcement Resolutions of the Second Meeting of the Seventh Session of the Board of Directors" and the "Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary" published on 6 April 2016 and the "Announcement on Resolutions of the 2015 Annual General Meeting" published on 2 June 2016 by the Company.

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C. Guarantee for ZTE Heyuan

In view of the construction progress and funding requirements of the production, R&D and training base project of ZTE (Heyuan) Company Limited (中興通訊(河源)有限公司) ("ZTE Heyuan"), a wholly-owned subsidiary of the Company, the Company has proposed to seek debt financing (including but not limited to banks facilities, fixed-asset loans and working capital loans) with an amount of not more than RMB500 million for a term of not more than 3 years with ZTE Heyuan as the principal. In view of the current operating conditions and bank credit rating of ZTE Heyuan, the Company has proposed to provide guarantee for ZTE Heyuan by way of joint liability assurance for an amount of not more than RMB500 million in relation to the aforesaid debt financing of ZTE Heyuan for a term of three years commencing on the date on which the debt financing agreement comes into effect, during which the guarantee will be valid on a revolving basis subject to the aforesaid guarantee amounts, in order to secure debt financing at favourable costs.

The aforesaid matter was considered and approved at the Eighth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Eighth Meeting of the Seventh Session of the Board of Directors" and the "Announcement on the Provision of Guarantee for a Wholly-owned Subsidiary" published by the Company on 25 August 2016.

D. Guarantee for Xi'an New Software

For details of the Company's guarantee for Xi'an New Software, please refer to the section headed "(X) WAIVER OF RIGHTS BY THE COMPANY 1. WAIVER OF PREFERENTIAL RIGHT FOR SUBSCRIPTION AND CAPITAL CONTRIBUTION IN RESPECT OF XI'AN ZHONGXING NEW SOFTWARE COMPANY LIMITED" in this chapter.

E. Guarantee for Fuhua Yuqi

The Company has formed a joint entity ("Joint Entity") with Beijing Fuhua Yuqi Information Technology Co., Ltd. (北京富華宇祺信息技術有限公司) ("Fuhua Yuqi") to cooperate and bid for the Daliuta Coal (大柳塔礦) 4G "One Net One Station" project in technological R&D and specialised services of Shendong Coal Branch Company of China Shenhua Energy Company Limited ("Shenhua Shendong Company"). The parties to the Joint Entity have proposed to enter into the "Contract for Shendong Daliuta Coal 4G 'One Net One Station' Project in Technology Development (Entrustment)" ("Technology Development (Entrustment) Contract") with a term of 5 years. The Company has proposed to provide guarantee by way of joint liability assurance for Fuhua Yuqi's performance of obligations 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 aforesaid matter was considered and approved at the Tenth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Announcement Resolutions of the Tenth Meeting of the Seventh Session of the Board of Directors" and the "Announcement on Third-party Guarantee" published by the Company on 30 November 2016.

(2) Third-party guarantees as at the end of the year

Third-party guarantees provided by the Company and subsidiaries (excluding guarantees on behalf of subsidiaries)								
Guaranteed party	**Date and index of domestic announcement disclosing the guarantee amount**	**Amount guaranteed**	**Date of incurrence (date of execution of relevant agreements)**	**Actual amount guaranteed**	**Type of guarantee**	**Term of guarantee**	**Whether fully performed**	**Whether provided on behalf of connected parties**
Djibouti Telecom S.A.	19 April 2007 200720	RMB50 million	8 September 2006	RMB50 million	Joint liability	12 years	Yes	No
Beijing Fuhua Yuqi Information Technology Co., Ltd. Note 1	1 December 2016 201678	RMB21,019,250	N/A	–	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.	N/A	No
Ansaldo STS S.p.A. and Ansaldo STS Transportation Systems India Private Limited Note 2	N/A	USD628,300 and INR63,736,410	N/A	–	Joint liability assurance	From the issuance of the bank letter of guarantee to the earlier of: (1) the completion of all obligations of the Joint Entity under the Underground Project, (2) 31 December 2021	N/A	No
Zhejiang Sunland Technology Company, Ltd. Note 3	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)		RMB39,640,600		Total amount of third-party guarantee actually incurred during the reporting period (A2)			RMB7,765,500	
Total amount of third-party guarantee approved as at the end of the reporting period (A3)		RMB39,640,600		Total amount of third-party guarantee actually incurred as at the end of the reporting period (A4)			RMB7,765,500	

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Guarantees provided by the Company on behalf of subsidiaries								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
ZTE (H.K.) Limited Note 4	9 April 2011 201112 9 July 2011 201130	USD900 million	8 July 2011	USD450 million Note 4	Joint liability assurance	From the effective date of the assurance guarantee to the expiry of 60 months from the date of the facility agreement	Yes	No
ZTE France SASU Note 5	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)	No	No
PT. ZTE Indonesia Note 6	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 6	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 7	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)	No	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	No	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 8	24 September 2014 201440 8 January 2016 201605	USD60 million	27 November 2014	USD12.97 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 8	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

Guarantees provided by the Company on behalf of subsidiaries								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
ZTE (H.K.) Limited or ZTE COOPERATIEF UA Note 9	26 March 2015 201511	EUR200 million	24 June 2015	EUR70 million	Joint liability assurance	From 24 June 2015 to 22 December 2018	No	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	No	No
			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
PT. ZTE Indonesia Note 10	7 April 2016 201628	USD50 million	N/A	–	Joint liability assurance	Within 5 years from the date on which the bank letter of guarantee entered into between the Company and BOC comes into effect	N/A	No
ZTE (Heyuan) Company Limited Note 11	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
Xi'an Zhongxing New Software Company Limited Note 12	26 August 2016 201665	RMB754.22 million	N/A	–	Joint liability assurance	Commencing on the date on which the "Investment Contract" comes into effect upon execution and ending on the date on which performance of the obligations of the Company and Xi'an New Software under the "Investment Contract" is completed.	N/A	No
Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)		RMB1,878,010,000		Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)			RMB766,150,000	
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)		RMB8,108,127,000		Total amount of guarantee on behalf of subsidiaries actually incurred as at the end of the reporting period (B4)			RMB5,811,142,100	

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Guarantees provided by subsidiaries on behalf of other subsidiaries								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date of incurrence (date of execution of relevant agreements)	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
ZTE ICT Company Limited Note 13	N/A	RMB160 million	30 December 2014	RMB160 million	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 14	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 15	N/A	RMB60 million	29 December 2015	RMB60 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
ZTEsoft Netherlands B.V. Note 16	N/A	EUR11,173,111	31 May 2016	EUR11,173,111	Joint liability	From 31 May 2016 to 31 January 2020	No	No
Total amount of guarantee for subsidiary approved during the reporting period (C1)		RMB81,820,700		Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)			RMB81,820,700	
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)		RMB361,825,700		Total amount of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)			RMB36,1825700	

Total amount guaranteed by the Company (sum of the three categories aforesaid)			
Total amount of guarantee approved during the reporting period (A1+B1+C1)	RMB1,999,471,300	Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)	RMB855,736,200
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)	RMB8,509,593,300	Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)	RMB6,180,733,300
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company		23.41%	
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)		RMB5,411,142,100	
Amount of total guarantee exceeding 50% of net assets (F)		0	
Aggregate amount of the three guarantee amounts stated above (D+E+F)		RMB5,411,142,100	
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 of the Company that guarantee be provided by the Company by way of joint liability assurance for Fuhua Yuqi's performance of obligations 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. As at the end of the reporting period, the Technology Development (Entrustment) Contract had yet to be signed and the guarantee had not yet come into effect.

Note 2: Following consideration by the board of directors and general meeting of ZTE Telecom India Private Limited ("ZTE India"), a wholly-owned subsidiary of the Company, it was approved that a guarantee letter be issued by ZTE India for the joint entity (the "Joint Entity") formed by the Company and ZTE India with Ansaldo STS S.p.A. and Ansaldo STS Transportation Systems India Private Limited for an amount of USD628,300 and INR63,736,410 to guarantee obligations of the Joint Entity under the Greater Noida Underground Railway Project

(the "Underground Project") for a term from the date on which the guarantee letter is issued to the earlier of: (1) the completion of all obligations of the Joint Entity under the Underground Project, (2) 31 December 2021. As at the end of the reporting period, the aforesaid guarantee letter had yet to be issued.

Note 3: Following consideration by the board of directors of ZTEsoft Technology Company Limited ("ZTEsoft"), a subsidiary of the Company, it was approved that guarantee be provided by the ZTEsoft by way of joint liability assurance 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.

Note 4: In July 2011, ZTE HK, a wholly-owned subsidiary of the Company, entered into a USD900 million syndicate loan agreement with 10 international banks including BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance for an amount of not more than USD900 million in favour of the lending banks for ZTE HK. The aforesaid guarantee was considered and passed at the Seventeenth Meeting of the Fifth Session of the Board of Directors and the 2010 Annual General Meeting of the Company. Following the repayment of USD450 million in loans to the lending banks in July 2014 and repayment of the remaining USD450 million to the lending banks by ZTE HK, the guarantee agreement was terminated in July 2016.

Note 5: 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, 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 6: 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, a USD15 million guarantee for ZTE Indonesia provided by way of standby letter of credit backed by the Company's bank credit facilities had been executed and the USD40 million performance guarantee agreement had been signed.

Note 7: The Company proposed to seek 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 would provide 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 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.

Note 8: 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, USD12,970,000 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 9: 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 ("ZTE Netherlands"), each a wholly-owned subsidiary, as the principal. The Company provided guarantee for ZTE HK or ZTE Netherlands 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 Netherlands 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

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loan agreements by ZTE Netherlands. ZTE Netherlands 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 Netherlands.

Note 10: It was considered and approved at the Second Meeting of the Seventh Session of the Board of Directors and the 2015 Annual General Meeting that an application be made by the Company to BOC on behalf of ZTE Indonesia for credit facilities in connection with the issuance of bank letters of guarantee and guarantee be provided by way of joint liability assurance for a total amount of not more than USD50 million for ZTE Indonesia for a term of 5 years commencing on the date on which the guarantee agreement between the Company and BOC comes into effect, during which credit facilities will be available on a revolving basis subject to the aforesaid guarantee amounts. As at the end of the reporting period, the relevant guarantee agreement had yet to be signed.

Note 11: 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"). 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 12: At the Eighth Meeting of the Seventh Session of the Board of Directors, it was considered and approved that the Company and Xi'an New Software shall assume reciprocal joint liability in respect of the obligation for the payment of investment gains, obligation for the refund of capital contributions and obligations for repurchase for a total guarantee amount of RMB754.22 million for a term commencing on the date on which the Investment Agreement becomes effective and ending on the date on which the fulfillment of the obligations of the Company and Xi'an New Software under the Investment Agreement is completed in full. As at the end of the reporting period, the Investment Agreement had yet to be signed and the guarantee had yet to come into effect.

Note 13: 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 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 14: 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 15: 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 RMB60.00 million in respect of a project financing for 深圳市中興新能源汽車服務有限公司, 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服務有限公司 are settled in full. As at the end of the reporting period, the aforesaid guarantee documents had come into effect.

Note 16: It was considered and approved at the board meeting of ZTEsoft, a subsidiary of the Company, that ZTEsoft would provide guarantee by way of joint liability assurance for an amount of EUR11,173,111 for ZTEsoft Netherlands B.V., 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.

Note 17: The guaranteed amounts are translated at the book exchange rates of the Company as at 31 December 2016: USD1:RMB6.931, EUR1: RMB7.323, INR1:RMB0.1020.

Note 18: All third-party guarantees of the Company have been submitted to the Board of Directors for its review and come into effect with the approval of two-thirds of the members of the Board of Directors. Third-party guarantees which are further subject to consideration and approval at the general meeting in accordance with relevant regulations have come into effect with the approval of the general meeting following approval by the Board of Directors.

3. A special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company has been furnished by Independent Non-Executive Directors of the Company, Mr. Richard Xike Zhang, Mr. Chen Shaohua, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang as follows:

(1) As at 31 December 2016, the transfer of funds between the Company and the controlling shareholder and other connected parties represented transactions in the ordinary course of business. Neither the controlling shareholder of the Company nor other connected parties had appropriated the Company's funds for non-operating purposes or compromised the interests of the Company and its shareholders. As required by CSRC, the Independent Non-executive Directors of the Company have conducted reviews in the light of the "Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2003] No. 56) and are of the view that the Company has diligently implemented the relevant provisions under the notice and have not found any matter which is in breach of the notice.

(2) As at 31 December 2016, the balance of guarantees provided by the Company actually incurred was approximately RMB6,180,733,300, accounting for 23.41% of the owner's equity attributable to holders of ordinary shares of the parent company as at 31 December 2016. The amount of third-party guarantee (excluding guarantees on behalf of subsidiaries) actually incurred by the Company and its subsidiaries during the 2016 reporting period was RMB7,765,500. The balance of third-party guarantee actually incurred by the Company and its subsidiaries (excluding guarantees on behalf of subsidiaries) as at the end of the 2016 reporting period was approximately RMB7,765,500. Third-party guarantees on behalf of subsidiaries actually incurred actually incurred between the Company and its subsidiaries and between subsidiaries during the 2016 reporting period amounted to approximately RMB847,970,700. The balance of third-party guarantees actually incurred between the Company and its subsidiaries and between subsidiaries as at the end of the 2016 reporting period was approximately RMB6,172,967,800. For details of the third party guarantees of the Company, please refer to the sub-section headed "2. Third-party guarantees of the Group" in this section. The information on guarantees disclosed in the 2016 Annual Report of the Company is true and accurate, and the Company had not been engaged in any guarantees or connected-party guarantees in breach of relevant regulations.

(3) In accordance with the "Notice regarding Third-party Guarantees Provided by Listed Companies" (Zheng Jian Fa [2005] No. 120), the Shenzhen Listing Rules, the Hong Kong Listing Rules and other pertinent regulations, the Company has specified the scope of authority for the Board of Directors and the general meeting in approving third-party guarantees in the Articles of Association, and has formulated "the ZTE Corporation Measures for the Administration of Third-party Guarantees", in which the approval process of third-party guarantees to be made by the Company and its subsidiaries is specifically provided for to regulate third-party guarantees of the Company and effectively control risks arising therefrom.

(4) The Independent Non-executive Directors of the Company have conducted reviews in light of the "Notice regarding Certain Issues on the Regulation of Fund Transactions Between Listed Companies and Connected Parties and Third-party Guarantees Made by Listed Companies" (Zheng Jian Fa [2003] No. 56), the "Notice regarding the Regulation of Third-party Guarantees Provided by Listed Companies" (Zheng Jian Fa [2005] No. 120), and the Articles of Association, and are of the opinion that the decision making procedures for third-party guarantees of the Company during the reporting period are in compliance with the Articles of Association and relevant regulations mentioned above, and there has been no infringement on the interests of the Company and its shareholders.

4. 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) Discussion and analysis of operations under PRC ASBEs — 9. Analysis of Investment" in this report.

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

During the year, the Company did not enter into any material contracts requiring disclosure. Progress during the year of material contracts entered into prior to the year is set out as follows:

No.	Contents of material contracts	Date of domestic announcements	Pricing principle	Transaction prices	Whether a connected transaction	Performance status as at the end of the reporting period
1	Framework agreement and business contracts thereunder between the Company and Ethiopian Telecommunications Corporation	30 April 2007	By reference to market prices	Business contracts under the framework agreement amounted to USD200 million	No	Under normal progress
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Under normal progress
3	Network Supply Agreement and Managed Service Agreement between the Company and its subsidiary ZTE Corporation South Africa (PTY) Limited on the one hand and Cell C (PTY) LTD., a South African mobile telecommunications operator, and its controlling shareholder OGER TELECOM (SOUTH AFRICA) (PTY) Limited, on the other	27 January 2010	By reference to market prices	USD378 million	No	Under normal progress

(XIV) UNDERTAKING

1. Undertakings by the de facto controller of the Company, shareholders, connected parties, acquirer and parties of the Company relating to the undertaking fulfilled or outstanding during the reporting period

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

Zhongxingxin, 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, except 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.

(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. 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

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

☐ Applicable ✓ N/A

(XVI) 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

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

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

☐ Applicable ✓ N/A

(XVIII) EXPLANATORY STATEMENT ON CHANGES TO THE SCOPE OF CONSOLIDATION FINANCIAL STATEMENT IN COMPARISON WITH THE PREVIOUS ANNUAL FINANCIAL REPORT

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

Material Matters

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

(XIX) APPOINTMENT OF AUDITORS BY THE COMPANY

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

(XX) 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.

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

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

☐ Applicable ✓ N/A

(XXIII) PROSPECTS OF SUSPENSION OR TERMINATION OF LISTING AFTER THE PUBLICATION OF THE ANNUAL REPORT

☐ Applicable ✓ N/A

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

(XXV) 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.

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

(XXVII) PERFORMANCE OF CORPORATE SOCIAL RESPONSIBILITY BY THE COMPANY

1. Performance of social responsibilities in defined poverty aid

The Company has been committed to the promotion of the spirit of charity and the development of community charity work on the back of its own technological strengths and by consolidating resources in the industry, in adherence to the principle of "consistent engagement and continuous care" in ZTE's charity work. Over the years, the ZTE Charity Foundation has made contributions to the causes of disaster relief, aid for the underprivileged and education through cash and in-kind donations and the funding of school constructions.

During the year, the Company's initiatives in precise poverty aid were mainly focused on education: at the beginning of 2016, the Company launched the "Operation Nest-building" and "Charitable Library Project" in association with the China Foundation for Poverty Alleviation aimed at improving the accommodation of boarding primary students in impoverished areas. In September 2016, the Company worked with Gansu Xinghua Education Assistance Foundation to offer education assistance to underprivileged senior secondary students with outstanding performance in Gansu nominated by the Foundation.

Statistics of the Company's precise poverty aid during the year are set out as follow:

Indicator			Unit	Count/status
I.	**Overview**		—	—
	Including: 1.	Cash	RMB in ten thousands	391
	2.	Value of donations 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 elimination through education		—	—
	Including: 1.1	Amount contributed to the aid of underprivileged students	RMB in ten thousands	300
	1.2	Number of underprivileged students receiving financial aid	person	400
	1.3	Amount contributed for the improvement of educational resources in impoverished areas	RMB in ten thousands	51
2.	Poverty aid		—	—
	Including: 2.1	Amount contributed to joint poverty aid work in eastern and western regions	RMB in ten thousands	—
	2.2	Amount contributed to designated poverty aid work	RMB in ten thousands	—
	2.3	Amount contributed to poverty aid charity funds	RMB in ten thousands	40 (aid to underprivileged individuals)
3.	Other projects		—	—
III.	**Awards (details and class)**		—	3rd Pengcheng Charity Award — Pengcheng Charitable Donations — Corporate Donor — Silver Award

Material Matters

In future, the Company plans to engage in poverty aid through education for agricultural teaching centres, rural teachers and senior secondary school students in the impoverished areas of Gansu and Yunnan. Such initiative will mainly include: financial aid to senior secondary school students in Gansu who come from poor families but show determination and boast outstanding academic results to help them complete their studies; book donations to rural teaching stations; and dream fulfilment for senior secondary one students in western regions to broaden their vision. Through the aforesaid initiatives, we will solicit more resources to help the cause of poverty aid through education.

2. Performance of other social responsibilities

The Company is concerned with the environmental impact of its operations. In active fulfilment of our environmental responsibility, we give careful consideration to the environmental implications of every stage in our operations and take environmental requirements into full account during the entire life cycle of our products to ensure implementation of the green strategy in all business segments of our Company. We also launch new products and services with higher commercial value and environmental efficiency so that our supply chain and the community can fulfill environmental responsibilities together.

For details of the social welfare activities (including donations) of and performance of corporate social responsibility by the Company, please refer to the "Sustainability Report 2016" published by the Company on 23 March 2017.

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE YEAR

Unit: shares

	At the beginning of the year		Increase/decrease as a result of the change during the year (+, -)					At the end of the year	
	Number of shares	Percentage	New issue Note 1	Bonus issue	Transfer from capital reserve	Others Note 2	Sub-total	Number of shares	Percentage
I. Shares subject to lock-up	**8,851,236**	**0.20%**	**565,650**	**–**	**–**	**–4,595,941**	**–4,030,291**	**4,820,945**	**0.12%**
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	8,851,236	0.20%	565,650	–	–	–4,595,941	–4,030,291	4,820,945	0.12%
II. Shares not subject to lockup	**4,141,939,979**	**99.80%**	**33,271,307**	**–**	**–**	**4,595,941**	**37,867,248**	**4,179,807,227**	**99.88%**
1. RMB ordinary shares	3,386,437,445	81.59%	33,271,307	–	–	4,595,941	37,867,248	3,424,304,693	81.83%
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H shares)	755,502,534	18.21%	–	–	–	–	–	755,502,534	18.05%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**4,150,791,215**	**100.00%**	**33,836,957**	**–**	**–**	**–**	**33,836,957**	**4,184,628,172**	**100.00%**

Note 1: During the year, a total of 33,836,957 A share options were exercised by participants in the share option incentive scheme of the Company, and the number of A shares of the Company increased by 33,836,957 shares correspondingly;

Note 2: 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.

Changes in Shareholdings and Information of Shareholders

(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 2015	Number of A shares released from lock-up 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	Yin Yimin	569,549	—	—	569,549	Restricted senior management shares	—
2	Pang Shengqing	500,761	72,000	121,500	550,261	Restricted senior management shares	—
3	Fan Qingfeng	460,687	81,422	135,000	514,265	Restricted senior management shares	—
4	Shi Lirong	495,458	—	—	495,458	Restricted senior management shares	—
5	Zhao Xianming	293,636	—	195,000	488,636	Restricted senior management shares	—
6	Xu Huijun	473,138	—	—	473,138	Restricted senior management shares	—
7	Zeng Xuezhong	414,630	—	—	414,630	Restricted senior management shares	—
8	Xie Daxiong	371,852	—	—	371,852	Restricted senior management shares	—
9	Wei Zaisheng	329,758	—	—	329,758	Restricted senior management shares	—
10	Chen Jianzhou	147,769	21,942	61,500	187,327	Restricted senior management shares	—
11	Others	4,793,998	4,458,772	90,845	426,071	Restricted senior management shares	—
	Total	**8,851,236**	**4,634,136**	**603,845**	**4,820,945**	**—**	**—**

Note 1: The reduction in the number of shares subject to lock-up is attributable to (1) permission for the Directors, Supervisors and senior management of the Company to dispose of up to 25% of their shareholdings through the stock exchange each year under relevant domestic regulations; (2) release of lock-up of shareholdings of departed Directors, Supervisors and senior management 6 months after their departure in accordance with relevant domestic regulations;

Note 2: The increase in the number of shares subject to lock-up is attributable to 1) the exercise of A share options by the Directors and senior management of the Company. Pursuant to relevant domestic regulations, up to 25% of shares not subject to lock-up acquired by the Directors, Supervisors and senior management are disposable during the reporting period of acquisition; 2) lock-up of shares held by newly appointed Directors, Supervisors and senior management in accordance with relevant domestic regulations.

(III) ISSUE AND LISTING OF SECURITIES DURING THE YEAR

1. On 31 October 2013, the Company granted 102,989,000 A share options to 1,528 scheme participants. Registration for the A share options granted has been completed. The option code is "037032" and the abbreviated name is "中興JLC1." Following the implementation of the 2014 plan for profit distribution and conversion of capital reserve, it was considered and approved at the Twenty-eighth Meeting of the Sixth Session of the Board of Directors of the Company held on 22 July 2015 that the number of A share options would be adjusted to 123,586,800. At the Thirty-second Meeting of the Sixth Session of the Board of Directors of the Company held on 27 October 2015, it was considered and approved that the number of A share options granted would be adjusted to 116,613,000. At the Ninth Meeting of the Seventh Session of the Board of Directors of the Company held on 27 October 2016, it was considered and approved that the number of A share options granted would be adjusted to 112,014,630. During the year, a total of 33,836,957 A share options were exercised by participants in the Scheme of the Company, and the number of A shares of the Company increased by 33,836,957 shares accordingly. The matters had no material impact on the structure of assets and liabilities of the Company.

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

Changes in Shareholdings and Information of Shareholders

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

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

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

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

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

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

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

☐ Yes ✓ No

THE COMPANY HAD NO PREFERENTIAL SHARES.

2. Controlling shareholder of the Company

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

Name of controlling shareholder:	Zhongxingxin
Legal representative:	Yin Yimin
Date of incorporation:	29 April 1993
Standardised social credit code:	91440300192224518G
Registered capital:	RMB100 million
Scope of business:	Production of SPC switch cabinets, telephones and related parts and components, electronic products; import and export operations (in accordance with the requirements under document Shen Mao Guan Shen Zheng Zi No. 727); treatment of waste water, toxic fumes and noise and related technical services, research and technical development of environmental protection equipment; production of continuous monitoring smoke systems; manufacturing of mining equipment; manufacturing of power transmission and distribution and control equipment; computer systems integration; development of digital processing system technologies and technological research and development for related technical services.

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

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

Changes in Shareholdings and Information of Shareholders

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

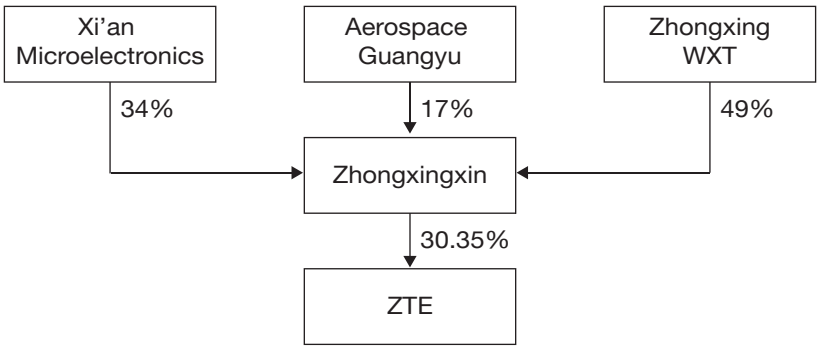
Zhongxingxin, the controlling shareholder of the Company, was jointly formed by Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT, each holding a 34%, 17% and 49% stake in Zhongxingxin respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics,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

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

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

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

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



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.

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

As at 31 December 2016, the following shareholders held interests or short positions in 5% or more in any class 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 share (L)	30.35% (L)	37.03% (L)
Zhongxing WXT	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A share (L)	30.35% (L)	37.03% (L)
Xi'an Microelectronics	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A share (L)	30.35% (L)	37.03% (L)
China Aerospace Electronics Technology Research Institute	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A share (L)	30.35% (L)	37.03% (L)
China Aerospace Science and Technology Corporation	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A share (L)	30.35% (L)	37.03% (L)
BlackRock, Inc.	Interests of corporation controlled by the substantial shareholder	73,579,246 H share (L)	1.76% (L)	9.74% (L)
Beijing Jiankun Investment Group Co., Ltd.	Interests of corporation controlled by the substantial shareholder	64,977,800 H share (L)	1.55% (L)	8.60% (L)

Changes in Shareholdings and Information of Shareholders

Name	Capacity	Number of shares held	Shareholding as an approximate percentage (%) of: Note	
			Total share capital	Class shares
Tsinghua University	Interests of corporation controlled by the substantial shareholder	64,977,800 H share (L)	1.55% (L)	8.60% (L)
Tsinghua Holdings Co., Ltd	Interests of corporation controlled by the substantial shareholder	64,977,800 H share (L)	1.55% (L)	8.60% (L)
Tsinghua Unigroup Co., Ltd	Interests of corporation controlled by the substantial shareholder	64,977,800 H share (L)	1.55% (L)	8.60% (L)
Zhao Weiguo	Interests of corporation controlled by the substantial shareholder	64,977,800 H share (L)	1.55% (L)	8.60% (L)
Beijing Unis Capital Management Co., Ltd	Interests of corporation controlled by the substantial shareholder	54,916,600 H share (L)	1.31% (L)	7.27% (L)
The Bank of New York Mellon Corporation	Interests of corporation controlled by the substantial shareholder	43,690,119 H share (L)	1.04% (L)	5.78% (L)
	N/A	42,474,979 H share (P)	1.02% (P)	5.62% (P)
Capital Research and Management Company	Investment manager	38,410,000 H share (L)	0.92% (L)	5.08% (L)
Baillie Gifford & Co	Interests of corporation controlled by the substantial shareholder	38,164,720 H share (L)	0.91% (L)	5.05% (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 (4,184,628,172 shares), total number of A shares (3,429,125,638 shares) and total number of H shares (755,502,534 shares) as at 31 December 2016.

Save as disclosed above, as at 31 December 2016, so far as the Directors, Supervisors and senior management of the Company are aware, Save for the Directors, Supervisors and chief executive of the Company, 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. Purchase, sale and redemption of securities

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

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 THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Brief biographies of Directors

Mr. Hou Weigui, born 1941, worked with China Aerospace Factory No. 691 as head of the technology division prior to 1984. In 1984, he went to Shenzhen to establish Shenzhen Zhongxing Semiconductor Co., Ltd., serving as general manager of the company. He was President of the Company from October 1997 to February 2004 and was Chairman and Non-executive Director of the Company from February 2004 to March 2016. Mr. Hou has extensive experience in the telecommunications sector and in corporate and business management.

Mr. Yin Yimin, born 1963, is Chairman and Executive Director of the Company. Mr. Yin graduated from the Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1988 with a master's degree in engineering, majoring in telecommunications and electronic systems, and currently holds the title of senior engineer. Mr. Yin had served as a manager of the research and development department of Shenzhen Zhongxing Semiconductor Co., Ltd. since 1991, and as deputy general manager of Shenzhen Zhongxingxin Telecommunications Equipment Company Limited between 1993 and 1997. From 1997 to February 2004 he served as the Company's Vice President, Senior Vice President, being in charge of different divisions such as research and development, marketing and handsets operations. From February 2004 to March 2010 he served as the Company's President. He has been chairman and general manager of Shenzhen ZTE Capital Management Company Limited since October 2010 and chairman of Shenzhen Zhongxingxin Telecommunications Equipment Company Limited since August 2015. He has been Executive Director of the Company since November 1997 and general manager of the Terminal Division of the Company since October 2016. Since March 2017, he has been the Chairman of the Company. Mr. Yin has many years of experience in the telecommunications industry and over 26 years of management experience.

Mr. Zhao Xianming, born 1966, is Executive Director and President of the Company. Mr. Zhao graduated from the Harbin Institute of Technology in 1997 specialising in telecommunications and electronic systems with a doctorate degree in engineering. He joined the Company in 1998 to be engaged in the research, development and management of CDMA products. He had been head of the research and development group, project manager and general product manager from 1998 to 2003. In 2004, he was appointed Senior Vice President of the Company in charge of the CDMA Division and the Wireless Product Operations. From January 2014 to December 2015, he was Chief Technology Officer (CTO) and Executive Vice President of the Company in charge of the Strategic and Platform Operations and System Product Operations of the Company. He has been Executive Director of the Company since November 2015 and President of the Company since April 2016. He was Chairman of the Company from April 2016 to March 2017. Mr. Zhao has many years of experience in the telecommunications industry and over 26 years of management experience.

Mr. Zhang Jianheng, born 1961, is Vice Chairman and Non-executive Director of the Company. Mr. Zhang graduated from Dalian Institute of Technology in 1982 majoring in Chemical Machinery and currently holds the title of senior engineer. Mr. Zhang worked with the No. 1 Film Factory under the Ministry of Chemical Industry from 1982 to 1989 and with No. 1 Film Factory of China Lucky Film Corporation from 1989 to 1996. He was appointed director of China Lucky Film Corporation in 1996, and went on to serve as deputy general manager and general manager of that company until 2011. During this period, he also concurrently acted as general manager (vice chairman) and chairman of Lucky Film Co., Ltd. From November 2012 to June 2016 he was chairman of China Lucky Group Corporation. In November 2011 he was appointed deputy general manager of China Aerospace Science and Technology Corporation, a position that he has been holding since. He has been non-executive director and board chairman of China Aerospace International Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) from March 2012 to February 2017, and has been Vice Chairman and Non-executive Director of the Company since April 2012. Mr. Zhang brings with him a wealth of experience in management and operation.

Mr. Luan Jubao, born 1962, is Vice Chairman and Non-executive Director of the Company. Mr. Luan graduated from the Department of Metal Materials and Processes of Harbin Institute of Technology in 1983 majoring in welding and from Zhongnan University of Economics and Law in 2000 with an MBA degree, and currently holds

the professional title of researcher-grade senior engineer. Mr. Luan worked with Wanshan Plant of the 066 Base of the Ministry of Aerospace Industry from 1983 to 1993. From 1993 to 2000 he had been principal deputy plant manager and plant manager of Wanshan Plant of the 066 Base of the headquarters of China Aerospace. From 2000 to 2006 he was plant manager of Hongfeng Plant of the 066 Base of China Aerospace Science and Industry Corporation. From 2006 to 2008, he was head of the technology centre of Research Institute No. 9 of China Aerospace Science and Industry Corporation. From February 2008 to July 2008, he was chairman of 萬山特種車輛有限公司 under Research Institute No. 9 of China Aerospace Science and Industry Corporation. From July 2008 to October 2014 he was general manager of Henan Aerospace Science and Industry Corporation and chief of the Henan Aerospace Administration. Since October 2014 he has been director and general manager of CASIC Shenzhen (Group) Company Limited and Shenzhen Aerospace Guangyu Industrial Company Limited. Since October 2016 he has been director and general manager of Shenzhen Aerospace Industrial Technology Research Institute Limited. Mr. Luan has been Vice Chairman and Non-executive Director of the Company since November 2015. Mr. Luan has extensive experience in management and operations.

Mr. Shi Lirong, born 1964. Mr. Shi graduated from Tsinghua University in 1984 majoring in wireless and information technology with a bachelor's degree and Shanghai Jiaotong University in 1989 majoring in telecommunications and electronic engineering with a master's degree, and currently holds the title of senior engineer. Mr. Shi served as an engineer and head of the production department in Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993. From 1993 to 1997, he was deputy general manager of Zhongxingxin. He was in charge of the Company's overall marketing operations from 1997 to 2007 and global sales from 2007 to 2010. He was Executive Director of the Company from February 2001 to March 2016 and President of the Company from March 2010 to March 2016. He has been Non-executive Director of the Company from March 2016 to February 2017. Mr. Shi has many years of experience in the telecommunications industry and over 26 years of management experience.

Mr. Wang Yawen, born 1963, is Non-executive Director of the Company. Mr. Wang graduated from the Department of Physics of Central China Normal University in 1985 with a bachelor's degree in science and from Harbin Institute of Technology in 2006 with a master's degree in management specializing in management science and engineering, and currently holds the professional title of researcher. From 1985 to 2000, Mr. Wang worked with Institute No. 19 of China Academy of Launch Vehicle Technology successively as deputy head of the editorial office, head of the offset printing office, head of the phototypesetting centre, head of the technology department, deputy head of the Institute and head of the Institute. From September 2000 to January 2003, he was executive deputy general manager of 中國遠望（集團）總公司. Since February 2003, he has been deputy general manager of 中國航天時代電子公司. From February 2003 to January 2015, he also served successively as general manager and chairman of 中國時代遠望科技有限公司. He has been deputy dean of China Aerospace Electronics Technology Research Institute from February 2009 to the present. He has also been director and president since June 2008 and vice chairman since June 2014 of China Aerospace Times Electronics Co., Ltd. (a company listed on Shanghai Stock Exchange). He has been Non-executive Director of the Company since November 2015. Mr. Wang has extensive experience in management and operations.

Mr. Tian Dongfang, born 1960, is Non-executive Director of the Company. Mr. Tian graduated from Chengdu Institute of Telecommunication in 1982 majoring in solid state devices and currently holds the professional title of researcher. From August 1982 to September 2014 he had been section head, deputy head, executive deputy head and head of Xi'an Microelectronics Technology Research Institute. He has been chief economist of China Aerospace Electronics Technology Research Institute and head of Xi'an Microelectronics Technology Research Institute since September 2014. Mr. Tian has been Non-executive Director of the Company since November 2015. He has extensive experience in management and operations.

Mr. Zhan Yichao, born 1963, is Non-executive Director of the Company. Mr. Zhan graduated from the Department of Finance and Accounting of Jiangxi University of Finance and Economics in 1986 majoring in accounting and from International East-West University of the United States in 1999 with an MBA degree, and currently holds the professional title of senior accountant. Mr. Zhan had been deputy manager, manager and deputy general manager of Shenzhen Aerospace Guangyu Industrial Company Limited from August 1986 to October 2004. From October 2004 to August 2005, he had been director and deputy general manager of 上海久聯證券經紀有限責任公司. From

August 2005 to August 2014 he had been director/deputy general manager and director/general manager of 航天證券有限責任公司. He has been director, deputy general manager and chief accountant of CASIC Shenzhen (Group) Company Limited since August 2014 and director of Shenzhen Aerospace Guangyu Industrial Company Limited since November 2014. Since October 2016 he has been deputy general manager and chief accountant of Shenzhen Aerospace Industrial Technology Research Institute Limited. Mr. Zhan has been Non-executive Director of the Company since November 2015. He has extensive experience in management and operations.

Mr. Wei Zaisheng, born 1962, obtained a master's degree in business administration from Peking University in 2004. He is currently Executive Director, Executive Vice President and Chief Financial Officer of the Company in charge of corporate finance and investment management of the Group. Mr. Wei Zaisheng joined Shenzhen Zhongxing Semiconductor Co., Ltd. in 1988 and served as chief financial officer, assistant to the general manager and regional marketing manager of Zhongxingxin, controlling shareholder of the Company, from 1993 to 1997. He was Senior Vice President of the Company from 1997 to 2008 and has been Executive Vice President of the Company in charge of the financial system of the Company since 2008. He has been Executive Director of the Company since March 2016. He was appointed member of Accounting Informatisation Committee and member of XBRL Regional Steering Committee (China) by the Ministry of Finance in November 2008, and was appointed member of the Accounting Standards Strategic Committee by the Ministry of Finance in December 2014. He was appointed a guidance expertise for the special support plan under the national training programme for leaders in the accounting profession in June 2015. He is concurrently director of Zhongxingxin and chairman of ZTE Group Finance Co. Ltd. Mr. Wei Zaisheng has many years of experience in the telecommunications industry and over 28 years of management experience.

Mr. Richard Xike Zhang, born in 1970, is Independent Non-executive Director of the Company. Mr. Zhang graduated from J. L. Kellogg School of Management at Northwestern University in the United States in 1993 with a master's degree in finance. Mr. Zhang was mentioned among the most outstanding graduates of U.S. colleges by USA Today, a mainstream news media in the United States. From August 1993 to July 2008, Mr. Zhang was employed by McKinsey & Company, holding the positions of Director (Senior Partner) for global operations and chairman of McKinsey's Shanghai Office. As the first McKinsey Partner with a Mainland Chinese background in McKinsey's 80-year history, he served clients primarily in the telecommunications, technology, and automobile sectors. Mr. Zhang assumed the role of Partner and Head of Greater China of Apax Partners in August 2008. In January 2013, he was promoted to the position of Equity Partner while continuing to serve as the head of Apax Greater China with responsibilities covering Apax funds investment operations in Mainland China, Hong Kong, Taiwan and Southeast Asia. He has been Independent Non-executive Director of the Company since June 2013. Mr. Zhang was also a member of the "Young Leaders Group" of the Boao Forum for Asia. Since January 2015, Mr. Zhang has been a founding board member of the Future Forum, China's first non-profitmaking organisation for cutting-edge technologies bringing together entrepreneurs, investors and scientists. Mr. Zhang brings with him extensive experience in management consulting and investment.

Mr. Chen Shaohua, born 1961, Independent Non-executive Director of the Company. He obtained his MBA degree at Dalhousie University, Canada in 1987 and his doctoral degree in Economics (Accounting) at Xiamen University in 1992. With the title of Accounting Professor, Mr. Chen is currently professor and tutor to doctoral candidates of the Accounting Department, School of Management and deputy director of the Accounting Development Research Centre (a key humanities and science research base designated by the Ministry of Education) of Xiamen University. Mr. Chen has been Independent Non-executive Director of the Company since July 2015. He has been teaching assistant, lecturer and associate professor of the Accounting Department of Xiamen University, as well as visiting professor at Virginia Union University. He has also been a certified public accountant at the Xiamen University Accounting Firm and Xiamen Yongda Accounting Firm. Mr. Chen is currently also president of the Accounting Association of Xiamen Foreign Investment Enterprises, vice president of the Xiamen Association of Chief Accountants, as well as an independent non-executive director of companies including Sinoma International Engineering Co., Ltd. (a company listed on Shanghai Stock Exchange), Fujian Septwolves Industrial Co., Ltd. (a company listed on Shenzhen Stock Exchange), respectively. Mr. Chen was an Independent Non-executive Director of the Company from July 2003 to July 2009. Mr. Chen has strong academic and professional background as well as proven experience in accounting and finance.

Directors, Supervisors, Senior Management and Employees

Mr. Lü Hongbing, born 1966, Independent Non-executive Director of the Company. He graduated in 1988 with a bachelor's degree in law and further obtained a master's degree in law in 1991 from East China University of Political Science and Law. Since September 2009, he has been studying for a doctoral degree in management engineering at University of Science and Technology of China. He is a qualified lawyer of China. Mr. Lü is currently the principal executive partner of Grandall Law Firm. Mr. Lü has been Independent Non-executive Director of the Company since July 2015. He has previously worked with East China University of Political Science and Law, Shanghai Wanguo Securities Co., Ltd., Shanghai Wanguo Law Firm, Grandall (Shanghai) Law Firm. He is currently vice president of All China Lawyers Association, committee member and deputy head of the society and legal system committee of the 12th Shanghai Committee of the Chinese People's Political Consultative Conference, arbitrator of Shanghai International Economic and Trade Arbitration Committee, Shanghai International Arbitration Centre, Shanghai Arbitration Committee and Shanghai Court of Financial Arbitration, respectively, advisory member of the Restructuring Committee of CSRC, member of the Listing Committee of Shanghai Stock Exchange, adjunct or part-time professor at Fudan University and China Renmin University and an independent non-executive director of companies including Shimao Property Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited) and Shanghai Shentong Metro Co., Ltd. (a company listed on Shanghai Stock Exchange), respectively. Mr. Lü has strong academic and professional background as well as proven experience in the legal sector.

Mr. Bingsheng Teng, born 1970, Independent Non-executive Director of the Company. He graduated from the City University of New York with a doctoral degree in strategic studies in 1998. Mr. Teng taught at the School of Business of George Washington University from 1998 to 2006 as assistant professor and associate professor of strategic management and tutor to doctoral candidates at George Washington University (with tenure), and was in charge of the doctoral programme in strategic studies of the school. In 2003, Mr. Teng was conferred the title of Wendell and Louis Crain Research Scholar of the School of Business of George Washington University. He joined Cheung Kong Group School of Business (CKGSB) in late 2006 and has been associate professor and director of CKGSB Center for Multinational Corporations Research since 2007 and associate dean of CKGSB since 2009. He has been Independent Non-executive Director of the Company since July 2015. He is concurrently an independent non-executive director of Shandong Gold Mining Co., Ltd. (a company listed on Shanghai Stock Exchange). Mr. Teng has strong academic and professional background as well as proven experience in corporate strategic management.

Mr. Zhu Wuxiang, born 1965, Independent Non-executive Director of the Company. He graduated from Tsinghua University in 2002, a doctorate degree, specialising in quantitative economics. He holds a professor title. He has been studying and working at Tsinghua University since 1982 and is currently professor and tutor to doctoral candidates of the Department of Finance of the School of Economics and Management, Tsinghua University. Mr. Zhu has been Independent Non-executive Director of the Company since March 2016. Mr. Zhu is concurrently independent non-executive director of Beijing Properties (Holdings) Ltd. (a company listed on the Hong Kong Stock Exchange), China Fortune Land Development Co., Ltd. (a company listed on Shanghai Stock Exchange), Dongxing Securities Co., Ltd. (a company listed on Shanghai Stock Exchange) and China Cinda Asset Management Co., Ltd. (a company listed on the Hong Kong Stock Exchange), as well as supervisor of Unisplendour Corporation Limited (a company listed on Shenzhen Stock Exchange) and Everbright Securities Company Limited (a company listed on Shanghai Stock Exchange), respectively. Mr. Zhu was Independent Non-executive Director of the Company from July 2003 to July 2009. Mr. Zhu has strong academic background and proven experience in corporate finance and business model research.

Mr. Tan Zhenhui, born 1944. Mr. Tan graduated from Southeast University in 1987 with a doctorate degree in engineering specialising in telecommunications and electronic systems, and currently holds the title of professor. Mr. Tan is currently chairman of the Academic Committee and a professor of Beijing Jiaotong University, where he had served as faculty dean, vice chancellor and chancellor since joining in August 1982. He was Independent Non-executive Director of the Company from March 2010 to March 2016. Mr. Tan is well qualified, both academically and professionally, and vastly experienced in the telecommunications sector.

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

Ms. Cao Wei, born 1976, is the Secretary to the Board of Directors/Company Secretary of the Company. She graduated from Xiamen University in 1998 with a bachelor's degree in finance and from City University of Hong Kong in 2007 with a Master of Arts in International Accounting. Ms. Cao has been involved in financial operations and information disclosure since joining the Company in July 1998. From 2011 to April 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 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, 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 also a recipient of the first Shenzhen Mayor Award. 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 experience in the telecommunications industry and over 20 years of management experience.

Mr. Zhou Huidong, born 1976, is Supervisor of the Company and Head of the Financial Control Department. He joined the Company in July 1998 upon graduation from Peking University with a bachelor's degree majoring in finance and accounting. He graduated from Guanghua School of Management of Peking University in July 2014 with a master's degree. Mr. Zhou has been with the Company since July 1998. He is a certified public accountant and a certified tax agent.

Ms. Xu Weiyan, born 1962, is Supervisor and Senior Vice President of the Company in charge of internal control and audit. Ms. Xu graduated from the Department of History of Liaoning Normal University in July 1988 with a bachelor's degree in History and was qualified as an economist in 1992. She worked with Shenzhen Zhongxing Semiconductor Co., Ltd. from 1989 to 1993 and with Zhongxingxin, controlling shareholder of the Company, from 1993 to 1997, holding various positions such as secretary to the company's finance committee and deputy head of the president's office. She has been working for the Company since 1997, holding positions such as Head of the Tender Department and Head of the Internal Control and Audit Department. She is concurrently a supervisor of Zhongxingxin, the controlling shareholder of the Company.

Mr. Wang Junfeng, born 1966, is Supervisor of the Company. Mr. Wang graduated from Shenyang Metallurgical Engineering Institute (瀋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. (瀋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). He is currently director and deputy chief accountant of CASIC Shenzhen (Group) Company Limited, which he has been working with since 2009, having served as financial controller of the electric sector and head of the finance centre. He is currently the director and deputy chief accountant of Shenzhen Aerospace Industrial Technology Research Institute Limited since October 2016. Mr. Wang has been Supervisor of the Company since March 2016.

Directors, Supervisors, Senior Management and Employees

Ms. Xia Xiaoyue, born 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, Head of the Planning Department and Incentive Administration Manager of the Appraisal Office. She is currently Director of Human Resources at the Headquarters and Deputy Head of the Human Resources Department of the Company. She has been Supervisor of the Company since March 2016.

Mr. Chang Qing, born 1955. Mr. Chang holds the title of senior engineer, having graduated from the Department of Physics of the Northwest University specialising in semi-conductor and obtained a bachelor of science degree in February 1982. From March 1993 to August 1996 he was executive deputy general manager of Shenzhen Zhongxing WXT Equipment Company Limited. He was general manager of Shenzhen Zhongxingxin Telecommunications Equipment Company Limited overseeing the northeastern regional market from September 1996 to October 1997, general manager (Northeast Region) of the Company and Head of the Marketing Division VII from November 1997 to February 2000, and general manager of 陝西中興百綠環保工程有限責任公司 from March 2000 to March 2008. He was assistant to general manager of Zhongxingxin, the controlling shareholder of the Company from April 2008 to February 2016, and Supervisor of the Company from March 2013 to March 2016.

4. Brief biographies of Senior Management

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

Mr. Wei Zaisheng, Executive Vice President and Chief Financial Officer of the Company. Please refer to the section headed "Brief biography of Directors" for his biography.

Mr. Xu Huijun, born 1973, graduated from Tsinghua University in 1998 with a master's degree in engineering, specialising in electronic engineering and joined the Company in the same year. He has been Executive Vice President and Chief Technology Officer (CTO) of the Company since April 2016 and is currently in charge of the strategy and MKT, system products and product security. He was Senior Vice President of the Company from 2004 to March 2016, having been in charge of the General Product Division, Engineering Services under the Sales System, Engineering Service Division and Wireless Product Division. He had served as Engineer, Project Manager, Deputy Head and Head of Beijing Research Centre from 1998 to 2003. Mr. Xu has over 18 years of management experience in the telecommunications industry.

Mr. Zhang Zhenhui, born 1973, has been Executive Vice President of the Company since April 2016 and is currently in charge of global marketing of the Company. Mr. Zhang graduated from Harbin University of Science and Technology in 1993 with a bachelor's degree in engineering, majoring in equipment engineering and management. In 1998, he received a master's degree in management science from Jiangsu University. In 2004, he received a doctorate degree in management science and engineering from Southeast University. Mr. Zhang had served as manager of Shijiazhuang Office and manager of Taiyuan Office of the Company from 2002 to 2006 after joining the Company in 2001. He was Deputy General Manager of Marketing Division III of the Company from 2006 to 2014, and has been General Manager of Marketing Division III of the Company from 2014 to 2016. He was Senior Vice President of the Company from January 2014 to March 2016. Mr. Zhang has many years of experience in the telecommunications industry and over 13 years of management experience.

Mr. Pang Shengqing, born 1968, has been Executive Vice President of the Company since April 2016 and is currently in charge of the supply chain operations of the Company. Mr. Pang is an engineer. He graduated from Huazhong University of Science and Technology with a doctorate degree in engineering in 1995, specialising in mechanical manufacturing. He was awarded the Guangdong Science and Technology Award in May 2002. Mr. Pang joined Zhongxingxin, controlling shareholder of the Company, in 1995. From 1996 to 1997, he was deputy head of the Shenzhen R&D Centre of Zhongxingxin. From 1998 to 2000, Mr. Pang was involved in research and development of the Company's CDMA core technology and hardware systems. Mr. Pang was Deputy General Manager of the CDMA Division from 2001 to 2004 and general manager of Marketing Division I of the Sales

System of the Company from 2005 to 2011, and general manager of the System Product Solutions Division of the Company from 2012 to 2013, and general manager of the Government and Corporate Sectors Division from 2014 to 2016. He was Senior Vice President of the Company from 2005 to March 2016. Mr. Pang has many years of experience in the telecommunications industry and over 20 years of management experience.

Mr. Zeng Xuezhong, born 1973, has been Executive Vice President of the Company since January 2014. Mr. Zeng graduated from Tsinghua University with a bachelor's degree in science, specialising in modern applied science, in 1996 and with an EMBA degree in 2007. Mr. Zeng joined Zhongxingxin in 1996. From 1997 to 2006, Mr. Zeng had been senior project manager, assistant to regional general manager, manager of Guiyang Office, manager of Kunming Office, Deputy General Manager and General Manager of Marketing Division II and Vice President of the Company. From 2006 to 2013, he was Senior Vice President of the Company in charge of Marketing Division III. He was in charge of the Terminals Division from 2014 to 2016 and has been president of the Terminals Division of the Company since January 2017. Mr. Zeng has many years of experience in the telecommunications industry and over 18 years of management experience.

Mr. Xiong Hui, born 1969, has been Executive Vice President of the Company since January 2017 and currently in charge of human resources of the Company. Mr. Xiong graduated from Sichuan University in 1990 majoring in Materials Studies, with a bachelor's degree in engineering. He undertook further studies at the University of Electronic Science and Technology of China in 1994 specialising in management science and engineering, and received a master degree in engineering and a doctorate degree in management. Mr. Xiong joined the Company in 1998. He had been Head of Business Technology Section at the Company's Chongqing Sales Office, Head of Planning Department, Head of HR Department, Deputy General Manager of the Handset Division, General Manager of U.S. Operations of the Handset Division, and General Manager of European and U.S. Operations of the Handset Division from 1998 to 2012. He was General Manager of Marketing Division V of the Company from 2013 to 2016. From January 2014 to December 2016 he was Senior Vice President of the Company. Mr. Xiong has many years of experience in the telecommunications industry and over 20 years of management experience.

Mr. Fan Qingfeng, born 1968, has been Senior Vice President of the Company since January 2017. He is currently in charge of the public relations and legal matters of the Company. Mr. Fan graduated from Liaoning Engineering Technology University in 1992 with a bachelor's degree specialising in industrial electrical automation, and from Tsinghua University in 2006 with a master's degree in business administration. Mr. Fan joined Zhongxingxin in 1996. From 1997 to 2016, Mr. Fan acted as project manager of regional office, manager of regional office, regional general manager, Divisional Deputy General Manager, Senior Vice President and Executive Vice President of the Company. Mr. Fan has many years of experience in the telecommunications industry and over 19 years of management experience.

Mr. Chen Jianzhou, born 1970, graduated from Tsinghua University in 1995 with a master's degree in engineering, majoring in signals and information systems. Mr. Chen joined the Company in 1995 to be engaged in research and development as well as technical support. He was Head of the Human Resources Centre of the Company from 1996 to 2003 and Head of ZTE Academic Institute from 2003 to 2010. From October 1997 to February 2004, he acted as Supervisor of the Company. In 2011, he served as Assistant to the President responsible for the Company's Architecture and Processes. From March 2012 to March 2016, he was Senior Vice President of the Company in charge of Processes and Human Resources of the Company. From April 2016 to January 2017 he was Executive Vice President of the Company in charge of human resources, processes and quality control of the Company. Mr. Chen has many years of experience in the telecommunications industry and over 20 years of management experience.

Mr. Tian Wenguo, born 1969, graduated from Harbin Institute of Technology in 1991 with a bachelor's degree in engineering, specialising in electromagnetic surveys and devices. In 2006, he graduated from Tsinghua University with a master's degree in business administration. Mr. Tian joined Zhongxingxin, controlling shareholder of the Company, in 1996. Mr. Tian was manager of the Company's Chongqing Sales Office and general manager (Southwest Region) from 1997 to 2002 and Senior Vice President and General Manager of Marketing Division II of the Company from 2002 to 2005. He was in charge of the Market and Operations System from 2005 to 2007,

the Market System from 2007 to 2008, Product Marketing System from 2008 to 2010, the Logistics Department from 2010 to 2012 and sales and engineering services from 2012 to 2015. In 2016, he was in charge of the development of the Company's new energy automobile business. He was Executive Vice President of the Company from 2005 to March 2016. Mr. Tian has many years of experience in the telecommunications industry and over 19 years of management experience.

Mr. Qiu Weizhao, born 1963, graduated from Xi'an University of Electronic Technology in 1988, specialising in telecommunications and electronic systems with a master's degree in engineering. Mr. Qiu was in charge of the Logistics System of the Company from 1998 to 2007 and Human Resources and Administration System from 2008 to 2012, and Logistics and Administration from September 2012 to 2015. From January 2016 to December 2016 he was in charge of external certification, internal control and audit of the Company; in 2016, he was in charge of property development (including administration), external accreditation and internal control and audit of the Company. He was Executive Vice President of the Company from 2007 to March 2016. Mr. Qiu has many years of experience in the telecommunications industry and over 28 years of management experience.

Ms. Chen Jie, born 1958, has been Senior Vice President of the Company since 2002 and is currently in charge of treasury operations of the Company. Ms. Chen graduated from Nanjing Institute of Posts and Telecommunications (now known as "Nanjing University of Posts and Telecommunications") in 1989 specialising in telecommunications and electronic systems and from the New York University in 1995 specialising in computer science and technology with a double master's degree. Ms. Chen holds the titles of senior researcher and senior engineer. From 1989 to 1992, Ms. Chen was manager of the Development Department of Shenzhen Zhongxing Semiconductor Co., Ltd. She worked as senior researcher and manager of Research Department of AT&T Bell Laboratories in U.S. from 1995 to 1998. From 1998 to 2002, she served as general manager of the Company's U.S. subsidiary. She served as general manager of the Networking Operations Division on a concurrent basis following appointment as Senior Vice President of the Company in 2002. She has been general manager of the Wireline and Services Products Division under the Marketing System and general manager of the Wireline Division and Wireline Product Division, respectively under the Product Research and Development System since 2007. Since 2016 she has been Chief Strategy Officer of the Company and has been in charge of treasury operations since 2017. Ms. Chen has demonstrated strong research and development capabilities and expertise with many years of management experience in both the domestic and international telecommunications industry.

Mr. Ye Weimin, born 1966, graduated from Shanghai Jiaotong University in 1988 with a bachelor's degree in engineering, majoring in computer science and engineering. He graduated from Rennes-Shanghai Jiaotong University in 2007 with a doctor degree in business administration (DBA) conferred by ESC Rennes School of Business. He has been involved in R&D, engineering and operations of the first 10,000-line digital programme-control PBX and mobile communication systems of the Company after joining Zhongxingxin, controlling shareholder of the Company, in 1994. From 1997 to 2001, he had served as Chief Officer of the Central Laboratory, Head of Quality Control Department and the Customer Services Department of the Mobile Division and Deputy General Manager of Marketing Division III of the Company. From 2001 to 2016, he has been Senior Vice President of the Company in charge of the Mobile Division (research and operation of mobile communication system products), Marketing Division V (Sales in America and Africa), Handset Logistics Team, Procurement Tender Team, China Terminal Business Division and supply chain management. Mr. Ye has many years of experience in the telecommunications industry and over 24 years of management experience at intermediate and senior levels.

Mr. Zhu Jinyun, born 1972, has been Senior Vice President of the Company since 2009. He is currently in charge of the Company's Cloud Computing and IT Products Operations. Mr. Zhu graduated from Harbin Engineering University in 1998 with a master's degree in engineering, specialising in communications and electronic systems. He joined the Company in 1998 to be engaged in the research and development and management of CDMA products. From 2000 to 2008, Mr. Zhu had been head of the CDMA Hardware Development Department, general project manager for various products under the CDMA Division and general project manager for WCDMA products. From 2009 to 2012, he was General Manager of Marketing Division IV of the Company. Since 2013, he has been general manager of the Cloud Computing and IT Products Operations. Mr. Zhu has many years of experience in the telecommunications industry and over 17 years of management experience.

Mr. Zhang Renjun, born 1969, graduated from Northeastern University in 1990 with a bachelor's degree in engineering, specialising in automated controls. Mr. Zhang joined Shenzhen Zhongxing Semiconductor Co., Ltd in 1992. From 2000 to 2011, he had been Deputy General Manager of Marketing Division I, Deputy General Manager of Marketing Division IV, Head of the MTO Division and Officer of the PMO Division, both under the Sales System, and General Manager of Marketing Division II. He was Senior Vice President of the Company from 2009 to 2016. Mr. Zhang has many years of experience in the telecommunications industry and over 17 years of management experience.

Mr. Cheng Lixin, born 1966, has been Senior Vice President of the Company since April 2013 and is currently in charge of the North America Operations of the Terminal Business Division of the Company. Mr. Cheng graduated from Zhejiang University in 1989 with a Bachelor's Degree in Engineering, and completed EMBA studies in the U.S. in 1997. Mr. Cheng worked at Nanjing Panda Ltd. as an engineer and a project manager from 1989 to 1992. From 1992 to 2001, he had been project manager, production engineering manager, deputy general manager of supply chain division, general manager of sales division and vice president of sales and supply at Nanjing Ericsson Panda Ltd. From 2001 to 2004, Mr. Cheng served as sales director at Ericsson Wireless Inc in the U.S. From 2004 to 2006, he had been director, president and chief sales officer at Axesstel Inc in the U.S. From 2006 to 2010, he served as President of ALA Group, Inc. Mr. Cheng joined the Company in 2010 as Deputy General Manager of Marketing Division IV and General Manager of North America Region of the Company and CEO of ZTE USA. He has been Senior Vice President of the Company since April 2013 and was in charge of Marketing Division IV of the Company. Mr. Cheng has over 27 years of experience in the telecommunications industry and top-level management at multinational corporations.

Mr. Huang Dabin, born 1971, has been Senior Vice President of the Company since August 2015 and is in charge of the Company's operations and management. Mr. Huang graduated from Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1995 with a master's degree in engineering, specialising in communications and electronic systems. Mr. Huang joined the Company in 1995. From 1999 to August 2013, he had been deputy director of ZTE Nanjing Research Institute, deputy general manager of Marketing Division II, deputy general manager of Network Division, deputy general manager of Marketing Division IV, chief executive officer of ZTE Telecom India Pvt. Ltd., dean of ZTE Academy and head of business centre of Solution Division. From August 2013 to December 2016, he was general manager of the Marketing Division II of the Company. Mr. Huang has many years of experience in the telecommunications industry and over 17 years in management positions.

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.

Mr. Feng Jianxiong, born 1974, graduated from Tianjin University of Finance and Economics with a bachelor's degree in economics, majoring in international finance, and from CEIBS in 2012 with a master's degree in Business Administration. He joined Zhongxingxin, controlling shareholder of the Company, in July 1996, and has been heads of the Investment Department, Securities and Finance Department and Securities and Investor Relations Department of the Company. He was the Secretary to the Board of Directors of the Company from 2000 to March 2016, and the Company Secretary of the Company from 2004 to April 2016. Mr. Feng has many years of experience in the telecommunications industry and over 17 years of management experience.

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

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on Note 1	Term of office ending on Note 1	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of A shares held during the period (shares)	Decrease in the number of A shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reasons for changes	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands)	Whether remuneration is received from related parties Note 2
Directors of the Company Note 3														
1	Hou Weigu	Male	75	Chairman	Resigned	3/2013	3/2016	1,556,967	–	–	1,556,967	–	73.0	No
2	Yin Yimin	Male	53	Chairman	Note 6	3/2017	3/2019	759,400	–	–	759,400	–	190.4	No
				Director	Incumbent	3/2016	3/2019							
3	Zhao Xianming Note 5	Male	50	Chairman	Note 6	3/2016	3/2017	391,515	260,000	–	651,515	Note 10	733.9	No
				Director	Incumbent	3/2016	3/2019							
				President	Incumbent	4/2016	3/2019							
4	Zhang Jianheng	Male	55	Vice Chairman	Incumbent	3/2016	3/2019	–	–	–	–	–	10.0	Yes
5	Luan Jubao	Male	54	Vice Chairman	Incumbent	3/2016	3/2019	–	–	–	–	–	10.0	Yes
6	Shi Lirong	Male	52	Director	Note 7	3/2016	2/2017	660,613	–	–	660,613	–	122.6	No
7	Wang Yawen	Male	53	Director	Incumbent	3/2016	3/2019	–	–	–	–	–	10.0	Yes
8	Tian Dongfang	Male	56	Director	Incumbent	3/2016	3/2019	–	–	–	–	–	10.0	Yes
9	Zhan Yichao	Male	53	Director	Incumbent	3/2016	3/2019	–	–	–	–	–	10.0	Yes
10	Wei Zaisheng Note 5	Male	54	Director	Incumbent	3/2016	3/2019	439,677	–	–	439,677	–	333.5	No
				Executive Vice President and Chief Financial Officer	Incumbent	4/2016	3/2019							
11	Richard Xike Zhang Note 8	Male	46	Independent Non-executive Director	Incumbent	3/2016	3/2019	–	–	–	–	–	13.0	Yes
12	Chen Shaohua Note 8	Male	55	Independent Non-executive Director	Incumbent	3/2016	3/2019	–	–	–	–	–	13.0	Yes
13	Lü Hongbing Note 8	Male	50	Independent Non-executive Director	Incumbent	3/2016	3/2019	–	–	–	–	–	13.0	Yes
14	Bingsheng Teng Note 8	Male	46	Independent Non-executive Director	Incumbent	3/2016	3/2019	–	–	–	–	–	13.0	Yes
15	Zhu Wuxiang Note 8	Male	51	Independent Non-executive Director	Incumbent	3/2016	3/2019	–	–	–	–	–	9.8	Yes
16	Tan Zhenhui Note 8	Male	72	Independent Non-executive Director	Resigned	3/2013	3/2016	–	–	–	–	–	3.3	Yes
Supervisors of the Company Note 4														
17	Xie Daxiong	Male	53	Chairman of Supervisory Committee	Incumbent	3/2016	3/2019	495,803	–	–	495,803	–	310.0	No
18	Zhou Huidong	Male	40	Supervisor	Incumbent	3/2016	3/2019	70,342	–	–	70,342	–	83.0	No
19	Xu Weiyan	Female	54	Supervisor	Incumbent	3/2016	3/2019	11,039	–	–	11,039	–	65.7	No
20	Wang Junfeng	Male	50	Supervisor	Incumbent	3/2016	3/2019	–	–	–	–	–	–	Yes
21	Xia Xiaoyue	Female	41	Supervisor	Incumbent	3/2016	3/2019	50,927	–	–	50,927	–	38.9	No
22	Chang Qing	Male	61	Supervisor	Resigned	3/2013	3/2016	–	–	–	–	–	–	Yes
Senior management of the Company Note 5														
23	Xu Huijun	Male	43	Executive Vice President	Incumbent	4/2016	3/2019	630,851	–	–	630,851	–	544.5	No
24	Zhang Zhenhui	Male	43	Executive Vice President	Incumbent	4/2016	3/2019	148,200	70,200	–	218,400	Note 10	606.9	No
25	Pang Shengqing	Male	48	Executive Vice President	Incumbent	4/2016	3/2019	571,682	162,000	–	733,682	Note 10	233.4	No
26	Zeng Xuezhong	Male	43	Executive Vice President	Incumbent	4/2016	3/2019	552,840	–	138,210	414,630	Note 10	212.6	No
27	Xiong Hui	Male	47	Executive Vice President	Note 9	1/2017	3/2019	51,700	184,600	226,300	10,000	Note 10	350.5	No
28	Fan Qingfeng	Male	48	Executive Vice President	Note 9	4/2016	1/2017	505,687	180,000	–	685,687	Note 10	258.1	No
29	Chen Jianzhou	Male	46	Executive Vice President	Note 9	4/2016	1/2017	167,769	82,000	62,442	187,327	Note 10	207.7	No
30	Tian Wenguo	Male	47	Executive Vice President	Resigned	4/2013	3/2016	256,390	70,000	184,390	142,000	Note 10	212.2	No

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
31	Qiu Weizhao	Male	53	Executive Vice President	Resigned	4/2013	3/2016	440,537	134,000	–	574,537	Note 10	219.4	No
32	Chen Jie	Female	58	Senior Vice President	Note 5	4/2013	3/2016	745,599	–	–	745,599	–	184.4	No
33	Ye Weimin	Male	50	Senior Vice President	Note 5	4/2013	3/2016	474,523	144,000	290,223	328,300	Note 10	213.7	No
34	Zhu Jinyun	Male	44	Senior Vice President	Note 5	4/2013	3/2016	596,213	162,000	110,000	648,213	Note 10	296.7	No
35	Zhang Renjun	Male	47	Senior Vice President	Note 5	4/2013	3/2016	–	126,000	–	126,000	Note 10	202.8	No
36	Cheng Lixin	Male	50	Senior Vice President	Note 5	4/2013	3/2016	75,600	10,000	40,600	45,000	Note 10	562.7	No
37	Huang Dabin	Male	45	Senior Vice President	Note 5	8/2015	3/2016	90,000	90,000	135,000	45,000	Note 10	231.0	No
38	Cao Wei	Female	40	Secretary to the Board	Incumbent	4/2016	3/2019	25,200	–	25,200	–	Note 10	67.9	No
39	Feng Jianxiong	Male	42	Secretary to the Board	Resigned	4/2013	3/2016	391,500	–	112,000	279,500	Note 10	65.3	No
40	Others Note 11	–	–	–	–	–	–	82,600	–	–	82,600	–	–	–
	Total	**–**	**–**	**–**	**–**	**–**	**–**	**10,243,174**	**1,674,800**	**1,324,365**	**10,593,609**	**–**	**6,735.9**	**–**

Note 1: The starting and ending dates of the term of office set out in this table are the starting and ending dates of the term of office of the Directors of the Seventh Session of the Board of Directors, Supervisors of the Seventh Session of the Supervisory Committee and senior management of the Company appointed by the Seventh Session of the Board of Directors. For the starting dates of their first appointments with the Company and changes in the appointments of the Directors, Supervisors and senior management of the Company, please refer to the section headed "BRIEF BIOGRAPHIES OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT".

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

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

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

Note 6: Mr. Zhao Xianming tendered his resignation from the position of Chairman of the Company in March 2017. At the Fourteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 14 March 2017, Mr. Yin Yimin was elected Chairman of the Company.

Note 7: Mr. Shi Lirong tendered his resignation from the positions of Non-executive Director and member of the Remuneration and Evaluation Committee and the Nomination Committee of the Company in February 2017.

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

Note 9: At the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, it was approved that Mr. Xiong Hui be appointed Executive Vice President of the Company and the appointment of each of Mr. Fan Qingfeng and Mr. Chen Jianzhou as Executive Vice President be discontinued.

Note 10: Reduction or increase of shareholdings in accordance with "Rules Governing the Holding of Shares in the Company by Directors, Supervisors and Senior Management of Listed Companies and Changes Thereof", including the exercise of share options of A shares.

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

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

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

For details of the share options of A shares of the Company held by the Directors and senior management of the Company during the year, please refer to the section headed "Material Matters — (VI) Implementation and Impact of the Company's Share Option Incentive Scheme" in 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 shareholder	Position in the shareholder	Commencement of term of office	Conclusion of term of office	Whether remuneration is received from shareholders entities
Yin Yimin	Zhongxingxin	Chairman	August 2015	August 2018	No
Luan Jubao	Zhongxingxin	Vice chairman	August 2015	August 2018	No
Tian Dongfang	Zhongxingxin	Vice chairman	August 2015	August 2018	No
Zhan Yichao	Zhongxingxin	Director	August 2015	August 2018	No
Wei Zaisheng	Zhongxingxin	Director	August 2015	August 2018	No
Xu Weiyan Note 1	Zhongxingxin	Supervisor	June 2016	August 2018	No
Chang Qing Note 2	Zhongxingxin	Assistant to general manager	April 2008	February 2016	Yes

Note 1: Ms. Xu Weiyan has been appointed supervisor of Zhongxingxin as from June 2016.

Note 2: Mr. Chang Qing has ceased to be assistant to general manager of Zhongxingxin as from February 2016.

(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
Hou Weigui Note 1	Zhongxing WXT	Chairman	No
	Zhongxing Development	Chairman	No
	Zhongxing Energy Company Limited	Chairman	No
	Zhongxing Energy (Tianjin) Company Limited	Chairman	No
	天津中興資本管理有限公司	Chairman	No
Yin Yimin Note 2	Zhongxing WXT	Vice chairman	No
	Shenzhen Hekang Investment Management Company Limited	Executive director	No
	ZTE Capital	Chairman/General manager	No
	Shenzhen Zhonghe Chunsheng Fund	Executive manager	No
	Xinghe Capital	Executive director	No
		General manager	Yes
	Changshu Changxing Capital Management Company Limited	Chairman/general manager	No
Zhao Xianming Note 3	Held positions in 14 subsidiaries including Zhongxing Software	Chairman	No
Zhang Jianheng Note 4	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
	China Aerospace International Holding Limited	Non-executive director and board chairman	No
	China Aerospace Investment Holdings Limited	Chairman	No
Luan Jubao Note 5	Shenzhen Aerospace Industrial Technology Research Institute Limited	Director/general manager	Yes
	CASIC Shenzhen (Group) Company Limited	Director/general manager	No
	Aerospace Guangyu	Director/general manager	No
	天浩投資有限公司	Chairman	No
Shi Lirong Note 6	Zhongxing WXT	Director	No
Wang Yawen Note 7	中國航天時代電子公司	Deputy general manager	No
	China Aerospace Electronics Technology Research Institute	Deputy head	Yes
	China Aerospace Times Electronics Co., Ltd.	Vice chairman/president	No
	鄭州航天電子技術有限公司	Chairman	No
	桂林航天電子有限公司	Chairman	No
	杭州航天電子技術有限公司	Chairman	No
	中國時代遠望科技有限公司	Chairman	No
Tian Dongfang	China Aerospace Electronics Technology Research Institute	Chief economist	No
	Xi'an Microelectronics	Head	Yes
	西安西岳電子技術有限公司	Chairman	No
	西安太乙電子有限公司	Chairman	No
	Shenzhen Zhongxing Information Company Limited	Chairman	No
Zhan Yichao Note 8	Shenzhen Aerospace Industrial Technology Research Institute Limited	Deputy general manager/ chief accountant	Yes
	CASIC Shenzhen (Group) Company Limited	Director/deputy general manager/chief accountant	No
	Aerospace Guangyu	Director	No
	三亞航天科工投資發展有限公司	Chairman	No
	航天科工財務有限責任公司	Director	No
	天浩投資有限公司	Director	No
Wei Zaisheng Note 9	Held positions in 18 subsidiaries including ZTE Group Finance	Chairman/director	No
	Zhongxing WXT	Director	No
Richard Xike Zhang	Apax Partners	Equity Partner and Head of Greater China	Yes
Chen Shaohua Note 10	Xiamen University	Professor	Yes
	大博醫療科技股份有限公司	Independent non-executive director	Yes
	Sinoma International Engineering Co., Ltd	Independent non-executive director	Yes
	Fujian Septwolves Industrial Co., Ltd.	Independent non-executive director	Yes
	China United Property Insurance Corporation	Independent non-executive director	Yes

Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Lü Hongbing Note 11	Grandall Law Firm	Principal executive partner	Yes
	Shimao Property Holdings Limited	Independent non-executive director	Yes
	Shanghai Shentong Metro Co., Ltd.	Independent non-executive director	Yes
	Shandong Airlines Corporation	Independent non-executive director	Yes
	Tebon Fund Management Co.,Ltd	Independent non-executive director	Yes
	Shanghai Pharmaceuticals (Group) Company Limited	Director	Yes
	Bailian Group Company Limited	Director	Yes
	Shanghai Electric Group Company Limited	Director	Yes
Bingsheng Teng	Cheung Kong Group School of Business	Associate professor/head/ associate dean	Yes
	Shandong Gold Mining Co., Ltd.	Independent non-executive director	Yes
Zhu Wuxiang Note 12	Tsinghua University	Professor	Yes
	Beijing Properties (Holdings) Ltd.	Independent non-executive director	Yes
	China Fortune Land Development Co., Ltd.	Independent non-executive director	Yes
	Dongxing Securities Co., Ltd.	Independent non-executive director	Yes
	China Cinda Asset Management Co., Ltd.	Independent non-executive director	Yes
	Unisplendour Corporation Limited	Supervisor	Yes
	Everbright Securities Company	Supervisor	Yes
Tan Zhenhui	Beijing Jiaotong University	Director of University Academic Committee/ professor	Yes
Xie Daxiong Note 13	Held positions in 3 subsidiaries including Zhongxing Software	Chairman/Director	No
Zhou Huidong Note 14	Held positions in 30 subsidiaries including ZTE Group Finance	Chairman of supervisory committee/supervisor/ director	No
	Zhongxing Hetai	Supervisor	No
	中興耀維科技江蘇有限公司	Chairman of supervisory committee	No
	前海融資租賃股份有限公司	Chairman of supervisory committee	No
Xu Weiyan Note 15	Held positions in 4 subsidiaries including ZTE Kangxun	Chairman of supervisory committee/Supervisor	No
	Puxing Mobile Tech Company Limited (普興移動通訊設備有限公司)	Chairman of supervisory committee	No
	西安城投智慧充電股份有限公司	Chairman of supervisory committee	No
Wang Junfeng Note 16	Shenzhen Aerospace Industrial Technology Research Institute Limited	Director/deputy chief accountant	Yes
	CASIC Shenzhen (Group) Company Limited	Director/deputy chief accountant	No
	Aerospace Guangyu	Director	No
	Nanjing Aerospace Yinshan Electric Co., Ltd	Director	No
	航天歐華	Director	No
	廣東歐科空調製冷有限公司	Director	No
	深圳航天地產發展有限公司 (Subsequently renamed "深圳航天科創實業有限公司")	Director	No
	Xi'an Liangli Instrument and Meter Co., Ltd.	Chairman	No
Xu Huijun	Held positions in 4 subsidiaries including Zhongxing Microelectronics	Chairman/Director/chairman of supervisory committee	No
	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Zhang Zhenhui	Held positions in 5 subsidiaries including Xi'an Zhongxing Jing Cheng Communication Company Limited	Chairman/Director	No
Peng Shengqing	Held positions in 14 subsidiaries including Shanghai Zhongxing Software Company Limited	Chairman/Director	No
	KAZNURTEL Limited Liability Company	Director	No
Zeng Xuezhong	Held positions in 6 subsidiaries including Nubia	Chairman/Director	No
	ZTE 9 (Wuxi) Co., Ltd. (中興九城網絡科技無錫有限公司)	Chairman	No
Fan Qingfeng	深圳智衡技術有限公司	Chairman	No
Tian Wenguo	Held positions in 17 subsidiaries including 中興新能源汽車有限責任公司	Chairman/Director	No
Chen Jie	Held positions in 20 subsidiaries including ZTEsoft Technology Company Limited	Chairman/General manager	No
Ye Weimin	Held positions in 4 subsidiaries including ZTE Kangxun	Chairman	No
Zhu Jinyun	Held positions in 28 subsidiaries including ZTE ICT Company Limited	Chairman	No
	Held positions in 2 companies including Zhongxing Energy Company Limited	Director	No
Zhang Renjun	ZTE SINGAPORE PTE. LTD.	Chairman	No
Cheng Lixin	Held positions in 2 subsidiaries including ZTE (USA), Inc	Director/General manager	Note 17
Cao Wei	ZTE Capital	Director	No
Feng Jianxiong	ZTE Technology & Service Company Limited (深圳市中興通訊技術服務有限責任公司)	Supervisor	No

Note 1: Mr. Hou Weigui has ceased to be the chairman of 12 subsidiaries including ZTE Software as from April 2016.

Note 2: Mr. Yin Yimin has been appointed chairman and general manager of Changshu Changxing Capital Management Company Limited as from June 2016 and has ceased to be director of ZTE Kangxun as from June 2016.

Note 3: Mr. Zhao Xianming was appointed chairman of 11 subsidiaries including Zhongxing Software in April 2016. He has been appointed chairman of Xi'an Cruise Semiconductor Technology Co., Ltd. as from July 2016. He has ceased to be chairman of ZTE Trunking Technology Corporation, Nanjing ZTE Jiqun Software Company Limited and ZTE Guotong Special Equipment and Technology (Beijing) Company Limited as from April 2016, and chairman of ZTE (Shenyang) Financial Technology Company Limited, Tianjin Zhilian, Tianjin Zhongxing Software Company Limited and Wuxi Zhongxing Huitong Technology Company Limited as from June 2016.

Note 4: Mr. Zhang Jianheng has ceased to be chairman of China Lucky Group Corporation as from June 2016.

Note 5: Mr. Luan Jubao has been appointed chairman of 天浩投資有限公司 as from March 2016 and direct and general manager of Shenzhen Aerospace Industrial Technology Research Institute Limited as from October 2016.

Note 6: Mr. Shi Lirong has ceased to be director of ZTE Kangxun and ZTE HK as from June 2016.

Note 7: Mr. Wang Yawen has ceased to be chairman of 北京時代民芯科技有限公司 as from June 2016.

Note 8: Mr. Zhan Yichao has been appointed director of 航天科工財務有限責任公司 as from March 2016, director of 天浩投資有限公司 as from April 2016, deputy general manager and chief accountant of Shenzhen Aerospace Industrial Technology Research Institute Limited as from October 2016. He has ceased to be chairman of 昆明航天科工投資發展有限公司 as from September 2016, chairman of 三亞中興睿海投資有限公司 as from October 2016 and chairman of 西藏林芝航天科工投資發展有限公司 as from November 2016.

Note 9: Mr. Wei Zaisheng has been appointed chairman of Shenzhen ZTE Jingyun Technology Company Limited as from April 2016 and chairman of ZTE Group Finance Holdings (Hangzhou) Limited as from December 2016. He has ceased to be chairman of director of ZTE Kangxun as from June 2016, supervisor of 深圳市創新投資集團有限公司 as from July 2016 and director of 西安中興電子科技有限公司 as from November 2016.

Note 10: Mr. Chen Shaohua has been appointed independent non-executive director of China United Property Insurance Co., Ltd. as from October 2016 and has ceased to be independent non-executive director of Tianma Microelectronics Co., Ltd as from June 2016.

Note 11: Mr. Lü Hongbing has been appointed independent non-executive director of Shandong Airlines Corporation as from March 2016.

Note 12: Mr. Zhu Wuxiang has been appointed independent non-executive director of China Cinda Asset Management Company Limited as from July 2016 and has ceased to be be independent non-executive director of Offshore Oil Engineering Co., Ltd. as from May 2016.

Note 13: Mr. Xie Daxiong has been appointed chairman of Guangzhou Huijian Testing Technology Company Limited as from April 2016.

Note 14: Mr. Zhou Huidong has been appointed chairman of supervisory committee of 中興飛流信息科技有限公司 as from February 2016, supervisor of Shenzhen ZTE Jingyun Technology Company Limited as from April 2016, supervisor of Anhui Wanxingtong Information Technology Co., Ltd as from July 2016, chairman of supervisory committee of ZTE Smart Auto Corporation as from August 2016, supervisor of ZTE Xingyun Industrial Investment Management (Hangzhou) Company Limited as from October 2016, chairman of supervisory committee of 前海融資租賃股份有限公司 as from December 2016. He has ceased to be chairman of supervisory committee of Beijing Zhongxing Wangjie Technology Company Limited as from April 2016, supervisor of Xunlian Zhifu as from August 2016, supervisor of 上海中興思秸通訊有限公司 as from November 2016 and supervisor of ZTE We Link as from December 2016.

Note 15: Ms. Xu Weiyan has been appointed chairman of supervisory committee of 西安城投智慧充電股份有限公司 as from June 2016 and supervisor of 中興光電子技術有限公司 as from October 2016.

Note 16: Mr. Wang Junfeng has been appointed director of Aerospace Guangyu as from March 2016, director and deputy chief accountant of Shenzhen Aerospace Industrial Technology Research Institute Limited as from October 2016. He has ceased to be supervisor of 昆明航天科工投資發展有限公司 as from September 2016.

Note 17: Mr. Cheng Lixin received remuneration from ZTE (USA), Inc.

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

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

At the First Meeting of the Seventh Session of the Board of Directors of the Company held on 5 April 2016, Mr. Zhao Xianming was elected Chairman of the Company, Mr. Zhang Jianheng and Mr. Luan Jubao were each elected Vice Chairman of the Company; Mr. Zhu Wuxiang, Mr. Luan Jubao, Mr. Shi Lirong, Mr. Wang Yawen, Mr. Richard Xike Zhang, Mr. Lü Hongbing and Mr. Bingsheng Teng were elected members of the Nomination Committee of the Seventh Session of the Board of Directors of the Company; Mr. Chen Shaohua, Mr. Luan Jubao, Mr. Tian Dongfang, Mr. Zhan Yichao, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang were elected members of the Audit Committee of the Seventh Session of the Board of Directors of the Company; Mr. Bingsheng Teng, Mr. Zhang Jianheng, Mr. Shi Lirong, Mr. Richard Xike Zhang, Mr. Chen Shaohua and Mr. Zhu Wuxiang were elected members of the Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors of the Company.

At the First Meeting of the Seventh Session of the Supervisory Committee of the Company held on 6 April 2016, Mr. Xie Daxiong was elected Chairman of the Supervisory Committee of the Company.

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

Please refer to sections (III) and (IV) 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) CHANGE IN DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY AFTER YEAR END

Pursuant to the Resolution on the appointment and removal of senior management personnel considered and passed at the Second Meeting of the Nomination Committee of the Seventh Session of the Board of Directors and the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, it was approved that Mr. Xiong Hui be appointed Executive Vice President of the Company for a term commencing on the date on which the appointment was considered and approved at the said meeting of the Board of Directors and ending on the date of conclusion of the term of office of the Seventh Session of the Board of Directors of the Company (namely, 29 March 2019); and that the appointment of each of Mr. Fan Qingfeng and Mr. Chen Jianzhou as Executive Vice President be discontinued. Mr. Fan Qingfeng and Mr. Chen Jianzhou will continue to work at the Company.

As disclosed in the "Announcement Resignation of Non-Executive Director" published by the Company on 21 February 2017, Mr. Shi Lirong, Non-executive Director of the Company, had tendered his resignation from the positions of Non-executive Director and member of the Remuneration and Evaluation Committee and the Nomination Committee of the Seventh Session of the Board of the Company due to his other personal commitments. Mr. Shi Lirong's resignation came into on the date of said announcement. Following his resignation, Mr. Shi Lirong will not hold any position at the Company.

As disclosed in the "Announcement Change of Chairman of the Board" published by the Company on 14 March 2017, to enhance corporate governance and separate the roles of the chairman and the chief executive officer, Mr. Zhao Xianming, Chairman and President of the Company, has tendered his resignation from the office of Chairman of the Seventh Session of the Board of Director. Following his resignation, Mr. Zhao Xianming will continue to serve as Executive Director and President of the Company. At the Fourteenth Meeting of the Seventh Session

of the Board of Directors of the Company held on 14 March 2017, Mr. Yin Yimin was elected Chairman of the Seventh Session of the Board of Directors, and in replacement as Member of the Nomination Committee and Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors for a term commencing on 14 March 2017 and ending on the date on which the Seventh Session of the Board of Directors is concluded (namely, 29 March 2019).

(VIII) INFORMATION ON GROUP EMPLOYEES

As at the end of the year, the Group had 81,468 employees (including 57,040 as employees of the parent company), with an average age of 33. There were 122 retired employees, including 82 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	30,086	36.9%
Marketing and sales	13,430	16.5%
Customer service	13,522	16.6%
Manufacturing	18,509	22.7%
Financial	890	1.1%
Administration	5,031	6.2%
Total	**81,468**	**100.0%**

2. Classification by academic qualifications as follows:

Academic qualifications	Headcount	As an approximate percentage of total headcount
Doctorate degree	442	0.5%
Master's degree	22,388	27.5%
Bachelor's degree	31,469	38.6%
Others	27,169	33.4%
Total	**81,468**	**100%**

3. Remuneration Package and Training for Employees

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees also receive welfare benefits including medical insurance, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans and housing provident fund plans organised by the relevant government authorities, under which the Group paid monthly contributions towards each employee's social insurance and housing provident fund in an amount equivalent to a specified percentage of his/her monthly salaries.

Staff training provided by the Group includes induction training, skills training for specific positions, training in professional aptitude and training for management officers, which may be conducted in the form of class lesson, online learning through PCs or handsets, seminar or forum. After completion of induction training, new employees will receive general training that lasts for six months to one year depending on their positions. In-service staff may participate in centralised training organised by the Group or conduct online/offline self-learning conducive to their personal career planning, depending on job requirements, qualifications required for various positions and aptitude assessment results. For in-service management officers, the Group conducts reading classes, close-ended training and guided reading.

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 continued to improve its corporate governance systems and regimes, regulate operations and optimise internal control regimes in accordance with requirements of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of CSRC.

During the year, 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》) jointly promulgated by 5 ministries and ministerial commissions including the Ministry of Finance and the CSRC and the "Notice on the Proper Implementation of Pilot Internal Control Standards of Listed Companies in Shenzhen" (《關於做好深圳轄區上市公司內部控制規範試點有關工作的通知》) and the "Notice on Further Procuring Work relating to the Implementation of Internal Control Rules for Shenzhen Listed Companies" (《關於進一步做好深圳轄區上市公司內控規範實施有關工作的通知》) issued by the Shenzhen CSRC, the "2015 Summary Report and 2016 Work Plan for Internal Control and Audit" has been formulated and reviewed at the First Meeting of the Audit Committee of the Seventh Session of the Board of Directors and the Second Meeting of the Seventh Session of the Board of Directors.

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 has not received any documents relating to administrative regulatory measures adopted by PRC regulatory authorities 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, which are convened legally and validly, for the discussion of each proposal, to provide a good opportunity for communications between the Board of Directors and the shareholders. In accordance with the Rules for General Meetings of Listed Companies, the Company has introduced on-sit 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. The Company has also set up an "Investor Protection Promotion" column on its website to collect, compile, publish or cite information relating to investor protection.

(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.

Corporate Governance Structure

(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, three specialised committees — the Nomination Committee, Audit Committee and Remuneration and Evaluation Committee — have been established by the Board of Directors in accordance with the Corporate Governance Standards for Listed Companies. 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.

(IV) Supervisors and the Supervisory Committee: The Supervisors possess professional knowledge and work experience in management, accounting and other areas and are elected by way of cumulative voting. They monitor the financial affairs and supervise the lawful and regulatory 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 of the Supervisors' 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. In order to establish a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, so as to help optimise the overall remuneration structure and create a competitive advantage in human resources that will contribute to the long-term, sustainable growth of the Company's operation, the Remuneration and Evaluation Committee of the Board of Directors has formulated the Share Option Incentive Scheme of the Company, which has been approved at the general meeting of the Company. The grant of share options was completed in October 2013 and registration was completed in November 2013. The first exercise period of the Share Option Incentive Scheme was from 2 November 2015 to 31 October 2016, during which 34,556,670 share options were exercised and 327,690 share options not exercised during such period were cancelled. Currently, the exercise conditions for the second exercise period under the Share Option Incentive Scheme were fulfilled. Participants under the Share Option Incentive Scheme may exercise their share options eligible to be exercised in the second exercise period during the second exercise period from 1 November 2016 to 31 October 2017.

(VI) Stakeholders: The Company respects the rights and interests 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. Relevant information is disclosed in compliance with relevant PRC laws and regulations and the Articles of Association in a true, accurate, complete and timely manner, 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	3 March 2016
2	Rules of Procedure of the General Meetings	20 May 2009
3	Rules of Procedure of the Board Meetings	26 May 2012
4	Rules of Procedure of the Supervisors' Meetings	7 April 2006
5	Working Rules for the Nomination Committee of the Board of Directors	27 April 2013
6	Working Rules for the Audit Committee of the Board of Directors	28 October 2015
7	Working Rules for the Remuneration and Evaluation Committee of the Board of Directors	29 March 2012
8	System of Derivative Investment Risk Control and Information Disclosure	28 April 2010
9	System for the Administration of External Information Users	9 April 2010
10	System of Accountability for Significant Errors in Information Disclosure of Annual Reports	9 April 2010
11	System of Registration of Owners of Inside Information	23 August 2012
12	Specific System for the Selection and Appointment of Accountants' Firms	20 August 2009
13	System of Annual Report Duties for Independent Directors	14 March 2008
14	Guidelines for Work of the Audit Committee of the Board of Directors relating to the Annual Report	14 March 2008
15	Independent Director System	26 June 2007
16	Administrative Measures for Guest Reception and Promotion	26 June 2007
17	Administrative Rules of the Company on Issue Proceeds	26 June 2007
18	Internal Control System	21 August 2014
19	Administrative Rules for Information Disclosure	26 June 2007
20	Implementation Rules for the Dealings in Company's Shares by Directors, Supervisors, Senior Management and Their Related Parties	26 June 2007
21	Regulations for the Administration of Information Disclosure pertaining to Debt Financing Instruments in the Inter-bank Bond Market	16 January 2015
22	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.

II. Information on general meetings convened

The First Extraordinary General Meeting of 2016 of the Company was held on 3 March 2016 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 2016 of ZTE Corporation" published by the Company on 4 March 2016 at http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

The 2015 Annual General Meeting of the Company was held on 2 June 2016 by way of a combination of on-site voting and online voting. For relevant details, please refer to the "Announcement on Resolutions of the 2015 Annual General Meeting of ZTE Corporation" published by the Company on 3 June 2016 at http://www.cninfo.com.cn and in China Securities Journal, Securities Times and Shanghai Securities News.

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 reviewed the matters concerned and have

Corporate Governance Structure

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.

Attendance of Independent Non-executive Directors of the Company at Board meetings and general meetings in 2016 was as follows:

Independent Non-executive Directors	Number of Board meetings required to attend	Number of personal attendance (including video 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
Tan Zhenhui Note 1	2	2	0	0	0	No	1	1
Richard Xike Zhang	14	5	6	3	0	Yes Note 2	2	1
Chen Shaohua	14	8	6	0	0	No	2	2
Lü Hongbing	14	4	6	4	0	Yes Note 3	2	1
Bingsheng Teng	14	5	6	3	0	No	2	1
Zhu Wuxiang Note 1	12	5	6	1	0	No	1	0

Note 1: Mr. Tan Zhenhui, Mr. Richard Xike Zhang, Mr. Chen Shaohua, Mr. Lü Hongbing and Mr. Bingsheng Teng were Independent Non-executive Directors of the Sixth Session of the Board of Directors of the Company. The Sixth Session of the Board of Directors of the Company concluded on 29 March 2016. At the First Extraordinary General Meeting for 2016 of the Company held on 3 March 2016, Mr. Richard Xike Zhang, Mr. Chen Shaohua, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang were elected Independent Non-executive Directors of the Seventh Session of the Board of Directors of the Company for a term commencing on 30 March 2016 and ending on 29 March 2019.

Note 2: Independent Non-executive Director Mr. Richard Xike Zhang was not able to attend the First Meeting and the Second Meeting of the Seventh Session of the Board of Directors due to work reasons and appointed in writing Independent Non-executive Director Mr. Lü Hongbing to vote on his behalf at both meetings.

Note 3: Independent Non-executive Director Mr. Lü Hongbing was not able to attend the Eighth Meeting and the Ninth Meeting of the Seventh Session of the Board of Directors due to work reasons and appointed in writing Independent Non-executive Directors Mr Chen Shaohua to vote on his behalf at the meetings.

The Company has adopted all recommendations in respect of the Company proposed by the Independent Non-executive Directors. For details, please refer to the "2016 Report on the Performance of Duties by Independent Non-executive Directors" published on http://www.cninfo.com.cn on 24 March 2017.

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

During the year, the specialized 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, played an important role in ensuring scientific decision making at the Board of Directors to furnish 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 and management of remuneration and performance of Directors and senior management.

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 2016 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.

The Audit Committee first examined the unaudited financial statements and issued an opinion in writing. The Audit Committee was of the view that: relevant accounting standards had been appropriately applied and all significant accounting systems adopted had been consistent with those adopted for 2015; key financial indicators calculated on the basis of data from the 2016 management accounts were consistent with preliminary judgements made by the Committee members based on known facts and comparison with financial indicators of 2015. The passing of the financial statements to the PRC and Hong Kong auditors for auditing was approved.

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 2016 annual report was in compliance with the accounting standards for business enterprises 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 2016. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2016 and approved the submission of the report for consideration by the Board of Directors of the Company.

(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 in January 2017. 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.

(3) Summary report on the 2016 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 2016 to March 2017. During such period, the PRC and Hong Kong auditors of the Company and the Audit Committee held discussions on the annual audit plan, and 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 2016 to March 2017. 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. The internal control audit report with unqualified opinion were then submitted to the Audit Committee.

Corporate Governance Structure

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 prudence in the course of audit and completed the audit of the Company's 2016 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 2017, and to re-appoint Ernst & Young Hua Ming LLP as the internal control auditor of the Company for 2017.

(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 supervision and inspection 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 Internal Control and Audit Department to perform its audit functions in accordance with the law and fulfill the supervisory role of 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 derivative and securities investments of the Company and made recommendations in respect of risk control in the Company's derivative and securities 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 adjustment of the exercise price of share options under the Share Option Incentive Scheme and the further purchase of the "Directors', Supervisors' and Senior Management's Liability Insurance", and other important tasks, and advised on matters pertaining to the exercise of share options for the Second Exercise Period under the Share Option Incentive Scheme of the Company. For details, please refer to the "Opinion of the Remuneration and Evaluation Committee of the Board of Directors on Matters pertaining to the Exercise of Share Options for the Second Exercise Period under the Share Option Incentive Scheme" published by the Company on 28 October 2016 on http://www.cninfo.com.cn.

3. Performance of principal duties by the Nomination Committee

During the year, the principal work of the Nomination Committee included the consideration of resolutions on the nomination of the Director candidates for the Seventh Session of the Board of Directors, employment of new senior management personnel, election of the convener of the Nomination Committee of the Seventh Session of the Board of Directors, and the review of the structure, headcount and composition (in terms of skills, know-how and experience) of the Board of Directors.

V. Performance of duties by the Supervisory Committee

Having conducted diligent supervision and inspection in relation to matters such as the legal compliance, financial conditions, connected transactions, third-party investments, disposal and acquisition of assets and 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 does not express any dissent as a result 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 the 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 and do not receive any remuneration from the controlling shareholder or take up other major positions other than as directors.

With respect to **assets**, the Company's assets are fully independent and the Company has clear ownership of its assets. The Company has independent production systems, supplementary production systems and ancillary facilities. Intangible assets such as industrial property rights, trademarks, and other 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 auditing 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 any business identical or similar to that of the Company.

With respect to **organisation**, the Board of Directors, the Supervisory Committee and other internal organizations of the Company operate in complete independence from the controlling shareholder. There are no subordinate relationships 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 mainly responsible for formulating and examining proposals for the management of remuneration and performance of the Directors and 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 order to enhance internal control, improve the Company's operational management standard and risk aversion ability and ensure the 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,

Corporate Governance Structure

the Securities Law, Corporate Governance Standards for Listed Companies, Rules for Corporate Internal Control and Supplementary Guidelines for Corporate Internal Control and other pertinent laws, regulations and regulatory documents.

1. Overview of internal control development and improvement

The Company's internal control system 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 relatively comprehensive internal control system.

2. Establishment of internal control departments and internal control implementation

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 risk control work steering group, the internal control and audit department risk control team, the risk control directors and managers of various business units. In 2016, the Company focused on the following internal control operations:

The Company's internal control work during the first quarter of 2016 mainly involved overall review and evaluation of its internal control work in 2015, completion of the Internal Control Assessment Report of the Company in 2015, inspection of the compliance of derivative investments in 2015 and formulation of the plan and scheme for self-assessment on internal control in 2016. For details, please refer to the section headed "Material Matters" in the 2016 first quarterly report of the Company.

During the second quarter of 2016, the Company exercised key controls over risks associated with exchange rate volatility in emerging markets and political risks in certain Latin American countries, while optimising internal control over outsourcing management to further enhance control over legal compliance, with a view to strengthening internal control and execution ability. For details, please refer to the section headed "Material Matters" in the 2016 interim report of the Company.

During the third quarter of 2016, the Company further optimised its risk classification and continued to optimise internal control over contract management, cost management, contract work outsourcing management, partner management and duty rotation for sensitive positions, made further efforts in the self-assessment on internal control and continued to drive the development of corporate culture in relation to risk management and internal control. For details, please refer to the section headed "Material Matters" in the 2016 third quarterly report of the Company.

Internal control performed during the fourth quarter of 2016:

(1) Publication of ZTE Corporate Risk Management Regulations to further regulate the duties, basic principles and processes of the Company's business units in risk management;

(2) Reviewing risk management and internal control in 2016, assessing the Company's progress in 2016 for risk control in key business operations such as sales, purchase, research and development and legal compliance, and starting to formulate the risk management and internal control plan for 2017;

(3) Conducting ongoing analysis of key risks in the operations of the Company with special focus on risks relating to the PPP model in government and corporate service projects and exchange rate and interest rate risks arising from RMB devaluation;

(4) Working with Ernst and Young Hua Ming (LLP) on the audit of the Company's internal control for 2016;

(5) Completing the amendment of the 2016 internal control handbook of the Company and commencing on all fronts activities such as sharing of experiences and know-how of risk management and internal control, risk management processes and examination on risk management knowledge for key business activities.

3. The 2016 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 2016 (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, the Company has no significant deficiency in internal control in relation to financial reporting and 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 91.9% 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 89.6% 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 reporting and non-financial reporting and other details of the Company's internal control, please refer to the "2016 Internal Control Assessment Report of ZTE Corporation" published by the Company on 24 March 2017 on http://www.cninfo.com.cn.

4. Internal control audit report furnished by the audit firm

In accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the China Code of Ethics for 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 2016, 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 "Internal Control Audit Report of ZTE Corporation" published by the Company on 24 March 2017 on http://www.cninfo.com.cn.

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 increase 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 during the period from 1 January to 31 December 2016, save for the deviation described in the section headed "I. Shareholders' Rights and Investors' Relations (VI) Chairman and the Chief Executive Officer" below.

I. Shareholders' Rights and Investors' Relations

(I) Shareholders' rights

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

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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 disclosures in annual reports, interim reports and quarterly reports. Shareholders may 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 may also submit their enquiries and questions to the Board of Directors in writing through the company secretary. For the contact information of the company secretary, please refer to 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 shall be required to give explanations in response to queries and suggestions of shareholders. In 2016, the Company convened 2 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 reception. 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 will 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 2016 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.

To meet the requirements of the Company's business development, the "Resolution on the amendment of certain clauses under the Articles of Association" was considered and approved at the First Extraordinary Meeting of 2016 held by the Company on 3 March 2016, whereby the definition of the term "other senior officers" in the Company's Articles of Association which reads "Executive Vice Presidents, Senior Vice Presidents, Secretary to the Board of Directors, Chief Financial Officer and personnel designated or confirmed by the Board of Directors of the Company from time to time as necessary" was amended to read "Executive Vice Presidents, Secretary to the Board of Directors, Chief Financial Officer and personnel designated or confirmed by the Board of Directors of the Company from time to time as necessary" with the deletion of the words "Senior Vice Presidents". Articles 10, 160, 179, 181 and 186 has also been amended accordingly.

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 joint and individual responsibility to all shareholders of the Company in respect of the management, control and operations of the Company.

(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 plan and investment proposal of the Company, as well as supervising and guiding the management of the Company. The Board of Directors should also monitor 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 2016. 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, the Seventh Session of the Board of Directors of the Company comprises 14 Directors, including 1 Chairman and 2 Vice Chairmen. Except for the Chairman and Chief Executive Officer (Mr. Zhao Xianming) and 2 Executive Directors (Mr. Yin Yimin and Mr. Wei Zaisheng), all Directors are Non-executive Directors independent of the management, including 5 Independent Non-executive Directors, namely Mr. Richard Xike Zhang, Mr. Chen Shaohua, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang, who possess academic and professional qualifications as well as substantial experience in the financial, legal and management sectors and who have influence in relevant sectors and are proactive in the performance of their duties, and 6 Non-executive Directors, namely Mr. Zhang Jianheng, Mr. Luan Jubao, Mr. Shi Lirong, Mr. Wang Yawen, Mr. Tian Dongfang and Mr. Zhan Yichao, who have extensive business and management experience. Their presence enables 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. As at the end of the year, the term of office of all Directors of the Seventh Session of the Company commenced on 30 March 2016 and shall end on 29 March 2019.

Corporate Governance Structure

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 2016, the Board of Directors of the Company convened 14 meetings. In 2016, the Company convened 2 general meetings. Attendance of Directors at the meetings of the Board of Directors and the general meetings in 2016 was set out in the following table:

Number of meetings	Board meetings 14			General meetings 2	
Directors [Note 1]	Attendance in person	Attendance by proxy	Attendance [Note 2]	Attendance in person	Attendance [Note 2]
Chairman and Non-executive Director					
Hou Weigui (Resigned with effect from 29 March 2016)	2	0	2/2	1	1/1
Chairman and Executive Director					
Zhao Xianming	14	0	14/14	2	2/2
Vice Chairman and Non-executive Director					
Zhang Jianheng	10	4	10/14	1	1/2
Luan Jubao	11	3	11/14	2	2/2
Non-executive Director					
Shi Lirong	13	1	13/14	1	1/2
Wang Yawen	10	4	10/14	1	1/2
Tian Dongfang	13	1	13/14	2	2/2
Zhan Yichao	10	4	10/14	1	1/2
Executive Director					
Yin Yimin	11	3	11/14	1	1/2
Wei Zaisheng (appointed with effect from 30 March 2016)	12	0	12/12	1	1/1
Independent Non-executive Director					
Richard Xike Zhang	11	3	11/14	1	1/2
Chen Shaohua	14	0	14/14	2	2/2
Lü Hongbing	10	4	10/14	1	1/2
Bingsheng Teng	11	3	11/14	1	1/2
Zhu Wuxiang (appointed with effect from 30 March 2016)	11	1	11/12	0	0/1
Tan Zhenhui (Resigned with effect from 29 March 2016)	2	0	2/2	1	1/1

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 was not counted for the percentage of attendance. The percentage of attendance of Directors resigning or being appointed during the year was arrived at on the basis of Board meetings and general meetings held during the period while they were in office.

2. As stipulated by the Articles of Association, 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 a regular Board of Directors meeting (including information in relation to each of the meetings of specialized committees of the Board of Directors) not later than 3 days prior to the commencement of the meeting to ensure all Directors are briefed on matters to be considered in the meeting in advance.

   As for temporary Board of Directors meetings which are convened by way of voting via telecommunication means at the request of the Company's management, information about the meeting would be provided simultaneously to all Directors via email and facsimile and sufficient time would be given to the Directors to consider the matters. The Company Secretary would respond to any 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 applicable regulations, such as the Company Law, the Articles of Association and the Hong Kong Listing Rules.

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 day-to-day operation and management and be accountable to the Board of Directors by furnishing adequate information to the Board of Directors and the specialised committees in a timely manner to enable them to make informed decisions. Each Director is entitled to obtain further information from the management of the Company.

(VI) Chairman and the Chief Executive Officer

Code Provision A.2.1 stipulates that the role of the Chairman and that of the Chief Executive Officer shall be segregated and shall not be concurrently held by the same person.

From 5 April 2016 to 14 March 2017, the office of the Chairman and the office of the President have been concurrently assumed by Mr. Zhao Xianming. The Company is of the view that, the structure of the Company operated as such will not undermine the checks and balances between the Board of Directors and the management. Members of the Board of Directors have made contributions to the Company with their extensive experience, and the Company believes that it will be able to ensure that the checks and balances between the Board and the management will remain unaffected.

In order to enhance corporate governance and separate the roles of the chairman and the chief executive officer, Mr. Zhao Xianming, Chairman and President of the Company, has tendered his resignation from the office of Chairman of the Seventh Session of the Board of Director. Following his resignation, Mr. Zhao Xianming will continue to serve as Executive Director and President of the Company. At the Fourteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 14 March 2017, Mr. Yin Yimin was elected Chairman of the Seventh Session of the Board of Directors, and in replacement as Member of the Nomination Committee and Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors for a term commencing

Corporate Governance Structure

on 14 March 2017 and ending on the date on which the Seventh Session of the Board of Directors is concluded (namely, 29 March 2019). The Company has fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules since 14 March 2017.

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

1. The Company would supply the Director with all the relevant and necessary information when the Director takes office and thereafter will supply, on a regular basis, information that would help the Directors understand the business and operating conditions of the Company. The Company would subsequently provide the Directors with the newly promulgated laws and regulations as well as information and development concerning the Company, such as its internal publications, and arrange 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 gaining 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 and communications with the Chief Financial Officer and Auditor for the Independent Non-executive Directors.

2. According to records maintained by the Company, the Directors of the Company received the following training focused on the roles, functions and duties of directors of listed companies in 2016:

Contents	**Laws, regulations and rules**	
Directors	**Reading materials**	**Attendance at talks or seminars**
Chairman and Non-executive Director		
Hou Weigui (Resigned with effect from 29 March 2016)	√	—
Chairman and Executive Director		
Zhao Xianming	√	√
Vice Chairman and Non-executive Director		
Zhang Jianheng	√	√
Luan Jubao	√	—
Non-executive Director		
Shi Lirong	√	—
Wang Yawen	√	—
Tian Dongfang	√	√
Zhan Yichao	√	√
Executive Director		
Yin Yimin	√	—
Wei Zaisheng (appointed with effect from 30 March 2016)	√	√
Independent Non-executive Director		
Richard Xike Zhang	√	—
Chen Shaohua	√	√
Lü Hongbing	√	—
Bingsheng Teng	√	—
Zhu Wuxiang (appointed with effect from 30 March 2016)	√	√
Tan Zhenhui (Resigned with effect from 29 March 2016)	√	—

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

4. In respect of potential legal risks arising from the performance of duties by the Directors, Supervisors and senior management and with the mandate of the general meeting, at the Eighth Meeting of the Seventh Session of the Board of Directors held on 25 August 2016, the "Resolution on Directors', Supervisors' and Senior Management's Liability Insurance" was considered and passed, whereby the Company's contract with Chartis Insurance Company Limited, Shenzhen Branch was extended for one year with a compensation limit of RMB100 million per annum.

III. Specialised Committees under the Board of Directors

There are 3 specialised committees under the Board of Directors of the Company, namely the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee. On 5 April 2016, the Seventh Session of the Remuneration and Evaluation Committee, Nomination Committee and Audit Committee was elected at the First Meeting of the Seventh Session of the Board of Directors of the Company. 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", "Working Rules for the Nomination Committee" and "Working Rules for the Audit Committee", and is implemented by reference to the statutory procedures for meetings of the Board of Directors.

(I) The Remuneration and Evaluation Committee

1. The role and functions of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee is responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management of the Company based on the management policies and structures for the 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

The Remuneration and Evaluation Committee comprises 6 members, including 4 Independent Non-executive Directors and 2 Non-executive Directors. As at the end of the year, the convenor of the Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors is Mr. Bingsheng Teng, Independent Non-executive Director. Members of the committee include Mr. Zhang Jianheng, Mr. Shi Lirong, Mr. Richard Xike Zhang, Mr Chen Shaohua and Mr. Zhu Wuxiang. The Remuneration and Evaluation Committee held 4 meetings in 2016. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in Person Note	Attendance by Proxy Note
Bingsheng Teng	3/4	1/4
Hou Weigui (Resigned with effect from 29 March 2016)	0/0	0/0
Zhang Jianheng	3/4	1/4
Shi Lirong	4/4	0/4
Tan Zhenhui (Resigned with effect from 29 March 2016)	0/0	0/0
Richard Xike Zhang	3/4	1/4
Chen Shaohua	4/4	0/4
Zhu Wuxiang	4/4	0/4

Corporate Governance Structure

Note: The percentage of attendance of members resigning or being appointed during the year was 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 reviews implementation of remuneration appraisals on an annual basis to determine the annual remuneration budget. It also conducts annual performance appraisals in respect of each 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.

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

The Remuneration and Evaluation Committee held 4 meetings in 2016 mainly to:

a) consider the resolution on the proposed nomination of the convener of the Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors;

b) consider the resolution on the performance of and annual bonus amount for the President of the Company for 2015, and submit the same to the Board of Directors of the Company for consideration and approval;

c) consider the resolution on the performance of and annual bonus amount for other senior management personnel of the Company for 2015, and submit the same to the Board of Directors of the Company for consideration and approval;

d) consider the resolution on the principles for determining the 2015 annual bonus amount for the Chairman of the Board of Directors and the Chairman of the Supervisory Committee;

e) consider the report on the Company's implementation of remuneration matters in 2015;

f) consider the report on the Company's remuneration budget in 2016;

g) consider the resolution on the Performance Management Measures for the Company President for 2016, and submit the same to the Board of Directors of the Company for consideration and approval;

h) consider the resolution on the Performance Management Measures for other senior management personnel of the Company for 2016, and submit the same to the Board of Directors of the Company for consideration and approval;

i) consider the resolution on the adjustment of the exercise price of share options under the Share Option Incentive Scheme pursuant to the rules, and submit the same to the Board of Directors of the Company for consideration and approval;

j) consider the resolution of the Company on the renewal of Directors', Supervisors' and senior management's liability insurance, and submit the same to the Board of Directors of the Company for consideration and approval;

k) consider the resolution of the Company on the retention of the right of participants under the Scheme to exercise granted share options, and submit the same to the Board of Directors of the Company for consideration and approval;

l) consider the resolution of the Company on the adjustment of participants and number of share options for the second exercise period of the Share Option Incentive Scheme, and submit the same to the Board of Directors of the Company for consideration and approval;

m) consider the resolution of the Company on the fulfilment of exercise conditions for the second exercise period of the Share Option Incentive Scheme, and submit the same to the Board of Directors of the Company for consideration and approval;

n) consider the resolution of the Company on the cancellation of certain share options, and submit the same to the Board of Directors of the Company for consideration and approval.

(II) The Nomination Committee

1. The role 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 the decisions.

2. Members and Meetings of the Nomination Committee

The Nomination Committee comprises 7 members, including 4 Independent Non-executive Directors and 3 Non-executive Directors. As at the end of the year, the convenor of the Nomination Committee of the Seventh Session of the Board of Directors is Mr. Zhu Wuxiang, Independent Non-executive Director, and members of the committee include Mr. Luan Jubao, Mr. Shi Lirong, Mr. Wang Yawen, Mr. Richard Xike Zhang, Mr. Lü Hongbing and Mr. Bingsheng Teng.

The Nomination Committee held 2 meetings in 2016. Attendance at the meeting was as follows:

Members of the Nomination Committee	Attendance in Person Note	Attendance by Proxy Note
Tan Zhenhui (Resigned with effect from 29 March 2016)	1/1	0/1
Zhu Wuxiang	1/1	0/1
Hou Weigui (Resigned with effect from 29 March 2016)	1/1	0/1
Luan Jubao	2/2	0/2
Shi Lirong	1/1	0/1
Wang Yawen	2/2	0/2
Richard Xike Zhang	0/2	2/2
Lü Hongbing	1/2	1/2
Bingsheng Teng	1/2	1/2

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

Corporate Governance Structure

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 initial 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 new senior management personnel, the Nomination Committee will also propose to the Board of Directors candidates to be appointed as new 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 personnel to the Board of the Directors in accordance with qualifications for directors and senior management personnel set out in 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 Meetings, etc.

(3) The Nomination Committee has formulated a Board Diversity Policy, which has been set out in the Working Rules for the Nomination Committee. The Board Diversity Policy primarily states that the Company will consider board diversity from several perspectives 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 on meritocracy, and candidates are being considered under objective conditions taking into account the benefits of board diversity. The composition of the Board of Directors of the Company is basically in line with the diversity principle. For details, please refer to "II (II) Composition of the Board of Directors" in Part II of this chapter.

4. Work of the Nomination Committee during the year

The Nomination Committee held 2 meetings in 2016 mainly to:

(a) consider the resolution on the nomination of candidates for Directors of the Seventh Session of the Board of Directors, and submit the same to the Board of Directors and general meeting of the Company for consideration and approval;

(b) consider the resolution on the nomination of the convener of the Nomination Committee of the Seventh Session of the Board of Directors;

(c) consider the resolution on the appointment of new senior management and submit the same to the Board of Directors of the Company for consideration and approval;

(III) The Audit Committee

1. The role 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), assessing the financial controls, internal controls and risk management system of the Company, and reviewing material connected transactions.

2. Members and Meetings of the Audit Committee

The Audit Committee comprises 7 members, including 4 Independent Non-executive Directors and 3 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 is Mr. Chen Shaohua, Independent Non-executive Director, and members of the committee include Mr. Luan Jubao, Mr. Tian Dongfang, Mr. Zhan Yichao, Mr. Lü Hongbing, Mr. Bingsheng Teng and Mr. Zhu Wuxiang. The composition of the Audit Committee was in compliance with the provisions of Rule 3.21 of the Hong Kong Listing Rules.

The Audit Committee held 7 meetings in 2016. Attendance at the meetings was as follows:

Members of the Audit Committee	Attendance in person Note	Attendance by proxy Note
Chen Shaohua	7/7	0/7
Hou Weigui (Resigned with effect from 29 March 2016)	2/2	0/2
Luan Jubao	3/5	2/5
Tian Dongfang	5/7	2/7
Zhan Yichao	3/7	4/7
Tan Zhenhui (Resigned with effect from 29 March 2016)	2/2	0/2
Lü Hongbing	4/7	3/7
Bingsheng Teng	5/7	2/7
Zhu Wuxiang	4/5	1/5

Note: The percentage of attendance of members resigning or being appointed during the year was 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 2016, the Audit Committee held 7 meetings mainly to:

a) Consider the application of Ernst & Young Hua Ming LLP Shenzhen Branch for the replacement of the first undersigning registered accountant;

b) consider the financial report of the Company for the year ended 31 December 2015, and submit the same to the Board of Directors of the Company for consideration and approval;

c) receive the report of Ernst & Young on the audit plan relating to the financial report of the Company in 2015;

d) receive the report of Ernst & Young on the preliminary audit results relating to the financial report of the Company in 2015;

e) consider whether actions taken by the management in litigations in which the Company or any members of the Group is a defendant are appropriate;

f) Consider the resolution on the election of the convener of the Audit Committee of the Seventh Session of the Board of Directors;

g) receive the report of Ernst & Young on the financial audit of the Company in 2015;

h) receive the report of Ernst & Young on the internal control audit of the Company in 2015;

Corporate Governance Structure

i) receive the verification report of Ernst & Young on the 2015 continuing connected transactions of the Company;

j) consider the summary report on the audit of the Company performed by the PRC and Hong Kong auditors in 2015 and submit the same to the Board of Directors of the Company for consideration and approval;

k) consider the audit fees payable to the PRC and Hong Kong auditors for the year ended 31 December 2015 and submit the same to the Board of Directors of the Company for consideration and approval;

l) consider resolutions on the appointment of the PRC and Hong Kong auditors of the Company for 2016 and submit the same to the Board of Directors and general meeting of the Company for consideration and approval;

m) consider the resolution on the write-off of bad debts of the Company for the second half of 2015 and submit the same to the Board of Directors of the Company for consideration and approval;

n) consider the report of the Company on derivative investments in 2015;

o) consider the resolution on the application for investment limits in derivative products of the Company for 2016 and submit the same to the Board of Directors and the general meeting of the Company for consideration and approval;

p) consider the statement on the Company's investments in securities in 2015 and submit the same to the Board of Directors for consideration and approval;

q) consider the assessment report on internal control of the Company for the year ended 31 December 2015;

r) consider the 2015 Summary Report and 2016 Work Plan of the Company for Internal Control and Audit;

s) consider the report on the preparation of the Company's First Quarterly Report of 2016 and submit the same to the Board of Directors of the Company for consideration and approval;

t) consider the report of the Company on derivative investments in the first quarter of 2016;

u) consider the resolution of the Company on the continuing connected transaction under the Property and Equipment and Facilities Lease Framework Agreement with Zhongxing Hetai, and submit the same to the Board of Directors of the Company for consideration and approval;

v) consider the resolution of the Company on the continuing connected transaction under the Purchase Framework Agreement for hotel services with Zhongxing Hetai, and submit the same to the Board of Directors of the Company for consideration and approval;

w) Consider the resolution on the proposed capital contribution to and subscription for ZTE Fund III by the Company and submit the same to the Board of Directors of the Company for consideration and approval;

x) consider the interim financial report of the Company for the six months ended 30 June 2016 and submit the same to the Board of Directors of the Company for consideration and approval;

y) receive the summary report of Ernst & Young on its advisory work for the preparation of the Company's interim financial report for the first half of 2016;

z) consider the internal control and audit work report of the Company for the six months ended 30 June 2016;

aa) consider the resolution on the write-off of bad debts of the Company for the first half of 2016 and submit the same to the Board of Directors of the Company for consideration and approval;

bb) review the report of the Company on derivative investments for the first half of 2016;

cc) review the report of the Company on investments in securities for the first half of 2016;

dd) consider the report on the preparation of the Company's Third Quarterly Report of 2016 and submit the same to the Board of Directors of the Company for consideration and approval;

ee) review the report of the Company on derivative investments in the first three quarters of 2016.

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 2016, please refer to "Part II — IX. Risk Management and Internal Control" in this chapter.

(IV) 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 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 2016 are set out in Note 8 to the financial statements prepared in accordance with HKFRSs.

Corporate Governance Structure

(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 2016.

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 2016 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 2016, none of the Directors, Supervisors and Chief Executive Officer of the Company had any interest or short position in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) that is required to be recorded in the register to be kept under Section 352 of the SFO, or otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 31 December 2016, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

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 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 also receive medical insurance, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable PRC regulations, the Group participated in social insurance contribution plans and housing provident fund plans organised by the relevant government authorities, under which the Group paid monthly contributions towards each employee's social insurance and housing provident 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 2016 are set out in Note 9 to the financial statements prepared in accordance with HKFRSs.

Details of staff retirement benefits provided by the Group are set out in Note 33 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 12 consecutive years since 2005. Ernst & Young has been appointed the Company's Hong Kong auditor for 13 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 5 years and the year under review was the second year for which she acted in the capacity of undersigning accountant. Ms. Ma Jing has been providing audit services to the Company for 4 years and the year under review was the first year for which she acted in the capacity of undersigning accountant.

Financial report audit fees payable to the PRC auditor and the Hong Kong auditor for 2016 were paid in a consolidated manner, whereby an aggregate audit fee of RMB6.60 million was paid to Ernst & Young Hua Ming and Ernst & Young.

Ernst & Young Hua Ming was appointed the Company's internal control auditor for 2016. The amount of 2016 internal control audit fee paid to Ernst & Young Hua Ming by the Company was RMB0.95 million.

In 2016, Ernst & Young provided tax return and tax advisory services to the Company and its subsidiaries ZTE HK for a fee of HKD67,800. Save as the aforesaid, Ernst & Young did not provide other significant non-audit services to the Group.

Item	Amount	Auditor
Audit fees 2016	RMB6.60 million	Ernst & Young Hua Ming (PRC) Ernst & Young (Hong Kong)
Internal control audit fees 2016	RMB0.95 million	Ernst & Young Hua Ming
Fees for tax return and tax advisory services 2016	HKD67,800	Ernst & Young

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 the Company's Directors, Supervisors and Senior Management". In 2016, 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.

Corporate Governance Structure

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 2016 is set out in the Independent Auditors' Report on pages 331–336 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 its 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 are responsible for reviewing resources, staff qualifications and experience for accounting, internal audit and financial reporting functions, and whether the courses and budget for staff training are sufficient.

During the year, the Audit Committee under the Board of Directors of the Company reviewed controls over financial, operational and compliance matters of the Company and its subsidiaries and 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 the risk management and internal control systems featuring a "three-tier protection", which is described as follows: the first line of protection takes place during daily operation, involving the business units and functional departments as the main units responsible for implementation. The second line of protection takes place during the process of risk control, involving the risk control steering group, headquarters risk control team and risk control personnel of various units. It is the enforcing unit for risk management and internal control. The third line of protection takes place during the audit process, involving the Audit Committee under the Board and internal audit. It is the supervisory unit for risk management and internal control. The Company's internal audit function is performed by the internal control and audit department.

The Company has formulated and put into implementation the Corporate Risk Management Regulations to regulate the setting of the Company's risk management objectives and the identification, evaluation, warning, response and reporting relating to risks, so as to exercise control over the operating risks of the Company. The Company has formulated and put into implementation the 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 Corporate Risk Management Regulations and Internal Control Regulations with reference to the Internal Control Handbook, and report to the Audit Committee under the Board on a semi-annual basis.

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 rigorously and actively conducted administration of inside information.

The risk management and internal control systems of the Company were designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks arising from the malfunctioning of operating systems or failures 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 were effective and adequate during the financial year ended 31 December 2016.

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 2016, please refer to the section headed "Part I. VIII — Internal Control" in this chapter.

Report of the PRC Auditors

Ernst & Young Hua Ming (2017) Shen Zi No. 60438556_H01

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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 2016, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2016 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 2016 and the consolidated and company results of operation and cash flows of ZTE Corporation for the year ended 31 December 2016.

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.

Report of the PRC Auditors (continued)

Ernst & Young Hua Ming (2017) Shen Zi No. 60438556_H01

III. KEY AUDIT MATTERS (continued)

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.

Key audit matter	How our audit addressed the key audit matter
POC method of construction contracts	
For elements related to customized network solutions and certain network build-outs, revenues and cost are recognized under construction contract using the percentage of completion method. The percentage of completion is determined using the proportion of total actual costs incurred to date compared to the total estimated contract costs for each individual contract. In adopting the percentage of completion method, significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a foreseeable loss is expected to be incurred on the contracts. Management generally based on their historical experiences, project plans and the assessment of the inherent risks and uncertainties in the arrangements to make these judgements. Uncertainties include project delays or performance issues. Changes in these estimates could result in a material impact on revenues and cost. *For disclosure of our policy for the recognition of construction contract revenue, please refer to Note III.20; for disclosure of judgement and estimates for revenue recognition, please refer to Note III.29; for disclosure of categories of revenue, please refer to Note V.41; for disclosure of amounts due from/to customers for contract works, please refer to Note V.8.*	Our audit procedures mainly included: we analyzed the Group's project management processes and evaluated its respective internal controls relating to project management, including budgeting, cost incurred to date, percentage of completion calculation and etc. We also performed test of details e.g. selected some contracts and checked the contract date, contract amount; vouched to invoices and hours incurred to examine the status of the project and recalculated the percentage of completion.

Report of the PRC Auditors (continued)

Ernst & Young Hua Ming (2017) Shen Zi No. 60438556_H01

III. KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Bad debt provision for account receivables	
The carrying amount of trade receivables as at 31 December 2016 was approximately RMB29,359,244,000, represents 21% of the Group's total asset. The Group conducts impairment tests in respect of its trade receivables that are individually significant and made provision for impairment when there is objective evidence of impairment. Such impairment was made in accordance to the management's judgement and estimation which was based on the relevant objective evidence. For trade receivables that are not individually significant and those are individually significant but with no objective evidence of impairment exists, the Group includes the trade receivables in a group of trade receivables with similar credit risk characteristics (customer type, aging and etc.) and collectively assesses them for impairment. Management then assessed the impairment of different groups of trade receivables based on their respective credit rating and collection history. The impairment percentages of different groups were subject to management's comprehensive judgment. *For disclosure on estimations of trade receivable impairment provision, please refer to Note III.10, 29; for the disclosure of the amount of bad debt provision for trade receivables, please refer to Note V.4.*	Our audit procedures mainly included the following. we obtained an understanding the Group's processes with respect to trade receivables recoverability analysis and evaluated the respective controls. As for the trade receivables that are individually significant, we analysed and investigated the objective evidences that trigger the impairment provision; checked the resolution of board of directors relating to provision and the write-off of impairment loss; analysed and examined whether there is any objective evidence shows that trade receivables which were previously impaired had been recovered and checked whether trade receivables were collected subsequent to the reporting period. As for the impairment test of trade receivables that are not individually significant and those are individually significant but with no objective evidence of impairment exists, we tested the management's aging analysis by checking the original documents (eg. invoice, bank-slip and etc); we evaluate the impairment percentage of each aging group by examining the collection history and default records.
Inventory impairment Provision	
As at 31 December 2016, the carrying amount of inventories was RMB26,810,568,000, represents 19% of the Group's total asset. The impairment provision of inventories was made based on their respective estimated net realizable value. The assessment of the estimated net realizable value was calculated based on management's estimates on selling prices, any estimated costs to be incurred upon completion of production and disposal, selling expense, related tax and etc. *For disclosure on the accounting policy and estimates for inventory impairment provision, please refer to Note III.11 and Note III.29; for disclosure on the charge of inventory impairment provision, please refer to Note V.7.*	Our audit procedures mainly included: we analysed the Group's inventories impairment provision processes and evaluated its respective controls. We observed the stocktaking process to identify whether the damaged, slow-moving and obsolete inventories were identified by management; We tested the aging analysis of inventories by checking the original documents; obtained the net realizable value calculation made by the management and assessed the key assumption such as selling prices, any estimated costs to be incurred upon the completion of product and disposal, selling expense, related tax and etc.

Report of the PRC Auditors (continued)

Ernst & Young Hua Ming (2017) Shen Zi No. 60438556_H01

IV. OTHER INFORMATION

The management of the Company 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 the management either intend to liquidate ZTE Corporation or to cease operations or have no realistic alternative but to do so.

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.

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.

Report of the PRC Auditors (continued)

Ernst & Young Hua Ming (2017) Shen Zi No. 60438556_H01

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

(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.

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:
Liao Wenjia (廖文佳) (Partner in charge)

Beijing, PRC

PRC certified public accountant:
Ma Jing (馬婧)

23 March 2017

Consolidated Balance Sheet

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

Assets	Note V	2016	2015 (Restated)
Current assets			
Cash	1	**32,349,914**	28,025,009
Derivative financial assets	2	**54,857**	10,110
Bills receivable	3	**1,984,493**	3,463,358
Trade receivables	4	**25,998,188**	25,251,287
Factored trade receivables	4	**2,261,280**	1,272,068
Other receivables	5	**4,430,072**	2,970,258
Prepayments	6	**1,739,691**	640,113
Inventories	7	**26,810,568**	19,731,741
Amount due from customers for contract works	8	**9,345,123**	13,928,446
Other current assets	20	**7,877,874**	3,937,776
Total current assets		**112,852,060**	99,230,166
Non-current assets			
Available-for-sale financial assets	9	**2,659,667**	2,381,467
Long-term trade receivables	10	**1,376,563**	362,831
Factored long-term trade receivables	10	**1,391,746**	1,593,528
Long-term equity investments	11	**665,876**	560,939
Investment properties	12	**2,016,470**	2,010,396
Fixed assets	13	**7,516,241**	7,692,175
Construction in progress	14	**1,729,450**	643,789
Intangible assets	15	**4,354,096**	4,224,446
Deferred development costs	16	**1,365,890**	789,815
Goodwill	17	**186,206**	—
Deferred tax assets	18	**1,604,575**	1,434,143
Long-term deferred assets		**34,953**	32,790
Other non-current assets	20	**3,887,117**	3,875,188
Total non-current assets		**28,788,850**	25,601,507
TOTAL ASSETS		**141,640,910**	124,831,673

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

Consolidated Balance Sheet (continued)

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

Liabilities	Note V	**2016**	2015 (Restated)
Current liabilities			
Short-term loans	21	**15,132,120**	7,907,572
Bank advances on factored trade receivables	4	**2,263,015**	1,273,346
Derivative financial liabilities	22	**40,148**	19,840
Bonds payable	23	**—**	4,000,000
Bills payable	24	**11,689,957**	9,885,129
Trade payables	25	**25,243,881**	22,932,866
Amount due to customers for contract works	8	**5,876,790**	4,423,103
Advances from customers	26	**8,092,164**	4,035,638
Salary and welfare payables	27	**5,169,051**	3,644,694
Taxes payable	28	**997,189**	1,607,890
Dividends payable	29	**50,317**	7,418
Other payables	30	**13,660,418**	6,005,130
Deferred income		**712,657**	438,920
Provisions	31	**887,366**	776,682
Long-term loans due within one year	32	**1,932,025**	4,617,604
Total current liabilities		**91,747,098**	71,575,832
Non-current liabilities			
Long-term loans	33	**5,018,276**	6,016,254
Bank advances on factored long-term trade receivables	10	**1,391,746**	1,593,528
Provision for retirement benefits	27	**146,106**	144,280
Deferred tax liabilities	18	**98,380**	52,769
Deferred income		**790,223**	759,394
Other non-current liabilities	34	**1,563,991**	1,341,011
Total non-current liabilities		**9,008,722**	9,907,236
Total liabilities		**100,755,820**	81,483,068

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

Consolidated Balance Sheet (continued)

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

Shareholder's equity	Note V	**2016**	2015 (Restated)
Shareholder's equity			
Share capital	35	**4,184,628**	4,150,791
Capital reserves	36	**10,734,300**	10,493,439
Other comprehensive income	37	**(822,724)**	(685,067)
Surplus reserve	38	**2,022,709**	2,022,709
Retained profits	39	**10,282,238**	13,678,222
Total equity attributable to holders of ordinary shares of the parent		**26,401,151**	29,660,094
Other equity instruments			
Including: perpetual capital instruments	40	**9,321,327**	9,321,327
Non-controlling interests		**5,162,612**	4,367,184
Total shareholders' equity		**40,885,090**	43,348,605
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**141,640,910**	124,831,673

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

The financial statements set out on pages 160 to 330 have been signed by:

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

Consolidated Income Statement

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

	Note V	2016	2015
Operating revenue	41	**101,233,182**	100,186,389
Less: Operating costs	41	**70,100,658**	69,100,447
Taxes and surcharges	42	**868,208**	1,303,580
Selling and distribution costs	43	**12,458,152**	11,771,666
Administrative expenses	44	**2,487,918**	2,383,355
Research and development costs		**12,762,055**	12,200,542
Finance expenses	47	**207,773**	1,430,794
Impairment losses	48	**2,853,127**	2,187,471
Add: Gains/(losses) from changes in fair values	45	**29,978**	(183,682)
Investment income	46	**1,640,279**	695,619
Including: Share of profits of associates and joint ventures		**45,166**	63,278
Operating profit		**1,165,548**	320,471
Add: Non-operating income	49	**4,361,548**	4,442,945
Less: Non-operating expenses	49	**6,294,847**	459,884
Including: Loss on disposal of non-current assets		**22,514**	28,874
Total profit/(loss)		**(767,751)**	4,303,532
Less: Income tax	51	**640,118**	563,262
Net profit/(loss)		**(1,407,869)**	3,740,270
Attributable to:			
Holders of ordinary shares of the parent		**(2,357,418)**	3,207,885
Holders of perpetual capital instruments		**501,300**	416,627
Non-controlling interests		**448,249**	115,758
Other comprehensive income, net of tax		**(5,158)**	327,656
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax		**(137,657)**	(220,792)
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods			
Change in net assets (net liabilities) arising from the re-measurement of defined benefit plans		**743**	(26,066)
		743	(26,066)
Other comprehensive income that will be reclassified to profit and loss in subsequent periods			
Changes in the fair value of available-for-sale financial assets		**58,780**	163,724
Effective portion of hedging instruments		**(57,047)**	8,499
Exchange differences on translation of foreign operations		**(140,133)**	(366,949)
		(138,400)	(194,726)
Other comprehensive income attributable to non- controlling interests, net of tax	37	**132,499**	548,448
Total comprehensive income		**(1,413,027)**	4,067,926
Attributable to:			
Holders of ordinary shares of the parent		**(2,495,075)**	2,987,093
Holders of perpetual capital instruments		**501,300**	416,627
Non-controlling interests		**580,748**	664,206
Earnings per share (RMB/share)	52		
Basic		**RMB(0.57)**	RMB0.78
Diluted		**RMB(0.57)**	RMB0.77

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

Consolidated Statement of Changes in Equity

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

2016									
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total	Including: perpetual capital instruments	Non-controlling interests	Total shareholders' equity
I. Current year's opening balance	**4,150,791**	**10,493,439**	**(685,067)**	**2,022,709**	**13,678,222**	**29,660,094**	**9,321,327**	**4,367,184**	**43,348,605**
II. Changes during the year									
(I) Total comprehensive income	**–**	**–**	**(137,657)**	**–**	**(2,357,418)**	**(2,495,075)**	**501,300**	**580,748**	**(1,413,027)**
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	**33,837**	**338,223**	**–**	**–**	**–**	**372,060**	**–**	**1,081,690**	**1,453,750**
2. Equity settled share expenses charged to equity	**–**	**(97,362)**	**–**	**–**	**–**	**(97,362)**	**–**	**–**	**(97,362)**
3. Capital reduction by shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(431,987)**	**(431,987)**
4. Acquisition of minority interests	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(229,351)**	**(229,351)**
(III) Profit appropriation									
1. Distribution to shareholders	**–**	**–**	**–**	**–**	**(1,038,566)**	**(1,038,566)**	**(501,300)**	**(205,672)**	**(1,745,538)**
III. Current year's closing balance	**4,184,628**	**10,734,300**	**(822,724)**	**2,022,709**	**10,282,238**	**26,401,151**	**9,321,327**	**5,162,612**	**40,885,090**

2015									
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total	Including: perpetual capital instruments	Non-controlling interests	Total shareholders' equity
I. Current year's opening balance	3,437,541	8,724,754	(464,275)	1,769,012	11,411,542	24,878,574	–	1,413,930	26,292,504
II. Changes during the year									
(I) Total comprehensive income	–	–	(220,792)	–	3,207,885	2,987,093	416,627	664,206	4,067,926
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	25,742	2,289,364	–	–	–	2,315,106	–	2,487,591	4,802,697
2. Capital injection from other equity instrument holders	–	–	–	–	–	–	8,904,700	–	8,904,700
3. Equity settled share expenses charged to equity	–	166,829	–	–	–	166,829	–	–	166,829
4. Capital reduction by shareholders	–	–	–	–	–	–	–	(184,575)	(184,575)
(III) Profit appropriation									
1. Appropriation to surplus reserves	–	–	–	253,697	(253,697)	–	–	–	–
2. Distribution to shareholders	–	–	–	–	(687,508)	(687,508)	–	(13,968)	(701,476)
(IV) Internal transfer of shareholders' equity									
1. Conversion of capital reserve into share capital	687,508	(687,508)	–	–	–	–	–	–	–
III. Current year's closing balance	4,150,791	10,493,439	(685,067)	2,022,709	13,678,222	29,660,094	9,321,327	4,367,184	43,348,605

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

Consolidated Cash Flow Statement

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

	Note V	2016	2015
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		**113,551,944**	107,239,530
Refunds of taxes		**7,448,038**	7,239,108
Cash received relating to other operating activities	53	**3,230,598**	3,383,673
Sub-total of cash inflows		**124,230,580**	117,862,311
Cash paid for goods and services		**84,325,441**	78,561,538
Cash paid to and on behalf of employees		**17,651,948**	15,519,405
Cash paid for all types of taxes		**7,906,466**	7,444,009
Cash paid relating to other operating activities	53	**9,086,519**	8,932,694
Sub-total of cash outflows		**118,970,374**	110,457,646
Net cash flows from operating activities	54	**5,260,206**	7,404,665
II. Cash flows from investing activities			
Cash received from sale of investments		**2,324,577**	1,609,118
Cash received from return on investment		**683,483**	654,663
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		**98,620**	23,734
Net cash received from the disposal of subsidiaries and other operating units	54	**964,261**	12,227
Sub-total of cash inflows		**4,070,941**	2,299,742
Cash paid to acquisition of fixed asset, intangible assets and other long term assets		**4,002,460**	2,469,110
Cash paid for acquisition of investments		**3,087,455**	1,405,987
Sub-total of cash outflows		**7,089,915**	3,875,097
Net cash flows from investing activities		**(3,018,974)**	(1,575,355)
III. Cash flows from financing activities			
Cash received from capital injection		**2,532,627**	3,008,502
Including: Capital injection into subsidiaries by minority shareholders		**2,160,567**	2,719,680
Cash received from the issuance of perpetual capital instruments		**—**	8,904,700
Cash received from borrowings		**30,425,813**	17,736,335
Sub-total of cash inflows		**32,958,440**	29,649,537
Cash repayment of borrowings		**28,929,382**	23,835,552
Cash payments for distribution of dividends, profits and for interest expenses		**2,802,549**	2,057,624
Including: Distribution of dividends, profits by subsidiaries to minority shareholders		**25,613**	14,663
Cash paid in relation to other financing activities	53	**—**	174,400
Sub-total of cash outflows		**31,731,931**	26,067,576
Net cash flows from financing activities		**1,226,509**	3,581,961
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		**(34,946)**	(24,415)
V. Net increase in cash and cash equivalents		**3,432,795**	9,386,856
Add: cash and cash equivalents at beginning of year		**26,616,996**	17,230,140
VI. Net balance of cash and cash equivalents at the end of year	54	**30,049,791**	26,616,996

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

Balance Sheet

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

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

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

Balance Sheet (continued)

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

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

Income Statement

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

	Note XV	2016	2015
Operating revenue	6	**90,890,478**	89,765,707
Less: Operating costs	6	**76,053,148**	74,906,434
Taxes and surcharges		**202,391**	700,642
Selling and distribution costs		**7,536,103**	7,191,037
Administrative expenses		**1,597,395**	1,459,750
Research and development costs		**3,375,265**	3,306,787
Finance expenses		**(89,762)**	578,649
Impairment losses		**1,787,003**	1,403,434
Add: Gains/(loss) from changes in fair values		**21,494**	(33,803)
Investment income	7	**496,266**	1,361,581
Including: Share of profits of associates and jointly-controlled entities	7	**52,082**	82,206
Operating profit		**946,695**	1,546,752
Add: Non-operating income		**976,275**	1,245,749
Less: Non-operating expenses		**6,190,693**	237,841
Including: Loss on disposal of non-current assets		**9,362**	14,508
Total profit/(loss)		**(4,267,723)**	2,554,660
Less: Income tax		**(43,578)**	17,694
Net profit/(loss)		**(4,224,145)**	2,536,966
Attributable to holders of ordinary shares		**(4,725,445)**	2,120,339
Attributable to holders of perpetual capital instruments		**501,300**	416,627
Other comprehensive income, net of tax			
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods			
Change in net liabilities arising from the re-measurement of defined benefit plans		**743**	(26,066)
Other comprehensive income will be reclassified to profit and loss in subsequent periods			
Effective portion of hedging instruments		**(4,346)**	—
Exchange differences on translation of foreign operations		**646**	17
Other comprehensive income, net of income tax effect on respective items		**(2,957)**	(26,049)
Total comprehensive income Attributable to:		**(4,227,102)**	2,510,917
Ordinary shareholders		**(4,728,402)**	2,094,290
Holders of perpetual capital instruments		**501,300**	416,627

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

Statement of Changes in Equity

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

	2016							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Total common shareholders' equity	Other equity instruments – Perpetual capital instruments	Total shareholders' equity
I. Current year's opening balance	**4,150,791**	**8,483,084**	**694,904**	**1,360,953**	**2,710,245**	**17,399,977**	**9,321,327**	**26,721,304**
II. Changes during the year								
(I) Total comprehensive income	**–**	**–**	**(2,957)**	**–**	**(4,725,445)**	**(4,728,402)**	**501,300**	**(4,227,102)**
(II) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	**33,837**	**338,223**	**–**	**–**	**–**	**372,060**	**–**	**372,060**
2. Equity settled share expenses charged to equity	**–**	**(97,362)**	**–**	**–**	**–**	**(97,362)**	**–**	**(97,362)**
(III) Profit appropriation								
1. Distribution to shareholders	**–**	**–**	**–**	**–**	**(1,038,566)**	**(1,038,566)**	**(501,300)**	**(1,539,866)**
III. Current year's closing balance	**4,184,628**	**8,723,945**	**691,947**	**1,360,953**	**(3,053,766)**	**11,907,707**	**9,321,327**	**21,229,034**

	2015							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Total common shareholders' equity	Other equity instruments – Perpetual capital instruments	Total shareholders' equity
I. Current year's opening balance	3,437,541	8,740,683	720,953	1,107,256	1,531,111	15,537,544	–	15,537,544
II. Changes during the year								
(I) Total comprehensive income	–	–	(26,049)	–	2,120,339	2,094,290	416,627	2,510,917
(II) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	25,742	263,080	–	–	–	288,822	–	288,822
2. Equity settled share expenses charged to equity	–	166,829	–	–	–	166,829	–	166,829
3. Capital injection from other equity instrument holders	–	–	–	–	–	–	8,904,700	8,904,700
(III) Profit appropriation								
1. Appropriation to surplus reserves	–	–	–	253,697	(253,697)	–	–	–
2. Distribution to shareholders	–	–	–	–	(687,508)	(687,508)	–	(687,508)
(IV) Internal transfer of shareholders' equity								
1. Conversion of capital reserve into share capita	687,508	(687,508)	–	–	–	–	–	–
III. Current year's closing balance	4,150,791	8,483,084	694,904	1,360,953	2,710,245	17,399,977	9,321,327	26,721,304

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

Cash Flow Statement

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

		2016	2015
I.	**Cash flows from operating activities**		
	Cash received from sale of goods or rendering of services	**99,705,900**	96,311,330
	Refunds of taxes	**4,669,152**	4,569,644
	Cash received relating to other operating activities	**2,641,022**	2,731,865
	Sub-total of cash inflows	**107,016,074**	103,612,839
	Cash paid for goods and services	**88,470,463**	85,230,933
	Cash paid to and on behalf of employees	**6,418,846**	5,182,813
	Cash paid for all types of taxes	**1,006,894**	887,274
	Cash paid relating to other operating activities	**6,573,185**	6,491,762
	Sub-total of cash outflows	**102,469,388**	97,792,782
	Net cash flows from operating activities	**4,546,686**	5,820,057
II.	**Cash flows from investing activities**		
	Cash received from sale of investments	**241,385**	88,074
	Cash received from return on investments	**28,098**	188,473
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	**19,317**	13,832
	Net cash received from the disposal of subsidiaries	**139,743**	81,582
	Sub-total of cash inflows	**428,543**	371,961
	Cash paid to acquisition of fixed asset, intangible assets and other long term assets	**1,387,509**	879,654
	Cash paid for acquisition of investments	**3,680,606**	447,603
	Sub-total of cash outflows	**5,068,115**	1,327,257
	Net cash flows from investing activities	**(4,639,572)**	(955,296)
III.	**Cash flows from financing activities**		
	Cash received from investment	**372,060**	288,822
	Cash received from the issuance of perpetual capital instruments	**—**	8,904,700
	Cash received from borrowings	**15,986,007**	10,698,953
	Sub-total of cash inflows	**16,358,067**	19,892,475
	Cash repayment of borrowings	**15,558,652**	15,600,702
	Cash payments for distribution of dividends, profits and for interest expenses	**2,577,717**	1,669,644
	Sub-total of cash outflows	**18,136,369**	17,270,346
	Net cash flows from financing activities	**(1,778,302)**	2,622,129
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	**298,170**	122,991
V.	**Net (decrease)/increase in cash and cash equivalents**	**(1,573,018)**	7,609,881
	Add: cash and cash equivalents at beginning of year	**17,325,750**	9,715,869
VI.	**Net balance of cash and cash equivalents at the end of year**	**15,752,732**	17,325,750

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

Notes to Financial Statements

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

I. CORPORATE BACKGROUND

ZTE Corporation (the "Company") was a limited liability company jointly founded by Shenzhen Zhongxingxin Telecommunications Equipment Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Company Limited, Hunan Nantian (Group) Company Limited, 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") 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 monopolized 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 monopolized 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); specialized subcontracting of telecommunications projects.

The controlling shareholder of the Group is Shenzhen Zhongxingxin Telecommunications Equipment 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 23 March 2017. 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.

Notes to Financial Statements

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

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.

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, long-term equity investments, revenue recognition and measurement, deferred development costs, depreciation of fixed assets, amortization 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 2016 and the results of their operations and their cash flows for the year ended 31 December 2016.

2. Financial year

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

3. Reporting currency

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 combination represents transaction which combines two or more separate businesses into one reporting entity. Business combinations are classified into business combinations involving entities under common control and business combinations not involving entities under common control.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

4. Business combination (continued)

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 combining party 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 parties being combined. 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 recognized 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.

The acquiree's identifiable assets, liabilities and contingent liabilities are recognized 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 recognized 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 acquiree 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 recognized in current profit or loss.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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 for the year ended 31 December 2016. Subsidiaries 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 recognized 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 recognized 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.

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.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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 capitalization shall be dealt with according to the principle of capitalization of borrowing costs, are recognized 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 non-monetary items measured at fair value are translated using the spot exchange rate. The differences arising from the above translations are recognized 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 recognized 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.

9. Financial instruments

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.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Recognition and derecognition of financial instruments

The Group recognizes 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 derecognized 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 financial assets have been transferred, or (b) control over such financial assets has not been retained even though substantially all risks and rewards of the ownership of such financial assets have been neither transferred nor retained.

If the obligation of financial liability has been fulfilled, cancelled or expired, the financial liability is derecognized. 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 recognized 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

The Group classifies its financial assets into four 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. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial assets, the relevant transaction costs are recognized in their initial recognition amount.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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. Financial assets are classified as trading if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of selling or repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and 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. These financial assets are subsequently measured at fair value, and gain or loss from changes in fair value and derecognition are recognized in current period's profit or loss. Dividends or interest income derived from financial assets at fair value through profit or loss are also recognized 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 financial assets are subsequently measured using the effective interest method on the basis of amortised cost. Gains or losses arising from derecognition, impairment or amortization 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 amortized cost using the effective interest method less any allowance for impairment. Gains or losses arising from amortization 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-forsale 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 recognized in profit or loss, are recognized as other comprehensive income until the financial assets are derecognized or impaired upon which the cumulative gains or losses are transferred out from capital reserves to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognized in profit or loss

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Available-for-sale financial assets (continued)

Equity investments that are not quoted in an active market and whose fair value cannot be reliably measured are carried at cost.

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 recognized in profit or loss; for other financial liabilities, the relevant transaction costs are recognized 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.

Financial liabilities are classified as derivative if they satisfy one of the following conditions: they are acquired or incurred principally for the purpose of repurchasing in the near term; they are part of a portfolio of identified financial instruments that are managed together, and for which there is objective evidence of a recent pattern of short-term profit taking; they are derivative financial instruments, with the exception of derivatives designated as valid arbitrage, derivatives under financial guarantee contracts and 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. These financial liabilities are subsequently measured at fair value, and all realized or unrealised gain or loss are recognized in current period's profit or loss.

Other financial liabilities

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

Set-off of financial instruments

The net amount resulting from the set-off between financial assets and financial liabilities shall be presented in the balance sheet only if all of the following criteria are met: there is a statutory right to set off recognised amounts which is currently enforceable; the plan is settled on a net basis, or the realisation of the financial asset and the settlement of the financial liability take place at the same time.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

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 recognized 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 amortization.

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 recognized 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.

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.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets (continued)

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 recognized 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 realized 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 recognizes 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 recognized, are not included in the collective assessment for impairment.

After the Group recognizes impairment loss of financial assets carried at amortized 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 recognized, the previously recognized impairment loss shall be reversed and recognized in profit or loss. However the reversal shall not result in a carrying amount of the financial asset that exceeds what the amortized cost would have been had the impairment not been recognized at the date when the impairment is reversed.

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 recognized directly in capital reserves is removed from capital reserves and recognized 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 amortization) and its current fair value, less any impairment loss previously recognized in profit or loss.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets (continued)

Available-for-sale financial assets (continued)

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 recognized 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 recognized 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 recognized 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 recognized, the impairment loss is reversed which is recognized in profit or loss.

Assets carried at cost

If financial assets carried at cost are impaired, the impairment loss are recognized 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 derecognized. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognized.

When the Group has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset, it may either derecognize the financial asset and recognize any associated assets and liabilities if control of the financial asset has not been retained; or recognizes the financial asset to the extent of its continuing involvement in the transferred financial asset and recognizes an associated liability if control has been retained.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Transfer of financial assets (continued)

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 book 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. Accounts Receivable

(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.

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	—
7–12 months	0–15
13–18 months	5–60
19–24 months	15–85
2–3 years	50–100
Over 3 years	100

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, materials for construction-in-progress and product deliveries.

Inventories are initially recorded at costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognized using the weighted moving average method. Materials for construction-in-progress include low-value consumables and packaging materials, which are amortised using the separate amortization method/one-off write-off method.

Inventories are valued using the perpetual inventories system.

Inventories at the end of the year are stated at the lower of cost or net realizable value. Provision for impairment of inventories is made and recognized in profit or loss when the net realizable 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 realizable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognized in profit or loss.

Net realizable 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. 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 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. 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 accounting. The initial investment cost of long-term equity investments other than those acquired through business combination shall be recognized 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."

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

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.

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 long-term 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. Any excess of the Company's share of the investment's identifiable assets and liabilities over the cost of investment is excluded from the carrying amount of the investment and recognized in profit and loss for the current period, and the cost of long-term equity investment is adjusted accordingly.

Under the equity method, after the long-term equity investments are acquired, investment gains or losses and other comprehensive income are recognized 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 recognizing 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 recognized), 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 recognizing 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Long-term equity investments (continued)

On disposal of the long-term equity investments, the difference between book value and market price is recognized 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.

13. 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 recognized 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 book value as at the date of reclassification is included in the capital reserve. After initial recognition, investment properties will be subsequently measured and presented in fair value. The difference between the fair value and the original book value shall be included in current profit and 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.

14. Fixed Assets

A fixed asset is recognized 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 recognized in the carrying amount of the fixed asset if the above recognition criteria are met, and the book value of the replaced part is derecognized; otherwise, those expenditures are recognized in profit or loss as incurred.

Fixed assets are initially recognized 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

14. Fixed Assets (continued)

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%	1.9%–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.

15. Construction in progress

Construction-in-progress is measured at the actual construction expenditures, including 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.

16. 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 capitalization, 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 capitalized as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

Capitalization 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

16. Borrowing costs (continued)

The capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Borrowing costs incurred afterwards are recognized in profit or loss.

During capitalization, interest of each accounting period is recognized 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 capitalization rate to the expenditure on that asset. The capitalization 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, capitalization 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 recognized as expenses and recorded in the income statement until the construction resumes.

17. 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 recognized 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.

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	50–70 years
Franchise	3–10 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Intangible assets (continued)

Straight line amortization 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 amortization 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 income statement 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 in the Group are formed when they meet the above condition technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

18. Provisions

Other than contingent consideration and assumed contingent liabilities in a business combination involving parties not under common control, the Group recognizes 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 resources 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 book value of the provisions would be reassessed on every balance sheet date. The book value will be adjusted to the best estimated value if there is certain evidence that the current book value is not the best estimate.

19. 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 of other equity instruments in consideration for receiving services.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

19. Share-based payments (continued)

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 recognizing 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 non-market 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 non-vesting 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 recognized as if the terms had not been modified. In addition, an expense is recognized 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 recognized for the award is recognized 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Revenue

Revenue is recognized 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 recognized on the following bases:

Revenue from the sales of goods

Revenue from sales of goods is recognized 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 receipt of amounts stipulated in contracts or agreements is recognized on a deferred basis. Those 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 recognized according to the percentage of completion, otherwise revenue is recognized 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.

Where the sales of goods and rendering of services are included in contracts or agreements between the Group and other enterprises, revenue is separately recognized 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 recognised 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Revenue (continued)

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.

21. Government grants

Government grants are recognized 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 recognized as income-related government grants.

Government grants, relating to income and applied towards reimbursement of related costs or losses in subsequent periods, are recognized as deferred income and taken to current profit or loss for the period in which the related costs are recognized. Government grants, applied towards reimbursement of related costs or losses already incurred, are directly recognized in current profit or loss. Where the grant relates to an asset, it is recognized as a deferred income and allocated to the income statement over the expected useful life of the relevant asset by equal annual instalments. Where the grant is measured at nominal value, it is directly recognized in current profit or loss.

22. Income tax

Income taxes include current and deferred tax. Income taxes are recognized 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 recognizes 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 book values and tax bases of items not recognized as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Income tax (continued)

Deferred tax liabilities are recognized 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.

Deferred tax assets are recognized 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 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.

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 realized 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 if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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(Prepared in accordance with PRC ASBEs)
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. 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 recognized 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 recognized as profit/loss for the current period on a straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

24. Hedge accounting

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 recognized 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 financial expense is recognised or when a forecast sale occurs.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Hedge accounting (continued)

Cash flow hedges (continued)

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.

25. 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.

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 recognized 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.

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(Prepared in accordance with PRC ASBEs)
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Impairment (continued)

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 recognize 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.

26. 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.

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 recognized 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.

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(Prepared in accordance with PRC ASBEs)
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. Employee remuneration (continued)

Retirement benefit (defined benefit scheme) (continued)

Previous service costs are recognised as current expenses when: the defined benefit scheme is revised, or relevant restructuring costs or termination benefits are recognized 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 recognized 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 recognized 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 recognized, 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.

27. Fair value measurement

At each balance sheet date, the Group measures the fair value of investment properties, derivative financial instruments and listed 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 maximizing its economic benefits.

The measurement of non-financial assets measured at fair value should take into account the ability of market participants to utilize 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 utilize the asset in the best way for generating economic benefits.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. 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 recognized in the financial statements to determine whether the level of fair value measurement should be changed.

28. Profit distribution

Cash dividend of the Company is recognized as liability after approval by the general meeting.

29. 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 book value of the asset or liability affected in the future.

Judgements

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 recognized in the financial statements:

Revenue Recognition

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 customization 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 customization 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Revenue Recognition (continued)

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)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

For elements related to customised network solutions and certain network build-outs, revenues are recognized 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 recognized 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 recognized, 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 recognized to date on long-term contracts are recorded as advance billings in excess of revenues recognized 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 recognized 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.20 to the consolidated financial statements.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Deferred tax liabilities arising from dividend distribution

The Group is required to recognize deferred tax liabilities for taxable temporary differences relating to investments in certain subsidiaries, 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. 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 has not recognised any deferred income tax liability.

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 recognized 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 fixed assets, construction in progress and intangible assets

The Group assesses at each balance sheet date whether there is an indication that 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 recognized 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.

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(Prepared in accordance with PRC ASBEs)
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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of financial assets

The Group determines whether financial assets are impaired by estimating the future cash flow from the financial assets. An impairment loss is recognized only if the carrying amount of an asset exceeds the present value of estimated future cash flows discounted at the financial asset'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.

Depreciation and amortization

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 capitalization, 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 recognized for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilize 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 recognized.

Provision for inventory impairment

The impairment of inventory to its net realizable value is based on the marketability and net realizable 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 book value of the inventory and charge or reversal of impairment provision for the period during which the estimates were revised.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Provision for warranty

Provision for warranties is recognised on a best-estimate basis according to the warranty period, supply volume of the product concerned and past data and experience on the performance of warranty services, taking into account risks and uncertainties relating to contingencies and the time value of currency.

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 2016 was RMB2,016,470,000 (31 December 2015: RMB2,010,396,000).

30. Changes in accounting policies

In 2016, the Group changed the item "Business tax and surcharge" on the face of the income statement to "Taxes and surcharges" in accordance with the "Regulations for the Accounting Treatment of VAT" (Cai Kuai [2016] No. 22) (《增值稅會計處理規定》(財會[2016]22號)). Property tax, land use tax, vehicle and vessel tax and stamp duty, etc incurred in the operating activities of an enterprise on or after 1 May 2016 shall be presented under "Taxes and surcharges" instead of "Administrative expenses". Property tax and land use tax incurred prior to 1 May 2016 shall continue to be presented under "Administrative expenses". The debit balance of the breakdown items of "Outstanding VAT", "Credit tax available for deduction", "Credit tax pending verification" and "Outstanding VAT credit" under "Tax payable" as at the end of 2016 and 2015 shall be reclassified from "Tax payable" to "Other current assets" and "Other non-current assets" on the balance sheet. The credit balance of the breakdown item "Tax amounts to be written off" under "Tax payable" as at the end of 2016 and 2015 shall be reclassified from "Tax payable" to "Other current liabilities" and "Other non-current liabilities" on the balance sheet. The combined and Company net profit and combined and Company shareholders' equity for 2016 and 2015 are not affected.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Changes in accounting policies (continued)

The major impact of the retrospective adjustments to the financial statements of 2016 and 2015 arising from the aforesaid changes in accounting policies is set out as follows:

2016

	Prior to change in accounting policy Closing balance/ Amount for the year	**Change in accounting policy Closing balance/ Amount for the year**	**Subsequent to change in accounting policy Closing balance/ amount for the year**
Tax payable	**(6,588,715)**	**7,585,904**	**997,189**
Other current assets	**291,970**	**7,585,904**	**7,877,874**
Tax and surcharges	**713,335**	**154,873**	**868,208**
Administrative expenses	**2,642,791**	**(154,873)**	**2,487,918**

2015

	Prior to change in accounting policy Closing balance/ Amount for the year	Change in accounting policy Closing balance/ Amount for the year	Subsequent to change in accounting policy Closing balance/ amount for the year
Tax payable	(2,329,886)	3,937,776	1,607,890
Other current assets	—	3,937,776	3,937,776

Notes to Financial Statements

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IV. TAXATION

1. Principal tax items and tax rates

Value-added tax	—	Payable on income generated from domestic sales of products and equipment repair services at a tax rate of 17%; Output tax at a tax rate of 5%, 6% and 11% is payable on sales service income generated from amended or new additional scope of business deducting the current balance of tax credit available for offsetting.
Business tax	—	In accordance with relevant PRC tax regulations, business tax was payable by the Group at tax rates of 3% and 5%, respectively, on its sales income and service income which were subject to business tax. Business tax has been changed to VAT with effect from 1 May 2016.
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 2014 to 2016 as a national-grade hi-tech enterprise incorporated in Shenzhen. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

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 2016.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2016 as a national-grade key software enterprise.

Notes to Financial Statements

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IV. TAXATION (continued)

2. Tax concession (continued)

Nubia Technology Limited is subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 10% for 2016 as an IC design enterprise designated by national planning.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2016 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2016 as a national-grade key software enterprise.

ZTEsoft Technology Company Limited is subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% from 2015 to 2017 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited has 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 the current year.

Shenzhen Zhongxing ICT 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.

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.

西安中興通訊終端科技有限公司 has 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 the current year.

Notes to Financial Statements

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash

	2016	2015
Cash	**25,287**	18,677
Bank Deposit	**31,110,707**	26,803,348
Other cash	**1,213,920**	1,202,984
	32,349,914	28,025,009

As at 31 December 2016, the Group's time deposit of RMB24,620,000 (31 December 2015: RMB23,000,000) was pledged to secure bank borrowings for a term of 1 year.

As at 31 December 2016, the Group's overseas currency deposits amounted to RMB6,534,605,000 (31 December 2015: RMB5,888,161,000). Funds placed overseas and subject to remittance restrictions amounted to RMB40,511,000 (31 December 2015: RMB83,496,000).

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 RMB1,086,203,000 (31 December 2015: RMB205,029,000) were not included in cash and cash equivalents.

2. Derivative financial assets

	2016	2015
Net investment hedging instruments for overseas operations	**862**	1,126
Derivative financial assets at fair value through current profit and loss	**53,995**	8,984
	54,857	10,110

For details of net investment hedging instruments for overseas operations, please refer to Note V.57.

Trading in derivative financial assets at fair value through current profit and loss mainly comprised transactions in forward exchange contracts with reputable banks in the PRC 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 RMB23,904,000 (2015: loss of RMB189,613,000) was dealt with in current profit or loss.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Bills receivable

	2016	2015
Commercial acceptance bills	**1,152,175**	2,432,643
Bank acceptance bills	**832,318**	1,030,715
	1,984,493	3,463,358

Endorsed or discounted bills receivable outstanding on the balance sheet date are analysed as follows:

	2016		2015	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Bank acceptance bills	**325,915**	**—**	385,920	106,892

As at 31 December 2016, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2015: Nil).

As at 31 December 2016, no bills were pledged for obtaining short-term borrowing (31 December 2015: RMB90,819,000).

As at 31 December 2016, there were no outstanding bills receivable endorsed on behalf of third parties (31 December 2015: Nil).

4. Trade receivables

Trade receivables arising from communications systems construction works and the provision of labour services are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables arising in the sales of goods 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:

	2016	2015
Within 1 year	**23,936,294**	23,370,441
1 to 2 years	**3,875,526**	3,653,798
2 to 3 years	**2,253,823**	1,590,969
Over 3 years	**3,635,481**	2,357,659
	33,701,124	30,972,867
Less: bad debt provision for trade receivables	**7,702,936**	5,721,580
	25,998,188	25,251,287

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Trade receivables (continued)

Please refer to Note V.19 for details of movements in bad debt provision for trade receivables for the year.

	2016				2015			
	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	550,842	2	550,842	100	422,515	1	422,515	100
For which bad debt provision has been collectively made based on credit risks								
0–6 months	19,580,197	58	–	–	20,234,441	66	–	–
7–12 months	4,356,097	13	483,535	11	3,136,000	10	419,528	13
13–18 months	2,156,353	6	700,367	32	2,538,547	8	702,912	28
19–24 months	1,719,173	5	886,925	52	1,115,251	4	844,290	76
2–3 years	2,253,823	7	1,996,628	89	1,590,969	5	1,397,191	88
Over 3 years	3,084,639	9	3,084,639	100	1,935,144	6	1,935,144	100
	33,150,282	98	7,152,094	22	30,550,352	99	5,299,065	17
	33,701,124	100	7,702,936		30,972,867	100	5,721,580	

As at 31 December 2016, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	182,198	182,198	100%	Debtor running into serious financial difficulties
Overseas carriers 2	114,606	114,606	100%	Debtor running into serious financial difficulties
Overseas carriers 3	81,926	81,926	100%	Debtor running into serious financial difficulties
Overseas carriers 4	73,948	73,948	100%	Debtor running into serious financial difficulties
Overseas carriers 5	56,042	56,042	100%	Debtor running into serious financial difficulties
Others	42,122	42,122	100%	Debtor running into serious financial difficulties
	550,842	550,842		

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Trade receivables (continued)

As at 31 December 2015, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge	Reason
Overseas carriers 1	170,711	170,711	100%	Debtor running into serious financial difficulties
Overseas carriers 2	164,226	164,226	100%	Debtor running into serious financial difficulties
Overseas carriers 3	79,493	79,493	100%	Debtor running into serious financial difficulties
Others	8,085	8,085	100%	Debtor running into serious financial difficulties
	422,515	422,515		

For 2016, there was no write-back of bad-debt provision in respect of trade receivables which were individually significant and for which bad-debt provision had been made separately (2015: RMB45,650,000). Bad-debt provision amounting to RMB164,226,000 (2015: RMB94,991,000) was cancelled.

Top 5 accounts of trade receivables as at 31 December 2016 were as follows:

Customer	**Amount**	**As a percentage of total trade receivables**	**Closing balance of bad debt provision**
Customer 1	**2,895,642**	**8.59%**	**44,368**
Customer 2	**1,570,161**	**4.66%**	**65,392**
Customer 3	**1,148,090**	**3.41%**	**47,662**
Customer 4	**628,510**	**1.86%**	**328,535**
Customer 5	**436,500**	**1.30%**	**52,851**
	6,678,903	**19.82%**	**538,808**

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Trade receivables (continued)

Top 5 accounts of trade receivables as at 31 December 2015 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	3,680,942	11.88%	26,463
Customer 2	2,337,878	7.55%	20,878
Customer 3	1,259,997	4.07%	36,080
Customer 4	648,087	2.09%	178,751
Customer 5	390,800	1.26%	26,122
	8,317,704	26.85%	288,294

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. Other receivables

Aging analysis of other receivables was as follows:

	2016	2015
Within 1 year	**3,170,036**	2,491,262
1 to 2 years	**998,763**	215,768
2 to 3 years	**186,771**	149,627
Over 3 years	**74,502**	113,601
	4,430,072	2,970,258

Other receivables analysed by nature as follows:

	2016	2015
Staff loans	**465,830**	426,042
Transactions with third parties	**2,839,668**	2,293,247
Release of loans and advances	**519,626**	100,367
Others	**604,948**	150,602
	4,430,072	2,970,258

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables (continued)

Top 5 accounts of other receivables as at 31 December 2016 were as follows:

Due from	Closing balance	As a percentage of the total amount of other receivables	Nature
Third-party entity1	**963,489**	**21.75%**	**Transactions with third parties**
Third-party entity2	**694,789**	**15.68%**	**Transactions with third parties**
Third-party entity3	**600,000**	**13.54%**	**Others**
Third-party entity4	**191,295**	**4.32%**	**Release of loans and advances**
Third-party entity5	**164,641**	**3.72%**	**Release of loans and advances**
	2,614,214	**59.01%**	

Top 5 accounts of other receivables as at 31 December 2015 were as follows:

Due from	Closing balance	As a percentage of the total amount of other receivables	Nature
Third-party entity1	1,347,326	45.36%	Transactions with third parties
Third-party entity2	150,000	5.05%	Others
Third-party entity3	100,000	3.37%	Release of loans and advances
Third-party entity4	39,900	1.34%	Transactions with third parties
Third-party entity5	34,179	1.15%	Transactions with third parties
	1,671,405	56.27%	

The above other receivables from top five accounts represent amounts receivable and release of loans and advances and others from third parties of the Group and were aged within 36 months.

6. Prepayments

Aging analysis of prepayments was as follows:

	2016		2015	
	Book balance	**Percentage (%)**	Book balance	Percentage (%)
Within 1 year	**1,739,691**	**100%**	640,113	100%

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Prepayments (continued)

Top 5 accounts of prepayments as at 31 December 2016 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	**202,852**	**11.66%**
Supplier 2	**65,131**	**3.74%**
Supplier 3	**48,015**	**2.76%**
Supplier 4	**28,567**	**1.64%**
Supplier 5	**26,544**	**1.53%**
	371,109	**21.33%**

Top 5 accounts of prepayments as at 31 December 2015 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	39,843	6.22%
Supplier 2	35,290	5.51%
Supplier 3	28,850	4.51%
Supplier 4	27,290	4.26%
Supplier 5	20,029	3.13%
	151,302	23.63%

7. Inventories

	2016			2015		
	Book balance	**Provision for impairment**	**Carrying value**	Book balance	Provision for impairment	Carrying value
Raw materials	**5,280,233**	**506,476**	**4,773,757**	4,314,061	435,957	3,878,104
Materials under subcontract processing	**515,392**	**31,218**	**484,174**	368,973	44,147	324,826
Work-in-progress	**1,438,920**	**37,026**	**1,401,894**	933,198	45,678	887,520
Finished goods	**4,066,426**	**447,167**	**3,619,259**	3,330,365	288,754	3,041,611
Dispatch of goods and others	**18,631,494**	**2,100,010**	**16,531,484**	13,265,012	1,665,332	11,599,680
	29,932,465	**3,121,897**	**26,810,568**	22,211,609	2,479,868	19,731,741

Please refer to Note V.19 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. Amount due from/to customers for contract works

	2016	2015
Amount due from customers for contract works	**9,345,123**	13,928,446
Amount due to customers for contract works	**(5,876,790)**	(4,423,103)
	3,468,333	9,505,343
Contract costs incurred plus recognized profits to date	**95,921,927**	60,891,156
Less: estimated loss	**1,044,198**	400,087
Progress billings	**91,409,396**	50,985,726
	3,468,333	9,505,343

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.

9. Available-for-sale financial assets

	2016			2015		
	Book value	**Impairment provision**	**Carrying value**	Book value	Impairment provision	Carrying value
Available-for-sale equity instruments						
At fair value	**1,315,085**	**—**	**1,315,085**	1,093,001	—	1,093,001
At cost	**1,344,582**	**—**	**1,344,582**	1,288,466	—	1,288,466
	2,659,667	**—**	**2,659,667**	2,381,467	—	2,381,467

Available-for-sale financial assets at fair value:

	2016 Available-for-sale equity instruments	2015 Available-for-sale equity instruments
Equity instrument cost	**139,167**	122,296
Fair value	**1,315,085**	1,093,001
Accumulated fair value change included in other comprehensive income	**1,175,918**	970,705

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Available-for-sale financial assets (continued)

Available-for-sale financial assets at cost:

2016

	Book 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**	**5%**	**15,000**
中國教育出版傳媒股份有限公司	**196,000**	**—**	**—**	**196,000**	**0.985%**	**—**
Other	**890,732**	**345,892**	**(289,776)**	**946,848**		**14,991**
	1,288,466	**345,892**	**(289,776)**	**1,344,582**		**29,991**

2015

	Book 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	5%	981
中國教育出版傳媒股份有限公司	196,000	—	—	196,000	0.985%	—
Other	1,022,460	66,136	(197,864)	890,732		20,919
	1,420,194	66,136	(197,864)	1,288,466		21,900

10. Long-term receivables

	2016	2015
Installment payments for the provision of system construction projects telecommunication	**1,460,520**	443,439
Less: Bad debt provision for long-term receivables	**83,957**	80,608
	1,376,563	362,831

The discount rates adopted for long-term receivables ranged from 3.08%–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". For details of the transfer of long-term receivables, please refer to Note VIII.2.

Please refer to Note V.19 for details of movements in bad debt provision for long-term receivables during the year.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments (continued)

		2016	2015
Equity method			
Jointly-controlled entities	(1)	**64,322**	77,341
Associates	(2)	**606,318**	488,362
Less: provision for impairment in long-term equity investments		**4,764**	4,764
		665,876	560,939

2016

(1) Jointly-controlled entities

	Balance as at the beginning of the year	Movements during the year							Carrying value as at the end of the year	Impairment provision at the end of the year
		Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash divided declared	Allowance for impairment provision		
Bestel Communications Ltd.	2,255	–	–	–	–	–	–	–	2,255	–
Puxing Mobile Tech Company Limited	53,756	–	–	764	–	–	–	–	54,520	–
江蘇中興微通信息科技有限公司	1,792	–	(1,792)	–	–	–	–	–	–	–
重慶前沿大數據管理有限公司	–	25,500	–	(18,518)	–	–	–	–	6,982	–
前海融資租賃股份有限公司	15,015	–	(15,015)	–	–	–	–	–	–	–
Pengzhong Xingsheng	4,523	–	–	(3,958)	–	–	–	–	565	–
	77,341	25,500	(16,807)	(21,712)	–	–	–	–	64,322	–

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments (continued)

2016 (continued)

(2) Associates

		Movements during the year								
	Balance as at the beginning of the year	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash divided 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	20,843	–	–	1,021	–	–	–	–	21,864	–
上海中興群力信息科技有限公司*	18,251	–	(18,251)	–	–	–	–	–	–	–
ZTE Energy Co., Ltd	353,712	–	–	56,310	–	–	(13,677)	–	396,345	–
ZTE Software Technology (Nanchang) Company Limited	3,722	–	–	702	–	–	–	–	4,424	–
Nanjing Piaoxun Network Technology Company Limited	24	–	–	(1)	–	–	–	–	23	–
上海歡流傳媒有限公司*	2,241	–	(2,241)	–	–	–	–	–	–	–
Telecom Innovations	10,739	–	–	–	–	741	–	–	11,480	–
Shenzhen Zhongxing Hetai Hotel Management Company Limited	5,079	–	–	(1,291)	–	–	–	–	3,788	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	(4,764)
南京皓信達訊網絡科技有限公司*	3,111	–	(3,111)	–	–	–	–	–	–	–
ZTE 9 (Wuxi) Co., Ltd.	–	–	–	–	–	–	–	–	–	–
寧波中興興通供應鏈有限公司	11,752	–	–	(547)	–	–	–	–	11,205	–
寧波中興雲祥科技有限公司	–	–	–	–	–	–	–	–	–	–
上海中興思秸通訊有限公司	10,190	–	–	(2,135)	–	–	–	–	8,055	–
江蘇中興華易科技發展有限公司*	2,920	–	(2,920)	–	–	–	–	–	–	–
中興耀維科技江蘇有限公司	4,517	–	–	(297)	–	–	–	–	4,220	–
石家莊市善理通益科技有限公司	1,500	–	–	(808)	–	–	–	–	692	–
中興智慧成都有限公司	13,799	–	–	(2,618)	–	–	–	–	11,181	–
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	6,869	–	–	(142)	–	462	–	–	7,189	–
廈門智慧小區網絡科技有限公司	7,000	–	–	(1,156)	–	–	–	–	5,844	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	4,852	–	(1,515)	(692)	–	–	–	–	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	–	3,000	–	(554)	–	–	–	–	2,446	–
西安城投智慧充電股份有限公司	–	7,200	–	(211)	–	–	–	–	6,989	–
紹興市智慧城市集團有限公司	–	4,900	–	(330)	–	–	–	–	4,570	–
廣東福能大數據產業園建設有限公司	–	3,000	–	–	–	–	–	–	3,000	–
廣東中興城智信息技術有限公司	–	3,510	–	–	–	–	–	–	3,510	–
前海融資租賃股份有限公司	–	15,015	–	49,112	–	–	–	–	64,127	–
上海博色信息科技有限公司	–	21,068	–	(569)	–	–	–	–	20,499	–
江蘇中興微通信息科技有限公司	–	1,792	–	(1,792)	–	–	–	–	–	–
南京寧網科技有限公司	–	2,920	–	61	–	–	–	–	2,981	–
	483,598	64,405	(28,038)	94,063	–	1,203	(13,677)	–	601,554	(4,764)

* 上海中興群力信息科技有限公司，上海歡流傳媒有限公司，南京皓信達訊網絡科技有限公司 and 江蘇中興華易科技發展有限公司 were no longer regarded as associates for the year as the Group had ceased to exercise significant influence over these companies following equity transfers.

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11. Long-term equity investments (continued)

2015

(1) Associates

	Balance as at the beginning of the year	Movements during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash divided 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	–
Puxing Mobile Tech Company Limited	50,485	–	–	3,271	–	–	–	–	53,756	–
江蘇中興微通信息科技有限公司	5,236	–	–	(3,444)	–	–	–	–	1,792	–
前海融資租賃股份有限公司	–	60,758	–	(45,743)	–	–	–	–	15,015	–
Pengzhong Xingsheng	9,631	–	–	(5,108)	–	–	–	–	4,523	–
	67,607	60,758	–	(51,024)	–	–	–	–	77,341	–

(2) Associates

	Balance as at the beginning of the year	Movements during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash divided declared	Allowance for impairment provision	Increase of investment	Decrease of investment
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
思卓中興（杭州）科技有限公司	20,012	–	–	831	–	–	–	–	20,843	–
上海中興群力信息科技有限公司	22,427	–	–	(4,176)	–	–	–	–	18,251	–
ZTE Energy Co., Ltd	265,706	–	–	88,006	–	–	–	–	353,712	–
ZTE Software Technology (Nanchang) Company Limited	–	–	–	3,722	–	–	–	–	3,722	–
Nanjing Piaoxun Network Technology Company Limited	25	–	–	(1)	–	–	–	–	24	–
上海歡流傳媒有限公司	3,227	–	–	(986)	–	–	–	–	2,241	–
Telecom Innovations	10,234	–	–	–	–	505	–	–	10,739	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	7,016	–	–	(1,084)	–	–	(853)	–	5,079	–
北京億科三友科技發展有限公司	4,764	–	–	–	–	–	–	(4,764)	–	(4,764)
興天通訊技術有限公司*	17,644	–	(15,937)	(1,707)	–	–	–	–	–	–
南京皓信達訊網絡科技有限公司	3,205	–	–	(94)	–	–	–	–	3,111	–
ZTE 9 (Wuxi) Co., Ltd	1,914	–	–	(1,914)	–	–	–	–	–	–
寧波中興興通供應鏈有限公司	4,097	8,000	–	(345)	–	–	–	–	11,752	–
寧波中興雲祥科技有限公司	15,516	–	–	(15,516)	–	–	–	–	–	–
上海中興思秸通訊有限公司	13,789	–	–	(3,599)	–	–	–	–	10,190	–
江蘇中興華易科技發展有限公司	1,656	–	–	1,264	–	–	–	–	2,920	–
中興耀維科技江蘇有限公司	–	4,600	–	(83)	–	–	–	–	4,517	–
石家莊市善理通益科技有限公司	–	1,500	–	–	–	–	–	–	1,500	–
中興智慧成都有限公司	–	16,000	–	(2,201)	–	–	–	–	13,799	–
INTLIVE TECHNOLOGIES(PRIVATE) LIMITED	–	–	–	6,869	–	–	–	–	6,869	–
廈門智慧小區網絡科技有限公司	–	7,000	–	–	–	–	–	–	7,000	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	–	7,354	–	(2,502)	–	–	–	–	4,852	–
	393,709	44,454	(15,937)	66,484	–	505	(853)	(4,764)	483,598	(4,764)

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Investment Properties

Fair value measurement:

2016

	Buildings
Opening balance	**2,010,396**
Fair value change (Note V.45)	**6,074**
Closing balance	**2,016,470**

2015

	Buildings
Opening balance	2,004,465
Fair value change (Note V.45)	5,931
Closing balance	2,010,396

During the year, the investment properties of the Group leased buildings 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 2016, investment properties with a carrying value of RMB1,428,829,000 (31 December 2015: RMB1,424,722,000) had yet to obtain title registration certificates.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed Assets

2016

	Buildings	Freehold land	Electronic equipments	Machinery equipments	Vehicles	Other equipments	Total
Cost							
Opening balance	5,912,007	38,822	3,834,124	3,046,402	344,132	312,262	13,487,749
Acquisitions	79,332	–	903,853	295,737	35,347	117,708	1,431,977
Transfer from construction in-progress	58,746	–	2,304	1,111	–	–	62,161
Disposal or retirement	(179,238)	–	(391,538)	(216,291)	(60,460)	(18,680)	(866,207)
Exchange rate adjustments	(61,061)	10,738	26,997	5,608	(2,201)	7,152	(12,767)
Closing balance	5,809,786	49,560	4,375,740	3,132,567	316,818	418,442	14,102,913
Accumulated depreciation							
Opening balance	1,137,112	–	2,819,791	1,513,211	163,994	143,282	5,777,390
Provision	233,028	–	652,511	254,256	29,781	79,643	1,249,219
Disposed or retirement	(36,871)	–	(357,109)	(112,254)	(22,865)	(11,092)	(540,191)
Exchange rate adjustments	23,399	–	22,865	2,421	(1,270)	2,382	49,797
Closing balance	1,356,668	–	3,138,058	1,657,634	169,640	214,215	6,536,215
Provision for impairment							
Opening balance	–	–	2,783	15,328	–	73	18,184
Provision	21,378	–	21,535	–	–	2,357	45,270
Disposal or retirement	–	–	–	(13,142)	–	–	(13,142)
Exchange rate adjustments	–	–	–	143	–	2	145
Closing balance	21,378	–	24,318	2,329	–	2,432	50,457
Net book value							
At the end of the year	4,431,740	49,560	1,213,364	1,472,604	147,178	201,795	7,516,241
At the beginning of the year	4,774,895	38,822	1,011,550	1,517,863	180,138	168,907	7,692,175

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed Assets (continued)

2015

	Buildings	Freehold land	Electronic equipments	Machinery equipments	Vehicles	Other equipments	Total
Cost							
Opening balance	5,690,083	53,996	3,668,001	2,641,521	301,683	222,180	12,577,464
Acquisitions	87,856	–	485,052	549,068	80,820	132,423	1,335,219
Transfer from construction in-progress	102,963	–	24,799	56,078	7	201	184,048
Disposal or retirement	(16,432)	–	(343,082)	(176,771)	(37,383)	(37,195)	(610,863)
Exchange rate adjustments	47,537	(15,174)	(646)	(23,494)	(995)	(5,347)	1,881
Closing balance	5,912,007	38,822	3,834,124	3,046,402	344,132	312,262	13,487,749
Accumulated depreciation							
Opening balance	906,338	–	2,647,935	1,356,319	170,155	143,579	5,224,326
Provision	217,946	–	475,693	337,007	27,686	31,349	1,089,681
Disposed or retirement	(1,171)	–	(300,457)	(157,941)	(32,854)	(27,133)	(519,556)
Exchange rate adjustments	13,999	–	(3,380)	(22,174)	(993)	(4,513)	(17,061)
Closing balance	1,137,112	–	2,819,791	1,513,211	163,994	143,282	5,777,390
Provision for impairment							
Opening balance	–	–	2,677	2,092	–	77	4,846
Provision	–	–	106	13,141	–	–	13,247
Disposal or retirement	–	–	–	–	–	–	–
Exchange rate adjustments	–	–	–	95	–	(4)	91
Closing balance	–	–	2,783	15,328	–	73	18,184
Net book value							
At the end of the year	4,774,895	38,822	1,011,550	1,517,863	180,138	168,907	7,692,175
At the beginning of the year	4,783,745	53,996	1,017,389	1,283,110	131,528	78,524	7,348,292

As at 31 December 2016, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing and Qinhuangdao in China with a net book value of approximately RMB2,617,157,000 (31 December 2015: RMB2,511,168,000).

As at 31 December 2016, there were no retired fixed asset or idle fixed assets pending disposal (31 December 2015: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Construction in progress

Changes in major construction in progress during 2016 as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Transfer to Investment properties during the year	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Staff quarters	1,017,932	148,954	294,419	–	–	443,373	Internal funds	43.56%	In progress
Sanya R&D Base Project	119,100	31,008	51,465	–	–	82,473	Internal funds	69.25%	In progress
Heyuan R&D training Center Phase I	900,000	225,911	423,365	–	–	649,276	Internal funds	72.14%	In progress
Nanjing project	978,070	17,119	38,589	–	–	55,708	Internal funds	5.70%	In progress
IDC data centre engine room	85,000	32,452	42,992	57,994	–	17,450	Internal funds	88.76%	In progress
Nanjing Internet of Things office	175,000	76,023	50,071	–	–	126,094	Internal funds	72.05%	In progress
Changsha production R&D Base Phase I	230,020	4,456	135,110	–	–	139,566	Internal funds	60.68%	In progress
Others		107,866	111,811	4,167	–	215,510	Internal funds		In progress
		643,789	1,147,822	62,161	–	1,729,450			

Changes in major construction in progress during 2015 as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Transfer to Investment properties during the year	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Staff quarters	1,017,932	6,155	142,799	–	–	148,954	Internal funds	14.63%	In progress
Sanya R&D Base Project	119,100	6,589	24,419	–	–	31,008	Internal funds	26.04%	In progress
Xi'an District 2 Phase 1	99,422	95,360	1,761	77,398	–	19,723	Internal funds	97.69%	In progress
Heyuan R&D training Center Phase I	900,000	35,878	190,033	–	–	225,911	Internal funds	25.10%	In progress
Nanjing project	670,000	12,934	4,185	–	–	17,119	Internal funds	2.56%	In progress
Zhongxing ICT Qinhuangdao Northern Base infrastructure	57,763	5,609	47,360	52,969	–	–	Internal funds	91.70%	Completed
IDC data centre engine room	85,000	25,739	6,713	–	–	32,452	Internal funds	38.18%	In progress
Nanjing Internet of Things office	175,000	15,061	60,962	–	–	76,023	Internal funds	43.44%	In progress
Others		59,538	86,742	53,681	–	92,599	Internal funds		In progress
		262,863	564,974	184,048	–	643,789			

As at 31 December 2016, there was no capitalized interest in the balance of the construction in progress (31 December 2015: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Intangible assets

2016

	Software	Technology know-how	Land use right	Franchise	Development expenses	Total
Cost						
Opening balance	370,710	11,547	1,391,538	431,952	5,894,177	8,099,924
Acquisition	128,638	167,039	329,855	91,647	–	717,179
In-house R&D	–	–	–	–	871,272	871,272
Decrease during the year	–	–	(242,519)	–	–	(242,519)
Disposal or retirement	(46,620)	(980)	(53,293)	–	–	(100,893)
Closing balance	452,728	177,606	1,425,581	523,599	6,765,449	9,344,963
Accumulated amortization						
Opening balance	96,475	6,088	143,406	362,758	3,260,429	3,869,156
Provision	100,247	32,930	32,064	29,925	985,982	1,181,148
Decrease during the year	–	–	(19,096)	–	–	(19,096)
Disposal or retirement	(43,989)	–	(2,674)	–	–	(46,663)
Closing balance	152,733	39,018	153,700	392,683	4,246,411	4,984,545
Provision for impairment						
Opening balance	–	–	6,322	–	–	6,322
Provision	–	–	–	–	–	–
Disposal or retirement	–	–	–	–	–	–
Closing balance	–	–	6,322	–	–	6,322
Book value						
At the end of the year	299,995	138,588	1,265,559	130,916	2,519,038	4,354,096
At the beginning of the year	274,235	5,459	1,241,810	69,194	2,633,748	4,224,446

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Intangible assets (continued)

2015

	Software	Technology know-how	Land use right	Franchise	Development expenses	Total
Cost						
Opening balance	484,992	8,255	1,230,245	409,022	4,284,516	6,417,030
Acquisition	168,016	3,311	182,310	22,930	–	376,567
In-house R&D	–	–	–	–	1,609,661	1,609,661
Disposal or retirement	(282,298)	(19)	(21,017)	–	–	(303,334)
Closing balance	370,710	11,547	1,391,538	431,952	5,894,177	8,099,924
Accumulated amortization						
Opening balance	301,043	2,869	117,237	340,348	2,379,578	3,141,075
Provision	49,336	3,235	26,484	22,410	880,851	982,316
Disposal or retirement	(253,904)	(16)	(315)	–	–	(254,235)
Closing balance	96,475	6,088	143,406	362,758	3,260,429	3,869,156
Provision for impairment						
Opening balance	–	–	6,322	–	–	6,322
Provision	–	–	–	–	–	–
Disposal or retirement	–	–	–	–	–	–
Closing balance	–	–	6,322	–	–	6,322
Book value						
At the end of the year	274,235	5,459	1,241,810	69,194	2,633,748	4,224,446
At the beginning of the year	183,949	5,386	1,106,686	68,674	1,904,938	3,269,633

As at 31 December 2016, 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 RMB340,485,000 (31 December 2015: RMB580,043,000).

As at 31 December 2016, intangible assets formed through internal research and development accounted for 58% of the book value of intangible assets as at the end of the year (31 December 2015: 62%).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Development expenses

2016

		Increase during the year	Decrease during the year		
	Opening balance	**Internal development**	**Intangible assets recognized**	**Charged to current profit or loss**	**Closing balance**
Handsets	**13,174**	**72,574**	**(36,099)**	**(108)**	**49,541**
System Products	**776,641**	**1,398,647**	**(835,173)**	**(23,766)**	**1,316,349**
	789,815	**1,471,221**	**(871,272)**	**(23,874)**	**1,365,890**

2015

		Increase during the year	Decrease during the year		
	Opening balance	Internal development	Intangible assets recognized	Charged to current profit or loss	Closing balance
Handsets	61,604	84,687	(71,012)	(62,105)	13,174
System Products	1,516,963	901,574	(1,538,649)	(103,247)	776,641
	1,578,567	986,261	(1,609,661)	(165,352)	789,815

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.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Goodwill

2016

Opening balance	Consolidation of enterprise not under common control added during the year	Reduced/disposed of during the year	Closing balance
—	186,206	—	186,206

The group has purchased Zhuhai Guangtong Bus Co., Ltd. in October 2016, which resulted in goodwill of RMB186,206,000, please refer to Note VI.1.

The present value of future cash flow has been determined on the basis of 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 12.48%. Cash flow 5 years from now is arrived at assuming a growth rate of 3%, which is lower than the long-term average growth rate of the industry.

Assumptions were used in the value in use calculation of the bus and related industrial products cash-generating units for 31 December 2016. 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.

The values assigned to the key assumptions on market development of bus and related industrial products industries and discount rates are consistent with external information sources.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities, which are not offset:

	2016		2015	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealized profits arising on consolidation	**1,146,827**	**243,430**	695,558	157,115
Provision for impairment in inventory	**711,115**	**129,003**	814,535	127,086
Foreseeable contract losses	**969,663**	**145,450**	305,207	45,781
Amortization of deferred development costs	**1,740,926**	**194,724**	1,124,094	168,616
Provision for warranties and returned goods	**681,945**	**109,834**	550,118	102,646
Provision for retirement benefits	**151,680**	**23,695**	144,280	21,642
Deductible tax losses	**123,958**	**25,689**	2,695,890	452,643
Accruals	**5,162,796**	**746,086**	2,455,638	379,813
Pending deduction	**1,045,418**	**156,813**	1,045,427	156,814
Share option scheme expenses	**25,393**	**3,809**	254,675	38,202
	11,759,721	**1,778,533**	10,085,422	1,650,358

	2016		2015	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain on owner-occupied properties	**1,074,268**	**161,600**	1,068,195	160,704
Revenue from construction contracts	**41,451**	**6,375**	109,321	21,855
Changes in fair value of available-for-sale investments	**530,685**	**104,363**	438,813	86,425
	1,646,404	**272,338**	1,616,329	268,984

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Deferred tax assets/liabilities (continued)

The net amount of deferred tax assets and deferred tax liabilities after set-off:

	2016		2015	
	Amount of set-off	**Amount after set-off**	Amount of set-off	Amount after set-off
Deferred tax assets	**173,958**	**1,604,575**	216,215	1,434,143
Deferred tax liabilities	**173,958**	**98,380**	216,215	52,769

Deductible temporary differences and deductible tax losses of unrecognized deferred tax assets:

	2016	2015
Deductible temporary differences	**3,182,338**	—
Deductible tax losses	**2,969,140**	3,777,658
	6,151,478	3,777,658

Deductible temporary differences and Deductible tax losses of unrecognized deferred tax assets expiring in the following periods:

	2016	2015
2016	**—**	114,250
2017	**234,993**	1,551,872
2018	**149,209**	414,131
After 2018	**5,767,276**	1,697,405
	6,151,478	3,777,658

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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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Provision for impairment of assets

2016

			Decrease during the year			
	Opening balance	Provision for the closing year	Write-back	Write-off	Effect of exchange rate	Closing balance
Bad debt provision	5,802,188	2,261,577	(150,957)	(232,680)	106,765	7,786,893
Including: Trade receivables	5,721,580	2,257,986	(150,957)	(232,680)	107,007	7,702,936
Long-term receivables	80,608	3,591	–	–	(242)	83,957
Provision for impairment of inventories	2,479,868	824,971	(188,810)	(25,630)	31,498	3,121,897
Provision for impairment of amount due from customers for contract works	5,234	61,076	–	–	16	66,326
Provision for impairment of Fixed assets	18,184	45,270	–	(13,142)	145	50,457
Provision for impairment of intangible assets	6,322	–	–	–	–	6,322
Provision for impairment of long-term equity investments	4,764	–	–	–	–	4,764
	8,316,560	3,192,894	(339,767)	(271,452)	138,424	11,036,659

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Provision for impairment of assets (continued)

2015

			Decrease during the year			
	Opening balance	Provision for the closing year	Write-back	Write-off	Effect of exchange rate	Closing balance
Bad debt provision	4,396,591	1,820,368	(217,922)	(162,011)	(34,838)	5,802,188
Including: Trade receivables	4,317,176	1,817,869	(217,922)	(162,011)	(33,532)	5,721,580
Long-term receivables	79,415	2,499	—	—	(1,306)	80,608
Provision for impairment of inventories	1,983,702	642,029	(75,015)	(10,237)	(60,611)	2,479,868
Provision for impairment of amount due from customers for contract works	54,753	—	—	(49,809)	290	5,234
Provision for impairment of Fixed assets	4,846	13,247	—	—	91	18,184
Provision for impairment of intangible assets	6,322	—	—	—	—	6,322
Provision for impairment of long-term equity investments	—	4,764	—	—	—	4,764
	6,446,214	2,480,408	(292,937)	(222,057)	(95,068)	8,316,560

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)

20. Other current assets

	2016	2015
Credit tax available for deduction	**7,585,904**	3,937,776
Others	**291,970**	—
	7,877,874	3,937,776

Other non-current assets

	2016	2015
Prepayments for project and equipment	**323,088**	359,587
Risk compensation fund	**3,258,533**	3,515,601
Deposits	**305,496**	—
	3,887,117	3,875,188

21. Short-term loans

		2016		2015		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**6,289,018**	**6,289,018**	2,866,000	2,866,000	
	USD	**958,023**	**6,640,055**	465,290	3,021,594	
	EUR	**238,000**	**1,742,874**	196,000	1,390,444	
Bill discounted loans	RMB	**—**	**—**	306,410	306,410	
Pledged loans	RMB	**—**	**—**	90,819	90,819	Note 1
	USD	**3,000**	**20,793**	3,000	19,482	Note 1
Guaranteed loans	EUR	**60,000**	**439,380**	30,000	212,823	Note 2
			15,132,120		7,907,572	

As at 31 December 2016, the annual interest rate of the above loans ranged from 1.20%-5.66% (31 December 2015: 1.20%-6.69%).

Note 1: As at 31 December 2016, there were no bank loans pledged commercial acceptance bills (31 December 2015: RMB90,819,000). Pledged loans were loans secured by time deposits with an amount of RMB24,620,000 (31 December 2015: RMB23,000,000).

Note 2: The loan was a short-term loan extended to ZTE COOPERATIEF UA and guaranteed by ZTE.

There were no due and outstanding loans at 31 December 2016 (31 December 2015: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. Derivative financial liabilities

	2016	2015
Financial liabilities at fair value through current period profit and loss	**36,104**	16,962
Hedging instruments — current portion	**4,044**	2,878
	40,148	19,840

Financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details please refer to Note V.2.

For details of hedging instruments, please refer to Note V.57.

23. Bonds payable

	Nominal value	Date of issue	Term of bond	Issue amount	Interest rate upon issue	Opening balance	Increase during the year	Repayment during the year	Closing balance
Super short-term commercial paper	4,000,000	2015.9.9	270 days	4,000,000	3.40%	4,000,000	—	(4,000,000)	—

Note the super short-term commercial paper was repaid during the reporting period.

24. Bills payable

	2016	2015
Bank acceptance bills	**6,186,513**	3,464,319
Commercial acceptance bills	**5,503,444**	6,420,810
	11,689,957	9,885,129

As at 31 December 2016, there was no due and outstanding bills payable (31 December 2015: Nil).

25. Trade payables

An aging analysis of the trade payables are as follows:

	2016	2015
0 to 6 months	**24,543,951**	22,505,978
7 to 12 months	**207,469**	264,027
1 to 2 years	**375,429**	123,011
2 to 3 years	**90,453**	10,327
Over 3 years	**26,579**	29,523
	25,243,881	22,932,866

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Trade payables (continued)

Trade payables are interest-free and repayable normally within 6 months.

As at 31 December 2016, there were no material trade payables aged over 1 year (31 December 2015: Nil).

26. Advances from customers

	2016	2015
Advanced payments for system project work	**6,512,111**	2,779,399
Advanced payments for terminals	**1,580,053**	1,256,239
	8,092,164	4,035,638

27. Salary and welfare payables

Salaries payable to employees

2016

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Short-term remuneration	**3,489,329**	**19,395,905**	**(17,877,310)**	**5,007,924**
Retirement benefits (Defined contribution schemes)	**149,998**	**1,101,011**	**(1,094,244)**	**156,765**
Termination benefits	**5,367**	**8,898**	**(9,903)**	**4,362**
	3,644,694	**20,505,814**	**(18,981,457)**	**5,169,051**

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	2,756,305	16,068,001	(15,334,977)	3,489,329
Retirement benefits (Defined contribution schemes)	46,135	1,153,423	(1,049,560)	149,998
Termination benefits	4,507	4,699	(3,839)	5,367
	2,806,947	17,226,123	(16,388,376)	3,644,694

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Salary and welfare payables (continued)

Salaries payable to employees (continued)

Short-term remuneration analysed as follows:

2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	**2,856,603**	**17,669,137**	**(16,636,456)**	**3,889,284**
Staff welfare	**2,914**	**55,124**	**(52,100)**	**5,938**
Social insurance	**65,220**	**550,202**	**(547,155)**	**68,267**
Including: Medical Insurance	**58,135**	**502,133**	**(499,407)**	**60,861**
Work Injuries Insurance	**2,781**	**17,363**	**(17,248)**	**2,896**
Maternity Insurance	**4,304**	**30,706**	**(30,500)**	**4,510**
Housing funds	**37,063**	**394,061**	**(409,193)**	**21,931**
Labour union fund and employee education fund	**527,529**	**727,381**	**(232,406)**	**1,022,504**
	3,489,329	**19,395,905**	**(17,877,310)**	**5,007,924**

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	1,791,537	14,457,749	(13,392,683)	2,856,603
Staff welfare	4,665	60,517	(62,268)	2,914
Social insurance	18,131	553,184	(506,095)	65,220
Including: Medical Insurance	17,150	490,501	(449,516)	58,135
Work Injuries Insurance	408	24,497	(22,124)	2,781
Maternity Insurance	573	38,186	(34,455)	4,304
Housing funds	34,067	386,230	(383,234)	37,063
Labour union fund and employee education fund	907,905	610,321	(990,697)	527,529
	2,756,305	16,068,001	(15,334,977)	3,489,329

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Salary and welfare payables (continued)

Salaries payable to employees (continued)

Defined contribution plans are analysed as follows:

2016

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Pension Insurance	**142,809**	**1,053,473**	**(1,046,989)**	**149,293**
Unemployment Insurance	**7,189**	**47,538**	**(47,255)**	**7,472**
	149,998	**1,101,011**	**(1,094,244)**	**156,765**

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension Insurance	44,963	1,086,682	(988,836)	142,809
Unemployment Insurance	1,172	66,741	(60,724)	7,189
	46,135	1,153,423	(1,049,560)	149,998

Long-term staff remuneration payable

	2016	2015
Net liabilities under defined benefit plan	**146,106**	144,280

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.

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 韜睿惠悦管理諮詢（深圳）有限公司 using the expected benefit accrual unit approach at 31 December 2016.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Salary and welfare payables (continued)

Long-term staff remuneration payable (continued)

Major actuarial assumptions applied as at the balance sheet date are as follows:

	2016	2015
Discount rate %	**3.25%**	3.25%
Expected salary increase %	**5.50%**	5.50%

A quantitative sensitivity analysis of significant assumptions applied is set out as follows:

2016

	Increase	**Increase/ (decrease) in Obligations under defined benefit plan**	**Decrease**	**Increase/ (decrease) in Obligations under defined benefit plan**
Discount rate	**0.25%**	**(3,812)**	**0.25%**	**3,944**
Expected salary increase	**1.00%**	**18,994**	**1.00%**	**(16,072)**

2015

	Increase	Increase/ (decrease) in Obligations under defined benefit plan	Decrease	Increase/ (decrease) in Obligations under defined benefit plan
Discount rate	0.25%	(3,989)	0.25%	4,135
Expected salary increase	1.00%	18,756	1.00%	(15,871)

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)

27. Salary and welfare payables (continued)

Long-term staff remuneration payable (continued)

Relevant plans recognised in the income statement are as follows:

	2016	2015
Net interest	**4,599**	4,538
Charged to administrative expenses	**4,599**	4,538

Change in the present value of obligations under defined benefit plan:

	2016	2015
Opening balance	**144,280**	115,450
Charged to current profit or loss		
Service costs for the current period	**—**	—
Service costs for the previous period	**—**	—
Settlement gains/(losses)	**—**	—
Interest expenses	**4,599**	4,538
Charged to other comprehensive income		
Actuarial gains/(losses)	**—**	—
Return on assets under investment plans (excluding amounts included in net interests)	**—**	—
Change in effect on asset ceiling (excluding amounts included in net interests)	**—**	—
Other changes	**—**	—
Liabilities eliminated on settlement	**—**	—
Pension paid	**(2,030)**	(1,774)
Benefit costs recognized in other comprehensive income	**(743)**	26,066
Closing balance	**146,106**	144,280

Net liabilities under defined benefit plan

	2016	2015
Opening balance	**144,280**	115,450
Net interest	**4,599**	4,538
Charged to other comprehensive income		
Actuary loss	**—**	11,549
Experience adjustments	**(743)**	14,517
Other changes		
Benefit paid	**(2,030)**	(1,774)
Closing balance	**146,106**	144,280

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Tax payable

	2016	2015
Value-added tax	**232,729**	243,706
Business tax	**14,273**	597,003
Income tax	**524,762**	484,627
PRC tax	**444,792**	463,821
Overseas tax	**79,970**	20,806
Individual income tax	**176,094**	127,570
City maintenance and construction tax	**26,542**	43,831
Education surcharge	**27,029**	39,220
Other taxes	**(4,240)**	71,933
	997,189	1,607,890

29. Dividend payable

	2016	2015
Dividend payable to holders of restricted shares	**225**	184
Dividend payable to non-controlling interests	**50,092**	7,234
	50,317	7,418

30. Other payables

	2016	2015
Accruals	**891,034**	1,287,298
Deferred income from staff housing due in 1 year	**270,762**	58,305
Payables to external parties	**10,473,391**	3,519,282
Including: Payable to Relevant U.S. Authorities	**6,182,452**	—
Deposits	**33,273**	32,150
Factored interests payable	**33,862**	37,153
Others	**1,958,096**	1,070,942
	13,660,418	6,005,130

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. Provisions

2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Outstanding litigation (Note 1)	**187,837**	**39,740**	**(94,315)**	**133,262**
Provision for returned handsets	**269,369**	**320,754**	**(223,067)**	**367,056**
Provision for warranties	**319,476**	**731,408**	**(663,836)**	**387,048**
	776,682	**1,091,902**	**(981,218)**	**887,366**

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Outstanding litigation (Note 1)	160,915	120,882	(93,960)	187,837
Provision for returned handsets	266,809	193,324	(190,764)	269,369
Provision for warranties	313,667	565,539	(559,730)	319,476
	741,391	879,745	(844,454)	776,682

Note 1 Provisions in respect of cases for which the ultimate outcome can be reliably estimated based on the advice from appointed legal counsel and the progress of such cases.

32. Long-term non-current liabilities due within one year

	2016	2015
Long-term loans due within one year	**1,932,025**	4,617,604

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. Long-term loans

		2016		2015		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**585,298**	**585,298**	317,043	317,043	
	USD	**—**	**—**	195,000	1,266,330	
Guaranteed loans	RMB	**90,444**	**90,444**	60,000	60,000	Note1
	USD	**506,277**	**3,509,004**	503,805	3,271,707	Note1
	EUR	**110,000**	**805,530**	140,000	993,174	Note1
Secured loans	RMB	**28,000**	**28,000**	108,000	108,000	Note2
			5,018,276		6,016,254	

Note 1 The guaranteed loans comprised mainly guaranteed loans provided by the Company for its subsidiaries ZTE (H.K.) Limited, 深圳市中興新能源汽車服務有限公司, ZTE (Heyuan) Company Limited and ZTE COOPERATIEF UA ("ZTE COOPERATIEF").

Note 2 The secured loans was pledged by land use rights and housing properties of 衡陽網信數字城市建設有限公司 with book values of RMB27,071,000 and RMB55,227,000, respectively.

As at 31 December 2016, the annual interest rate for the aforesaid loans was 1.200%-5.225% (31 December 2015: 1.10%–6.90%).

34. Other non-current liabilities

	2016	2015
Long-term financial guarantee contract	**—**	3,689
Factored interests payable	**166,526**	213,545
Deferred income relating to staff housing	**1,104,242**	1,073,596
Long-term payable	**293,223**	50,181
	1,563,991	1,341,011

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Share capital

2016

		Increase/decrease during the year				
	Opening balance	**Issue of new shares**	**Transfer from reserves**	**Others**	**Sub-total**	**Closing balance**
Restricted shares						
Senior management shares	**8,851**	**566**	**—**	**(4,596)**	**(4,030)**	**4,821**
Total number of restricted shares	**8,851**	**566**	**—**	**(4,596)**	**(4,030)**	**4,821**
Unrestricted shares						
RMB Ordinary shares	**3,386,438**	**33,271**	**—**	**4,596**	**37,867**	**3,424,305**
Overseas listed foreign shares	**755,502**	**—**	**—**	**—**	**—**	**755,502**
Total number of unrestricted shares	**4,141,940**	**33,271**	**—**	**4,596**	**37,867**	**4,179,807**
Total number of shares	**4,150,791**	**33,837**	**—**	**—**	**33,837**	**4,184,628**

2015

		Increase/decrease during the year				
	Opening balance	Issue of new shares	Transfer from reserves	Others	Sub-total	Closing balance
Restricted shares						
Senior management shares	6,771	1,355	1,207	(482)	2,080	8,851
Total number of restricted shares	6,771	1,355	1,207	(482)	2,080	8,851
Unrestricted shares						
RMB Ordinary shares	2,801,185	24,387	560,384	482	585,253	3,386,438
Overseas listed foreign shares	629,585	—	125,917	—	125,917	755,502
Total number of unrestricted shares	3,430,770	24,387	686,301	482	711,170	4,141,940
Total number of shares	3,437,541	25,742	687,508	—	713,250	4,150,791

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Capital reserves

2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note 1)	**10,165,614**	**463,292**	**—**	**10,628,906**
Share-based payment (Note 2)	**247,825**	**(97,362)**	**(125,069)**	**25,394**
Capital investment by government	**80,000**	**—**	**—**	**80,000**
	10,493,439	**365,930**	**(125,069)**	**10,734,300**

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	8,443,657	2,409,465	(687,508)	10,165,614
Share-based payment	201,097	166,829	(120,101)	247,825
Capital investment by government	80,000	—	—	80,000
	8,724,754	2,576,294	(807,609)	10,493,439

Note 1 For 2016, the total amount of shareholders' capital credited to share premium was RMB463,292,000.

Note 2 For 2016, as a result of the non-fulfillment of exercise conditions for the third exercise period, share-based payment expenses were recognised and written back with an amount of RMB97,362,000, among which RMB125,069,000 was transferred to share premium under capital reserves as a result of the exercise of share options.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

37. Other comprehensive income

Accumulated balance of other comprehensive income on the balance sheet attributable to the parent company:

	1 January 2015	Increase/ decrease	31 December 2015	Increase/ decrease	**31 December 2016**
Changes in net liabilities arising from the re-measurement of defined benefit plans	(55,450)	(26,066)	(81,516)	743	**(80,773)**
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss in subsequent periods upon fulfillment of certain conditions	44,350	—	44,350	—	**44,350**
Change in fair value of available for-sale financial assets	121,056	163,724	284,780	58,780	**343,560**
Effective portion of hedging instruments	(7,107)	8,499	1,392	(57,047)	**(55,655)**
Differences arising from foreign currency translation	(1,359,893)	(366,949)	(1,726,842)	(140,133)	**(1,866,975)**
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**
	(464,275)	(220,792)	(685,067)	(137,657)	**(822,724)**

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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:

2016

	Amount before taxation	Less: amount recognized in other comprehensive income for the previous period and profit and 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	743	—	—	743	—
Other comprehensive income to be subsequently reclassified to profit or loss					
Change in fair value of available-for-sale financial assets	821,718	616,505	17,938	58,780	128,495
Effective portion of hedging instruments	(57,047)	—	—	(57,047)	—
Differences arising from foreign currency translation	(136,129)	—	—	(140,133)	4,004
	629,285	616,505	17,938	(137,657)	132,499

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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: (continued)

2015

	Amount before taxation	Less: amount recognized in other comprehensive income for the previous period and profit and 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	(26,066)	—	—	(26,066)	—
Other comprehensive income to be subsequently reclassified to profit or loss					
Change in fair value of available-for-sale financial assets	970,705	(171,862)	(86,425)	163,724	548,694
Effective portion of hedging instruments	8,499	—	—	8,499	—
Differences arising from foreign currency translation	(367,195)	—	—	(366,949)	(246)
	585,943	(171,862)	(86,425)	(220,792)	548,448

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. Surplus reserves

2016

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Statutory surplus reserves	**2,022,709**	**—**	**—**	**2,022,709**

2015

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	1,769,012	253,697	—	2,022,709

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.

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

	2016	2015
Retained profits at the beginning of the year	**13,678,222**	11,411,542
Net (loss)/profit attributable to shareholders of the parent	**(2,357,418)**	3,207,885
Less: Statutory surplus reserves	**—**	(253,697)
Distribution to shareholders	**(1,038,566)**	(687,508)
Retained profits at the end of the year	**10,282,238**	13,678,222

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

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.

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 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.

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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)

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.

(2) Change of issued Medium Term Note as at the end of the period

Face value	Issue date	Volume (10,000)	Issue amount	Opening balance	Interest charged for the year	Interest payment during the year	Closing balance
6,000,000	2015.1.27	6,000	6,000,000	6,252,364	348,600	(348,600)	6,252,364
1,500,000	2015.2.6	1,500	1,500,000	1,572,198	85,350	(85,350)	1,572,198
1,500,000	2015.11.20	1,500	1,500,000	1,496,765	67,350	(67,350)	1,496,765
9,000,000		9,000	9,000,000	9,321,327	501,300	(501,300)	9,321,327

41. Operating revenue and costs

	2016		2015	
	Revenue	**Cost**	Revenue	Cost
Principal business	**96,278,106**	**66,058,560**	97,426,278	66,761,465
Other business	**4,955,076**	**4,042,098**	2,760,111	2,338,982
	101,233,182	**70,100,658**	100,186,389	69,100,447

Operating revenue is analysed as follows:

	2016	2015
Telecommunications systems contracts	**63,483,211**	65,497,286
Sales of goods and rendering of services	**37,619,825**	34,557,773
Rental income	**130,146**	131,330
	101,233,182	100,186,389

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

42. Taxes and surcharges

	2016	2015
Business tax	**103,567**	710,255
City maintenance and construction tax	**300,788**	284,702
Education surcharge	**237,171**	229,120
Property tax	**52,156**	—
Land use tax	**19,964**	—
Vehicle and vessel tax	**417**	—
Stamp duty	**64,432**	—
Others	**89,713**	79,503
	868,208	1,303,580

43. Selling and distribution costs

	2016	2015
Wages, welfare and bonuses	**4,991,180**	4,313,902
Consulting and services charges	**1,283,163**	1,896,701
Travelling expenses	**1,205,635**	970,545
Transportation and fuel charges	**574,042**	647,215
Service fees	**653,917**	625,775
Office expense	**339,375**	371,308
Advertising and promotion expenses	**2,190,750**	1,469,907
Rental fees	**506,699**	493,873
Communication expenses	**122,186**	109,494
Others	**591,205**	872,946
	12,458,152	11,771,666

44. Administrative expenses

	2016	2015
Wages, welfare and bonuses	**1,381,394**	1,231,423
Office expenses	**118,748**	101,757
Amortization and depreciation charges	**267,223**	293,360
Taxes	**55,977**	166,834
Rental fees	**154,161**	135,608
Travelling expenses	**102,045**	108,837
Others	**408,370**	345,536
	2,487,918	2,383,355

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

45. Profits/(losses) from changes in fair values

	2016	2015
Financial assets/liabilities at fair value through profit or loss	**23,904**	(189,613)
Including: Derivative financial instruments	**23,904**	(189,613)
Investment properties at fair value	**6,074**	5,931
	29,978	(183,682)

46. Investment income

	2016	2015
Investment income from long-term equity investment under equity method	**45,166**	63,278
Investment income from available-for-sale financial assets during the period of holding	**29,991**	25,005
Investment (loss)/income arising from the disposal of financial assets at fair value through profit or loss	**(139,152)**	299,573
Investment income from the disposal of available-for-sale financial assets	**553,228**	297,974
Investment income from the disposal of equity interests	**1,151,046**	9,789
	1,640,279	695,619

47. Financial expenses

	2016	2015
Interest expenses	**1,156,134**	1,269,080
Less: Interest income	**740,988**	527,886
Loss/(income) on foreign currency exchange	**(618,972)**	267,254
Cash discounts and interest subsidy	**159,221**	122,280
Bank charges	**252,378**	300,066
	207,773	1,430,794

For 2016, interest income from ZTE Group Finance Company Limited ("Finance Company") amounted to RMB308,266,000 (2015: RMB222,573,000).

48. Impairment Losses

	2016	2015
Bad debt provisions	**2,110,620**	1,602,446
Inventories provisions	**636,161**	567,014
Impairment losses on fixed assets	**45,270**	13,247
Loss from long-term equity investments	**—**	4,764
Amount due from customers for contract works	**61,076**	—
	2,853,127	2,187,471

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

49. Non-operating income/non-operating expenses

Non-operating income

	2016	2015	Amount of extraordinary gain/loss recognised for 2016
Refund of VAT on software products (Note 1)	**2,633,583**	2,528,095	—
Others (Note 2)	**1,727,965**	1,914,850	822,747
	4,361,548	4,442,945	822,747

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 reply of the state taxation authorities.

Note 2 Others include government grant, gains from contract penalties and other gains.

Non-operating expenses

	2016	2015	Amount of extraordinary gain/loss recognised for 2016
Compensation (Note 1)	**6,202,434**	334,413	6,202,434
Loss arising from the disposal of non-current assets	**22,514**	28,874	22,514
Others	**69,899**	96,597	69,899
	6,294,847	459,884	6,294,847

Note 1 Compensation comprised mainly indemnity paid under the U.S. export restriction investigation case.

50. 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:

	2016	2015
Cost of goods and services	**66,683,413**	63,887,788
Staff remuneration (including share-based payment)	**18,636,741**	15,781,014
Depreciation and amortization	**2,466,508**	2,113,769
Rent	**660,860**	629,481
Others	**9,361,261**	13,043,958
	97,808,783	95,456,010

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51. Income tax

	2016	2015
Current income tax	**782,877**	905,908
Deferred income tax	**(142,759)**	(342,646)
	640,118	563,262

Reconciliation between income tax and total (loss)/profit was as follows:

	2016	2015
Total (loss)/profit	**(767,751)**	4,303,532
Tax at statutory tax rate (Note 1)	**(191,938)**	1,075,883
Effect of different tax rates applicable to certain subsidiaries	**377,279**	(729,365)
Adjustment to current tax in previous periods	**39,648**	88,609
Profits and losses attributable to jointly-controlled entities and associates	**(7,689)**	(8,683)
Income not subject to tax	**(378,418)**	(166,509)
Expenses not deductible for tax	**219,290**	632,377
Deductible temporary differences not recognised	**477,350**	—
Utilization of tax losses from previous years	**(132,878)**	(522,278)
Unrecognized tax losses	**237,474**	193,228
Tax charge at the Group's effective rate	**640,118**	563,262

Note 1 The Group's income tax has been provided at the rate on the estimated taxable profits arising in the PRC during the year. 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.

52. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to equity holders of the Company for the year 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 year is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the year; (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 years are assumed to have been converted at the beginning of the current year, whereas potentially dilutive ordinary shares issued in the current year 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)

52. Earnings per share (continued)

Calculations of basic and diluted earnings per shares were as follows:

	2016	2015
Earnings		
Net (loss)/profit attributable to ordinary shareholders of the Company for the year	**(2,357,418)**	3,207,885
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	**4,159,663**	4,127,352
Diluting effect — weighted average number of ordinary shares		
Stock option	**—**	52,784
Adjusted weighted average number of ordinary shares of the Company	**4,159,663**	4,180,136

Note 1 Commencing on 2 November 2015, scheme participants that had fulfilled the exercise conditions under the share option incentive scheme of the Company were entitled to exercise share options qualified as such during the first exercise period. As at 31 December 2016, 33,837,000 new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 8,872,000 after taking into account the duration of time for such shares had been issued and outstanding.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise 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 2016.

53. Notes to major items in cash flow statement

	2016	2015
Cash received in connection with other operating activities:		
Interest income	**736,638**	555,354
Cash paid in connection with other operating activities:		
Selling and distribution costs	**6,720,176**	5,555,251
Administrative expenses and research and development costs	**2,366,343**	3,377,443
Cash paid in connection with financing activities:		
Return of capital contribution	**—**	174,400

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	2016	2015
Net (loss)/profit	**(1,407,869)**	3,740,270
Add: Provision for impairment of assets	**2,853,127**	2,187,471
Depreciation of fixed assets	**1,249,219**	1,089,681
Amortization of intangible assets and deferred development costs	**1,181,148**	982,316
Amortization of long-term deferred assets	**36,141**	41,772
Loss on disposal of fixed assets, intangible assets and other long-term assets	**22,514**	28,874
(Gain)/loss from changes in fair value	**(29,978)**	183,682
Financial expenses	**1,981,488**	1,760,639
Investment income	**(1,640,279)**	(695,619)
Increase in deferred tax assets	**(170,432)**	(149,650)
Increase/(decrease) in deferred tax liabilities	**45,611**	(106,571)
Increase in inventories	**(7,500,775)**	(706,457)
Increase in operating receivables	**(2,209,864)**	(5,091,693)
Increase in operating payables	**11,582,559**	4,266,529
Cost of share-based payment	**(97,362)**	166,829
Increase in cash not immediately available for payments	**(635,042)**	(293,408)
Net cash flow from operating activities	**5,260,206**	7,404,665

(2) Information on subsidiaries and other business units acquired or disposed of

Information on subsidiaries and other business units acquired

	2016
Prices at which subsidiaries and other business units were acquired	**290,500**
Cash and cash equivalents paid for the acquisition of subsidiaries and other business units	**232,400**
Less: Cash and cash equivalents held by subsidiaries and other business units acquired	**15,508**
Net cash received as a result of the acquisition of subsidiaries and other business units	**216,892**

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Supplemental information on cash flow statement (continued)

(2) Information on subsidiaries and other business units acquired or disposed of (continued)

Information on subsidiaries and other business units acquired (continued)

	2016
Prices at which subsidiaries and other business units were disposed of	**1,313,457**
Cash and cash equivalents received from the disposal of subsidiaries and other business units	**1,313,457**
Less: Cash and cash equivalents held by subsidiaries and other business units disposed of	**349,196**
Net cash received for the disposal of subsidiaries and other business units	**964,261**

(3) Change in cash and cash equivalents:

	2016	2015
Cash		
Including: Cash on hand	**25,287**	18,677
Bank deposit readily available	**30,024,504**	26,598,319
Cash and cash equivalents at end of year	**30,049,791**	26,616,996

55. Assets under restrictions on ownership or right of use

	2016	2015	
Cash	**1,238,540**	1,225,984	Note 1
Bills receivables	**—**	106,892	
Fixed assets	**55,227**	—	Note 2
Intangible assets	**27,071**	176,238	Note 3
	1,320,838	1,509,114	

Note 1: As at 31 December 2016, the Group's cash subject to ownership restriction amounted to RMB1,238,540,000 (31 December 2015: RMB1,225,984,000), including time deposits of RMB24,620,000 (31 December 2015: RMB23,000,000) pledged to secure bank borrowings, acceptance bill deposits of RMB37,096,000 (31 December 2015: RMB106,088,000), letter of credit deposits of RMB143,972,000 (31 December 2015: RMB125,122,000), deposit for guarantee letter of RMB101,100,000 (31 December 2015: RMB277,610,000), dues from the People's Bank of China of RMB826,211,000 (31 December 2015: RMB538,960,000) and risk compensation fund to be released within one year of RMB105,541,000 (31 December 2015: RMB155,204,000).

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 2016, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB3,364,074,000 (31 December 2015: RMB3,670,805,000). Risk compensation fund to be released within one year amounting to RMB105,541,000 (31 December 2015: RMB155,204,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB3,258,533,000 (31 December 2015: RMB3,515,601,000) was accounted for as other non-current assets.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

55. Assets under restrictions on ownership or right of use (continued)

Note 2: As at 31 December 2016, fixed assets with a carrying value of RMB55,227,000 (31 December 2015: Nil) were pledged to secure bank borrowing.

Note 3: As at 31 December 2016, intangible assets with a carrying value of RMB27,071,000 (31 December 2015: RMB176,238,000) were pledged to secure bank borrowings.

56. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		2016			2015		
		Original currency	**Exchange rate**	**RMB Equivalent**	Original currency	Exchange rate	RMB Equivalent
Cash	USD	**1,536**	**6.9310**	**10,646**	1,398	6.4940	9,079
	SAR	**84**	**1.8483**	**155**	15	1.7317	26
	DZD	**1,088**	**0.0625**	**68**	1,898	0.0606	115
	INR	**—**	**0.1020**	**—**	409	0.0977	40
	THB	**10**	**0.1935**	**2**	17	0.1800	3
	PLN	**—**	**1.6584**	**—**	3	1.6737	5
	KZT	**—**	**0.0208**	**—**	366	0.0191	7
	EGP	**423**	**0.3803**	**161**	30	0.8304	25
Bank deposit	USD	**833,555**	**6.9310**	**5,777,370**	878,218	6.4940	5,703,148
	HKD	**155,167**	**0.8957**	**138,983**	73,972	0.8378	61,974
	BRL	**39,964**	**2.1269**	**84,999**	33,494	1.6632	55,707
	PKR	**1,972,163**	**0.0661**	**130,360**	2,072,097	0.0620	128,470
	EGP	**10,823**	**0.3803**	**4,116**	225,249	0.8304	187,047
	IDR	**320,140,000**	**0.0005**	**160,070**	130,416,000	0.0005	65,208
	EUR	**111,425**	**7.3230**	**815,965**	68,789	7.0941	487,996
	DZD	**429,616**	**0.0625**	**26,851**	498,795	0.0606	30,227
	MYR	**108,757**	**1.5450**	**168,030**	27,239	1.5130	41,213
	ETB	**436,797**	**0.3094**	**135,145**	278,199	0.3082	85,741
	CAD	**9,928**	**5.1620**	**51,248**	12,268	4.7409	58,161
	GBP	**2,579**	**8.5326**	**22,006**	2,865	9.6280	27,584
	THB	**550,186**	**0.1935**	**106,461**	365,611	0.1800	65,810
	RUB	**1,124,821**	**0.1143**	**128,567**	2,009,641	0.0891	179,059
	JPY	**1,915,920**	**0.0598**	**114,572**	1,649,573	0.0539	88,912
	VEF	**178,447**	**0.0103**	**1,838**	163,863	1.0308	168,910
	COP	**10,942,174**	**0.0023**	**25,167**	10,706,190	0.0021	22,483
	NPR	**216,505**	**0.0638**	**13,813**	1,498,363	0.0611	91,550
	CLP	**2,504,757**	**0.0103**	**25,799**	1,984,674	0.0092	18,259
Other cash	USD	**21,041**	**6.9310**	**145,835**	31,177	6.4940	202,463
Trade receivables	USD	**1,240,600**	**6.9310**	**8,598,599**	1,365,266	6.4940	8,866,037
	EUR	**356,864**	**7.3230**	**2,613,315**	279,650	7.0941	1,983,865
	BRL	**155,690**	**2.1269**	**331,137**	140,923	1.6632	234,383
	THB	**462,956**	**0.1935**	**89,582**	255,622	0.1800	46,012
	INR	**28,014,824**	**0.1020**	**2,857,512**	24,482,917	0.0977	2,391,981

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56. Monetary items in foreign currencies (continued)

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 book currencies.

57. Hedging

	2016		2015	
	Assets	**Liabilities**	Assets	Liabilities
Forward exchange contracts	**862**	**4,044**	1,126	—
Interest rate swap agreement	**—**	**—**	—	2,878
Non-current portion	**—**	**—**	—	—
Current portion	**862**	**4,044**	1,126	2,878

Net investment hedging for overseas operations

The Group entered into multiple forward currency contracts to manage exchange rate risks. Certain of such forward currency contracts were designated for net investment hedging for overseas operations, hence they were measured at fair value and dealt with through other comprehensive income. For the year, the fair value change of currency derivative instruments held for net investment hedging for overseas operations with an amount of net loss of RMB60,682,000 (2015: net gain of RMB4,796,000) was accounted for in other comprehensive income.

Cash flow hedge

The key terms of the interest rate swap agreement were negotiated to match the terms of pledges made, and the cash flow hedge had no ineffective portion. The interest rate swap agreement was due on July 2016 and cumulative loss of RMB3,635,000 was transferred out of other comprehensive income.

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION

1. Consolidation of enterprises not under common control

During the year, the Company acquired 70% equity interests in Zhuhai Guangtong Bus for a cash consideration of RMB290,500,000. The date of acquisition was 22 October 2016.

The fair value of the identifiable assets and liabilities of Zhuhai Guangtong Bus as at the date of acquisition was RMB148,991,000:

	22 October 2016 Fair value
Current assets	227,068
Non-current assets	10,718
Current liabilities	(88,795)
Non-current liabilities	—
	148,991
Non-controlling interests	(44,697)
Goodwill	186,206
Consideration for disposal	290,500

The operating results and cash flow of the Company from the date of acquisition to year-end are set out as follows:

	22 October to 31 December 2016
Operating revenue	97,976
Net profit	6,679
Net cash flow	(238)

2. 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
深圳市訊聯智付網絡有限公司	Note 1	Shenzhen	Technology development	100%	100%/100%	Disposal
天津中興智聯科技有限公司	Note 2	Shenzhen	Communications	90%	90%/100%	Disposal
Shenzhen ZTE WeLink Technology Company Limited	Note 3	Shenzhen	Communications and import/export	90%	90%/100%	Disposal
LiveCom Limited	Note 4	Hong Kong	Communications	56%	56%/100%	Disposal

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION (continued)

2. Disposal of subsidiaries (continued)

Note 1: Shenzhen Zhongxing Software Company Limited, a subsidiary of the Group, entered into an equity transfer agreement with 上海沃芮歐信息科技有限公司 on 16 June 2016 to dispose of 90% equity interests in 深圳市訊聯智付網絡有限公司 for a consideration of RMB382.5 million. The date of disposal was 26 August 2016. Accordingly, with effect from 26 August 2016, the Company has excluded 深圳市訊聯智付網絡有限公司 from its consolidated financial statements. Relevant financial information of 深圳市訊聯智付網絡有限公司 is set out as follows:

	26 August 2016 Book value	31 December 2015 Book value
Current assets	**71,064**	146,079
Non-current assets	**3,778**	3,086
Current liabilities	**(9,155)**	(70,858)
Non-current liabilities	**—**	—
	65,687	78,307
Non-controlling interests	**—**	—
Fair value of remaining equity interests	**(33,993)**	
Gain arising from disposal	**350,806**	
Consideration for disposal	**382,500**	

	1 January to 26 August 2016
Operating revenue	**2,541**
Operating cost	**333**
Net profit	**(12,620)**

Note 2: The Group (ZTE Corporation) entered into an equity transfer agreement with Gosuncn Technology Group Co., Ltd ("Gosuncn") on 24 June 2016 to dispose of 84.86% equity interests in 天津中興智聯科技有限公司 for a consideration of RMB148,406,897. The date of disposal was 25 July 2016. Accordingly, with effect from 25 July 2016, the Company has excluded 天津中興智聯科技有限公司 from its consolidated financial statements. Relevant financial information of 天津中興智聯科技有限公司 is set out as follows:

	25 July 2016 Book value	31 December 2015 Book value
Current assets	**54,987**	64,997
Non-current assets	**1,760**	1,995
Current liabilities	**(47,651)**	(57,437)
Non-current liabilities	**—**	—
	9,096	9,556
Non-controlling interests	**(910)**	(956)
Fair value of remaining equity interests	**(7,043)**	
Gain arising from disposal	**147,264**	
Consideration for disposal	**148,407**	

	1 January to 25 July 2016
Operating revenue	**36,003**
Operating cost	**19,089**
Net profit	**(460)**

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION (continued)

2. Disposal of subsidiaries (continued)

Note 3: Nubia Technology Limited, a subsidiary of the Group, entered into an equity transfer agreement with Gosuncn and Zhuhai Kaiteng Investment Partnership (Limited Partnership) ("Zhuhai Kaiteng") and the Company on 30 November 2016 to dispose of 85.50% equity interests in Shenzhen ZTE WeLink Technology Company Limited (comprising disposal of 11.43% equity interests in the target company to Gosuncn and 74.07% to Kaiteng) for a consideration of RMB692,550,000. The date of disposal was 8 December 2016. Accordingly, with effect from 8 December 2016, the Company has excluded Shenzhen ZTE WeLink Technology Company Limited from its consolidated financial statements. Relevant financial information of Shenzhen ZTE WeLink Technology Company Limited is set out as follows:

	8 December 2016	31 December 2015
	Book value	Book value
Current assets	**522,460**	441,821
Non-current assets	**6,047**	6,222
Current liabilities	**(392,931)**	(339,566)
Non-current liabilities	**—**	—
	135,576	108,477
Non-controlling interests	**(8,551)**	(10,847)
Fair value of remaining equity interests	**(28,548)**	
Gain arising from disposal	**594,073**	
Consideration for disposal	**692,550**	

	1 January to 8 December 2016
Operating revenue	**504,978**
Operating cost	**375,091**
Net profit	**27,109**

Note 4: Newinfo Holdings Limited, a wholly-owned subsidiary of ZTE (H.K.) Limited, which is in turn a wholly-owned subsidiary of the Company, completed the disposal of 51% equity interests in LiveCom Limited in January 2016 and LiveCom had been excluded from the consolidated statements of the Group as from February 2016.

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION (continued)

3. Changes to the scope of consolidation for other reasons

New subsidiaries established during 2016 included: tier-one subsidiaries 中興飛流信息科技有限公司, 中興高能技術有限責任公司, 濟源中興智慧科技產業有限公司, 瀋陽（中興）大數據研究有限公司, ZTE Smart Auto Company Limited, 石家莊智慧城市研究院有限責任公司, 中興光電子技術有限公司, 中興通訊（義烏）研究院有限公司 and ZTE Group Finance Holdings (Hangzhou) Limited; tier-two subsidiaries ZTE ARMENIA, ZTE MOZAMBIQUE LDA, 上海興新新能源汽車有限公司, Shenzhen ZTE Jingyun Technology Company Limited, ZTESOFT TECHNOLOGY INDIA PRIVATE LIMITED, ZTE Cameroon Sarl, ZTE Telecommunications Limited, 深圳市中興高達通信技術有限公司, Changshu Changxing Capital Investment Management Company Limited, 安徽皖興通信息技術有限公司, ZTE HK (VIETNAM) CO., LTD, 佛山市中興高建新能源技術有限公司, Xi'an Cruise Semiconductor Technology Company Limited, 湖南中興供應鏈有限公司, ZTE BENIN SRAL, Nubia (Hong Kong) Limited, 南京中興軟創智慧數據科技有限公司 and 中興（遼源）智慧城市發展有限公司; and tier three subsidiaries 深圳市恒電新能源科技有限責任公司, Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership), 佛山中興網信科技有限公司, 大連中網置業有限公司 and 香港青豆科技有限公司).

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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	Business nature	Registered capital	Shareholding percentage (%)	
				Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB51.08 million	100%	—
ZTE (H.K) Limited	Hong Kong	Information technology	HK995 million	100%	—
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB200 million	90%	10%
ZTE Kangxun Telecom Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB1,755 million	100%	—
ZTEsoft Technology Company Limited	Nanjing	Manufacturing	RMB540 million	89%	—
Nubia Technology Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB118,748,300	60%	—
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited	Shanghai	Telecommunications services	RMB10 million	90%	—
Xi'an Zhongxing New Software Company Limited	Xi'an	Telecommunications and related equipment manufacturing	RMB600 million	100%	—
ZTE (Hangzhou) Company Limited	Hangzhou	Telecommunications and related equipment manufacturing	RMB100 million	100%	—
ZTE COOPERATIEF UA	Netherlands	Management and service support	EUR46.91 million	—	100%
Shenzhen Zhongxing ICT Company Limited	Shenzhen	Telecommunications and related equipment manufacturing	RMB100 million	90%	—

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VII. INTERESTS IN OTHER ENTITIES (continued)

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

During the year, the Group had no subsidiaries that were subject to significant minority interest, nor key joint ventures and associates which had a significant impact on the Group.

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding% Direct	Indirect	Accounting method
Associates						
KAZNURTEL Limited Liability Company	Kazakhstan	Manufacturing of computers and related equipment	USD3,000,000	49%	–	Equity method
北京中鼎盛安科技有限公司	PRC	Computer application services	RMB4,000,000	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 Company 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

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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						
ZTE 9 (Wuxi) Co., Ltd	PRC	Computer application services	RMB13,867,980	24.16%	–	Equity method
寧波中興興通供應鏈有限公司	PRC	End to end supply chain integration services including procurement etc	RMB60,000,000	20%	–	Equity method
寧波中興雲祥科技有限公司	PRC	Software R&D and supply chain management	RMB80,000,000	20%	–	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
石家莊市善理通益科技有限公司	PRC	R&D and sales of hard/software	RMB5,000,000	30%	–	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
Shenzhen Weipin Zhiyuan Information Technology Company Limited	PRC	R&D of mobile Internet technologies	RMB12,500,000	33%	–	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
江蘇中興微通信息科技有限公司	PRC	R&D, sales and technical services of communications products	RMB25,714,300	35%	–	Equity method
中山優順置業有限公司	PRC	Real estate property	RMB10,000,000	20%	–	Equity method
鐵建聯和（北京）科技有限公司	PRC	Technological promotion and application service	RMB20,000,000	30%	–	Equity method
西安城投智慧充電股份有限公司	PRC	Technological promotion and application service	RMB50,000,000	24%	–	Equity method
紹興市智慧城市集團有限公司	PRC	Business service	RMB200,000,000	24.5%	–	Equity method
廣東福能大數據產業園建設有限公司	PRC	Technological promotion and application service	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	Specialised technical services	RMB71,379,000	29%	–	Equity method
南京寧網科技有限公司	PRC	Manufacturing of computer, communications and other electronic equipment	RMB25,487,370	21.26%	–	Equity method

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

The following table sets out the combined financial information of joint ventures and associates which are insignificant to the Group:

	2016	2015
Joint ventures		
Aggregate carrying value of investments	**64,322**	77,341
Aggregate amounts of the following attributable to shareholdings:		
Net loss	**(4,984)**	(5,281)
Other comprehensive income	**—**	—
Total comprehensive income	**(4,984)**	(5,281)
Associates		
Aggregate carrying value of investments	**601,554**	483,598
Aggregate amounts of the following attributable to shareholdings:		
Net profit	**50,150**	68,559
Other comprehensive income	**—**	—
Total comprehensive income	**50,150**	68,559

As there was no obligation to bear additional losses in respect of 北京中鼎盛安科技有限公司 ("Beijing Zhongding"), ZTE 9 (Wuxi) Co., Ltd ("ZTE 9") and 寧波中興雲祥科技有限公司 ("ZTE Yunxiang") and 江蘇中興微通信息科技有限公司 ("Jiangsu Weitong"), therefore the net losses of Beijing Zhongding, ZTE 9, ZTE Yunxiang and Jiangsu Weitong were recognised to the extent of the book value of such long-term equity investments and other long-term equity effectively constituting net investments in Beijing Zhongding, ZTE 9 and ZTE Yunxiang and Jiangsu Weitong. The Group's unrecognised investment losses recorded during the year and on an accumulated basis amounted to RMB1,110,000 (2015: RMB789,000) and RMB1,961,000 (2015: RMB851,000), respectively.

For 2016, there were no contingent liabilities associated with the investments in joint ventures and associates (2015: 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:

2016

Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available-for-sale financial assets	Derivatives designated as effective hedging instruments	Total
Cash	—	32,349,914	—	—	32,349,914
Derivative financial assets	53,995	—	—	862	54,857
Available-for-sale financial assets	—	—	2,659,667	—	2,659,667
Bills receivable	—	1,984,493	—	—	1,984,493
Trade receivables and long-term receivables	—	27,374,751	—	—	27,374,751
Factored trade receivables and factored long-term receivables	—	3,653,026	—	—	3,653,026
Other receivables	—	3,466,583	—	—	3,466,583
Other non-current assets	—	3,564,029	—	—	3,564,029
	53,995	72,392,796	2,659,667	862	75,107,320

Financial liabilities

	Financial liabilities at fair value through current profit and loss Trading	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Derivative financial liabilities	36,104	—	4,044	40,148
Bank loans	—	22,082,421	—	22,082,421
Bills payables	—	11,689,957	—	11,689,957
Trade payables	—	25,243,881	—	25,243,881
Bank advances on factored trade receivables and long-term trade receivables	—	3,654,761	—	3,654,761
Other payables (excluding accruals and staff housing fund contributions)	—	12,498,622	—	12,498,622
Other non-current liabilities	—	459,749	—	459,749
	36,104	75,629,391	4,044	75,669,539

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

2015

Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available-for-sale financial assets	Derivatives designated as effective hedging instruments	Total
Cash	—	28,025,009	—	—	28,025,009
Derivative financial assets	8,984	—	—	1,126	10,110
Available-for-sale financial assets	—	—	2,381,467	—	2,381,467
Bills receivable	—	3,463,358	—	—	3,463,358
Trade receivables and long-term receivables	—	25,614,118	—	—	25,614,118
Factored trade receivables and factored long-term receivables	—	2,865,596	—	—	2,865,596
Other receivables	—	1,622,932	—	—	1,622,932
Other non-current assets	—	3,515,601	—	—	3,515,601
	8,984	65,106,614	2,381,467	1,126	67,498,191

Financial liabilities

	Financial liabilities at fair value through current profit and loss Trading	Other financial liabilities	Derivatives designated as effective hedging instruments	Total
Derivative financial liabilities	16,962	—	2,878	19,840
Bank loans	—	18,541,430	—	18,541,430
Bills payable	—	9,885,129	—	9,885,129
Trade payables	—	22,932,866	—	22,932,866
Bank advances on factored trade receivables and long-term trade receivables	—	2,866,874	—	2,866,874
Other payables (excluding accruals and staff housing fund contributions)	—	4,659,527	—	4,659,527
Bonds payable	—	4,000,000	—	4,000,000
Other non-current liabilities	—	267,415	—	267,415
	16,962	63,153,241	2,878	63,173,081

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

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 there were no bills receivable which did not qualify for derecognition of financial assets by reason that not substantially all risks and rewards associated therewith were transferred upon discounting (31 December 2015: RMB106,892,000).

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 recognize assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 31 December 2016, trade receivables that have been transferred but not settled by the debtors amounted to RMB1,962,171,000 (31 December 2015: RMB1,061,220,000).

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 2016 the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB9,645,201,000 (31 December 2015: RMB9,585,140,000). 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	
	2016	2015
Carrying value of assets under continuous involvement	**1,690,855**	1,804,376
Carrying value of liabilities under continuous involvement	**1,692,589**	1,805,654

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 2016, the amount of factored trade receivables was RMB3,653,026,000 (31 December 2015: RMB2,865,596,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term factored trade receivables." As at 31 December 2016, the amount of bank advances on factored trade receivables was RMB3,654,761,000 (31 December 2015: RMB2,866,874,000).

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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)

Transfer of long-term receivables comprised factored trade receivables recognized under continuous involvement as described below.

In prior year, the Company entered into a telecommunications system project with an African telecommunications operator with a total contract amount of USD1.5 billion. The related accounts receivable is to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. Two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to factored trade receivables agreements. During the financing period, the banks will charge interest at 6-month USD LIBOR+1.5% or LIBOR+1.8% which will be shared by the Company and the telecommunications operator at a predetermined portion. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2016, under the above arrangement, trade receivable due from the customer amounted to RMB5,814,705,000 (31 December 2015: RMB6,036,698,000) among which RMB4,518,810,000 (31 December 2015: RMB4,829,358,000) has been recognized from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in ASBEs No. 23. An associated liability of RMB1,295,895,000 (31 December 2015: RMB1,207,340,000) has been recognized in the consolidated statement of financial position to the extent of the Company's continuing involvement.

In addition, factored finance interest for future periods relating to the derecognition of trade receivables undertaken by the Company as at 31 December 2016 amounted to RMB200,388,000 (31 December 2015: RMB250,698,000), comprising RMB33,862,000 (31 December 2015: RMB37,153,000) due within one year and classified as other payables (see Note V. 30) and RMB166,526,000 (31 December 2015: RMB213,545,000) due after one year and classified as other non-current liabilities (see Note V. 34).

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 RMB325,915,000 (31 December 2015: RMB385,920,000) 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 RMB4,326,000 (2015: RMB5,246,000) in respect of the derecognized bills receivable as at the date of transfer. No profit or loss relating to continuous involvement was recognized in respect of the current year and the previous year.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments

The main financial instruments of the Group, except for derivatives, include bank loans, cash, etc. The main purpose of these financial instruments is to finance for the Group's operation. The Group has many other financial assets and liabilities arising directly from operation, such as trade receivables and trade payables and etc.

The Group entered into forward currency contracts and interest rate swap contracts with the aim of managing the foreign exchange risk and interest rate risk in the Group's operation. The major risks which come from the Group's financial instruments are the credit risk, liquidity risk and market risk. The Group's policies for managing each of these risks are summarized as follows.

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.

The Group's other financial assets, which comprise cash, available-for-sale financial assets, 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. The Group is also subject to credit risks associated with the provision of financial guarantees. For detailed disclosures, please refer to Note XII.2.11.

Although the top five accounts accounted for 19.82% (2015: 26.85%) of the total trade receivables, their risk profiles were relatively low and did not give rise to significant concentration of credit risk for the Group.

Since the Group trades only with recognized and creditworthy third parties, there is no requirement for collateral. The Group did not hold any collateral or other credit enhancements over the balances of the trade receivables. For further quantitative disclosures on the Group's credit risk arising from trade receivables, other receivables and long-term trade receivables, please refer to Notes V. 4, 5 and 10.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Credit risk (continued)

The maturity profile of trade receivables, long-term receivables and other receivables not subject to impairment as at 31 December is analyzed as follows:

2016

		Not	Overdue for			
	Total	**overdue/ not impaired**	**Less than 1 year**	**1–2 years**	**2–3 years**	**Over 3 years**
Trade receivables	**25,998,188**	**3,193,304**	**20,259,455**	**2,288,234**	**257,195**	**—**
Long-term receivables	**1,376,563**	**1,376,563**	**—**	**—**	**—**	**—**
Other receivables	**3,466,583**	**—**	**2,800,643**	**189,032**	**239,749**	**237,159**

2015

		Not	Overdue for			
	Total	overdue/ not impaired	Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	25,251,287	3,865,482	19,085,431	2,106,596	193,778	—
Long-term receivables	362,831	362,831	—	—	—	—
Other receivables	1,622,932	—	1,143,936	215,768	149,627	113,601

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, bonds payable and other interest-bearing loans.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarized as follows:

2016

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	16,803,191	4,336,957	1,037,056	331,237	22,508,441
Derivative financial liabilities	—	40,148	—	—	—	40,148
Bills payable	—	11,689,957	—	—	—	11,689,957
Trade payables	25,243,881	—	—	—	—	25,243,881
Bank advances on factored trade receivables and factored long-term trade receivable	—	2,332,625	437,951	332,963	687,198	3,790,737
Other payables (excluding accruals and staff housing fund contributions)	12,498,622	—	—	—	—	12,498,622
Other non-current liabilities	—	—	120,974	109,050	185,324	415,348
	37,742,503	30,865,921	4,895,882	1,479,069	1,203,759	76,187,134

2015

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	—	12,672,102	1,455,727	3,989,492	1,007,435	19,124,756
Derivative financial liabilities	—	19,840	—	—	—	19,840
Bills payable	—	9,885,129	—	—	—	9,885,129
Trade payables	22,932,866	—	—	—	—	22,932,866
Bank advances on factored trade receivables and factored long-term trade receivable	—	1,312,514	511,956	405,538	751,722	2,981,730
Other payables (excluding accruals and staff housing fund contributions)	4,659,527	—	—	—	—	4,659,527
Bonds payable	—	4,102,000	—	—	—	4,102,000
Other non-current liabilities	50,000	—	80,328	69,445	153,616	353,389
	27,642,393	27,991,585	2,048,011	4,464,475	1,912,773	64,059,237

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

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.

As at 31 December 2016, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR. 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 variable rate instruments. The Group's policy is to maintain the fixed interest rate between 1.20% and 5.75%. In addition, the Group borrowed a USD900 million loan at floating interest rates. As at 31 December 2016, there were no outstanding interest rate swaps (31 December 2015: USD100 million). Approximately 44% (31 December 2015: 36%) 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. 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 total profit (through the impact on floating rate loans) and shareholders' equity assuming that other variables remain constant and taking into account the effect of interest rate swaps.

	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
2016	**0.25%**	**(20,762)**	**—**	**(20,762)**
	(0.25%)	**20,762**	**—**	**20,762**
2015	0.25%	(25,084)	1,058	(24,026)
	(0.25%)	25,084	(1,058)	24,026

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency 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.

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
2016				
Weaker RMB against USD	**3%**	**105,235**	**—**	**105,235**
Stronger RMB against USD	**(3%)**	**(105,235)**	**—**	**(105,235)**
2015				
Weaker RMB against USD	3%	235,072	—	235,072
Stronger RMB against USD	(3%)	(235,072)	—	(235,072)

	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
2016				
Weaker RMB against EUR	**5%**	**58,493**	**—**	**58,493**
Stronger RMB against EUR	**(5%)**	**(58,493)**	**—**	**(58,493)**
2015				
Weaker RMB against EUR	5%	7,143	—	7,143
Stronger RMB against EUR	(5%)	(7,143)	—	(7,143)

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

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.

The Group manages its capital structure and 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 2016 and 2015.

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:

	2016	2015
Interest-bearing bank borrowings	**22,082,421**	18,541,430
Interest-bearing bonds	**—**	4,000,000
Bank advances on factored receivables and long-term trade receivables	**3,654,761**	2,866,874
Total interest-bearing liabilities	**25,737,182**	25,408,304
Owners equity	**40,885,090**	43,348,605
Total equity and interest-bearing liabilities	**66,622,272**	68,756,909
Gearing ratio	**38.6%**	37.0%

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IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

2016

	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	**—**	**54,857**	**—**	**54,857**
Available-for-sale financial assets				
Investment in equity instruments	**1,315,085**	**—**	**—**	**1,315,085**
Investment properties				
Leased buildings	**—**	**—**	**2,016,470**	**2,016,470**
	1,315,085	**54,857**	**2,016,470**	**3,386,412**
Derivative financial liabilities	**—**	**(40,148)**	**—**	**(40,148)**
	—	**(40,148)**	**—**	**(40,148)**

2015

	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	—	10,110	—	10,110
Available-for-sale financial assets				
Investment in equity instruments	1,093,001	—	—	1,093,001
Investment properties				
Leased buildings	—	—	2,010,396	2,010,396
	1,093,001	10,110	2,010,396	3,113,507
Derivative financial liabilities	—	(19,840)	—	(19,840)
	—	(19,840)	—	(19,840)

Notes to Financial Statements

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IX. DISCLOSURE OF FAIR VALUES (continued)

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 2016, 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 Group has entered into derivative financial instruments 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 2016, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default. Changes in the credit risk profile of counterparties did not have any material impact on the evaluation of the hedging effectiveness of designated derivative instruments in the hedge and other financial instruments measured at fair value.

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 2016 was RMB2,016,470,000 (2015: RMB2,010,396,000).

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IX. DISCLOSURE OF FAIR VALUES (continued)

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

2016

	Fair value at year-end	**Valuation techniques**	**Unobservable inputs**	**Range (weighted average)**
Commercial properties	**RMB2,016,470,000**	**Discounted cash flow method**	**Estimated rental value (per sq. m. and per month)**	**RMB45.5–477**
			Rent growth (p.a.)	**1%–5%**
			Long term vacancy rate	**5%**
			Discount rate	**6%–7%**

2015

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,010,396,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB45.5–477
			Rent growth (p.a.)	1%–5%
			Long term vacancy rate	5%
			Discount rate	6%–7.3%

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorized within Level 3 of the fair value hierarchy:

2016

	Opening balance	**Transfer into Level 3**	**Transfer out of Level 3**	**Total profit or loss 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**			
Investment properties	**2,010,396**	**–**	**–**	**6,074**	**–**	**–**	**2,016,470**	**6,074**

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IX. DISCLOSURE OF FAIR VALUES (continued)

4. Fair value measurement adjustment (continued)

2015

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Total profit or loss 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			
Investment properties	2,004,465	—	—	5,931	—	—	2,010,396	5,931

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to non-financial assets and non-financial assets is analyzed as follows:

	2016 Relating to non-financial assets	2015 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	**6,074**	5,931
Change in unrealized profit or loss for the period of assets held at year-end included in profit and loss	**6,074**	5,931

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 and no transfers into or out of Level 3.

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 (%)**
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Shenzhen, Guangdong	Manufacturing	RMB100 million	30.35%	30.35%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

2. Subsidiaries

Details of the subsidiaries are set out in Note VI. Changes in Scope of Consolidation and Note VII.1 Interests in Other Entities.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

4. Other related parties

	Relationship
深圳市中興新地技術股份有限公司	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	Subsidiary of the Company's controlling shareholder
深圳市中興昆騰有限公司	Subsidiary of the Company's controlling shareholder
中興儀器(深圳)有限公司	Subsidiary of the Company's controlling shareholder
深圳中興創新材料技術有限公司	Subsidiary of the Company's controlling shareholder
深圳市中興環境儀器有限公司	Subsidiary of the Company's controlling shareholder
上海中興派能能源科技股份有限公司 (Formerly known as上海中興派能能源科技有限公司)	Subsidiary of the Company's controlling shareholder
深圳市新宇騰躍電子有限公司	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing WXT Equipment Company Limited	Company for which a connected natural person of the Company acted as director
Xi'an Microelectronics Technology Research Institute	Shareholder of the Company's controlling shareholder
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
南京中興群力信息科技有限公司*1	Subsidiary of an associate of the Company
Zhongxing Energy (Shenzhen) Company Limited	Subsidiary of an associate of the Company
Zhongxing Energy (Tianjin) Company Limited	Subsidiary of an associate of the Company
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
中興能源(天津)節能服務有限公司	Subsidiary of an associate of the Company
鄂爾多斯市雲端科技有限公司	Subsidiary of an associate of the Company
善理通益信息科技(深圳)有限公司	Subsidiary of an associate of the Company
Shenzhen Gaodonghua Communication Technology Company Limited*2	Company for which a former supervisor of the controlling shareholder of the Company acted as director
Mobi Antenna Technologies (Shenzhen) Co., Ltd.*2	Company for which a former supervisor of the controlling shareholder of the Company acted as director
CASIC Shenzhen (Group) Limited	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 acted as director

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
廣東歐科空調製冷有限公司	Company for which a connected natural person of the Company acted as director
深圳中興環保集團股份有限公司*3 (formerly known as "深圳中興環保股份有限公司")	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*3	Company for which a connected natural person of the Company acted as chairman
Zhengzhou ZTE Communications Technology Company Limited*3	Company for which a connected natural person of the Company acted as chairman
深圳中興科揚節能環保股份有限公司*3	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*3	Company for which a connected natural person of the Company acted as director
鄭州中興綠色產業有限公司*3	Company for which a connected natural person of the Company acted as director
上海共進新媒體技術有限公司 (formerly known as "上海歡流傳媒有限公司")*4	Company for which a connected natural person of the Company had previously acted as director
Shenzhen Zhongxing Information Company Limited	Company for which a connected natural person of the Company acted as chairman
興天通訊技術有限公司	Company for which a connected natural person of the Company acted as chairman
Zhongxing Development Company Limited*5	Company for which a connected natural person of the Company had previously acted as director
Chongqing Zhongxing Development Company Limited*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
Huatong Technology Company Limited*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
中興軟件技術(瀋陽)有限公司*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
中興軟件技術(濟南)有限公司*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
三河中興發展有限公司*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
三河中興物業服務有限公司*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
杭州中與發展有限公司*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
中興綠色農業有限公司*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
杭州中興中投物業管理有限公司*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
深圳市中興長天信息技術有限公司*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
中興農谷湖北有限公司*5	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
廈門市美亞柏科信息股份有限公司*6	Company for which a former connected natural person of the Company acted as independent director
Yunnan Baiyao Group Co., Ltd.*6	Company for which a former connected natural person of the Company acted as independent director
Tianma Microelectronics Co., Ltd.*7	Company for which a connected natural person of the Company had previously acted as independent director

*1 The Company completed the disposal of equity interests held in 上海中興群力信息科技有限公司 ("Shanghai Qunli") in full in April 2016 and Shanghai Qunli has ceased to be an associate of the Company as from May 2016. 南京中興群力信息科技有限公司, a subsidiary of Shanghai Qunli, has also ceased to be a connected party of the Company.

*2 The natural connected person of the Company has ceased to be a supervisor of the controlling shareholder of the Company as from 23 June 2016. Such company will cease to be a connected party of the Company as from 23 June 2017.

*3 The natural connected person of the Company has ceased to be a director of the Company as from 30 March 2016. Such company will cease to be a connected party of the Company as from 30 March 2017.

*4 The Company completed the disposal of equity interests held in 上海歡流傳媒有限公司上海 ("Shanghai Huanliu") in full on 28 January 2016. The natural connected person of the Company has ceased to be a director of Shanghai Huanliu as from 28 January 2016 and Shanghai Huanliu has ceased to be an associated corporation of the Company as from 28 January 2017. The company was renamed 上海共進新媒體技術有限公司 on 21 December 2016.

*5 The natural connected person of the Company has ceased to be a director of the Company as from 19 July 2016. Such company will cease to be a connected party of the Company as from 19 July 2017.

*6 The natural connected person of the Company has ceased to be an independent director of the Company as from 22 July 2015. Such company has ceased to be a connected party of the Company as from 22 July 2016.

*7 The natural connected person of the Company has ceased to be an independent director of such company as from June 2016. Such company will cease to be a connected party of the Company as from June 2017.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties

(1) The transaction of goods with related parties

Sales of goods to related parties

	2016 Amount	2015 Amount
Shenzhen Zhongxing Information Company Limited	**3,889**	727
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**1,528**	4,894
深圳市中興新地技術股份有限公司	**31**	4,332
ZTE Software Technology (Nanchang) Company Limited	**—**	5,031
Mobi Antenna Technologies (Shenzhen) Company Limited	**280**	566
南京中興群力信息科技有限公司	**32**	7,379
Puxing Mobile Tech Company Limited	**211,055**	252,444
北京中興協力科技有限公司	**—**	1
深圳市中興昆騰有限公司	**108**	91
Zhongxing Development Company Limited	**61**	72
上海共進新媒體技術有限公司	**155**	13,623
ZTE Energy Company Limited	**—**	5
深圳市航天歐華科技發展有限責任公司	**439,970**	588,326
Telecom Innovations	**4,382**	5,889
興天通訊技術有限公司	**2,791**	998
ZTE 9 (Wuxi) Co., Ltd	**—**	5
深圳中興創新材料技術有限公司	**622**	200
中興軟件技術(瀋陽)有限公司	**27**	20
江蘇中興微通信息科技有限公司	**23**	30
上海中興思秸通訊有限公司	**11**	576
中興儀器(深圳)有限公司	**2,424**	892
深圳市中興長天信息技術有限公司	**—**	40
深圳中興節能環保股份有限公司	**9,229**	2,792
中興智慧成都有限公司	**10,650**	10,044
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**238**	980
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	**—**	770
中興農谷湖北有限公司	**—**	63
深圳市新宇騰躍電子有限公司	**2,492**	7
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**—**	3
石家莊市善理通益科技有限公司	**2,248**	7,945
善理通益信息科技(深圳)有限公司	**59**	2,728
重慶前沿城市大數據管理有限公司	**47,136**	—
廈門智慧小區網絡科技有限公司	**321**	—
Yunnan Baiyao Group Co., Ltd	**984**	—
南京中興和泰酒店管理有限公司	**3**	—
三河中興發展有限公司	**10**	—
鄭州中興綠色產業有限公司	**128**	—
深圳市中興環境儀器有限公司	**5**	—
	740,892	911,473

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(1) The transaction of goods with related parties (continued)

Purchases of goods and services from related parties

	2016	2015
	Amount	Amount
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**255,070**	265,408
深圳市中興新地技術股份有限公司	**66,688**	232,107
深圳市新宇騰躍電子有限公司	**70,614**	93,058
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	**822,431**	860,335
Huatong Technology Company Limited	**61,305**	37,745
ZTE Software Technology (Nanchang) Company Limited	**45,296**	42,295
Shenzhen Zhongxing Information Company Limited	**410**	7,712
深圳市航天歐華科技發展有限責任公司	**2,135**	2,416
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**25,861**	25,013
南京中興和泰酒店管理有限公司	**3,592**	3,397
上海市和而泰酒店投資管理有限公司	**7,176**	4,679
西安中興和泰酒店管理有限公司	**2,913**	1,225
中興能源(深圳)有限公司	**1,632**	1,920
中興能源(天津)有限公司	**982**	1,085
Puxing Mobile Tech Company Limited	**3,966**	2,004
上海中興思秸通訊有限公司	**1,241**	754
興天通訊技術有限公司	**2,151**	130
北京中興協力科技有限公司	**2,111**	2,548
中興儀器(深圳)有限公司	**15,132**	2,778
深圳中興環保集團股份有限公司	**14,329**	29,885
廈門市美亞柏科信息股份有限公司	**315**	1,552
CASIC Shenzhen (Group) Limited	**—**	3,323
上海中興派能能源科技股份有限公司	**1,454**	759
Tianma Microelectronics Co., Ltd.	**118,360**	—
ZTE 9 (Wuxi) Co., Ltd	**71**	—
Chongqing Zhongxing Development Company Limited	**11**	—
Zhongxing Development Company Limited	**495**	—
南京中興群力信息科技有限公司	**154**	—
廣東歐科空調製冷有限公司	**10,312**	—
石家莊市善理通益科技有限公司	**2,606**	—
	1,538,813	1,622,128

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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	**2016 Lease income**	2015 Lease income
Zhongxing Development Company Limited	Office	**2,332**	2,146
深圳中興科揚節能環保股份有限公司	Office	**241**	319
中興綠色農業有限公司	Office	**—**	90
Puxing Mobile Tech Company Limited	Office	**496**	399
中興儀器(深圳)有限公司	Office	**1,129**	1,129
深圳中興環保集團股份有限公司	Office	**487**	448
南京中興群力信息科技有限公司	Office	**92**	560
上海共進新媒體技術有限公司	Office	**—**	109
上海中興思秸通訊有限公司	Office	**347**	549
中興軟件技術(濟南)有限公司	Office	**327**	—
深圳中興環保集團股份有限公司	Transportation equipment	**—**	60
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	**16,489**	15,821
南京中興和泰酒店管理有限公司	Property and equipment and facilities	**7,110**	6,372
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	**27,404**	28,393
西安中興和泰酒店管理有限公司	Property and equipment and facilities	**26,039**	23,091
		82,493	79,486

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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	**2016 Lease expense**	2015 Lease expense
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	**8,827**	8,827
Zhongxing Development Company Limited	Office	**47,528**	45,538
Chongqing Zhongxing Development Company Limited	Office	**8,910**	8,957
三河中興發展有限公司	Office	**8,749**	8,746
三河中興物業服務有限公司	Office	**2,452**	2,450
杭州中興發展有限公司	Quarters and plants	**2,925**	5,850
杭州中興中投物業管理有限公司	Quarters and plants	**858**	1,715
		80,249	82,083

(3) Guarantees for related parties

In 2016 and 2015, no guarantee was provided by/to related parties to/by the Group.

(4) Transfer of equity interests to related parties

In 2016 and 2015, the Group did not transfer any equity interests to related parties.

(5) Transfer of assets to related parties

In 2016 and 2015, the Group did not transfer any assets to related parties.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(6) Other major related transactions

	2016	2015
Remuneration of key management personnel	**62,381**	57,972

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 RMB82,493,000 (2015: RMB79,486,000) 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 RMB80,249,000 (2015: RMB82,083,000) 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 RMB62,381,000 (2015: RMB57,972,000). 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 September 2015, the Group entered into a purchase agreement for a term of 3 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited and subsidiaries for the purchase of raw materials for use in production. For details of purchases conducted 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 the years 2017 and 2018 is estimated at RMB900 million and RMB1,000 million (before VAT), respectively.

(2) In September 2015, the Group entered into a purchase agreement for a term of 3 years with Mobi Antenna Technologies (Shenzhen) Company Limited for the purchase of raw materials for use in production. For details of purchases conducted 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 the years 2017 and 2018 is estimated at RMB1,900 million and RMB2,100 million (before VAT), respectively

(3) In April 2016 the Group entered into a purchase agreement for a term of 2 years with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiary for the purchase of hotel services. For details of purchases conducted during the year, please refer to Note X. 5 (1). The maximum amount of purchase of hotel services by the Group from Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries for the years 2017 and 2018 is estimated at RMB90 million.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(4) In December 2014, the Group entered into a software outsourcing service and purchase agreement for a term of 3 years with Huatong Technology Company Limited ("Huatong") for the purchase of software outsourcing services from Huatong. For details of purchases conducted 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 2017 is estimated at RMB75 million (before VAT).

(5) In December 2014, the Group entered into a software outsourcing service and purchase agreement for a term of 3 years with ZTE Software Technology (Nanchang) Company Limited ("ZTE Nanchang") for the purchase of software outsourcing services from ZTE Nanchang. For details of purchases conducted 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 2017 is estimated at RMB79 million (before VAT).

(6) In December 2014, the Group entered into a product and service sales agreement for a term of 3 years with ZTE Software Technology (Nanchang) Company Limited for the sales of products and provision of services to ZTE Nanchang. For details of sales conducted during the year, please refer to Note X.5 (1). The maximum amounts of total sales by the Group from the aforesaid related parties for 2017 is estimated at RMB31 million (before VAT).

(7) In September 2015, the Group entered into a sales agreement for digital communications products and communications products for a term of 3 years with 深圳市航天歐華科技發展有限責任公司 for the sales of product to 深圳市航天歐華科技發展有限責任公司. For details of sales conducted during the year, please refer to Note X.5 (1). The maximum amounts of total sales by the Group from the aforesaid related parties for the years 2017 and 2018 are estimated at RMB1,100 million and RMB1,100 million (before VAT), respectively.

(8) In July 2016, the Group entered into a property lease agreement for a term of 1 year 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 the rental income for 2017 to be RMB177,000.

(9) In January 2014, the Group entered into a property lease agreement for a term of 4 years 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 the rental income for 2017 to be RMB258,000.

(10) In March 2015, the Group entered into a property lease agreement for a term of 3 years 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 the rental income for 2017 and 2018 to be RMB186,000 and RMB38,000, respectively.

(11) In October 2016, the Group entered into a property lease agreement for a term of 1 year 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 the rental income for 2017 to be RMB38,000.

(12) In June 2014, the Group entered into a property lease agreement for a term of 3 years 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 the rental income for 2017 to be RMB470,000.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(13) In September 2014, the Group entered into a lease agreement for a term of 1 year with 中興軟件技術(濟南)有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rent for 2017 to be RMB225,000.

(14) In July 2016, the Group entered into a property lease agreement for a term of 2 years with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2017 and 2018 to be RMB77,042,000 and RMB38,521,000, respectively.

(15) In April 2015, the Group entered into a lease agreement for a term of 2 years with Shenzhen Zhongxingxin Telecommunications Equipment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rent for 2017 to be RMB2,618,000.

(16) In December 2014, the Group entered into a lease agreement for a term of 3 years months 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 the annual rent for 2017 to be RMB8,910,000.

(17) In April 2015, the Group entered into a lease agreement for a term of 2 years with Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rent for 2017 to be RMB13,547,000.

(18) In March 2014, the Group entered into 2 lease agreements each for a term of 3 years 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 the annual rent for 2017 to be RMB891,000.

(19) In January 2015, the Group entered into a lease agreement for a term of 26 months 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 the annual rent for 2017 to be RMB486,000.

(20) In December 2015, the Group entered into 2 lease agreements each for a term of 3 years 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 the annual rent for 2017 and 2018 to be RMB609,000 and RMB587,000, respectively.

(21) In January 2016, the Group entered into a lease agreement for a term of 3 years with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rental for 2017 and 2018 to be RMB125,000 and RMB117,000, respectively.

(22) In March 2014, the Group entered into 2 lease agreements each for a term of 3 years with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rent for 2017 to be RMB367,000.

(23) In January 2015, the Group entered into a lease agreement for a term of 26 months with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rent for 2017 to be RMB146,000.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(24) In December 2015, the Group entered into a lease agreement for a term of 3 years with 三河中興物業服務有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the maximum annual rental for the years 2017–2018 to be RMB13,000 and RMB12,000.

(25) In September 2015, the Group entered into a lease agreement for a term of 3 years with Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated the annual rent for 2017 and 2018 to be RMB2,189,000 and RMB1,532,000, respectively.

7. Balances of amounts due from/to related parties

Item	Name of related parties	2016	2015
Bills receivable	深圳市航天歐華科技發展有限責任公司	**93,260**	190,931
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**—**	639
	深圳市中興新地技術股份有限公司	**20**	233
		93,280	191,803
Trade receivables	Puxing Mobile Tech Company Limited	**108,480**	70,988
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**150**	786
	深圳市中興新地技術股份有限公司	**1**	171
	Xi'an Microelectronics Technology Research Institute	**9**	9
	深圳市中興昆騰有限公司	**320**	84
	深圳市航天歐華科技發展有限責任公司	**217,694**	107,484
	ZTE 9 (Wuxi) Co., Ltd	**—**	231
	鄂爾多斯市雲端科技有限公司	**1**	1
	興天通訊技術有限公司	**2,259**	784
	江蘇中興微通信息科技有限公司	**—**	2
	上海共進新媒體技術有限公司	**—**	2,777
	寧波中興雲祥科技有限公司	**57**	57
	ZTE Software Technology (Nanchang) Company Limited	**3,724**	3,724
	中興儀器(深圳)有限公司	**116**	217
	Shenzhen Zhongxing Information Company Limited	**190**	595
	深圳市新宇騰躍電子有限公司	**1,019**	3
	南京中興群力信息科技有限公司	**—**	499
	中興智慧成都有限公司	**8,968**	9,925
	ZTE Energy Limited	**—**	1
	Mobi Antenna Technologies (Shenzhen) Company Limited	**230**	103
	深圳中興節能環保股份有限公司	**275**	456
	石家莊市善理通益科技有限公司	**—**	2,333
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	**1,970**	1,968
	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	**111**	—
		364,528	203,198

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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	2016	2015
Prepayments	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**242**	242
	Zhongxing Development Company Limited	**83**	14
	上海中興思秸通訊有限公司	**—**	88
	南京中興群力信息科技有限公司	**—**	120
	廣東歐科空調製冷有限公司	**—**	898
	深圳市航天歐華科技發展有限責任公司	**742**	—
	Zhengzhou ZTE Communications Technology Company Limited	**180**	—
		1,247	1,362
Other receivables	南京中興和泰酒店管理有限公司	**2**	2
	北京億科三友科技發展有限公司	**23**	5,840
	ZTE 9 (Wuxi) Co., Ltd	**2,219**	2,230
	Shenzhen Zhongxing Information Company Limited	**14**	14
	Zhongxing Development Company Limited	**345**	365
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**23,483**	3
	Chongqing Zhongxing Development Company Limited	**—**	24
	Zhengzhou ZTE Communications Technology Company Limited	**—**	3
	深圳市中興新地技術股份有限公司	**445**	445
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	**1,843**	1,850
	深圳中興創新材料技術有限公司	**526**	—
		28,900	10,776
Bills payable	Mobi Antenna Technologies (Shenzhen) Company Limited	**—**	49
	深圳市新宇騰躍電子有限公司	**8,913**	6,533
	深圳市航天歐華科技發展有限責任公司	**—**	1,431
	Tianma Microelectronics Co., Ltd.	**9,142**	—
		18,055	8,013

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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	2016	2015
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**50,126**	61,007
	深圳市新宇騰躍電子有限公司	**10,648**	1,804
	Mobi Antenna Technologies (Shenzhen) Company Limited	**78,402**	58,823
	深圳市中興新地技術股份有限公司	**327**	13,476
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	**183**	183
	Shenzhen Zhongxing WXT Equipment Company Limited	**327**	327
	Shenzhen Zhongxing Information Company Limited	**3,665**	8,731
	Shenzhen Gaodonghua Communication Technology Company Limited	**176**	176
	Puxing Mobile Tech Company Limited	**6,080**	11,973
	深圳市航天歐華科技發展有限責任公司	**1,987**	3,017
	中興能源(天津)節能服務有限公司	**537**	2,773
	興天通訊技術有限公司	**3,464**	1,319
	上海中興思秸通訊有限公司	**1**	1
	Xi'an Microelectronics Technology Research Institute	**192**	192
	Huatong Technology Company Limited	**496**	445
	北京中興協力科技有限公司	**142**	250
	江蘇中興華易科技發展有限公司	**—**	140
	ZTE Software Technology (Nanchang) Company Limited	**—**	190
	深圳中興環保集團股份有限公司	**15,230**	4,483
	廈門市美亞柏科信息股份有限公司	**—**	1,816
	Zhongxing Development Company Limited	**—**	691
	CASIC Shenzhen (Group) Limited	**3**	62
	Tianma Microelectronics Co., Ltd.	**27,612**	—
	中興儀器(深圳)有限公司	**19,528**	—
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	**4**	—
	ZTE 9 (Wuxi) Co., Ltd	**83**	—
	石家莊市善理通益科技有限公司	**106**	—
		219,319	171,879

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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	2016	2015
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	**5,327**	5,327
	Puxing Mobile Tech Company Limited	**30,912**	20,757
	Xi'an Microelectronics Technology Research Institute	**1,628**	1,628
	北京中興協力科技有限公司	**155**	155
	南京中興群力信息科技有限公司	**—**	335
	深圳市航天歐華科技發展有限責任公司	**43,187**	53,290
	中興軟件技術(瀋陽)有限公司	**13**	14
	上海共進新媒體技術有限公司	**61**	1
	上海中興思秸通訊有限公司	**—**	1
	ZTE Energy Limited	**1**	1
	中興儀器(深圳)有限公司	**7**	6
	深圳中興創新材料技術有限公司	**—**	639
	江蘇中興微通信息科技有限公司	**8**	8
	南京皓信達訊網絡科技有限公司	**—**	8
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**1**	1
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	**28**	25
	深圳中興環保集團股份有限公司	**497**	60
	善理通益信息科技(深圳)有限公司	**1,170**	1,239
	中興智慧成都有限公司	**2,517**	—
	ZTE 9 (Wuxi) Co., Ltd	**1**	—
	深圳市中興昆騰有限公司	**3**	—
	石家莊市善理通益科技有限公司	**439**	—
		85,955	83,495

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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	2016	2015
Other payables	深圳市新宇騰躍電子有限公司	**31**	31
	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Shenzhen Zhongxing Information Company Limited	**48**	48
	Zhongxing Development Company Limited	**215**	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**308**	308
	Huatong Technology Company Limited	**128**	308
	上海中興思秸通訊有限公司	**70**	70
	深圳中興新源環保股份有限公司	**4**	4
	寧波中興興通供應鏈有限公司	**8,000**	8,000
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	**5,020**	1,407
	西安中興和泰酒店管理有限公司	**11,786**	—
	中山優順置業有限公司	**2,000**	—
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	**352**	—
		27,974	10,403

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivable from related parties were interest-free and unsecured with an usual credit term of 0–90 days, which may be extended to up to 1 year depending on the reputation of the customer.

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) Customer deposits

	2016	2015
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**13,336**	3,396
南京中興和泰酒店管理有限公司	**4,833**	3,818
上海市和而泰酒店投資管理有限公司	**4,406**	8,968
西安中興和泰酒店管理有限公司	**6,456**	6,166
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**3,394**	120
前海融資租賃股份有限公司	**4**	1
江蘇中興微通信息科技有限公司	**21,956**	—
	54,385	22,469

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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)

(2) *Interest expenses*

	2016	2015
南京中興和泰酒店管理有限公司	**43**	27
上海市和而泰酒店投資管理有限公司	**58**	95
西安中興和泰酒店管理有限公司	**105**	133
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**47**	128
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**5**	3
前海融資租賃股份有限公司	**3**	1
Zhengzhou ZTE Communications Technology Company Limited	**—**	7
江蘇中興微通信息科技有限公司	**25**	—
	286	394

(3) *Release of loans and advances — release of loans*

	2016	2015
前海融資租賃股份有限公司	**—**	100,000
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**—**	3,000
	—	103,000

(4) *Interest income from loans and bills discounting*

	2016	2015
Mobi Antenna Technologies (Shenzhen) Co., Ltd.	**—**	3,346
杭州中興發展有限公司	**—**	11
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**217**	176
前海融資租賃股份有限公司	**4,005**	400
	4,222	3,933

(5) *Interest receivable*

	2016	2015
前海融資租賃股份有限公司	**—**	138
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**—**	6
	—	144

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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)

(6) Interest payable

	2016	2015
南京中興和泰酒店管理有限公司	**2**	1
上海市和而泰酒店投資管理有限公司	**3**	3
西安中興和泰酒店管理有限公司	**4**	5
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**2**	3
江蘇中興微通信息科技有限公司	**6**	—
	17	12

(7) Income from consultation services

	2016	2015
前海融資租賃股份有限公司	**1,033**	79
	1,033	79

(8) Advanced receipts

	2016	2015
前海融資租賃股份有限公司	**—**	917
	—	917

XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:	**2016**	2015
Accumulated balance of equity-settled share-based payments credited to capital reserves*	**25,394**	247,825
Total costs of equity-settled share-based payments in the period	**(97,362)**	166,829

* Among which the cost of equity-settled share-based payment amounting to RMB125,069,000 arising from the exercise of share options was transferred to the share premium under capital reserve.

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XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme

On 22 July 2013, the "ZTE Corporation Share Option Incentive Scheme (Draft)" and its summary was considered and approved at the Sixth Meeting of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Supervisory Committee of the Company. On 20 August 2013, the Company was notified that the opinion of the state-owned shareholders of the Company on the implementation of the Share Option Incentive Scheme had been approved and filed by State-owned Assets Supervision and Administration Commission of the State Council. On 23 August 2013, the Company was notified that the Listed Companies' Regulation Department I of CSRC had confirmed it had no objection to the Company convening a general meeting to consider the share option incentive scheme in accordance with the "Administrative Measures on Share Incentives of Listed Company (Trial)" (《上市公司股權激勵管理辦法（試行）》). On 26 August 2013, the resolution on the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" (hereinafter referred to as the "Share Incentive Scheme") and its summary was considered and approved at Eighth Meeting of the Sixth Session of the Board of Directors and the Sixth Meeting of the Sixth Supervisory Committee. The Share Incentive Scheme was considered and approved at Third Extraordinary General Meeting of 2013, the First A Shareholders' Class Meeting of 2013 and the First H Shareholders' Class Meeting of 2013 of the Company convened on 15 October 2013. On 31 October 2013, relevant resolutions were considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors and the Ninth Meeting of the Sixth Session of the Supervisory Committee of the Company, pursuant to which the date of grant for the Share Option Incentive Scheme of the Company has been set for 31 October 2013 Under the Share Incentive Scheme, 102.989 million share options were granted to 1,528 Participants. Each share option shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the scheme at the exercise price, subject to the conditions of exercise. The source of the shares under the scheme shall be shares of the Company issued to the participants by the Company by way of private placement. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, principal shareholders holding 5% or more of the Company's shares or the actual controller of the Company and their spouses or blood relatives.

The share options shall be valid for a period of 5 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. The share options shall be exercisable separately in the subsequent 3 exercise periods, whose percentages of options exercisable are 30%, 30% and 40% respectively, subject to the Company's performance as the conditions of exercise. The exercise price shall be RMB13.69/share. The share options not exercisable due to failing to fulfill 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. 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) 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).

The calculation of the net profit used by the above indicators is based on the net profit before or after extraordinary items whichever is lower. Net assets refer to the net assets attributable to the shareholders of the listed company.

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XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

The detailed conditions for the exercise of the share options:

(1) Within the valid period of the Share Incentive Scheme, the net profit attributable to the shareholders of the listed company and the net profit after extraordinary items attributable to the shareholders of the listed company shall not be lower than the average of the three most recent accounting years before the date of grant and shall not be a negative number;

(2) The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ROE for the year	30%	2015.11.1–2016.10.31	ROE for the year 2014 not less than 6%; growth rate of net profit for the year 2014 not less than 20% compared to 2013
Second exercise period	30%	2016.11.1–2017.10.31	ROE for the year 2015 not less than 8%; growth rate of net profit for the year 2015 not less than 20% compared to 2014
Third exercise period	40%	2017.11.1–2018.10.31	ROE for the year 2016 not less than 10%; growth rate of net profit for the year 2016 not less than 44% compared to 2014

The fair value of the share options granted amounted to RMB524,023,000, among which the share option expenses recognised by the Company in 2016 amounted to RMB27,812,000. As failing to meet the requirement of the third exercise period, the Company reversed the share option expenses recognised for years from 2013 to 2015 amounted to RMB125,174,000.

Outstanding share options under the scheme are as follows:

	2016		2015	
	Weighted average exercise price* RMB/shares	**Number of share options ('000)**	Weighted average exercise price* RMB/shares	Number of share options ('000)
Opening balance	**11.22**	**90,871**	13.66	102,989
Conversion of capital reserve into share capital	**—**	**—**	11.22	20,598
Lapsed	**10.97**	**(48,954)**	11.22	(6,974)
Exercised during the period	**11.22**	**(3,471)**	11.22	(25,742)
	10.97	**(30,366)**	—	—
Closing balance	**10.97**	**8,080**	11.22	90,871

* The weighted average share price for share options exercised in 2016 as at the date of exercise was RMB11.00 (2015: RMB11.22).

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XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(2) The conditions for the exercise of the granted share options: (continued)

As at the balance sheet date, the exercise prices for effective exercise periods for outstanding share options are as follows:

2016		
Number of share options ('000)	**Exercise price* RMB/share**	**Effective exercise period**
8,080	**10.97**	1 November 2016 to 31 October 2017
8,080		

2015		
Number of share options ('000)	Exercise price* RMB/share	Effective exercise period
9,143	11.22	2015.11.1 to 2016.10.31
35,026	11.22	2016.11.1 to 2017.10.31
46,702	11.22	2017.11.1 to 2018.10.31
90,871	11.22	

* The exercise price of the share options is subject to adjustments for share placing, dividend distribution and other similar changes in the share capital of the Company.

In 2016, the Company issued 33,836,957 ordinary shares as a result of the exercise of 33,836,957 share options. The share capital was enlarged by RMB33,837,000, and the share premium amounted to RMB463,292,000 (before issue expenses). Please refer to Note V.35 and 36.

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 (%)		40.25	39.69	43.18
Risk-free interest rate (%)		3.34	3.40	3.46
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)

(2) The conditions for the exercise of the granted share options: (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

	2016	2015
Contracted but not provided of		
Capital commitments	**1,052,816**	904,363
Investment commitments	**137,702**	37,465
	1,190,518	941,828

2. Contingent events

2.1. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB50,433,000). 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 RMB21,683,000) be paid by the Company. As at the balance sheet date, 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. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not paid any compensation in connection with this arbitration case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated. Accordingly, no additional provision in respect of the litigation was made for the period.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.2. Since April 2008, China Construction Fifth Engineering Division Corp., Ltd. ("China Construction Fifth Division"), an engineering contractor of the Company, demanded the Company to increase the contract amount on the grounds that raw material prices had increased, in connection with which it launched first a slowdown in work, followed later by total suspension. In September 2008, the Company instituted litigation with the Shenzhen Nanshan District People's Court ("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 RMB24,912,000 and damages of RMB11,319,000 payable to the Company. The Nanshan Court handed 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 for work delay in the amount of RMB12,817,000 be payable by China Construction Fifth Division. China Construction Fifth Division filed an appeal against the aforesaid judgement with the 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 the Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") had handed down the final trial judgement for China Construction Fifth Division's case with the Shenzhen Intermediate Court in May 2014, the 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.

In October and November 2009, the Company further instituted two lawsuits with the 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. Currently, the above cases are under trial suspension.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.2. (continued)

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. 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 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.

In July 2014, China Construction Fifth Division instituted a lawsuit with the 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. Currently, the above case is under trial suspension.

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.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.3. 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 compensation of USD20 million in actual damages. UTE further claimed that it had lost a telecommunications project contract as a result of inappropriate actions of the Company and ZTE USA, for which UTE was seeking compensation of USD10 million in actual damages and USD20 million in punitive damages. Upon receipt of the writ of summons from the court, the Company has appointed an attorney 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. As at the end of the reporting period, the arbitration court had yet to make a final ruling. 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. The court has yet to issue its ruling.

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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(All amounts in RMB'000 unless otherwise stated)
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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.4. 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 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, 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 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, 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 ruling that the Company and ZTE USA had not infringed upon the patents. The Company and ZTE USA has appointed a legal counsel to conduct active defense in respect of the said case and will appeal against the aforesaid ruling of the Federal District Court of Delaware that the three patents have been infringed upon.

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)

2.5 On 20 May 2013, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interests and a penalty in the aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB205 million). On 19 June 2013, ZTE Brazil submitted an administrative defense to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that: (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527. A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil received the judgement of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. The case is currently pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State. As at the balance sheet date of the year under review, the Company had made provisions of BRL17.70 million (equivalent to approximately RMB37.65 million).

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. The aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

2.6. In May 2012, Flashpoint Technology, Inc., a U.S. company, filed a claim with ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in image processing technologies. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a limited 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 Delaware, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of Delaware has been suspended. On 1 October 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 14 March 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

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)

2.7. 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. The United States Court of Appeals for the Federal Circuit has yet to issue its verdict.

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)

2.8. In November 2012, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, 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 RMB66.69 million). 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 RMB66.41 million), together with accruable interests and legal costs. 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 RMB66.41 million) 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 execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB66.41 million) 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.

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 RMB176 million). The Company has appointed a legal counsel to conduct active defense 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.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.9. The Company has reached agreements (collectively the "Agreements") with the Bureau of Industry and Security of the United States Department of Commerce ("BIS"), the United States Department of Justice ("DOJ") and the Office of Foreign Assets Control of the United States Department of Treasury ("OFAC") in relation to investigations regarding the Company's compliance with U.S. Export Administration Regulations (the "EAR") and U.S. sanctions laws. Due to violations of U.S. export controls laws and U.S. rules and regulations in relation to the provision of information and other conduct during the investigations, the Company has agreed to plead guilty and pay a total of USD892,360,064 (equivalent to approximately RMB6,182,452,000) and have already recorded in non-operating expenses, details refer to Note V. 49, with a further USD300,000,000 to BIS, which is suspended for a period of seven years on the condition that the Company complies with the requirements in the agreement with BIS. While the agreement with OFAC takes effect immediately, the agreement with DOJ is pending approval from the United States District Court for the Northern District of Texas ("Court"). Similarly, Court approval of the DOJ agreement is a prerequisite before BIS will issue its settlement order. In the meantime, BIS will recommend that the Company be removed from the Entity List, conditioned on court approval of the DOJ agreement, entry of the plea, and the issuance of Assistant Secretary's Order.

The Agreements also covers the following key issues:

(1) A three-year monitor term shall be set up pursuant to the agreement between the Company and DOJ, during which an independent compliance officer approved by the US Government shall be appointed to prepare annual reports during his/her term of office in order to monitor the Company's compliance with U.S. export control laws and performance of its obligations under the agreement. Thereafter, pursuant to the agreement between the Company and BIS, the Company shall appoint an independent compliance auditor for a three-year term, and the auditor will prepare annual audit reports of the Company's compliance with U.S. export control laws and performance of its obligations under the agreement.

(2) Pursuant to the agreement between the Company and BIS, BIS is suspending a denial order for seven years that would restrict and prohibit, among other things, the Company from applying for or using any licenses or buying or selling any item exported from the United States that is subject to the EAR. BIS is suspending the denial order subject to the Company's compliance of the requirements under the agreement, and the denial order will be waived after the seven-year period.

(3) The Company shall provide extensive training on export control requirements to its management and employees and the management and employees of its subsidiaries and other entities over which it has ownership or control.

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.9. (continued)

For a comprehensive execution of the agreement, the Company will be continuously taking an overhaul of its organization and structure, business procedures and internal control. Through such measures as the establishment of the compliance committee and the independent compliance department, the appointment of the chief export compliance officer, the adoption of new automated tools and processes, the framing and execution of the export control compliance manual, and consistent training on export controls to employees, the Company shall ensure its compliance with U.S. export control laws and performance of its obligations under the Agreements. Based upon the aforementioned policies and measures, the Company believes that it is unlikely to violate the agreement and to pay the suspended USD300,000,000 for BIS.

2.10. As at 31 December 2016, the Group had outstanding guarantees given to banks in respect of performance bonds amounting to RMB8,400,893,000 (31 December 2015: RMB7,656,101,000).

2.11. As at 31 December 2016, the Group did not provide any financial guarantee (31 December 2015: RMB50,000,000).

XIII. EVENTS AFTER THE REPORTING PERIOD

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

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

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XIV. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

According to the lease contract signed with lessor, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2015
Within one year (including first year)	**307,719**	223,696
In the first to second years (including second year)	**109,021**	74,770
In the second to third years (including third year)	**40,928**	28,552
After the third year	**102,979**	84,454
	560,647	411,472

As lessor:

The Group entered into operating property leasing contracts with terms ranging from 1 to 15 years with certain lessees and the leased properties were accounted for as investment properties, as shown in Note V.12. 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:

	2016	2015
Within one year (including first year)	**136,452**	91,882
In the first to second years (including second year)	**482,162**	54,643
In the second to third years (including third year)	**40,980**	41,879
After the third year	**379,639**	403,159
	1,039,233	591,563

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XIV. OTHER SIGNIFICANT MATTERS (continued)

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

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

(3) The government and corporate network business is focused on meeting requirements of government and corporate clients, providing top-level design and consultation services as well as implementation, operation and maintenance of integrated informatization solutions for the government and corporate informatization projects through the application of Cloud Computing, communications networks, Internet of Things, Big Data technologies and related core M-ICT products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance expenses, 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)

2016

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
Revenue from external transactions	58,880,434	33,449,039	8,903,709	101,233,182
Sub-total	58,880,434	33,449,039	8,903,709	101,233,182
Segment results	15,281,609	394,421	2,130,134	17,806,164
Unallocated revenue				4,361,548
Unallocated cost				(22,802,834)
Finance costs				(207,773)
Gain from changes in fair values				29,978
Investment gain from associates and joint ventures				45,166
Total loss				(767,751)
Total assets				
Segment assets	42,979,978	19,688,690	6,499,293	69,167,961
Unallocated assets				72,472,949
Sub-total				141,640,910
Total liabilities				
Segment liabilities	12,073,774	3,724,184	1,825,757	17,623,715
Unallocated liabilities				83,132,105
Sub-total				100,755,820
Supplemental information				
Depreciation and amortization expenses	1,434,600	814,973	216,935	2,466,508
Capital expenditure	2,797,793	1,589,381	423,073	4,810,247
Asset impairment losses	1,659,469	942,718	250,940	2,853,127

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

2015 (restated)

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
Revenue from external transactions	57,222,754	32,466,961	10,496,674	100,186,389
Sub-total	57,222,754	32,466,961	10,496,674	100,186,389
Segment results	13,738,093	1,376,493	2,896,110	18,010,696
Unallocated revenue				4,442,945
Unallocated cost				(16,598,911)
Finance costs				(1,430,794)
Loss from changes in fair values				(183,682)
Investment gain from associates and joint ventures				63,278
Total profit				4,303,532
Total assets				
Segment assets	40,619,357	17,396,973	7,586,929	65,603,259
Unallocated assets				59,228,414
Sub-total				124,831,673
Total liabilities				
Segment liabilities	7,800,164	2,068,528	1,456,923	11,325,615
Unallocated liabilities				70,157,453
Sub-total				81,483,068
Supplemental information				
Depreciation and amortization expenses	1,207,306	685,000	221,463	2,113,769
Capital expenditure	1,788,954	1,015,015	328,158	3,132,127
Asset impairment losses	1,249,402	708,884	229,185	2,187,471

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Group information

Geographic information

Revenue from external customers

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

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	2016	2015
The PRC	**14,474,584**	12,708,691
Asia (excluding the PRC)	**1,019,306**	1,329,223
Africa	**360,132**	354,310
Europe, America and Oceania	**1,163,078**	1,001,187
	17,017,100	15,393,411

Non-current assets are analysed by geographic locations where the assets (excluding long-term equity investments, financial assets, deferred tax assets, goodwill and other long-term receivables) are located.

Information of major customers

Operating revenue of RMB18,166,199,000 was derived from carriers' network and handset terminal revenue from one major customer (2015: RMB18,843,207,000 from one major customer).

3. Comparative Figures

Certain comparative figures have been restated in order to meet this year's reporting requirements.

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

The aging analysis of trade receivables is set out as follows:

	2016	2015
Within 1 year	30,964,659	26,989,228
1–2 years	4,451,692	4,442,095
2–3 years	2,411,958	2,518,017
Over 3 years	7,487,791	6,198,292
	45,316,100	40,147,632
Less: bad debt provision for trade receivables	5,183,675	4,018,645
	40,132,425	36,128,987

	2016				2015			
	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	550,842	1	550,842	100	422,515	1	422,515	100
For which bad debt provision has been collectively made								
0–6 months	24,828,643	55	–	–	23,327,507	59	–	–
7–12 months	6,136,016	14	243,641	4	3,633,304	9	154,226	4
13–18 months	2,603,915	6	492,503	19	3,178,010	8	575,048	18
19–24 months	1,847,777	4	705,922	38	1,264,085	3	557,141	44
2–3 years	2,411,958	5	1,186,332	49	2,518,017	6	806,122	32
Over 3 years	6,936,949	15	2,004,435	29	5,804,194	14	1,503,593	26
	44,765,258	99	4,632,833	10	39,725,117	99	3,596,130	9
	45,316,100	100	5,183,675		40,147,632	100	4,018,645	

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

1. Trade receivables (continued)

Movements in bad-debt provisions for trade receivables:

	Opening balance	Provision for the period	Write back	Write off	Closing balance
2016	**4,018,645**	**1,329,311**	**—**	**(164,281)**	**5,183,675**
2015	3,138,286	1,072,946	(158,612)	(33,975)	4,018,645

For 2016, bad-debt provision in respect of trade receivables which were individually significant and for which bad-debt provision had been made separately amounting to RMB164,281,000 (2015: RMB33,975,000) was cancelled. There was no write-back of bad-debt provision (2015: RMB45,650,000).

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".

2. Other receivables

The aging analysis of other receivables:

	2016	2015
Within 1 year	**7,660,224**	3,101,265
1–2 years	**2,960,763**	279,447
2–3 years	**104,769**	2,661,630
Over 3 years	**2,432,167**	2,616,751
	13,157,923	8,659,093

Other receivables are analysed as follows:

	2016	2015
Staff loans	**231,900**	215,216
Transactions with third parties	**12,926,023**	8,443,877
	13,157,923	8,659,093

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

3. Available-for-sale financial assets

	2016	2015
Available-for-sale equity instruments		
At cost	**458,091**	366,724

Available-for-sale financial assets at cost:

2016

	Book balance				**Shareholding percentage**	**Cash dividend for the year**
	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**	**(%)**	
航天科技投資控股有限公司	**201,734**	**—**	**—**	**201,734**	**5%**	**15,000**
Others	**164,990**	**95,943**	**(4,576)**	**256,357**		**4,671**
	366,724	**95,943**	**(4,576)**	**458,091**		**19,671**

2015

	Book balance				Shareholding percentage	Cash dividend for the year
	Opening balance	Increase during the year	Decrease during the year	Closing balance	(%)	
航天科技投資控股有限公司	201,734	—	—	201,734	5%	981
Others	171,821	—	(6,831)	164,990		14,000
	373,555	—	(6,831)	366,724		14,981

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term trade receivables

	2016	2015
Loans granted to subsidiaries (Note 1)	**5,879,893**	5,581,046
Installment payments for the provision of telecommunication system construction projects	**331,896**	380,812
Less: Bad debt provision for long-term receivables	**56,952**	53,361
	6,154,837	5,908,497

Note 1: Loans granted to subsidiaries set out above were interest-free, unsecured and not 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	Write back	Write off	Cancellation for the year	Closing balance
2016	**53,361**	**3,591**	**—**	**—**	**—**	**56,952**
2015	50,949	2,412	—	—	—	53,361

The interest rate of long-term trade receivables ranged from 3.08%–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

		2016	2015
Equity method			
Joint ventures	(1)	**54,520**	55,548
Associates	(2)	**475,572**	431,327
Less: Provision for impairment in long-term equity investments		**4,764**	4,764
		525,328	482,111
Cost method			
Subsidiaries	(3)	**10,261,001**	6,947,646
Less: Provision for impairment in long-term equity Investments	(4)	**78,849**	78,849
		10,182,152	6,868,797
		10,707,480	7,350,908

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2016

(1) Joint ventures

		Movements during the year								
	Balance as at the beginning	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 values as at the end of the year	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	53,756	–	–	764	–	–	–	–	54,520	–
江蘇中興微通信息科技有限公司	1,792	–	(1,792)	–	–	–	–	–	–	–
	55,548	–	(1,792)	764	–	–	–	–	54,520	–

(2) Associates

		Movements during the year								
	Balance as at the beginning	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 values as at the end of the year	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
ZTE Software Technology (Nanchang) Company Limited	3,722	–	–	702	–	–	–	–	4,424	–
ZTE Energy Co., Ltd	353,712	–	–	56,310	–	–	(13,677)	–	396,345	–
思卓中興(杭州)科技有限公司	20,843	–	–	1,021	–	–	–	–	21,864	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	5,079	–	–	(1,291)	–	–	–	–	3,788	–
上海中興群力信息科技有限公司	18,251	–	(18,251)	–	–	–	–	–	–	–
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	10,190	–	–	(2,135)	–	–	–	–	8,055	–
中興江蘇耀維科技	4,517	–	–	(297)	–	–	–	–	4,220	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	4,852	–	(1,515)	(692)	–	–	–	–	2,645	–
江蘇中興華易科技發展有限公司	2,920	–	(2,920)	–	–	–	–	–	–	–
廣東中興城智信息技術有限公司	–	3,510	–	–	–	–	–	–	3,510	–
上海博色信息科技有限公司	–	21,068	–	(569)	–	–	–	–	20,499	–
江蘇中興微通信息科技有限公司	–	1,792	–	(1,792)	–	–	–	–	–	–
南京寧綢科技有限公司	–	2,920	–	61	–	–	–	–	2,981	–
	426,563	29,290	(22,686)	51,318	–	–	(13,677)	–	470,808	(4,764)

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2016 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	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%	100%	–
ZTE Soft Technology Company Limited	250,441	89,921	160,520	250,441	89%	89%	160,520
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90%	90%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	–
ZTE Microelectronics Technology Company Limited	91,957	91,957	–	91,957	68%	68%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	–	179,767	90%	90%	–
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
Nubia Technology Limited	321,407	321,407	–	321,407	60%	60%	71,249
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100%	100%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	–	40,500	83%	83%	9,130
Guangdong New Pivot Technology & Service Company Limited	13,110	13,110	–	13,110	90%	90%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100%	100%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90%	90%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	–	15,200	76%	76%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100%	100%	–
PT. ZTE (Indonesia)	15,275	15,275	–	15,275	100%	100%	–
ZTE Wistron Telecom AB	2,137	2,137	–	2,137	100%	100%	–
ZTE Holdings (Thailand) Co., Ltd	10	10	–	10	100%	100%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100%	100%	–
ZTE (USA) Inc.	190,133	190,133	–	190,133	100%	100%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	100%	100%	–
ZTE DoBrasil LTDA	18,573	18,573	–	18,573	100%	100%	–
ZTE Romania S.R.L	827	827	–	827	100%	100%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100%	100%	–
ZTE-Communication Technologies, Ltd.	6,582	6,582	–	6,582	100%	100%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2016 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Zhongxing Telecom Pakistan (Private) Ltd	5,279	5,279	–	5,279	93%	93%	–
Closed Joint Stock Company TKMobile	16,871	16,871	–	16,871	51%	51%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55%	55%	8,250
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	278,700	215,400	(215,400)	–	31%	*	48,000
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100%	100%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100%	100%	–
ZTE Supply Chain Co., Ltd.	28,500	28,500	–	28,500	95%	95%	–
北京中興網捷科技有限公司	159,341	159,341	–	159,341	100%	100%	–
北京中興高達通信技術有限公司	47,500	45,125	2,375	47,500	100%	100%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100%	100%	–
天津中興智聯科技有限公司	29,340	29,340	(29,340)	–	5.14%	5.14%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100%	100%	–
福建海絲路科技有限公司	10,000	47,500	–	47,500	95%	95%	–
中興新能源汽車有限責任公司	112,500	42,500	70,000	112,500	85%	85%	–
西安中興通訊終端科技有限公司	300,000	300,000	–	300,000	100%	100%	–
中興健康科技有限公司	15,000	15,000	–	15,000	50%	50%	–
深圳市中興智谷科技有限公司	15,000	15,000	–	15,000	100%	100%	–
Jiaxing Xinghe Equity Investment Partnership	100,000	100,000	(7,200)	92,800	30%	*	–
中興捷維通訊技術有限責任公司	46,530	46,530	–	46,530	90%	90%	–
深圳市興聯達科技有限公司	30,000	30,000	–	30,000	100%	100%	–
西安中興精誠科技有限公司	9,393	9,393	–	9,393	100%	100%	–
北京市中保網盾科技有限公司	20,000	20,000	–	20,000	100%	100%	–
河南中興光伏科技有限責任公司	3,000	3,000	–	3,000	100%	100%	–
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	–	19,500	65%	65%	–
長沙中興智慧技術有限公司	350,000	10,000	340,000	350,000	100%	100%	–
深圳市中興視通科技有限公司	35,400	35,400	–	35,400	100%	100%	–
中興(溫州)軌道通訊技術有限公司	25,500	25,500	–	25,500	51%	51%	–
Zhongxing (Shenyang) Financial Technology Company Limited	22,000	22,000	–	22,000	100%	100%	–
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	–	50,000	100%	100%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2016 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Nanjing ZTE Investment Management Company Limited	950	950	(950)	–	10%	10%	–
ZTE (Huai'an) Smart Industries Company Limited	31,620	1,020	30,600	31,620	51%	51%	–
Shenzhen Zhiheng Technology Company Limited	2,000	1,000	1,000	2,000	100%	100%	–
中興飛流信息科技有限公司	20,000	–	20,000	20,000	51%	51%	–
中興高能技術有限責任公司	400,000	–	400,000	400,000	80%	80%	–
濟源中興智慧科技產業有限公司	2,550	–	2,550	2,550	51%	51%	–
瀋陽(中興)大數據研究有限公司	2,000	–	2,000	2,000	100%	100%	–
ZTE Smart Auto Company Limited	500,000	–	500,000	500,000	100%	100%	–
珠海市廣通客車有限公司	232,400	–	232,400	232,400	70%	70%	–
石家莊國創中興智慧城市設計有限公司*	2,000	–	2,000	2,000	80%	80%	–
ZTE Group Finance Holdings (Hangzhou) Limited	500,000	–	500,000	500,000	100%	100%	–
中興通訊（義烏）研究院有限公司	2,800	–	2,800	2,800	70%	70%	–
中興光電子技術有限公司	1,000,000	–	1,000,000	1,000,000	100%	100%	–
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	300,000	–	300,000	300,000	25%	·	–
		6,947,646	3,313,355	10,261,001			297,149

* 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)

2016 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	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	—	78,849

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2015

(1) Joint ventures

		Movements during the year								
	Balance as at the beginning	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 values as at the end of the year	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	50,485	–	–	3,271	–	–	–	–	53,756	–
江蘇中興微通信息科技有限公司	5,236	–	–	(3,444)	–	–	–	–	1,792	–
	55,721	–	–	(173)	–	–	–	–	55,548	–

(2) Associates

		Movements during the year								
	Balance as at the beginning	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 values as at the end of the year	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
ZTE Software Technology (Nanchang) Company Limited	–	–	–	3,722	–	–	–	–	3,722	–
ZTE Energy Co., Ltd	265,706	–	–	88,006	–	–	–	–	353,712	–
思卓中興(杭州)科技有限公司	20,012	–	–	831	–	–	–	–	20,843	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	7,016	–	–	(1,084)	–	–	(853)	–	5,079	–
上海中興群力信息科技有限公司	22,427	–	–	(4,176)	–	–	–	–	18,251	–
北京億科三友科技發展有限公司	4,764	–	–	–	–	–	–	(4,764)	–	(4,764)
上海中興思秸通訊有限公司	13,789	–	–	(3,599)	–	–	–	–	10,190	–
中興江蘇耀維科技	–	4,600	–	(83)	–	–	–	–	4,517	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	–	7,354	–	(2,502)	–	–	–	–	4,852	–
江蘇中興華易科技發展有限公司	1,656	–	–	1,264	–	–	–	–	2,920	–
	337,847	11,954	–	82,379	–	–	(853)	(4,764)	426,563	(4,764)

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2015 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	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%	100%	1,000,000
ZTEsoft Technology Company Limited	89,921	89,921	–	89,921	80.10%	80.10%	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90%	90%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	–
ZTE Microelectronics Technology Company Limited	91,957	102,174	(10,217)	91,957	68.4%	68.4%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	11,329	168,438	179,767	90%	90%	3,997
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80%	80%	–
Nubia Technology Limited	321,407	321,407	–	321,407	60%	60%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100%	100%	71,249
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	–	40,500	83%	83%	–
Guangdong New Pivot Technology & Service Company Limited	13,110	13,110	–	13,110	90%	90%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100%	100%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100%	100%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90%	90%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100%	100%	–
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	–	15,200	76%	76%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100%	100%	–
PT. ZTE Indonesia	15,275	15,275	–	15,275	100%	100%	–
ZTE Wistron Telecom AB	2,137	2,137	–	2,137	100%	100%	–
ZTE (Malaysia) Corporation SDN. BHD	–	496	(496)	–	100%	100%	–
ZTE Holdings (Thailand) Co., Ltd	10	10	–	10	100%	100%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100%	100%	–
ZTE (USA) Inc.	190,133	190,133	–	190,133	100%	100%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	100%	100%	–
ZTE DoBrasil LTDA	18,573	18,573	–	18,573	100%	100%	–
ZTE Romania S.R.L	827	827	–	827	100%	100%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100%	100%	–
ZTE-Communication Technologies, Ltd.	6,582	6,582	–	6,582	100%	100%	–
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	–	5,279	93%	93%	–
Closed Joint Stock Company TKMobile	16,871	16,871	–	16,871	51%	51%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55%	55%	6,050
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2015 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	215,400	257,400	(42,000)	215,400	31%	*	–
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100%	100%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100%	100%	–
ZTE Supply Chain Co., Ltd.	28,500	28,500	–	28,500	95%	95%	–
北京中興網捷科技有限公司	159,341	159,341	–	159,341	100%	100%	–
Anhui ZTE Communications and Media Company Limited	–	300	(300)	–	100%	100%	–
北京中興高達通信技術有限公司	45,125	45,125	–	45,125	95%	95%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100%	100%	–
天津中興智聯科技有限公司	29,340	32,600	(3,260)	29,340	90%	90%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100%	100%	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95%	95%	–
中興新能源汽車有限責任公司	42,500	42,500	–	42,500	85%	85%	–
西安中興通訊終端科技有限公司	300,000	300,000	–	300,000	100%	100%	–
中興健康科技有限公司	15,000	15,000	–	15,000	50%	50%	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	–	9,000	(9,000)	–	100%	100%	–
深圳市中興智谷科技有限公司	15,000	15,000	–	15,000	100%	100%	–
Jiaxing Xinghe Equity Investment Partnership	100,000	100,000	–	100,000	30%	*	–
中興捷維通訊技術有限責任公司	46,530	–	46,530	46,530	90%	90%	–
深圳市興聯達科技有限公司	30,000	–	30,000	30,000	100%	100%	–
西安中興精誠科技有限公司	9,393	–	9,393	9,393	100%	100%	–
北京市中保網盾科技有限公司	20,000	–	20,000	20,000	100%	100%	–
河南中興光伏科技有限責任公司	3,000	–	3,000	3,000	100%	100%	–
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	–	19,500	19,500	65%	65%	–
長沙中興智慧技術有限公司	10,000	–	10,000	10,000	100%	100%	–
深圳市中興視通科技有限公司	35,400	–	35,400	35,400	100%	100%	–
中興(溫州)軌道通訊技術有限公司	25,500	–	25,500	25,500	51%	51%	–
Zhongxing (Shenyang) Financial Technology Company Limited	22,000	–	22,000	22,000	100%	100%	–
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	–	50,000	50,000	100%	100%	–
Nanjing ZTE Investment Management Company Limited	950	–	950	950	95%	95%	–
ZTE (Huai'an) Smart Industries Company Limited	1,020	–	1,020	1,020	51%	51%	–
Shenzhen Zhiheng Technology Company Limited	1,000	–	1,000	1,000	100%	100%	–
		6,570,188	377,458	6,947,646			1,081,296

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5. Long-term equity investments (continued)

2015 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	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
ZTE (Malaysia) Corporation SDN. BHD	496	(496)	—
	79,345	(496)	78,849

6. Operating revenue and costs

	2016		2015	
	Revenue	**Cost**	Revenue	Cost
Major business	**75,315,989**	**75,855,395**	75,312,227	74,905,452
Other business	**15,574,489**	**197,753**	14,453,480	982
	90,890,478	**76,053,148**	89,765,707	74,906,434

Notes to Financial Statements

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

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

7. Investment income

	2016	2015
Investment gain from long-term equity investment under equity method	**52,082**	82,206
Investment income from long-term equity investment under cost method	**297,149**	1,081,296
Investment gain earned during the period of holding available-for-sale financial assets	**19,671**	14,981
Investment income/(loss) from financial assets at fair value through profit and loss for the period of holding	**(36,806)**	77,266
Gain from the disposal of available-for-sale financial assets	**—**	39,177
Investment income from the disposal of long-term equity investment	**164,170**	66,655
	496,266	1,361,581

Supplementary Information to Financial Statements

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

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	2016 Amount
Loss from the disposal of non-current assets	(22,514)
Investment gain from the disposal of long-term equity investments	1,151,046
Gain 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	437,980
Gain from change in fair value of investment properties	6,074
Net amount of other non-operating income and expenses	(6,028,603)
	(4,494,376)
Effect of income tax	185,202
Effect of non-controlling interests (net of tax)	(217,370)
	(4,488,185)

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:

	2016 Amount	Reason
Refund of VAT on software products	3,064,228	In line with national policies and received on an ongoing basis
Return of tax refund fee	5,573	In line with national policies and received on an ongoing basis
Special financial subsidies	468,611	In line with national policies and received on an ongoing basis
Venture capital firm investment income	590,002	Within the scope of business

Supplementary Information to Financial Statements

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

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

2016

	Weighted average return on net assets (%)	**Earnings per share**	
		Basic	**Diluted**
Net profit attributable to ordinary shareholders of the Company	**(8.40%)**	**RMB(0.57)**	**RMB(0.57)**
Net profit after extraordinary items attributable to ordinary shareholders of the Company	**7.59%**	**RMB0.51**	**RMB0.51**

2015

	Weighted average return on net assets (%)	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	12.28%	RMB0.78	RMB0.77
Net profit after extraordinary items attributable to ordinary shareholders of the Company	9.87%	RMB0.62	RMB0.62

3. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs for the period. Ernst & Young is the auditor for the Group and Company's financial statements prepared under HKFRSs.

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 337 to 439, which comprise the consolidated statement of financial position as at 31 December 2016, 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 2016, 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.

Independent Auditors' Report (continued)

Key Audit Matters (continued)

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
Percentage of Completion ("POC") method of construction contract	
For elements related to customised network solutions and certain network build-outs, revenues and cost are recognised under construction contract using the percentage of completion method. The percentage of completion is determined using the proportion of total actual costs incurred to date compared to the total estimated contract costs for each individual contract. In adopting the percentage of completion method, significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a foreseeable loss is expected to be incurred on the contracts. Management generally based on their historical experiences, project plans and the assessment of the inherent risks and uncertainties in the arrangements to make those judgements. Uncertainties include project delays or performance issues. Changes in these estimates could result in a material impact on revenues and cost. The relevant disclosures are contained in notes 2.4 summary of significant accounting policies, 3 significant accounting judgements and estimates, 5 revenue, other income and gains and 23 amount due from customers for contract works to the financial statements.	Our audit procedures mainly included: obtained an understanding of the Group's project management processes and evaluated its respective internal controls, including budgeting, cost incurred to date, percentage of completion calculation and etc.; performed test of details e.g. selected some contracts and checked the contract date, contract amount and other key clauses; vouched to invoices and hours incurred to examine the cost of the project and recalculated the percentage of completion.

Independent Auditors' Report (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment of trade receivables The carrying amount of trade receivables as at 31 December 2016 was approximately RMB29,359,244,000, represents 21% of the Group's total asset. The Group conducts impairment tests in respect of its trade receivables that are individually significant and made provision for impairment when there is objective evidence of impairment. Such impairment was made in accordance with the management's judgement and estimation which was based on the relevant objective evidence. For trade receivables that are not individually significant and those are individually significant but with no objective evidence of impairment exists, the Group includes the trade receivables in a group of trade receivables with similar credit risk characteristics (customer type, aging and etc.) and collectively assesses them for impairment. Management then assessed the impairment of different groups of trade receivables based on their respective credit rating and collection history. The impairment percentages of different groups were subject to management's comprehensive judgment. The relevant disclosures are contained in note 2.4 summary of significant accounting policies, 3 significant accounting judgements and estimates, notes 24 trade and bills receivables/long-term trade receivables to the financial statements.	We obtained an understanding of the Group's processes with respect to trade receivables recoverability estimation and evaluated the respective controls. As for the trade receivables that are individually significant, our audit procedures mainly included: investigated the objective evidences that triggered the impairment provision; checked the resolution of board of directors relating to provision and the write-off of impairment loss; analysed and examined whether there is any objective evidence shows that trade receivables which were previously impaired had been recovered and checked whether trade receivables were collected subsequent to the reporting period. As for the impairment test of trade receivables that are not individually significant and those are individually significant but with no objective evidence of impairment exists, our audit procedures mainly included: tested the management's aging analysis by checking the original documents (eg. invoice, bank-slip and etc); and evaluated the impairment percentage of each aging group by examining the collection history and default records.

Independent Auditors' Report (continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Write-down of inventories to net realisable value	
The carrying amount of inventories as at 31 December 2016, was approximately RMB26,810,568,000, represents 19% of the Group's total asset. 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 management's estimates on selling prices, any estimated costs to be incurred upon completion of production and disposal. The relevant disclosures are contained in notes 2.4 summary of significant accounting policies, 3 significant accounting judgements and estimates and 22 inventories to the financial statements.	Our audit procedures mainly included: obtained an understanding of the Group's inventories impairment provision processes and evaluated its respective controls; observed the stocktaking process to identify whether the damaged, slow-moving and obsolete inventories were identified; tested the aging analysis of inventories by checking the original documents; evaluated the net realisable value calculation made by the management and assessed the key assumptions such as selling prices, any estimated costs to be incurred upon the completion of production and disposal.

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.

Independent Auditors' Report (continued)

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.

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.

Independent Auditors' Report (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

- 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.

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 Law Kwok Kee.

Certified Public Accountants
Hong Kong

23 March 2017

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Notes	2016 RMB'000	2015 RMB'000
REVENUE	5	**101,233,182**	100,186,389
Cost of sales		**(71,609,374)**	(71,093,321)
Gross profit		**29,623,808**	29,093,068
Other income and gains	5	**7,485,751**	5,419,489
Research and development costs		**(12,762,055)**	(12,200,542)
Selling and distribution expenses		**(12,622,371)**	(11,940,953)
Administrative expenses		**(2,730,950)**	(2,514,135)
Other expenses		**(8,650,966)**	(2,347,593)
Finance costs	7	**(1,156,134)**	(1,269,080)
Share of profits and losses of:			
Joint ventures		**(4,984)**	(5,281)
Associates		**50,150**	68,559
PROFIT/(LOSS) BEFORE TAX	6	**(767,751)**	4,303,532
Income tax expense	10	**(640,118)**	(563,262)
PROFIT/(LOSS) FOR THE YEAR		**(1,407,869)**	3,740,270
Attributable to:			
Ordinary equity holders of the parent		**(2,357,418)**	3,207,885
Perpetual capital instruments		**501,300**	416,627
Non-controlling interests		**448,249**	115,758
		(1,407,869)	3,740,270
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods:			
Hedges — effective portion of changes in fair value of hedging instruments arising during the year		**(57,047)**	8,499
Changes in fair value of available-for-sale investments, net of tax		**187,275**	712,418
Exchange differences on translation of foreign operations		**(136,129)**	(367,195)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**(5,901)**	353,722
Other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods:			
Actuarial loss on defined benefit plans	33	**743**	(26,066)
Net other comprehensive loss not to be reclassified to profit or loss in subsequent periods		**743**	(26,066)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**(5,158)**	327,656
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**(1,413,027)**	4,067,926
Attributable to:			
Ordinary equity holders of the parent		**(2,495,075)**	2,987,093
Perpetual capital instruments	40	**501,300**	416,627
Non-controlling interests		**580,748**	664,206
		(1,413,027)	4,067,926
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**RMB(0.57)**	RMB0.78
Diluted		**RMB(0.57)**	RMB0.77

Consolidated Statement of Financial Position

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

	Notes	**31 December 2016 RMB'000**	31 December 2015 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**9,280,644**	8,368,754
Investment properties	14	**2,016,470**	2,010,396
Prepaid land lease payments	15	**1,237,174**	1,214,106
Goodwill	16	**186,206**	—
Other intangible assets	17	**4,454,427**	3,772,451
Investments in joint ventures	19	**64,322**	77,341
Investments in associates	20	**601,554**	483,598
Available-for-sale investments	21	**2,659,667**	2,381,467
Long-term trade receivables	24	**1,376,563**	362,831
Factored long-term trade receivables	25	**1,391,746**	1,593,528
Deferred tax assets	36	**1,604,575**	1,434,143
Pledged deposits	28	**3,258,533**	3,515,601
Long-term prepayments, deposits and other receivables	18	**628,584**	359,587
Total non-current assets		**28,760,465**	25,573,803
CURRENT ASSETS			
Prepaid land lease payments	15	**28,385**	27,704
Inventories	22	**26,810,568**	19,731,741
Amount due from customers for contract works	23	**9,345,123**	13,928,446
Trade and bills receivables	24	**27,982,681**	28,714,645
Factored trade receivables	25	**2,261,280**	1,272,068
Prepayments, deposits and other receivables	26	**13,814,908**	7,304,441
Derivative financial instruments	27	**54,857**	10,110
Pledged deposits	28	**1,213,920**	1,202,984
Time deposits with original maturity of over three months	28	**1,086,203**	205,029
Cash and cash equivalents	28	**30,049,791**	26,616,996
Total current assets		**112,647,716**	99,014,164
CURRENT LIABILITIES			
Trade and bills payables	29	**36,933,838**	32,817,995
Amount due to customers for contract works	23	**5,876,790**	4,423,103
Other payables and accruals	30	**27,873,988**	15,003,939
Derivative financial instruments	27	**40,148**	19,840
Interest-bearing bank borrowings	31	**17,064,145**	12,525,176
Bank advances on factored trade receivables	25	**2,263,015**	1,273,346
Tax payable		**524,762**	484,627
Dividends payable		**50,317**	7,418
Bonds payable	32	**—**	4,000,000
Provision	35	**887,366**	776,682
Total current liabilities		**91,514,369**	71,332,126
NET CURRENT ASSETS		**21,133,347**	27,682,038
TOTAL ASSETS LESS CURRENT LIABILITIES		**49,893,812**	53,255,841

Consolidated Statement of Financial Position (continued)

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

	Notes	**31 December 2016 RMB'000**	31 December 2015 RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	**5,018,276**	6,016,254
Bank advances on factored long-term trade receivables	24	**1,391,746**	1,593,528
Financial guarantee contract	45	**—**	3,689
Deferred tax liabilities	36	**98,380**	52,769
Provision for retirement benefits	33	**146,106**	144,280
Other non-current liabilities	34	**2,354,214**	2,096,716
Total non-current liabilities		**9,008,722**	9,907,236
Net assets		**40,885,090**	43,348,605
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Issued capital	37	**4,184,628**	4,150,791
Reserves	39	**22,216,523**	25,509,303
		26,401,151	29,660,094
Perpetual capital instruments	40	**9,321,327**	9,321,327
Non-controlling interests		**5,162,612**	4,367,184
Total equity		**40,885,090**	43,348,605

Yin Yimin
Director

Zhao Xianming
Director

Consolidated Statement of Changes in Equity

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

		Attributable to ordinary equity holders of the parent										
	Notes	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 2015		3,437,541	9,426,382	(7,107)	201,097	1,769,012	(1,359,893)	11,411,542	24,878,574	–	1,413,930	26,292,504
Profit for the year		–	–	–	–	–	–	3,207,885	3,207,885	416,627	115,758	3,740,270
Other comprehensive income for the year:												
Hedges, net of tax		–	–	8,499	–	–	–	–	8,499	–	–	8,499
Actuarial losses on defined benefit plans		–	(26,066)	–	–	–	–	–	(26,066)	–	–	(26,066)
Changes in fair value of available-for-sale investments, net of tax		–	163,724	–	–	–	–	–	163,724	–	548,694	712,418
Exchange differences on translation of foreign operations		–	–	–	–	–	(366,949)	–	(366,949)	–	(246)	(367,195)
Total comprehensive income/(loss) for the year		–	137,658	8,499	–	–	(366,949)	3,207,885	2,987,093	416,627	664,206	4,067,926
Issue of shares		25,742	383,181	–	(120,101)	–	–	–	288,822	–	–	288,822
Issuance of perpetual capital instruments		–	–	–	–	–	–	–	–	8,904,700	–	8,904,700
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(13,968)	(13,968)
Capital contributions by non-controlling shareholders		–	2,026,284	–	–	–	–	–	2,026,284	–	2,487,591	4,513,875
Acquisition of non-controlling shareholders		–	–	–	–	–	–	–	–	–	(10,175)	(10,175)
Capital withdrawal by non-controlling shareholders		–	–	–	–	–	–	–	–	–	(174,400)	(174,400)
Final 2014 dividend declared		–	–	–	–	–	–	(687,508)	(687,508)	–	–	(687,508)
Share Incentive Scheme:	38											
– Equity-settled share option expense		–	–	–	166,829	–	–	–	166,829	–	–	166,829
Transfer from capital reserve		687,508	(687,508)	–	–	–	–	–	–	–	–	–
Transfer from retained profits		–	–	–	–	253,697	–	(253,697)	–	–	–	–
At 31 December 2015		4,150,791	11,285,997*	1,392*	247,825*	2,022,709*	(1,726,842)*	13,678,222*	29,660,094	9,321,327	4,367,184	43,348,605

Consolidated Statement of Changes in Equity (continued)

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

		Attributable to ordinary equity holders of the parent										
	Notes	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 2016		4,150,791	11,285,997	1,392	247,825	2,022,709	(1,726,842)	13,678,222	29,660,094	9,321,327	4,367,184	43,348,605
Profit for the year		–	–	–	–	–	–	(2,357,418)	(2,357,418)	501,300	448,249	(1,407,869)
Other comprehensive income for the year:												
Hedges, net of tax		–	–	(57,047)	–	–	–	–	(57,047)	–	–	(57,047)
Actuarial gain on defined benefit plans		–	743	–	–	–	–	–	743	–	–	743
Changes in fair value of available-for-sale investments, net of tax		–	58,780	–	–	–	–	–	58,780	–	128,495	187,275
Exchange differences on translation of foreign operations		–	–	–	–	–	(140,133)	–	(140,133)	–	4,004	(136,129)
Total comprehensive income/(loss) for the year		–	59,523	(57,047)	–	–	(140,133)	(2,357,418)	(2,495,075)	501,300	580,748	(1,413,027)
Issue of shares		33,837	463,292	–	(125,069)	–	–	–	372,060	–	–	372,060
Capital contributions by non-controlling shareholders		–	–	–	–	–	–	–	–	–	1,081,690	1,081,690
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(205,672)	(205,672)
Acquisition of non-controlling shareholders		–	–	–	–	–	–	–	–	–	(229,351)	(229,351)
Capital withdrawal by non-controlling shareholders		–	–	–	–	–	–	–	–	–	(431,987)	(431,987)
Final 2015 dividend declared		–	–	–	–	–	–	(1,038,566)	(1,038,566)	(501,300)	–	(1,539,866)
Share Incentive Scheme:	38											
— Equity-settled share option expense		–	–	–	(97,362)	–	–	–	(97,362)	–	–	(97,362)
At 31 December 2016		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

* These reserve accounts comprise the consolidated reserves of approximately RMB22,216,523,000 (2015: RMB25,509,303,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

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

	Notes	2016 RMB'000	2015 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**(767,751)**	4,303,532
Adjustments for:			
Finance costs	7	**1,156,134**	1,269,080
Share of profits and losses of joint ventures		**4,984**	5,281
Share of profits and losses of associates		**(50,150)**	(68,559)
Bank and other interest income	5	**(740,988)**	(527,886)
Dividend income	5	**(29,991)**	(25,005)
Loss on disposal of items of property, plant and equipment	6	**22,514**	28,874
Gain on disposal of subsidiaries	6	**(1,151,046)**	(9,789)
Gain on disposal of available-for-sale investments	6	**(553,228)**	(297,974)
Fair value (gain)/loss on derivative instruments — transactions not qualifying as hedges	6	**(23,904)**	189,614
Gain on disposal of derivative financial instruments	6	**139,152**	(299,573)
Depreciation	13	**1,285,360**	1,131,453
Recognition of prepaid land lease payments	15	**32,064**	26,484
Amortisation of intangible assets	16	**1,149,084**	955,832
Write-down of inventories to net realisable value	6	**636,161**	567,014
Impairment of trade receivables	6	**2,110,620**	1,602,446
Impairment of property, plant and equipment	6	**45,270**	13,247
Impairment of a long-term investment	6	**—**	4,764
Impairment of the amount due from customers for contract works	6	**61,076**	—
Equity-settled share option expense	6	**(97,362)**	166,829
Changes in fair value of investment properties	6	**(6,074)**	(5,931)
		3,221,925	9,029,733
Increase in inventories		**(7,500,775)**	(706,457)
(Increase)/decrease in the amount due from customers for contract works		**4,522,247**	(2,894,978)
Increase in trade and bills receivables		**(1,321,088)**	(1,337,357)
Increase in long-term trade receivables		**(1,013,732)**	(96,330)
(Increase)/decrease in factored trade receivables		**(787,430)**	1,997,087
Increase in prepayments, deposits and other receivables		**(6,586,468)**	(988,600)
Increase in trade and bills payables		**3,829,967**	3,191,907
Increase in the amount due to customers for contract works		**1,453,687**	597,997
Increase/(decrease) in other payables and accruals		**10,348,214**	(829,050)
Increase in provision for retirement benefits		**2,569**	2,764
Increase in other non-current assets		**(305,495)**	—
Cash generated from operations		**5,863,621**	7,966,716

Consolidated Statement of Cash Flows (continued)

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

	Notes	2016 RMB'000	2015 RMB'000
Cash generated from operations		**5,863,621**	7,966,716
Interest received		**745,338**	555,354
Interest and other finance costs paid		**(1,099,910)**	(1,355,453)
Hong Kong profits tax paid		**(14,757)**	(73,812)
PRC taxes paid		**(429,676)**	(487,258)
Overseas taxes paid		**(269,278)**	(262,927)
Dividends paid		**(1,038,566)**	(687,508)
Dividends paid to non-controlling shareholders		**(162,773)**	(14,663)
Interest paid to perpetual bondholders		**(501,300)**	—
Net cash flows from operating activities		**3,092,699**	5,640,449
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to prepaid land lease payments		**(55,813)**	(161,608)
Purchases of items of property, plant and equipment		**(2,074,944)**	(1,603,693)
Purchases of intangible assets		**(1,871,703)**	(703,809)
Proceeds from disposal of items of property, plant and equipment		**98,620**	23,734
Acquisition of joint ventures		**(25,500)**	(60,758)
Capital contribution to associates		**(23,610)**	(27,163)
Purchases of available-for-sale investments		**(275,663)**	(488,286)
Addition to other receivables		**445,805**	129,183
Disposal of subsidiaries	43	**964,261**	12,227
Disposal of associates		**57,769**	—
Acquisition of a subsidiary		**(216,892)**	—
Dividend received from associates		**13,677**	853
Dividend received from available-for-sale investments		**29,991**	25,005
Proceeds from available-for-sale investments		**639,815**	650,155
Proceeds from settlement of derivative financial instruments		**(724,787)**	578,805
Increase in time deposits with original maturity of over three months		**(881,174)**	(37,601)
Decrease/(increase) in pledged bank deposits		**246,132**	(255,807)
Decrease in other non-current assets		**—**	50,000
Net cash flows used in investing activities		**(3,654,016)**	(1,868,763)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		**372,060**	288,822
Issuance of perpetual capital instruments		**—**	8,904,700
Capital contribution by non-controlling shareholders		**2,821,905**	2,719,680
Return capital to non-controlling shareholders		**(431,987)**	(174,400)
Acquisition of non-controlling interests		**(229,351)**	—
New bank loans		**30,425,813**	17,736,335
Repayment of bank loans		**(29,717,269)**	(21,825,016)
Increase/(decrease) in bank advances on factored trade receivables		**787,887**	(2,010,536)
Net cash flows from financing activities		**4,029,058**	5,639,585

Consolidated Statement of Cash Flows (continued)

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

	Notes	2016 RMB'000	2015 RMB'000
NET INCREASE IN CASH AND CASH EQUIVALENTS		**3,467,741**	9,411,271
Cash and cash equivalents at beginning of year		**26,616,996**	17,230,140
Effect of foreign exchange rate changes, net		**(34,946)**	(24,415)
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	**30,049,791**	26,616,996
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	28	**19,172,357**	26,073,938
Time deposits with original maturity of less than three months	28	**10,877,434**	543,058
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**30,049,791**	26,616,996

Notes to Financial Statements

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

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 telecommunications 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 Shenzhen Zhongxingxin Telecommunications Equipment 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
ZTEsoft Technology Company Limited# (i) (中興軟創科技股份有限公司)	The PRC/ Mainland China	RMB540,000,000	89	—	Sale and development of business operation support systems
Zhongxing Software Company Limited ("Zhongxing Software")# (i) (深圳市中興軟件有限責任公司)	The PRC/ Mainland China	RMB51,080,000	100	—	Development of telecommunications software systems and provision of related consultancy services
Xi'an Zhongxing New Software Company Limited ("Xi'an Zhongxing New Software")# (i) (西安中興新軟件有限責任公司)	The PRC/ Mainland China	RMB600,000,000	100	—	Development of telecommunications software systems and provision of related consultancy services
ZTE (Hangzhou) Company Limited# (i) (中興通訊（杭州）有限責任公司)	The PRC/ Mainland China	RMB100,000,000	100	—	Telecommunications and related equipment manufacturing
Nubia Technology Co., Ltd. (formerly known as "ZTE Mobile Tech Company Limited")# (i) (努比亞技術有限公司)	The PRC/ Mainland China	RMB118,748,300	60	—	Development, manufacture and sale of telecommunications 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 telecommunications system equipment and provision of management services
Shenzhen Zhongxing ICT Company Limited# (i) (深圳中興網信科技有限公司)	The PRC/ Mainland China	RMB100,000,000	90	—	Design and sale of corporate management hardware/ software products
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 telecommunications related products
Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited# (i) (上海中興通訊技術有限責任公司)	The PRC/ Mainland China	RMB10,000,000	90	—	Development, manufacture and sale of telecommunications 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 2016

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

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

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

(b) rights arising from other contractual arranges; and

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

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

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

Notes to Financial Statements

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

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

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

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

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

Notes to Financial Statements

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

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

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

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

(i) the materiality requirements in HKAS 1;

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

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

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

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

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

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

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

Notes to Financial Statements

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(f) Details of amendments under *Annual Improvements to HKFRSs 2012–2014 Cycle*

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

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

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

[1] Effective for annual periods beginning on or after 1 January 2017

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

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

[4] No mandatory effective date yet determined but available for adoption

Notes to Financial Statements

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

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 as follows:

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

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

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

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

Notes to Financial Statements

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

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

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

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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.

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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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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;

(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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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.

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.

Operating concession

Operating concession 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 operating concession 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Research and development costs (continued)

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

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (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" 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.

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 (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" 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

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 (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

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

Financial assets carried at amortised cost (continued)

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.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, 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, net of directly attributable transaction costs.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Initial recognition and measurement (continued)

The Group's financial liabilities include trade and bills payables, bank advances on factored trade receivables, interest-bearing bank borrowings, a financial guarantee contract, bonds cum warrants, bonds payable, other payables and accruals, factoring costs payable and derivative financial instruments.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

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.

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

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 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial liabilities

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.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Derivative financial instruments and hedge accounting

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.

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. 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 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 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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Initial recognition and subsequent measurement (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

Fair value hedges

The change in the fair value of a hedging derivative is recognised in profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in profit or loss. The changes in the fair value of the hedging instrument are also recognised in profit or loss.

Cash flow hedges

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in profit or loss as other expenses.

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 financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

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 (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

Contract revenue comprises the agreed contract amount and appropriate amounts from variation orders, claims and incentive payments in respect of telecommunications 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 telecommunications 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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

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.

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.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

- 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 a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

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 income on a systematic basis over the period that the costs, which it is intended to compensate, are expensed. Where the grant relates to an asset, the fair value is credited to other payables or other long-term payable accounts and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

Notes to Financial Statements

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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 telecommunications system contracts, on the percentage of completion basis, as further explained in the accounting policy for "Construction contracts" 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.

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

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 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 pricing model, further details of which are given in note 38 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.

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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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

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).

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.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

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:

Revenue recognition

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 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, 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, 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.

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.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue recognition (continued)

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 is more than incidental to hardware can 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 adopting 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 foreseeable 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 project delays or performance issues. Changes in these estimates could result in a material impact on revenues and cost.

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 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.

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 had been received or where delivery had 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.

Notes to Financial Statements

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

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 withholding taxes

Deferred tax liability should be recognised for all taxable temporary differences associated with investments in subsidiaries, branches and associates, and interests in joint arrangements, but significant management judgement is required to determine the amount of deferred tax liabilities that can be recognised, based upon the likely dividends declared. 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 these subsidiaries and it is not probable that these subsidiaries will make such profit distribution in the foreseeable future. Therefore, the Group has not recognised any deferred tax liability for withholding taxes. More details are set out in note 35.

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.

Depreciation and amortisation

Depreciation and amortisation is 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.

Impairment of intangible assets and property, plant and equipment

The carrying amount of property, plant and equipment as at 31 December 2016 was approximately RMB9,280,644,000 (2015: RMB8,368,754,000). The carrying amount of intangible assets as at 31 December 2016 was RMB4,454,427,000 (2015: RMB3,772,451,000). More details are set out in notes 13 and 17.

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.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Depreciation and amortisation (continued)

Impairment of trade receivables

The carrying amount of trade receivables as at 31 December 2016 was approximately RMB29,359,244,000 (2015: RMB29,077,476,000).

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 2016 was RMB25,689,000 (2015: RMB452,643,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2016 was RMB6,151,478,000 (2015: RMB3,777,658,000). Further details are contained in note 36 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 2016, the best estimate of the carrying amount of capitalised development costs was RMB3,884,928,000 (2015: RMB3,423,563,000).

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 2016, the carrying amount of inventories was RMB26,810,568,000 (2015: RMB19,731,741,000).

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Depreciation and amortisation (continued)

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 14 to the financial statements. The carrying amount of investment properties at 31 December 2016 was RMB2,016,470,000 (2015: RMB2,010,396,000).

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 2016 was RMB754,104,000 (2015: RMB588,845,000).

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 of carriers by providing wireless networks, wireline networks, core networks, telecommunications software systems and services and other innovative technologies and product solutions.

(b) The Consumer Business segment focuses on bringing experience in smart devices to customers while also catering to the demands of industry and corporate clients through the development, production and sale of products such as smart phones, mobile broadband, family terminals, innovative fusion terminals, wearable devices, as well as the provision of related software application and value-added services.

(c) The Government and Corporate Business segment focuses on meeting the demands of government and corporate clients, proving top-level design and consultation services as well as implementation, operation and maintenance of integrated informatisation solutions for the government and corporate informatisation projects through the application of Cloud Computing, communications networks, Internet of Things, Big Data technologies and related core M-ICT products.

Notes to Financial Statements

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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/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from the measurement.

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

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

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

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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4. OPERATING SEGMENT INFORMATION (continued)

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

Notes to Financial Statements

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

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 2016 in the amount of RMB18,166 million (2015: one single customer individually accounted for more than 10% of the Group's consolidated revenue for 2015 in the amount of RMB18,843 million).

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5. REVENUE, OTHER INCOME AND GAINS

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

An analysis of revenue, other income and gains is as follows:

	2016	2015
	RMB'000	RMB'000
Revenue		
Telecommunications system contracts	**63,483,211**	65,497,286
Sale of goods and services	**37,619,825**	34,557,773
Rental income	**130,146**	131,330
	101,233,182	100,186,389
Other income		
VAT refunds and other tax subsidies#	**2,639,155**	2,543,261
Dividend income	**29,991**	25,005
Bank and other interest income##	**740,988**	527,886
Others###	**1,722,393**	1,899,684
	5,132,527	4,995,836
Gains		
Gain on disposal of available-for-sale investments	**553,228**	297,974
Gain on disposal of equity interests	**1,151,046**	9,789
Derivative instruments	**23,904**	109,959
Fair value gains on investment properties	**6,074**	5,931
Foreign exchange gain	**618,972**	—
	2,353,224	423,653
	7,485,751	5,419,489

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

The bank and other interest income for the year ended 31 December 2016 includes the interest income generated from ZTE Group Finance Company Ltd amounting to RMB308,266,000 (2015: RMB222,573,000).

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	2016 RMB'000	2015 RMB'000
Cost of goods and services		**66,686,236**	63,887,788
Depreciation	13	**1,285,360**	1,131,453
Amortisation of land lease payments	15	**32,064**	26,484
Amortisation of intangible assets other than deferred development costs	17	**163,102**	74,981
Research and development costs:			
Deferred development costs amortised	17	**985,982**	880,851
Current year expenditure		**13,223,420**	12,140,600
Less: Deferred development costs		**(1,447,347)**	(820,909)
		12,762,055	12,200,542
Fair value (gains)/losses, net:			
Derivative instruments	27	**(23,904)**	189,614
Investment properties	14	**(6,074)**	(5,931)
Impairment of trade receivables*	24	**2,110,620**	1,602,446
Impairment of amount due from customers for contract works*	24	**61,076**	—
Provision for warranties**	35	**1,052,162**	758,863
Provision for legal obligation*	35	**39,740**	120,882
Costs related to the comprehensive settlement with US authorities*		**6,182,452**	—
Write-down of inventories to net realisable value**		**636,161**	567,014
Impairment of a long term equity investment*		**—**	4,764
Impairment of items of property, plant and equipment*	13	**45,270**	13,247
Minimum lease payments under operating leases on land and buildings		**660,860**	629,481
Contingent rental income in respect of operating leases	47(a)	**(47,832)**	(47,113)
Auditor's remuneration		**8,291**	7,337
Staff costs (including directors', chief executives' and supervisors' remuneration in note 8):			
Wages, salaries, bonuses, allowances and welfare		**17,724,261**	14,522,965
Equity-settled share option expense		**(97,362)**	166,829
Retirement benefit scheme contributions:			
Defined benefit pension scheme	33	**4,599**	4,538
Defined contribution pension schemes		**1,053,473**	1,086,682
		18,684,971	15,781,014
Foreign exchange (gain)/loss*		**(618,972)**	267,254
Loss on disposal of items of property, plant and equipment*		**22,514**	28,874
Gain on disposal of subsidiaries*		**(1,151,046)**	(9,789)
(Gain)/loss on disposal of derivative financial instruments*		**139,152**	(299,573)
Gain on disposal of available-for-sale investments		**(553,228)**	(297,974)

* The impairment of trade receivables, impairment of amount due from customers for contract works, impairment of a long term equity investment, impairment of items of property, plant and equipment, provision for legal obligation, costs related to the comprehensive settlement with US authorities, foreign exchange loss, loss on disposal of items of property, plant and equipment, and loss on disposal of derivative financial instruments are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

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

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7. FINANCE COSTS

An analysis of finance costs is as follows:

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

8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION

Directors' and chief executive's 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:

	2016 RMB'000	2015 RMB'000
Fees	**—**	—
Other emoluments of directors, chief executives and supervisors:		
Salaries, bonuses, allowances and welfare	**8,154**	7,634
Performance-related bonuses*	**12,248**	17,028
Retirement benefit scheme contributions	**128**	236
	20,530	24,898

* 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:

	2016 RMB'000	2015 RMB'000
Qu Xiaohui	**—**	72
Wei Wei	**—**	72
Chen Naiwei	**—**	72
Tan Zhenhui	**32**	130
Zhang Xike	**130**	130
Chen Shaohua	**130**	58
Lv Hongbing	**130**	58
Teng Binsheng	**130**	58
Zhu Wuxiang	**98**	—
	650	650

There were no other emoluments payable to the independent non-executive directors during the year (2015: Nil).

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors

	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
2016						
Executive directors:						
Yin Yimin	—	804	1,068	—	32	1,904
Zhao Xianming	—	1,023	6,284	—	32	7,339
Wei Zaisheng	—	977	2,325	—	32	3,334
	—	2,804	9,677	—	96	12,577
Non-executive directors:						
Hou Weigui	—	730	—	—	—	730
Zhang Jianheng	—	100	—	—	—	100
Luan Jubao	—	100	—	—	—	100
Shi Lirong	—	1,194	—	—	32	1,226
Wang Yawen	—	100	—	—	—	100
Tian Dongfang	—	100	—	—	—	100
Zhan Yichao	—	100	—	—	—	100
	—	2,424	—	—	32	2,456
	—	5,228	9,677	—	128	15,033
Supervisors:						
Xie Daxiong	—	795	2,273	—	32	3,100
Zhou Huidong	—	500	298	—	32	830
Xu Weiyan	—	624	—	—	32	656
Wang Junfeng	—	—	—	—	—	—
Xia xiaoyue	—	357	—	—	32	389
Chang Qing	—	—	—	—	—	—
	—	2,276	2,571	—	128	4,975

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8. 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
2015						
Executive directors:						
Yin Yimin	—	727	400	—	28	1,155
Shi Lirong	—	1,110	4,432	—	28	5,570
He Shiyou	—	802	—	—	40	842
Zhao Xianming	—	848	6,815	—	28	7,691
	—	3,487	11,647	—	124	15,258
Non-executive directors:						
Hou Weigui	—	681	2,253	—	—	2,934
Xie Weiliang	—	92	—	—	—	92
Zhang Junchao	—	92	—	—	—	92
Wang Zhanchen	—	92	—	—	—	92
Dong Lianbo	—	92	—	—	—	92
Zhang Jianheng	—	100	—	—	—	100
Luan Jubao	—	8	—	—	—	8
Wang Yawen	—	8	—	—	—	8
Tian Dongfang	—	8	—	—	—	8
Zhan Yichao	—	8	—	—	—	8
	—	1,181	2,253	—	—	3,434
	—	4,668	13,900	—	124	18,692
Supervisors:						
Xie Daxiong	—	789	2,253	—	28	3,070
He Xuemei	—	503	280	—	28	811
Zhou Huidong	—	447	265	—	28	740
Xu Weiyan	—	577	330	—	28	935
	—	2,316	3,128	—	112	5,556

There was no arrangement under which the directors, chief executives or supervisors waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included no (2015: Nil) directors, chief executives or supervisors, details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the five (2015: five) highest paid employees who are neither a director nor chief executive or a supervisor of the Company are as follows:

	2016	2015
	RMB'000	RMB'000
Salaries, bonuses, allowances and welfare	**7,436**	6,605
Performance-related bonuses	**16,176**	24,072
Retirement benefit scheme contributions	**—**	—
	23,612	30,677

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	
	2016	2015
RMB2,000,001 to RMB3,000,000	**1**	—
RMB3,000,001 to RMB4,000,000	**1**	1
RMB4,000,001 to RMB5,000,000	**—**	1
RMB5,000,001 to RMB6,000,000	**2**	1
RMB6,000,001 to RMB7,000,000	**1**	1
RMB7,000,001 to RMB8,000,000	**—**	—
RMB8,000,001 to RMB9,000,000	**—**	—
RMB9,000,001 to RMB10,000,000	**—**	1
	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.

10. INCOME TAX

	2016	2015
	RMB'000	RMB'000
Current — Hong Kong	**15,076**	8,300
Current — Mainland China	**438,610**	547,478
Current — Overseas	**329,191**	350,130
Deferred (note 36)	**(142,759)**	(342,646)
Total tax charge for the year	**640,118**	563,262

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10. INCOME TAX (continued)

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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

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

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

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 ICT Company Limited was subject to an enterprise income tax rate of 15% from 2016 to 2018 as a national-grade hi-tech 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.

Nubia Technology Company Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

ZTE Microelectronics Technology Company Limited was subject to an enterprise income tax rate of 10% for the current year as a state planning integrated circuit design enterprise.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech 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.

ZTEsoft Technology Company Limited was subject to an enterprise income tax rate of 15% from 2014 to 2016 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Software Company Limited was subject to an enterprise income tax rate of 15% from 2015 to 2017 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited was subject to an enterprise income tax rate of 15% in 2016 as a national-encouraged industry enterprise.

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10. INCOME TAX (continued)

Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2016 to 2018 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Communication Technology Company Limited was subject to an enterprise income tax rate of 15% in 2016 as a national-encouraged industry enterprise.

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:

	2016		2015	
	RMB'000	**%**	RMB'000	%
Profit/(loss) before tax	**(767,751)**		4,303,532	
Tax at the statutory tax rate	**(191,938)**	**25.0**	1,075,883	25.0
Lower tax rate for specific provinces or enacted by local authority	**377,279**	**(49.1)**	(729,365)	(16.9)
Adjustments in respect of current tax of previous periods	**39,648**	**(5.2)**	88,609	2.1
Profits and losses attributable to associates and joint ventures	**(7,689)**	**1.0**	(8,683)	(0.2)
Income not subject to tax	**(378,418)**	**49.3**	(166,509)	(3.9)
Expenses not deductible for tax	**219,290**	**(28.6)**	632,377	14.6
Unrecognised deductible temporary differences	**477,350**	**(62.2)**	—	—
Tax losses utilised from previous years	**(132,878)**	**17.3**	(522,278)	(12.1)
Tax losses of subsidiaries not recognized	**237,474**	**(30.9)**	193,228	4.5
Tax charge at the Group's effective rate	**640,118**	**(83.4)**	563,262	13.1

The share of tax attributable to associates amounting to RMB13,182,000 (2015: RMB789,000) 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.

11. DIVIDEND

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

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

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

The basic earnings/(loss) per share amount is computed by dividing the profit/(loss) for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 4,159,663,000 (2015: 4,127,352,000) in issue during the year.

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

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

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

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

Commencing on 2 November 2015, scheme participants that had fulfilled the exercise conditions under the share option incentive scheme of the Company were entitled to exercise share options qualified as such during the first and second exercise period. As at 31 December 2016, 33,837,000 new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 8,872,000 after taking into account the duration of time for such shares had been issued and outstanding.

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13. 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 2016						
At 31 December 2015 and at 1 January 2016:						
Cost	5,869,227	81,602	7,296,630	344,132	643,789	14,235,380
Accumulated depreciation and impairment	(1,097,995)	(39,117)	(4,565,520)	(163,994)	—	(5,866,626)
Net carrying amount	4,771,232	42,485	2,731,110	180,138	643,789	8,368,754
At 1 January 2016, net of accumulated depreciation and impairment	4,771,232	42,485	2,731,110	180,138	643,789	8,368,754
Additions	10,282	69,050	1,359,346	35,347	1,147,822	2,621,847
Disposals	(133,946)	(8,421)	(136,654)	(37,595)	—	(316,616)
Depreciation provided during the year	(176,379)	(56,649)	(1,022,551)	(29,781)	—	(1,285,360)
Transfers	58,746	—	3,415	—	(62,161)	—
Exchange realignments	(75,735)	2,013	11,942	(931)	—	(62,711)
Impairment	(21,378)	—	(23,892)	—	—	(45,270)
At 31 December 2016, net of accumulated depreciation and impairment	4,432,822	48,478	2,922,716	147,178	1,729,450	9,280,644
At 31 December 2016:						
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

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13. 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 2015						
At 31 December 2014 and at 1 January 2015:						
Cost	5,714,487	29,592	6,720,548	301,683	262,863	13,029,173
Accumulated depreciation and impairment	(901,405)	(4,933)	(4,288,238)	(170,155)	—	(5,364,731)
Net carrying amount	4,813,082	24,659	2,432,310	131,528	262,863	7,664,442
At 1 January 2015, net of accumulated depreciation and impairment	4,813,082	24,659	2,432,310	131,528	262,863	7,664,442
Additions	20,379	67,477	1,201,001	80,820	588,257	1,957,934
Disposals	(2,127)	(13,134)	(84,699)	(4,529)	(23,931)	(128,420)
Depreciation provided during the year	(181,338)	(36,608)	(885,821)	(27,686)	—	(1,131,453)
Transfers	102,963	—	81,078	7	(184,048)	—
Exchange realignments	18,273	91	488	(2)	648	19,498
Impairment	—	—	(13,247)	—	—	(13,247)
At 31 December 2015, net of accumulated depreciation and impairment	4,771,232	42,485	2,731,110	180,138	643,789	8,368,754
At 31 December 2015:						
Cost	5,869,227	81,602	7,296,630	344,132	643,789	14,235,380
Accumulated depreciation and impairment	(1,097,995)	(39,117)	(4,565,520)	(163,994)	—	(5,866,626)
Net carrying amount	4,771,232	42,485	2,731,110	180,138	643,789	8,368,754

As at 31 December 2016, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen, Shanghai and Qinhuangdao, the PRC, with net carrying values of approximately RMB688,807,000 (2015: RMB622,442,000), RMB1,607,672,000 (2015: RMB1,603,896,000), RMB179,410,000 (2015: RMB231,861,000) and RMB51,292,000 (2015: RMB52,969,000), respectively.

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14. INVESTMENT PROPERTIES

	2016	2015
	RMB'000	RMB'000
Fair value		
Carrying amount at 1 January	**2,010,396**	2,004,465
Net gain from a fair value adjustment (note 6)	**6,074**	5,931
Carrying amount at 31 December	**2,016,470**	2,010,396

The Group's investment properties consist of five commercial properties in Mainland China. The Group's investment properties were revalued on 31 December 2016 based on valuations performed by 國眾聯資產評估土地房地產估價有限公司, an independent professionally qualified valuer, at RMB2,016,469,896. 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 summary details of which are included in note 47 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 2016 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	**—**	**—**	**2,016,470**	**2,016,470**

	Fair value measurement as at 31 December 2015 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	—	—	2,010,396	2,010,396

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14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

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.

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties
	RMB'000
Carrying amount at 1 January 2015	2,004,465
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	5,931
Carrying amount at 31 December 2015	2,010,396
Carrying amount at 1 January 2016	2,010,396
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	6,074
Carrying amount at 31 December 2016	2,016,470

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

	Valuation techniques	**Significant unobservable inputs**	**Range or weighted average**	
			2016	2015
Commercial properties	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	**RMB45.5 to RMB477**	RMB45.5 to RMB477
		Rent growth (p.a.)	**1% to 5%**	1% to 5%
		Long-term vacancy rate	**5%**	5%
		Discount rate	**6% to 7%**	6% to 7.3%

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 flow 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 flow is 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.

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14. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

A significant increase in the estimated rental value and the market rent growth rate per annum in isolation would result in a significant increase in the fair value of the investment properties. A significant increase in the long-term vacancy rate and 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.

15. PREPAID LAND LEASE PAYMENTS

	2016	2015
	RMB'000	RMB'000
Carrying amount at 1 January	**1,241,810**	1,106,686
Additions during the year	**329,855**	182,310
Disposals	**(50,619)**	(20,702)
Transfer	**(223,423)**	—
Recognised during the year	**(32,064)**	(26,484)
Carrying amount at 31 December	**1,265,559**	1,241,810
Current portion	**(28,385)**	(27,704)
Non-current portion	**1,237,174**	1,214,106

As at 31 December 2016, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Changsha, Nanjing and Xi'an in the PRC, with a net carrying value of approximately RMB340,485,000 (2015: RMB580,043,000).

As at 31 December 2016, a subsidiary of the Group pledged its land use right with a net carrying value of RMB27,071,000 (2015: RMB176,238,000) as security for a bank loan (note 31).

16. GOODWILL

	RMB'000
Cost at 1 January 2016, net of accumulated impairment	**—**
Acquisition of a subsidiary	**186,206**
Attributable to a discontinued operation	**—**
Cost and net carrying amount at 31 December 2016	**186,206**
At 31 December 2016:	
Cost	**186,206**
Accumulated impairment	**—**
Net carrying amount	**186,206**

The Group has acquired Zhuhai Guangtong Bus Co., Ltd. in October 2016, which resulted in goodwill of RMB186,206,000. More details are disclosed in note 42.

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16. GOODWILL (continued)

Impairment testing

The recoverable amount of Zhuhai Guangtong Bus Co., Ltd. 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 12.48% and the growth rate after five years is 3%.

Assumptions were used in the value in use calculation of the bus and related industrial products cash-generating units for 31 December 2016. 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.

The values assigned to the key assumptions on market development of bus and related industrial products industries and discount rates are consistent with external information sources.

17. 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 2016					
Cost at 1 January 2016, net of accumulated amortisation and impairment	**5,459**	**274,235**	**69,194**	**3,423,563**	**3,772,451**
Additions	**167,039**	**128,638**	**91,647**	**1,471,221**	**1,858,545**
Retirements and disposals	**(980)**	**(2,631)**	**—**	**(23,874)**	**(27,485)**
Amortisation provided during the year	**(32,930)**	**(100,247)**	**(29,925)**	**(985,982)**	**(1,149,084)**
At 31 December 2016	**138,588**	**299,995**	**130,916**	**3,884,928**	**4,454,427**
At 31 December 2016:					
Cost	**177,606**	**452,728**	**523,599**	**8,131,339**	**9,285,272**
Accumulated amortisation and impairment	**(39,018)**	**(152,733)**	**(392,683)**	**(4,246,411)**	**(4,830,845)**
Net carrying amount	**138,588**	**299,995**	**130,916**	**3,884,928**	**4,454,427**
31 December 2015					
Cost at 1 January 2015, net of accumulated amortisation and impairment	5,386	183,949	68,674	3,483,505	3,741,514
Additions	3,311	168,016	22,930	986,261	1,180,518
Retirements and disposals	(3)	(28,394)	—	(165,352)	(193,749)
Amortisation provided during the year	(3,235)	(49,336)	(22,410)	(880,851)	(955,832)
At 31 December 2015	5,459	274,235	69,194	3,423,563	3,772,451
At 31 December 2015:					
Cost	11,547	370,710	431,952	6,683,992	7,498,201
Accumulated amortisation and impairment	(6,088)	(96,475)	(362,758)	(3,260,429)	(3,725,750)
Net carrying amount	5,459	274,235	69,194	3,423,563	3,772,451

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18. LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Prepayments for purchase of property, plant and equipment	**323,088**	359,587
Long-term deposits	**305,496**	—
	628,584	359,587

19. INVESTMENTS IN JOINT VENTURES

	2016	2015
	RMB'000	RMB'000
Share of net assets	**37,730**	50,749
Goodwill on acquisition	**26,592**	26,592
	64,322	77,341

The Group's balances of trade receivables with joint ventures are disclosed in note 24 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.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2016	2015
	RMB'000	RMB'000
Share of the joint ventures' loss for the year	**(4,984)**	(5,281)
Share of the joint ventures' total comprehensive loss	**(4,984)**	(5,281)
Aggregate carrying amount of the Group's investments in the joint ventures	**64,322**	77,341

20. INVESTMENTS IN ASSOCIATES

	2016	2015
	RMB'000	RMB'000
Share of net assets	**606,318**	488,362
Provision for impairment	**(4,764)**	(4,764)
	601,554	483,598

The Group's balances of trade receivables and trade payables with associates are disclosed in notes 24 and 29 to the financial statements, respectively.

There is no individually material associate of the Group.

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20. INVESTMENTS IN ASSOCIATES (continued)

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2016	2015
	RMB'000	RMB'000
Share of the associates' profit for the year	**50,150**	68,559
Share of the associates' total comprehensive income	**50,150**	68,559
Aggregate carrying amount of the Group's investments in the associates	**601,554**	483,598

21. AVAILABLE-FOR-SALE INVESTMENTS

	2016	2015
	RMB'000	RMB'000
Listed equity investment, at market value	**1,315,085**	1,093,001
Unlisted equity investments, at cost	**1,344,582**	1,288,466
	2,659,667	2,381,467

The above investments consist of investments in equity securities which have been designated as available-for-sale financial assets and have no fixed maturity dates or coupon rates.

As at 31 December 2016, the above listed equity investment with a carrying amount of RMB1,315,085,000 (2015: RMB1,093,001,000) was stated at market value. During the year, the gross income in respect of the Group's available-for-sale investments recognised in other comprehensive income amounted to RMB187,275,000 (2015: RMB712,418,000). Certain unlisted equity investments with a carrying amount of RMB1,344,582,000 (2015: RMB1,288,466,000) were stated at cost less impairment because the range of reasonable fair value estimates is so significant that the directors are of the opinion that their fair value cannot be measured reliably. The Group does not intend to dispose of them in the near future.

22. INVENTORIES

	2016	2015
	RMB'000	RMB'000
Raw materials	**5,257,931**	4,202,930
Work in progress	**1,401,894**	887,520
Finished goods	**3,619,259**	3,041,611
Contract works in progress and others	**16,531,484**	11,599,680
	26,810,568	19,731,741

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23. AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORKS

	2016	2015
	RMB'000	RMB'000
Amount due from customers for contract works	**9,345,123**	13,928,446
Amount due to customers for contract works	**(5,876,790)**	(4,423,103)
	3,468,333	9,505,343
Contract costs incurred plus recognised profits	**95,921,927**	60,891,156
Less: Recognised losses to date	**1,044,198**	400,087
Less: Progress billings	**91,409,396**	50,985,726
	3,468,333	9,505,343

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

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

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

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

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

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24. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

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

	2016	2015
	RMB'000	RMB'000
At 1 January	**5,802,188**	4,396,591
Impairment losses recognised (note 6)	**2,261,577**	1,820,368
Impairment losses reversed (note 6)	**(150,957)**	(217,922)
Amount written off as uncollectible	**(232,680)**	(162,011)
Fluctuation in exchange	**106,765**	(34,838)
At 31 December	**7,786,893**	5,802,188

Included in the above provision for impairment of trade and bills receivables is a provision for individually impaired trade receivables of RMB634,799,000 (2015: RMB503,123,000) with a carrying amount before provision of RMB634,799,000 (2015: RMB503,123,000).The individually impaired trade receivables relate to customers that were in financial difficulties and are not expected to be recovered. The Group does not hold any collateral or other credit enhancements over these balances. Trade receivables are non-interest-bearing.

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

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

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

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

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

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

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24. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

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

The Group has neither pledged trade receivables nor bills receivables to secure the bank borrowings.(2015: nil trade receivables and RMB106,892,000 bills receivables (note 31)).

25. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES

As part of its normal business, the Group enters into some trade receivable 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. More details are set out in note 41.

In 2008, the Company entered into a contract of a telecommunications system project (the "Project") with an African telecommunications operator with a total contract amount of USD1,500,000,000. The related accounts receivable are to be settled by promissory notes issued by the telecommunications operator with maturity dates ranging from 3 to 13 years. In 2009, two government strategic banks in the PRC have agreed to factor these promissory notes pursuant to the receivable purchase agreements (the "Agreements"), which stipulate the factoring conditions based on the future performance of the African telecommunications operator. During the financing period, the banks will charge interest to the Company and the telecommunications operator. If there is any delay in the payment by the telecommunications operator, the Company is not responsible for the related penalties. If there is default in the payment, the Company would bear the first 20% of default losses on the factored amount unless the Company breaches the Agreements or the factoring conditions are not satisfied. As at 31 December 2016, under the above arrangements, accounts receivable due from the customer amounted to RMB5,814,705,000 (2015: RMB6,036,698,000) among which RMB4,518,810,000 (2015 RMB4,829,358,000) has been derecognised from the consolidated statement of financial position as these receivables have fulfilled the derecognition conditions as stipulated in HKAS 39. An associated liability of RMB1,295,895,000 (2015: RMB1,207,340,000) has been recognised in the consolidated statement of financial position to the extent of the Company's continuing involvement.

26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016	2015
	RMB'000	RMB'000
Prepayments	**1,739,691**	640,113
Deposits and other receivables	**11,550,641**	6,563,361
Interest receivable	**4,950**	600
Advances and loans	**519,626**	100,367
	13,814,908	7,304,441

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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26. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES (continued)

The balances due from associates and other related companies included in the above are as follows:

	2016	2015
	RMB'000	RMB'000
Associates	**27,568**	10,013
Other related companies	**2,579**	102,263
	30,147	112,276

The amounts due from associates and other related companies are unsecured, non-interest-bearing and are repayable on demand.

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2016		2015	
	Assets	**Liabilities**	Assets	Liabilities
	RMB'000	**RMB'000**	RMB'000	RMB'000
Forward currency contracts	**54,857**	**(40,148)**	10,110	(16,962)
Interest rate swaps	**—**	**—**	—	(2,878)
	54,857	**(40,148)**	10,110	(19,840)
Portion classified as non-current	**—**	**—**	—	—
Current portion	**54,857**	**(40,148)**	10,110	(19,840)

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.

The Group has entered into these contracts to manage its exchange rate exposure. The forward currency contracts designated for hedge purposes amounted to RMB862,000 (2015: RMB1,126,000) and a net loss of RMB60,682,000 (2015: RMB4,796,000) was included in the hedging reserve. The forward currency contracts which are not designated for hedge purposes amounting to RMB17,891,000 of net assets (2015: RMB7,978,000 of net liability) and are measured at fair value through profit or loss. Gains changes in the fair value amounted to RMB23,904,000 (2015: Losses of RMB189,614,000) were recognised in profit or loss during the year.

Interest rate swaps-Cash flow hedges

Interest rate swaps were maturity in July 2016 thus RMB3,635,000 losses were transferred out from other comprehensive income.

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28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2016	2015
	RMB'000	RMB'000
Cash and bank balances	**35,608,447**	31,540,610
Less:		
Pledged deposits — non-current	**(3,258,533)**	(3,515,601)
Pledged deposits — current	**(1,213,920)**	(1,202,984)
Time deposits with original maturity of over three months	**(1,086,203)**	(205,029)
Cash and cash equivalents	**30,049,791**	26,616,996
Time deposits with original maturity of less than three months	**(10,877,434)**	(543,058)
Unrestricted bank balances and cash	**19,172,357**	26,073,938

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB22,380,571,000 (2015: RMB18,643,990,000). 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 2016 of RMB826,211,000 (2015: RMB540,948,000) with the People's Bank of China, at a statutory reserve rate of 7% (2015: 7.5%) 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.

29. TRADE AND BILLS PAYABLES

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

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

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29. TRADE AND BILLS PAYABLES (continued)

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

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

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

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

30. OTHER PAYABLES AND ACCRUALS

	2016	2015
	RMB'000	RMB'000
Receipts in advance	**8,092,164**	4,035,638
Other payables	**8,486,456**	6,719,729
Other payables for United States government departments*	**6,182,452**	—
Factoring costs payable	**33,862**	37,153
Advance receipts for staff housing scheme	**270,762**	58,305
Accruals	**4,780,318**	4,143,902
Due to the controlling shareholder	**308**	308
Due to other related companies	**27,666**	8,904
	27,873,988	15,003,939

The other payables are non-interest-bearing and have an average term of three months. The balances due to the controlling shareholder and other related companies are unsecured, non-interest-bearing and are repayable on demand.

* Other payables for United States government departments refers to note 54.

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31. INTEREST-BEARING BANK BORROWINGS

	2016			2015		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans — unsecured	**1.2–5.0**	**2017**	**7,354,970**	1.25–6.42	2016	4,760,388
Bank loans — unsecured	**3MLibor+1.5–1.7**	**2017**	**1,656,509**	3MLibor+1.7	2016	876,690
Bank loans — unsecured	**6MLibor+0.7–3.6**	**2017**	**4,747,735**	6MLibor+0.6–2.6	2016	1,948,200
Bank loans — unsecured	**—**	**—**	**—**	COF+1.3	2016	16,235
Bank loans — unsecured	**3MEuribor+1.2–1.3**	**2017**	**1,157,034**	3MEuribor+1.2–1.3	2016	1,135,056
Bank loans — unsecured	**Libor+1.10**	**2017**	**27,724**	Libor+2	2016	180,469
Bank loans — unsecured	**LPR+0.05–1.36**	**2017**	**1,160,000**	LPR+1.2000–1.3340	2016	61,000
Bank loans — unsecured	**3MLPR+0.05**	**2017**	**500,000**	—	—	—
Bank loans — guaranteed	**3MEuribor+1.25**	**2017**	**439,380**	3MEuribor+1.25	2016	212,823
Bank loans — guaranteed	**—**	**—**	**—**	Libor+1.95	2016	2,917,604
Bank loans — secured	**—**	**—**	**—**	2.25–4.60	2016	306,410
Bank loans — secured	**Libor+1.5000**	**2017**	**20,793**	Libor+3.0000–3.0028	2016	19,482
Bank loans — secured	**—**	**—**	**—**	2.5159–2.5708	2016	90,819
			17,064,145			12,525,176
Non-current						
Bank loans — secured	**4.9000–5.1450**	**2021**	**28,000**	4.9000–5.1450	2021	38,000
Bank loans — secured	**—**	**—**	**—**	4.6–6.9	2017	70,000
Bank loans — guaranteed	**Libor+2.25**	**2018**	**3,093,144**	Libor+2.25	2018	2,882,067
Bank loans — guaranteed	**4.75**	**2019**	**30,443**	—	—	—
Bank loans — guaranteed	**3MEuribor+1.9**	**2018**	**292,920**	3MEuribor+1.9	2018	283,764
Bank loans — guaranteed	**3MLibor+2.2**	**2019**	**415,860**	3MLibor+2.2	2019	389,640
Bank loans — unsecured	**—**	**—**	**—**	6MLibor+3.6	2017	1,266,330
Bank loans — guaranteed	**—**	**—**	**—**	3MEuribor+1.1	2020	212,823
Bank loans — guaranteed	**3MEuribor+1.3**	**2018**	**512,610**	3MEuribor+1.3	2018	496,587
Bank loans — unsecured	**—**	**—**	**—**	5.75	2017	26,000
Bank loans — unsecured	**4.75**	**2018**	**78,000**	4.75	2018	82,000
Bank loans — unsecured	**—**	**—**	**—**	4.75–5.50	2019	209,043
Bank loans — unsecured	**4.7500–5.2250**	**2019**	**507,299**	—	—	—
Bank loans — guaranteed	**1.20**	**2027**	**60,000**	1.20	2027	60,000
			5,018,276			6,016,254
			22,082,421			18,541,430

	2016	2015
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**17,064,145**	12,525,176
In the second year	**3,976,674**	1,362,330
In the third to fifth years, inclusive	**981,602**	4,555,924
Over five years	**60,000**	98,000
	22,082,421	18,541,430

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31. INTEREST-BEARING BANK BORROWINGS (continued)

Notes: Except for bank loans of approximately RMB7,018,760,000 (2015: RMB5,448,272,000) 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 RMB9,718,712,000 (2015: RMB5,642,659,000), all borrowings of the Group bear interest at floating interest rates.

The Group's secured bank loans and banking facilities are secured by:

	2016	2015
	RMB'000	RMB'000
Land use rights	**27,071**	176,238
Pledged bank deposits	**4,472,453**	4,718,584
Fixed assets	**55,227**	—
Bills receivable*	**—**	397,711
	4,554,751	5,292,533

* At the end of the reporting period, there were no bills receivable issued by the Company (2015: RMB290,819,000).

Certain of the Group's bank loans are guaranteed by:

	2016	2015
	RMB'000	RMB'000
Entities within the Group	**4,844,358**	7,455,308

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.

ZTE (H.K.) Limited ("ZTE HK"), a subsidiary of the Company, entered into a syndicated loan agreement ("Loan Agreement") with an aggregate amount of USD900 million with 10 international banks, including Bank of China (Hong Kong) Limited, in 2011. The loans were guaranteed by the Company. Balances and outstanding terms of the loans as at the end of the current year are set out as follows:

	Drawdown date	**Due date**	**Currency**	**Interest rate**	**31 December 2016**		31 December 2015	
					Foreign	**RMB**	Foreign	RMB
				(%)	**currency**	**equivalent**	currency	equivalent
Bank of China	2011.8.15	2016.7.8	USD	Libor+1.95	**—**	**—**	449,277	2,917,604
Bank of China	2014.8.13	2018.7.18	USD	Libor+2.25	**446,277**	**3,093,144**	443,805	2,882,067

32. BONDS PAYABLE

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
	RMB'000	RMB'000	RMB'000	RMB'000
31 December 2016	**4,000,000**	**—**	**(4,000,000)**	**—**
31 December 2015	6,131,185	4,000,000	(6,131,185)	4,000,000

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32. BONDS PAYABLE (continued)

On 9 September 2015, the Company issued unsecured super short-term bonds with a nominal value of RMB4,000,000,000. The bonds carry interest at a rate of 3.4% per annum and were paid on 5 June 2016.

33. PROVISION FOR RETIREMENT BENEFITS

The Group provides 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 2016 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:

	2016	2015
Discount rate (%)	**3.25%**	3.25%
Expected rate of salary increases (%)	**5.50%**	5.50%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2016 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%	(3,812)	0.25%	3,944
Future salary increase	1.00%	18,994	1.00%	(16,072)

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:

	2016 RMB'000	2015 RMB'000
Interest cost	**4,599**	4,538
Net benefit expenses	**4,599**	4,538
Recognised in administrative expenses	**4,599**	4,538

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33. PROVISION FOR RETIREMENT BENEFITS (continued)

The movements in the present value of the defined benefit obligations are as follows:

	2016	2015
	RMB'000	RMB'000
At 1 January	**144,280**	115,450
Interest cost	**4,599**	4,538
Pension payments made	**(2,030)**	(1,774)
Benefit expenses recognised in other comprehensive income	**(743)**	26,066
At 31 December	**146,106**	144,280

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2016	**1 January 2016**	**Net interest**	**Sub-total included in profit or loss**	**Benefit paid**	**Actuarial changes arising from changes in financial assumptions**	**Experience adjustments**	**Sub-total included in other comprehensive income**	**31 December 2016**
	RMB'000	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**	**RMB'000**
Defined benefit obligations	**144,280**	**4,599**	**4,599**	**(2,030)**	**—**	**(743)**	**(743)**	**146,106**
Benefit liability	**144,280**	**4,599**	**4,599**	**(2,030)**	**—**	**(743)**	**(743)**	**146,106**

2015	1 January 2015	Net interest	Sub-total included in profit or loss	Benefit paid	Actuarial changes arising from changes in financial assumptions	Experience adjustments	Sub-total included in other comprehensive income	31 December 2015
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Defined benefit obligations	115,450	4,538	4,538	(1,774)	11,549	14,517	26,066	144,280
Benefit liability	115,450	4,538	4,538	(1,774)	11,549	14,517	26,066	144,280

34. OTHER NON-CURRENT LIABILITIES

	2016	2015
	RMB'000	RMB'000
Factoring costs payable	**166,526**	213,545
Deferred income for staff housing scheme	**1,104,242**	1,073,596
Government grants	**790,223**	759,394
Long-term payable	**293,223**	50,181
	2,354,214	2,096,716

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35. PROVISION

	2016 RMB'000	2015 RMB'000
At 1 January	**776,682**	741,391
Additional provision	**1,091,902**	879,745
Amounts utilised during the year	**(981,218)**	(844,454)
At 31 December	**887,366**	776,682

In respect of handsets, the Group generally provide a one-year warranty to their customers under which faulty products will be repaired or replaced. 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.

Based on the legal opinion furnished by the legal counsel engaged and the progress of the case, the Group makes provisions for cases that can be reliably estimated.

36. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	2016 RMB'000	2015 RMB'000
Deferred tax assets and liabilities:		
At 1 January	**1,381,374**	1,125,153
Deferred tax credited to profit or loss during the year (note 10)	**142,759**	342,646
Deferred tax charged to other comprehensive income	**(17,938)**	(86,425)
At 31 December	**1,506,195**	1,381,374

	2016 RMB'000	2015 RMB'000
Deferred tax assets:		
Unrealised profits arising on consolidation	**243,430**	157,115
Provision against inventories	**129,003**	127,086
Foreseeable contract losses	**145,450**	45,781
Amortisation of intangible assets	**194,724**	168,616
Provision for warranties	**109,834**	102,646
Provision for retirement benefits	**23,695**	21,642
Other payables and accruals	**746,086**	379,813
Equity-settled share options	**3,809**	38,202
Tax losses	**25,689**	452,643
Overseas tax	**156,813**	156,814
	1,778,533	1,650,358
Deferred tax liabilities:		
Revaluation gain on owner-occupied properties	**(161,600)**	(160,704)
Revenue from construction contracts	**(6,375)**	(21,855)
Changes in fair value of available-for-sale investments	**(104,363)**	(86,425)
	(272,338)	(268,984)
	1,506,195	1,381,374

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36. DEFERRED TAX (continued)

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:

	2016 **RMB'000**
Net deferred tax assets recognised in the consolidated statement of financial position	**1,604,575**
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(98,380)**
	1,506,195

Deferred tax assets have not been recognised in respect of the following item:

	2016 **RMB'000**	2015 RMB'000
Tax losses	**2,969,140**	3,777,658
Deductible temporary differences	**3,182,338**	—
	6,151,478	3,777,658

The tax losses and deductible temporary differences that have not been recognised as deferred tax assets will expire as follows:

	2016 **RMB'000**	2015 RMB'000
2016	**—**	114,250
2017	**234,993**	1,551,872
2018	**149,209**	414,131
After 2018	**5,767,276**	1,697,405
	6,151,478	3,777,658

The above tax losses are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of the above items as it is not considered probable that taxable profits will be available against which the above items can be utilised.

37. ISSUED CAPITAL

	2016 **RMB'000**	2015 RMB'000
Restricted shares		
Senior management shares	**4,821**	8,851
	4,821	8,851
Unrestricted shares		
RMB ordinary shares	**3,424,305**	3,386,438
Overseas listed foreign shares	**755,502**	755,502
	4,179,807	4,141,940
	4,184,628	4,150,791

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38. SHARE OPTION INCENTIVE SCHEME

On 22 July 2013, the "ZTE Corporation Share Option Incentive Scheme (Draft)" and its summary was considered and approved at the Sixth Meeting of the Sixth Session of the Board of Directors and the Fourth Meeting of the Sixth Supervisory Committee of the Company. On 20 August 2013, the Company was notified that the opinion of the state-owned shareholders of the Company on the implementation of the Share Option Incentive Scheme had been approved and filed by the State-owned Assets Supervision and Administration Commission of the State Council. On 23 August 2013, the Company was notified that the resolution of the Share Option Incentive Scheme at the General Meeting convened in accordance with the Administrative Measures on Share Incentives of Listed Company (Trial) had been recognised with no objection by the China Securities Regulatory Commission. On 26 August 2013, the resolution on the "ZTE Corporation Share Option Incentive Scheme (Revised Draft)" (hereinafter referred to as the "Share Incentive Scheme") and its summary was considered and approved at the Eighth Meeting of the Sixth Session of the Board of Directors and the Sixth Meeting of the Sixth Supervisory Committee. The Share Incentive Scheme was considered and approved at the Third Extraordinary General Meeting of 2013 convened on 15 October 2013. On 31 October 2013, relevant resolutions were considered and passed at the Eleventh Meeting of the Sixth Session of the Board of Directors and the Ninth Meeting of the Sixth Session of the Supervisory Committee of the Company, pursuant to which the date of grant for the Share Option Incentive Scheme of the Company has been set for 31 October 2013. Under the Share Incentive Scheme, 102.989 million share options were granted to 1,528 participants. Each share option shall entitle its holder to purchase one ZTE ordinary A share on any exercise date during the effective period of the scheme at the exercise price, subject to the conditions of exercise. The source of two shares under the scheme shall be shares of the Company issued to the participants by the Company by way of placing. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company, excluding independent non-executive directors and supervisors, principal shareholders holding 5% or more of the Company's shares or the actual controller of the Company and their spouses or blood relatives.

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. The share options shall be exercisable separately in the subsequent three exercise periods, whose percentages of options exercisable are 30%, 30% and 40% respectively, subject to the Company's performance as the conditions of exercise. The exercise price shall be RMB13.69 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) 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).

The calculation of the net profit used by the above indicators is based on the net profit before or after extraordinary items whichever is lower. Net assets refer to the net assets attributable to the shareholders of the listed company.

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38. SHARE OPTION INCENTIVE SCHEME (continued)

The detailed conditions for the exercise of the share options:

(1) Within the valid period of the Share Incentive Scheme, the net profit attributable to the shareholders of the listed company and the net profit after extraordinary items attributable to the shareholders of the listed company shall not be lower than the average of the three most recent accounting years before the date of grant and shall not be a negative number;

(2) The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	30%	From 1 November 2015 to 31 October 2016	ROE for the year 2014 not less than 6%; growth rate of net profit for the year 2014 not less than 20% compared to 2013
Second exercise period	30%	From 1 November 2016 to 31 October 2017	ROE for the year 2015 not less than 8%; growth rate of net profit for the year 2015 not less than 20% compared to 2014
Third exercise period	40%	From 1 November 2017 to 31 October 2018	ROE for the year 2016 not less than 10%; growth rate of net profit for the year 2016 not less than 44% compared to 2014

The fair value of the share options granted amounted to RMB524,023,000, among which the share option expenses recognised by the Company in 2016 amounted to RMB27,812,000. As failing to meet the requirement of the third exercise period, the Company reversed the share option expenses recognised for years from 2013 to 2015 amounted to RMB125,174,000.

The following share options were outstanding under the Scheme during the year:

	2016		2015	
	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	**11.22**	**90,871**	13.66	102,989
Capitalisation from capital reserve	**—**	**—**	11.22	20,598
Forfeited during the year	**10.97**	**(48,954)**	11.22	(6,974)
Exercised during the year	**11.22**	**(3,471)**	11.22	(25,742)
	10.97	**(30,366)**	—	—
At 31 December	**10.97**	**8,080**	11.22	90,871

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38. SHARE OPTION INCENTIVE SCHEME (continued)

The weighted average share price at the date of exercise for share options exercised during the year was RMB11.00 (2015: RMB11.22) per share.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2016

Number of options '000	**Exercise price* RMB per share**	Exercise period
8,080	**10.97**	From 1 November 2016 to 31 October 2017
8,080		

2015

Number of options '000	Exercise price* RMB per share	Exercise period
9,143	11.22	From 1 November 2015 to 31 October 2016
35,026	11.22	From 1 November 2016 to 31 October 2017
46,702	11.22	From 1 November 2017 to 31 October 2018
90,871		

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

In 2016, the Company issued 33,837,000 ordinary shares as a result of the exercise of 33,837,000 share options. The share capital increased by RMB33,837,000, and the share premium amounted to RMB463,292,000 (before issue expenses).

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 (%)		40.25	39.69	43.18
Risk-free interest rate (%)		3.34	3.40	3.46
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.

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39. 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 340 and 341 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.

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.

40. 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.

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40. 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.

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. Dividend distribution to holders of ordinary shares;

2. Reduction of registered capital.

(b) Change of issued Medium Term Notes as at the end of the period

Face value RMB'000	Issue date	Volume	Issue amount RMB'000	Opening balance RMB'000	Interest charged for the year RMB'000	Interest paid during the year RMB'000	Closing balance RMB'000
6,000,000	2015.1.27	60,000,000	6,000,000	6,252,364	348,600	(348,600)	6,252,364
1,500,000	2015.2.6	15,000,000	1,500,000	1,572,198	85,350	(85,350)	1,572,198
1,500,000	2015.11.20	15,000,000	1,500,000	1,496,765	67,350	(67,350)	1,496,765
9,000,000		90,000,000	9,000,000	9,321,327	501,300	(501,300)	9,321,327

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41. 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 2016, certain bills receivable were discounted by banks in the PRC (the "Discounted Bills") with a carrying amount of RMB325,915,000 (2015: RMB385,920,000). 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 2016, the Group has recognised loss of RMB4,326,059 on the date of transfer of the Discounted Bills (2015: Loss of RMB5,245,996). 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 original carrying value of trade receivables transferred under the Arrangements that have not been settled as at 31 December 2016 amounted to RMB1,962,171,000 (2015: RMB1,061,220,000).

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 2016 amounted to RMB9,645,201,000 (2015: RMB9,585,140,000). The continuing involvement and associated liabilities are summarised as follows:

	RMB'000
Carrying amount of assets that continue to be recognised	1,690,855
Carrying amount of liabilities that continue to be recognised	1,692,589

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42. BUSINESS COMBINATION

On 22 October 2016, the Group acquired a 70% interest in Zhuhai Guangtong Bus Co., Ltd. from a third party Company. Zhuhai Guangtong Bus Co., Ltd. is engaged in the manufacture of bus and related industrial products. The acquisition was made as part of the Group's strategy to enter into the market of new energy vehicles industrial products. The purchase consideration for the acquisition was in the form of cash, with RMB232,400,000 paid before the acquisition date and the remaining RMB58,100,000 would be paid before June 2017.

The Group has elected to measure the non-controlling interest in Zhuhai Guangtong Bus Co., Ltd. at the non-controlling interest's proportionate share of Zhuhai Guangtong Bus Co., Ltd.'s identifiable net assets.

The fair values of the identifiable assets and liabilities of Zhuhai Guangtong Bus Co., Ltd. as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Current assets	227,068
Non-current assets	10,718
Current liabilities	(88,795)
Non-current liabilities	—
Total identifiable net assets at fair value	148,991
Non-controlling interests	(44,697)
Goodwill on acquisition	186,206
Satisfied by cash	290,500

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB18,882,000 and RMB30,648,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB18,882,000 and RMB30,648,000, respectively.

The Group incurred transaction costs of RMB780,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss.

Included in the goodwill of RMB186,206,000 recognised above is a customer list, which is not recognised separately. Because the list is subject to a confidentiality agreement, it is not separable and therefore it does not meet the criteria for recognition as an intangible asset under HKAS 38 *Intangible Assets*. None of the goodwill recognised is expected to be deductible for income tax purposes.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	290,500
Cash and cash equivalents paid	232,400
Cash and bank balances acquired	(15,508)
Net outflow of cash and cash equivalents included in cash flows from investing activities	216,892
Transaction costs of the acquisition included in cash flows from operating activities	(780)
	216,112

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42. BUSINESS COMBINATION (continued)

Since the acquisition, Zhuhai Guangtong Bus Co., Ltd. contributed RMB97,976,000 to the Group's revenue and RMB6,679,000 to the consolidated profit for the year ended 31 December 2016.

Had the combination taken place at the beginning of the year, the revenue from continuing operations of the Group and the loss of the Group for the year would have been RMB101,761,084,000 and RMB1,378,857,000, respectively.

43. DISPOSAL OF SUBSIDIARIES

	Note	2016 Shenzhen News Network Co., Ltd. RMB'000	2016 Tianjin ZTE Zhilian Technology Co. Ltd. RMB'000	2016 Shenzhen ZTE Welink Technology Co., Ltd. RMB'000	2016 Total RMB'000
Net assets disposed of:					
Current assets		71,064	54,987	522,460	648,511
Non-current assets		3,778	1,760	6,047	11,585
Current liabilities		(9,155)	(47,651)	(392,931)	(449,737)
Non-controlling interests		—	(910)	(8,551)	(9,461)
Fair value of the equity interests retained after the disposal		(33,993)	(7,043)	(28,548)	(69,584)
Gain on disposal of subsidiaries	5	350,806	147,264	594,073	1,092,143
		382,500	148,407	692,550	1,223,457
Satisfied by:					
Cash		382,500	148,407	692,550	1,223,457

An analysis of the net cash flow in respect of the disposal of subsidiaries is as follows:

	2016 Shenzhen News Network Co., Ltd. RMB'000	2016 Tianjin ZTE Zhilian Technology Co. Ltd. RMB'000	2016 Shenzhen ZTE Welink Technology Co., Ltd. RMB'000	2016 Total RMB'000
Cash consideration	382,500	148,407	692,550	1,223,457
Cash and bank balances disposed of	(69,669)	(8,664)	(235,762)	(314,095)
Net cash flow of cash and cash equivalents in respect of the disposal of subsidiary	312,831	139,743	456,788	909,362

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44. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2016	2015
	RMB'000	RMB'000
Guarantees given to banks in connection with borrowings to customers	**—**	50,000
Guarantees given to banks in respect of performance bonds	**8,400,893**	7,656,101
	8,400,893	7,706,101

(b) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB50,433,000). 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 RMB21,683,000) should be paid by the Company. As at the end of the reporting period, 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. Based on the legal opinion furnished by the legal counsel engaged by the Company, the case will likely stand a prolonged period of litigation. As at the date of approval of the financial statements, the Group had not paid any compensation in connection with this arbitration case.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation cannot be reliably estimated. Accordingly, no additional provision in respect of the litigation was made for the period.

(c) 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 (the "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. The Nanshan Court handed down the first trial judgement in July 2009, ruling that the contract between the Company and China Construction Fifth Division should 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 the Shenzhen Intermediate People's Court (the "Shenzhen Intermediate Court"). Following the conclusion of court hearing for the second trial, the Shenzhen Intermediate Court ruled to suspend trial, pending the result of the final trial of China Construction Fifth Division's case with the Shenzhen Intermediate Court below. As the Guangdong Provincial Higher People's Court (the "Guangdong Higher Court") handed down the final trial judgement for China Construction Fifth Division's case with the Shenzhen Intermediate Court in May 2014, the 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 the 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.

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44. CONTINGENT LIABILITIES (continued)

(c) (continued)

In October and November 2009, the Company further instituted two lawsuits with the 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. Currently, the above cases are under trial suspension.

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. 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 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.

In July 2014, China Construction Fifth Division instituted a lawsuit with the 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. Currently, the above case is under trial suspension.

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

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44. CONTINGENT LIABILITIES (continued)

(d) 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. As at the end of the reporting period, the arbitration court had yet to make a final ruling. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration ruling. The court has yet to issue its ruling.

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

(e) 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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44. CONTINGENT LIABILITIES (continued)

(e) (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 will file an appeal based on the verdicts on the three patents involved in the litigation ruled by the court to have been subject to infringement.

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

(f) On 20 May 2013, ZTE DO BRAZIL LTDA ("ZTE Brazil"), a wholly-owned subsidiary of the Company, received a notice of administrative penalty issued by the tax bureau of Sao Paulo State of Brazil, alleging that ZTE Brazil was not entitled to register and apply for ICMS output tax on the grounds that ZTE Brazil had committed non-compliant acts such as revoking invoices in the course of sales to customers during the period from 2010 to 2011, and therefore was required to make a remedial payment of ICMS tax, accrued interest and a penalty in an aggregate amount of approximately BRL96,448,400 (equivalent to approximately RMB205 million). On 19 June 2013, ZTE Brazil submitted an administrative defence to the level 1 administrative court under the tax bureau of Sao Paulo State, stating that: (1) ZTE Brazil's entitlement to the ICMS output tax was provable by existing invoices and customers' statements; (2) on the grounds that the fiscal revenue of Sao Paulo State would not be reduced, ZTE Brazil pleaded for the penalty to be waived pursuant to Section 527.A of Law No. 45.490 of Sao Paulo State; (3) the administrative penalty should be rendered invalid by the fact of duplicated calculation of the amount of fine based on the same rules. On 18 September 2013, ZTE Brazil received the judgement of the level 1 administrative court under the tax bureau of Sao Paulo State, which endorsed the administrative penalty imposed by the tax bureau of Sao Paulo State. On 18 October 2013, ZTE Brazil filed an appeal with the level 2 administrative court under the tax bureau of Sao Paulo State. The case is currently pending judgement by the level 2 administrative court under the tax bureau of Sao Paulo State. As at 31 December 2016, the Company had made provisions amounting to BRL17,700,000 (equivalent to approximately RMB37,650,000) in respect of this litigation.

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44. CONTINGENT LIABILITIES (continued)

(f) (continued)

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the case, the Company currently believes that the final outcome of this litigation can be reliably estimated. The aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(g) In May 2012, Flashpoint Technology, Inc., a U.S. company, filed a claim with the ITC and the Federal District Court of Delaware, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in image processing technologies. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a limited 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 Delaware, damages for losses and payments of legal fees were also demanded of the Company and ZTE USA in addition to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of Delaware has been suspended. On 1 October 2013, 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 14 March 2014, the ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not violated the patents relating to the case and had not violated Section 337.

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

(h) 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. The United States Court of Appeals for the Federal Circuit has yet to issue its verdict.

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

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44. CONTINGENT LIABILITIES (continued)

(i) 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 RMB66,690,000). 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 RMB66.41 million), together with accurable 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 RMB66,410,000) 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 RMB66.41 million) 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.

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 RMB176,000,000). The Company has appointed legal counsel to conduct active defence in respect of the said case.

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

(j) The Company has reached agreements (collectively the "Agreements") with the Bureau of Industry and Security of the United States Department of Commerce ("BIS"), the United States Department of Justice ("DOJ") and the Office of Foreign Assets Control of the United States Department of Treasury ("OFAC") in relation to investigations regarding the Company's compliance with U.S. Export Administration Regulations (the "EAR") and U.S. sanctions laws. Due to violations of U.S. export controls laws and U.S. rules and regulations in relation to the provision of information and other conduct during the investigations, the Company has agreed to plead guilty and pay a total of USD892,360,064 (equivalent to approximately RMB6,182,452,000) and it has been recorded in other expense. With a further USD300,000,000 to BIS, which is suspended for a period of seven years on the condition that the Company complies with the requirements in the agreement with BIS. While the agreement with OFAC takes effect immediately, the agreement with DOJ is pending approval from the United States District Court for the Northern District of Texas ("Court"). Similarly, Court approval of the DOJ agreement is a prerequisite before BIS will issue its settlement Order. In the meantime, BIS will recommend that the Company be removed from the Entity List, conditioned on court approval of the DOJ agreement, entry of the plea, and the issuance of Assistant Secretary's Order.

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44. CONTINGENT LIABILITIES (continued)

(j) (continued)

The Agreements also include the following key issues:

(1) A three-year monitor term shall be set up pursuant to the agreement between the Company and DOJ, to prepare annual reports during his/her term of office in order to monitor the Company's compliance with U.S. export control laws and performance of its obligations under the agreement. Thereafter, pursuant to the agreement between the Company and BIS, the Company shall appoint an independent compliance auditor for a three-year term, and the auditor will prepare annual audit reports of the Company's compliance with U.S. export control laws and performance of its obligations under the agreement.

(2) Pursuant to the agreement between the Company and BIS, BIS is suspending a denial order for seven years that would restrict and prohibit, among other things, the Company from applying for or using any licenses or buying or selling any item exported from the United States that is subject to the Regulations. BIS is suspending the denial order subject to the Company's compliance of the requirements under the agreement, and the denial order will be waived after the seven-year period.

(3) The Company shall provide extensive training on export control requirements to its management and employees and the management and employees of its subsidiaries and other entities over which it has ownership or control.

For a comprehensive execution of the agreement, the Company has reviewed its corporate structure, business processes and internal control. Through such measures as the establishment of the compliance management committee and the independent compliance department, the appointment of the Chief export control compliance officer, the adoption of new automated tools and processes, the framing and execution of the export control compliance manual, and consistent training on export control requirements to employees, the Company shall guarantee its compliance with export control laws and performance of its obligations under the agreement. Based upon the aforementioned policies and measures, the Company believes that it is unlikely to violate the agreement and to pay the suspended $300 million for BIS.

45. FINANCIAL GUARANTEE CONTRACT

For the reporting period, there were no financial guarantee contracts to be recognized in the financial statements (2015: RMB3,689,000).

46. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 31 to the financial statements.

47. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group is entitled to share a portion of the profit generated from the telecommunications network up to year 2016. During the year, operating lease rental income of RMB47,832,000 (2015: RMB47,113,000) has been recognised under this arrangement.

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The Group leases its investment properties (note 14 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 2016, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**136,452**	91,882
In the second to fifth years, inclusive	**605,101**	178,482
After five years	**297,680**	321,199
	1,039,233	591,563

(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 2016, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2016	2015
	RMB'000	RMB'000
Within one year	**307,719**	223,696
In the second to fifth years, inclusive	**174,340**	125,624
After five years	**78,588**	62,152
	560,647	411,472

48. COMMITMENTS

	2016	2015
	RMB'000	RMB'000
Contracted, but not provided for:		
Land and buildings	**1,052,816**	904,363
Investments in associates	**128,351**	28,590
	1,181,167	932,953

49. 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:

	2016	2015

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	Notes	**RMB'000**	RMB'000
The controlling shareholder:			
Purchases of raw materials	(a)	**255,070**	265,408
Sales of finished goods	(b)	**1,528**	4,894
Rental expense	(c)	**8,827**	8,827
Associates:			
Purchases of raw materials and other service	(a)	**75,075**	68,192
Sales of finished goods	(b)	**17,873**	45,099
Rental income	(e)	**16,836**	16,479
Interest expense	(f)	**80**	131
Interest income	(f)	**4,222**	176
Consulting service income	(g)	**1,033**	—
Joint ventures:			
Purchases of raw materials	(a)	**3,966**	2,004
Sales of finished goods	(b)	**258,191**	252,474
Rental income	(e)	**496**	399
Interest expense	(f)	**—**	1
Interest income	(f)	**—**	400
Consulting service income	(g)	**—**	79
Entities significantly influenced by key management personnel of the Group:			
Purchases of raw materials	(a)	**195,454**	868,047
Sales of finished goods	(b)	**444,941**	1,365
Rental expense	(d)	**71,422**	45,538
Rental income	(e)	**2,659**	2,146
Interest income	(f)	**—**	3,346
Entities controlled by the controlling shareholder:			
Purchases of raw materials	(a)	**153,888**	328,702
Sales of finished goods	(b)	**5,682**	5,522
Rental income	(e)	**1,129**	1,129

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

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49. 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 similar to those 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 RMB900 per square metre.

(e) The rental income was earned from RMB48 to RMB150 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.

(g) The consulting services were made with reference to published prices and conditions offered to major customers of the Group.

(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	2,618	—	—
Entities significantly influenced by key management personnel of the Group	27,283	2,248	—

(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	900,000	1,000,000	—
An entity significantly influenced by key management personnel of the Group	75,000	—	—
Associates	169,000	45,000	—

Notes to Financial Statements

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49. RELATED PARTY TRANSACTIONS (continued)

(II) Commitments with related parties (continued)

(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	16,666	8,245	—
Joint ventures	482	38	—
The substantial shareholder of the controlling shareholder	470	—	—
An entity significantly influenced by key management personnel of the Group	225	—	—

(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
Associates	31,000	—	—
An entity significantly influenced by key management personnel of the Group	1,100,000	1,100,000	—

(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 24 and 29 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 26 and 30 to the financial statements.

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49. RELATED PARTY TRANSACTIONS (continued)

(IV) Compensation of key management personnel of the Group

	2016 RMB'000	2015 RMB'000
Short-term employee benefits	**61,721**	57,471
Post-employment benefits	**660**	501
Total compensation paid to key management personnel	**62,381**	57,972

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 RMB409 million (2015: RMB594 million) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. For details, please refer to the section headed "Material Matters (XII) Significant Connected Transactions of the Group 2. Continuing Connected Transactions under the Hong Kong Listing Rules" of the Annual Report.

50. 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:

2016

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	—	—	2,659,667	—	2,659,667
Trade and bills receivables/long-term trade receivables	—	29,359,244	—	—	29,359,244
Factored trade receivables/factored long-term trade receivables	—	3,653,026	—	—	3,653,026
Financial assets included in prepayments, deposits and other receivables	—	3,772,079	—	—	3,772,079
Pledged deposits	—	4,472,453	—	—	4,472,453
Time deposits with original maturity of over three months	—	1,086,203	—	—	1,086,203
Cash and cash equivalents	—	30,049,791	—	—	30,049,791
Derivative financial instruments	53,995	—	—	862	54,857
	53,995	72,392,796	2,659,667	862	75,107,320

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50. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2016

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	**—**	**36,933,838**	**—**	**—**	**36,933,838**
Bank advances on factored trade receivables/ bank advances on factored long-term trade receivables	**—**	**3,654,761**	**—**	**—**	**3,654,761**
Financial liabilities included in other payables and accruals	**—**	**12,498,622**	**—**	**—**	**12,498,622**
Interest-bearing bank borrowings	**—**	**22,082,421**	**—**	**—**	**22,082,421**
Factoring costs payable	**—**	**166,526**	**—**	**—**	**166,526**
Long-term payable	**—**	**293,223**	**—**	**—**	**293,223**
Derivative financial instruments	**36,104**	**—**	**4,044**	**—**	**40,148**
	36,104	**75,629,391**	**4,044**	**—**	**75,669,539**

2015

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	—	—	2,381,467	—	2,381,467
Trade and bills receivables/long-term trade receivables	—	29,077,476	—	—	29,077,476
Factored trade receivables/factored long-term trade receivables	—	2,865,596	—	—	2,865,596
Financial assets included in prepayments, deposits and other receivables	—	1,622,932	—	—	1,622,932
Pledged deposits	—	4,718,585	—	—	4,718,585
Time deposits with original maturity of over three months	—	205,029	—	—	205,029
Cash and cash equivalents	—	26,616,996	—	—	26,616,996
Derivative financial instruments	8,984	—	—	1,126	10,110
	8,984	65,106,614	2,381,467	1,126	67,498,191

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50. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

2015

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	—	32,817,995	—	—	32,817,995
Bank advances on factored trade receivables/ bank advances on factored long-term trade receivables	—	2,866,874	—	—	2,866,874
Financial liabilities included in other payables and accruals	—	4,659,527	—	—	4,659,527
Interest-bearing bank borrowings	—	18,541,430	—	—	18,541,430
Financial guarantee contract	—	—	—	3,689	3,689
Bonds payable	—	4,000,000	—	—	4,000,000
Factoring costs payable	—	213,545	—	—	213,545
Long-term payable	—	50,181	—	—	50,181
Derivative financial instruments	16,962	—	2,878	—	19,840
	16,962	63,149,552	2,878	3,689	63,173,081

51. 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, deposits and other receivables, 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:

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51. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair values of the non-current portion of pledged deposits, trade receivables, deposits and other receivables and interest-bearing bank 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 2016 was assessed to be insignificant. The fair value of the liability portion of the convertible bonds is estimated by discounting the expected future cash flows using an equivalent market interest rate for a similar convertible bond with consideration of the Group's own non-performance risk.

The fair value of a listed equity investment is based on quoted market prices.

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.

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 2016	**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	**1,315,085**	**—**	**—**	**1,315,085**
Derivative financial instruments	**—**	**54,857**	**—**	**54,857**
	1,315,085	**54,857**	**—**	**1,369,942**

As at 31 December 2015	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	1,093,001	—	—	1,093,001
Derivative financial instruments	—	10,110	—	10,110
	1,093,001	10,110	—	1,103,111

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51. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2016	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	—	(40,148)	—	(40,148)

As at 31 December 2015	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	—	(19,840)	—	(19,840)

52. 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:

Interest rate risk

At 31 December 2016, 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 USD900 million floating interest rate loan, at 31 December 2016, there were no interest rate swaps (2015: USD100 million), and approximately 44% (2015: 36%) 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 profit before tax (through the impact on floating rate borrowings) and the Group's equity.

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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit/(loss) before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2016	**0.25%**	**(24,426)**	**—**
	(0.25%)	**24,426**	**—**
2015	0.25%	(29,510)	1,058
	(0.25%)	29,510	(1,058)

* 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 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 profit/(loss) before tax (due to changes in the fair value 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
2016		
If RMB weakens against USD	**3%**	**123,806**
If RMB strengthens against USD	**(3%)**	**(123,806)**
If RMB weakens against EUR	**5%**	**68,815**
If RMB strengthens against EUR	**(5%)**	**(68,815)**

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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2015		
If RMB weakens against USD	3%	276,555
If RMB strengthens against USD	(3%)	(276,555)
If RMB weakens against EUR	5%	8,404
If RMB strengthens against EUR	(5%)	(8,404)

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.

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 19.82% (2015: 26.85%) of the total trade receivables, their risk profiles were relatively low and did not give rise to 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 24 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.

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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

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:

2016	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	—	16,803,191	4,336,957	1,037,056	331,237	22,508,441
Trade and bills payables	25,243,881	11,689,957	—	—	—	36,933,838
Bank advances on factored trade receivables/ bank advances on factored long-term trade receivables	—	2,332,625	437,951	332,963	687,198	3,790,737
Other payables	12,498,622	—	—	—	—	12,498,622
Factoring costs payable	—	—	68,538	56,614	124,324	249,476
Derivative financial instruments	—	40,148	—	—	—	40,148
Long-term payable	—	—	52,436	52,436	61,000	165,872
	37,742,503	30,865,921	4,895,882	1,479,069	1,203,759	76,187,134

2015	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	—	12,672,102	1,455,727	3,989,492	1,007,435	19,124,756
Trade and bills payables	22,932,866	9,885,129	—	—	—	32,817,995
Bank advances on factored trade receivables/ bank advances on factored long-term trade receivables	—	1,312,514	511,956	405,538	751,722	2,981,730
Other payables	4,659,527	—	—	—	—	4,659,527
Bonds payable	—	4,102,000	—	—	—	4,102,000
Factoring costs payable	—	—	67,007	56,124	126,974	250,105
Derivative financial instruments	—	19,840	—	—	—	19,840
Long-term payable	—	—	13,321	13,321	26,642	53,284
Financial guarantee contract	50,000	—	—	—	—	50,000
	27,642,393	27,991,585	2,048,011	4,464,475	1,912,773	64,059,237

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52. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 2016 and 31 December 2015.

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:

	2016	2015
	RMB'000	RMB'000
Interest-bearing borrowings	**22,082,421**	18,541,430
Bonds payable	**—**	4,000,000
Bank advances on factored trade receivables and long-term trade receivables	**3,654,761**	2,866,874
Total interest-bearing liabilities	**25,737,182**	25,408,304
Total equity	**40,885,090**	43,348,605
Total equity and interest-bearing liabilities	**66,622,272**	68,756,909
Gearing ratio	**38.6%**	37.0%

53. MAJOR NON-CASH TRANSACTIONS

During the year, acquisition of property, plant and equipment of RMB546,903,000 (2015: RMB354,241,000) is by assuming directly related liabilities.

54. EVENTS AFTER THE REPORTING PERIOD

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

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54. EVENTS AFTER THE REPORTING PERIOD (continued)

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

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	31 December 2016 RMB'000	31 December 2015 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**5,242,587**	4,642,698
Prepaid land lease payments	**347,352**	357,143
Intangible assets	**988,962**	976,636
Investment properties	**1,608,900**	1,603,107
Investments in subsidiaries	**16,062,044**	12,449,842
Investments in joint ventures	**—**	55,548
Investments in associates	**340,392**	293,709
Available-for-sale investments	**458,091**	366,724
Long-term trade receivables	**274,946**	327,451
Factored long-term trade receivables	**1,249,292**	1,282,435
Deferred tax assets	**788,372**	671,519
Pledged deposits	**3,258,533**	3,515,601
Long-term prepayments, deposits and other receivables	**323,088**	229,607
Total non-current assets	**30,942,559**	26,772,020
CURRENT ASSETS		
Prepaid land lease payments	**9,038**	9,038
Inventories	**17,993,566**	13,315,871
Amount due from customers for contract works	**4,904,060**	9,580,171
Trade and bills receivables	**41,333,032**	37,590,241
Factored trade receivables	**498,052**	445,819
Prepayments, deposits and other receivables	**22,089,383**	15,035,784
Derivative financial instruments	**15,457**	3,234
Pledged deposits	**142,012**	382,469
Cash and cash equivalents	**15,752,732**	17,325,750
Total current assets	**102,737,332**	93,688,377
CURRENT LIABILITIES		
Trade and bills payables	**54,584,500**	48,641,152
Amount due to customers for contract works	**3,540,132**	3,016,655
Other payables and accruals	**38,524,339**	25,435,757
Provision	**776,682**	448,459
Interest-bearing bank borrowings	**11,639,725**	7,410,313
Bank advances on factored trade receivables	**499,386**	446,283
Bonds payable	**—**	4,000,000
Derivative financial instruments	**3,878**	6,421
Tax payable	**132,461**	167,227
Dividends payable	**225**	184
Total current liabilities	**109,701,328**	89,572,451
NET CURRENT ASSETS/(LIABILITIES)	**(6,963,996)**	4,115,926
TOTAL ASSETS LESS CURRENT LIABILITIES	**23,978,563**	30,887,946

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55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2016 RMB'000	31 December 2015 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES	**23,978,563**	30,887,946
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**480,000**	1,469,570
Bank advances on factored long-term trade receivables	**1,249,292**	1,282,435
Financial guarantee contract	**—**	3,689
Provision for retirement benefits	**146,106**	144,280
Other long-term payables	**1,055,711**	1,396,166
Total non-current liabilities	**2,931,109**	4,296,140
Net assets	**21,047,454**	26,591,806
EQUITY		
Issued capital	**4,184,628**	4,150,791
Reserves (note)	**7,541,499**	13,119,688
Perpetual capital instruments	**9,321,327**	9,321,327
Total equity	**21,047,454**	26,591,806

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 2014 and 1 January 2015	3,437,541	9,268,255	201,097	1,107,256	(17,486)	1,493,589	—	15,490,252
Final 2014 dividend declared	—	—	—	—	—	(687,508)	—	(687,508)
Total comprehensive income for the year	—	(26,066)	—	—	17	2,038,133	416,627	2,428,711
Issuance of perpetual capital instruments	—	—	—	—	—	—	8,904,700	8,904,700
Share Incentive Scheme:								
— Equity-settled share option expense	—	—	166,829	—	—	—	—	166,829
— Issue of shares	25,742	383,181	(120,101)	—	—	—	—	288,822
Transfer from capital reserve	687,508	(687,508)	—	—	—	—	—	—
Transfer from retained profits	—	—	—	253,697	—	(253,697)	—	—
At 31 December 2015 and 1 January 2016	4,150,791	8,937,862	247,825	1,360,953	(17,469)	2,590,517	9,321,327	26,591,806
Final 2015 dividend declared	**—**	**—**	**—**	**—**	**—**	**(1,038,566)**	**(501,300)**	**(1,539,866)**
Total comprehensive income for the year	**—**	**(3,603)**	**—**	**—**	**646**	**(4,777,527)**	**501,300**	**(4,279,184)**
Share Incentive Scheme:								
— Equity-settled share option expense	**—**	**—**	**(97,362)**	**—**	**—**	**—**	**—**	**(97,362)**
— Issue of shares	**33,837**	**463,292**	**(125,069)**	**—**	**—**	**—**	**—**	**372,060**
At 31 December 2016	**4,184,628**	**9,397,551**	**25,394**	**1,360,953**	**(16,823)**	**(3,225,576)**	**9,321,327**	**21,047,454**

56. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 23 March 2017.

Documents Available for Inspection

(I) Text of the 2016 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 2016 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
Yin Yimin
Chairman

24 March 2017

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