ZTE 中兴通讯股份有限公司
ZTE CORPORATION

stock code : 000063.SZ 763.HK

Annual Report 2017

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 Twenty-eighth Meeting of the Seventh Session of the Board of Directors of the Company. Mr. Zhang Jianheng, Vice Chairman, was unable to attend the meeting due to work reasons and has authorised Mr. Luan Jubao, Vice Chairman, to vote on his behalf. Mr. Wang Yawen, Director, was unable to attend the meeting due to work reasons and has authorised Mr. Tian Dongfang, Director, to vote on his behalf. Mr. Richard Xike Zhang, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Bingsheng Teng, Independent Non-executive Director, to vote on his behalf. Mr. Lü Hongbing, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Chen Shaohua, Independent Non-executive Director, to vote on his behalf. Mr. Zhu Wuxiang, Independent Non-executive Director, was unable to attend the meeting due to work reasons and has authorised Mr. Chen Shaohua, Independent Non-executive Director, to vote on his behalf.

The respective financial statements of the Group for the year ended 31 December 2017 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. Shao Weilin, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in this report.

In view of the state of affairs of the Company, the proposal for profit distribution for 2017 is as follows: RMB3.3 in cash (before tax) for every 10 shares based on the number of shares held by shareholders (including A shareholders and H shareholders) registered as at the close of business on the record date for profit distribution and dividend payment. The aforesaid matter shall require consideration and approval at the general meeting.

This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. Investors should beware of investment risks. The attention of investors is drawn to the section headed "Report of the Board of Directors (VI) Business outlook of 2018 and risk exposures", which contains a description of the potential risks inherent in the operations of the Company.

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

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

Contents

Definitions

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

Company or ZTE	ZTE Corporation, a limited company incorporated in China, the shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively
Articles of Association	The Articles of Association of ZTE Corporation
Company Law	Company Law of the People's Republic of China
Securities Law	Securities Law of the People's Republic of China
Group	ZTE and one or more of its subsidiaries
Board of Directors	The board of directors of the Company
Directors	Members of the board of directors of the Company
Supervisory Committee	The supervisory committee of the Company
Supervisors	Members of the supervisory committee of the Company
China or PRC	The People's Republic of China
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
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)

Definitions

ZTE HK	ZTE (H.K.) Limited
Nubia	Nubia Technology Limited
Zhongxing Software	Shenzhen Zhongxing Software Company Limited
Great Power	Guangzhou Great Power Energy & Technology Co., Ltd.
Eoptolink	Eoptolink Technology Inc., Ltd.
Giga Device	Giga Device Semiconductor (Beijing) Inc.
Laimu	Shanghai Laimu Electronics Co., Ltd.
Olympic Circuit Technology	Olympic Circuit Technology Co., Ltd.
Mentech Optical	Dongguan Mentech Optical & Magnetic Co., Ltd
Lianchuang Electronic	Lianchuang Electronic Technology Co., Ltd.
Enablence Technologies	Enablence Technologies Inc.
Union Optech	Union Optech Co., Ltd.
ZTE Capital	Shenzhen ZTE Capital Management Company Limited
Zhonghe Chunsheng Fund	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (Limited Partnership)
Jiaxing Fund	Jiaxing Xinghe Equity Investment Partnership (Limited Partnership)
Medium Term Note(s) or perpetual capital instruments	Perpetual Medium Term Notes
Zhongxingxin	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

Definitions

Xi'an Microelectronics	Xi'an Microelectronics Technology Research Institute
Aerospace Guangyu	Shenzhen Aerospace Guangyu Industrial Company Limited
Zhongxing WXT	Shenzhen Zhongxing WXT Equipment Company Limited
Guoxing Ruike	Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership)
ZTE Group Finance	ZTE Group Finance Co., Ltd.
ZTE Microelectronics	ZTE Microelectronics Technology Company Limited
2013 Share Option Incentive Scheme	the share option incentive scheme considered and approved 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
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	19 March 2018, being the latest practicable date for the purpose of ascertaining the contents of this report prior to its printing

Glossary

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

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

Glossary

LTE	Long Term Evolution, referring to fourth-generation mobile communication technologies with OFDM as its core technology, promoted by 3GPP and under continuous evolution. There are two types of LTE, distinguished by the mode of division duplex, namely FDD-LTE of frequency division and TDD-LTE of time division. The mixed operation of FDD-LTE and TDD-LTE is supported. In terms of networking, its supports homogeneous networks formed by macro base stations as well as heterogeneous networks formed by macro base stations and micro base stations.
NB-IoT	Narrow Band Internet of Things, a 3GPP-defined LPWAN standard applicable to 3GPP licensed frequency bands specifically designed for IOT connection. It mainly features: 1) connection by massive number of users; 2) substantially stronger coverage compared to traditional cellular network; 3) low power consumption; 4) simplified and optimised radio frequency that reduces cost for end-users.
NFV	Network Function Virtualisation, a solution for the construction of telecommunication network units using common servers and storage and network equipment promoted by NFV ISG, a group set up by the European Telecommunications Standards Institute (ETSI) in November 2012. NFV is generally perceived as consisting of three stages: first, implementation of network units through virtualisation technologies; second, deployment on cloud to realise centralisation and cloud-based operation; third, the breakdown of NFV network units into components by function, so that flexible network unit functions are facilitated through different configurations of components.
OTN	Optical Transport Network, a transmission network formed at the optical layer based on the wavelength-division multiplexing technology. OTN is a "digital transmission system" and "optical transmission system" regulated by a range of ITU-T recommendations such as G.872, G.709 and G.798, purporting to solve the problems of traditional WDM networks, such as poor modulation in the no-wavelength/sub-wavelength services, weak network formation and weak protection.
PaaS	Platform as a Service, the provision of services relating to the deployment of and operating environment for software based on cloud computing infrastructure facilities. It is capable of supplying resources required for flexible execution of application procedures and billing is based on actual usage.
PON	Passive Optical Network, a network that provides optical access services to users through the use of passive optical network technology and facilitates conservation of optical fibre resources on the main line through the adoption of a point-to-multipoint topological structure. It also offers flow management and security control functions. PON can be distinguished into FTTH, FTTDp, FTTB and FTTC, etc based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON, etc based on different standards.
Pre-5G	The adoption of the 5G technology without modifying existing air interfaces standards, providing in advance a 5G-like user experience on existing terminals.
PTN	Packet Transport Network, a network commonly using the MPLS-TP technology, designed to cater to the sudden nature of packet flow and the requirement for statistical multiplexing transmission and support multiple services provision with packet services as core services. PTN offers the advantage of lower total cost of use, while inheriting the traditional strengths of optical transmission, such as availability and reliability, efficient bandwidth management and flow, convenient OAM and network management, scalability and higher security.

Glossary

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

Glossary

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

Company Profile

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

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

The Group is dedicated to the provision of ICT products and solutions that satisfy the needs of customers, integrating design, development, production, sale and services with a special focus on carriers' networks, government and corporate business and consumer business. The Group is one of the major telecommunications equipment suppliers in China's telecommunications market and has also succeeded in gaining access to the international telecommunications market with respect to each of its major product segments. The Group has achieved a leading market position for its various telecommunications products in China with longstanding business ties with China's major telecommunications service providers, such as China Mobile, China Telecom and China Unicom. With respect to the global telecommunications market, the Group has provided innovative technology and product solutions to telecommunications service providers and government and corporate network clients in more than 160 countries and regions, making contributions to facilitate communications via multiple means, including voice, data, multi-media,wireless broadband and cable broadband, for users all over the world.

Corporate Information

1	Legal name (in Chinese) Chinese abbreviation Legal name (in English) English abbreviation	中興通訊股份有限公司 中興通訊 ZTE Corporation ZTE
2	Legal representative	Yin Yimin
3	Secretary to the Board of Directors/Company Secretary	Cao Wei
	Securities affairs representatives	Xu Yulong
	Correspondence Address	No. 55, Hi-tech Road South, Shenzhen, Guangdong Province, The People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	IR@zte.com.cn
4	Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China
	Postal code	518057
	Website	http://www.zte.com.cn
	E-mail	IR@zte.com.cn
	Principal place of business in Hong Kong	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, Hi-tech Road South, Shenzhen, Guangdong Province, The People's Republic of China
7	Listing information	**A shares** Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063 **H shares** Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763
8	Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

Corporate Information

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

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

Chairman's Statement

DEAR SHAREHOLDERS,

I hereby present the annual report of the Group for the year ended 31 December 2017, 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 2017, the Company reported operating revenue of RMB108.82 billion, representing growth of 7.5% as compared with the previous year. Carriers' networks, consumer business and government and corporate business all reported year-on-year growth in operating profit, benefiting from ongoing investments in telecommunication networks by global carriers and the Group's development of overseas markets for handset and government and corporate business. The Group's net profit attributable to holders of ordinary shares of the listed company for 2017 amounted to RMB4.57 billion, representing growth of 293.8%. Basic earnings per share was RMB1.09. Net cash flows from operating activities increased substantially in 2017 thanks to the Group's stronger efforts to manage cash flow and the collection of sales revenue.

For 2017, the Group's operating revenue from the domestic market and the international market amounted to RMB61.96 billion and RMB46.86 billion, respectively.

BUSINESS DEVELOPMENT

In 2017, the global telecommunication industry managed growth in stability, as investments remained focused on 4G networks, optical transmission and broadband access networks. While continuing to enhance 4G network construction, all nations were stepping up with the development of 5G technologies. Equipment testing and pilot networks were massively rolled out in North America, Europe, Japan and Korea, featuring large-scale cross-regional cooperations. In addition to 5G, carriers in various countries were also actively exploring and setting up businesses in new frontiers such as mobile videos, digital transformation and IOT.

In 2017, the Group persisted in the strategy of "delivering value to and realising mutual growth with customers" in the domestic market. While maintaining our position among the top-tier 4G suppliers in the domestic market, we were also engaged in active development for 5G, while reporting in the wireline sector increased market shares with the big three domestic carriers in core products such as OTN and core routers. The government and corporate business reported initial success in its endeavour to rectify the channel market, as business transition gradually embarked on a positive track with an improving business profile. The domestic operations of the consumer business were back on track after placing a stronger emphasis on the substance of operations. In the international market, with a strong focus on the market of international mainstream carriers and high-worth customers and consistent implementation of prudent strategies coupled with efforts to explore new growth opportunities, the Group was actively engaged in global network construction and technical evolution and enhanced its global market position as it seized opportunities arising from the changing global market profile and technical revolutions on the back of competitive technologies and products developed over the years. We reported stable growth in overseas market shares for the consumer business, as we continued to focus on technology innovation and enhance cooperation with core carriers.

Chairman's Statement

CORPORATE GOVERNANCE

In 2017, 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 "2016 Summary Report and 2017 Work Plan for Internal Control and Audit" to confirm key tasks in internal control for 2017 and effectively rolled out internal control tasks as planned to enhance the standard of the Company's operations and management and risk aversion ability.

SUSTAINABLE DEVELOPMENT

We constantly update ourselves with the latest ideas and standards in sustainable development and seek in-depth understanding of the demands of our stakeholders, so as to incorporate sustainable development as part of our corporate strategies and enhance our fulfilment of corporate social responsibility in a continuous manner. The Group is committed to creating and enhancing value for customers and partners and facilitating the transformation of the society based on smart operations as well as its own sustainable development through ongoing proprietary innovations, in a persistent drive for research, development and innovation as its core activity. We emphasise the breaking of internal barriers and the motivation of staff so that their talents and capabilities can be brought into full play in a workplace underpinned by equality and respect. Environmental protection is practiced in every stage and segment of our operation and throughout the entire life cycle of our products. New products and services with higher commercial value and eco-efficiency are being launched on an ongoing basis in a scientifically rigorous manner. We help to improve the quality of life in general, as we enhance the ability of people of different places to build a digitalised society by applying our expertise and strengths in the communications sectors to eliminate digital gaps. The Group's efforts in sustainable development and corporate social responsibility have been widely recognised by governments, international bodies and the media.

OUTLOOK

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

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

Yin Yimin
Chairman

Shenzhen, PRC
16 March 2018

Major Events of the Group

2017

February	2017	ZTE announced the launch of a full range of 5G pre-commercial application base stations in a major advancement of the industry's 5G commercialisation process
February	2017	ZTE launched Flexhaul, a 5G bearer solution based on IP + optical access
March	2017	ZTE PCT ranked first in international patent application for the third time and ensured a top 3 global ranking for 7 years in a row
June	2017	ZTE ZENIC SDON won the "Best Overall Multi-layer SDN Controller Implementation Award" at the NGON & Optical DCI Forum
July	2017	ZTE FDD Massive MIMO achieved a record-high peak value in pre-commercial application verification
September	2017	ZTE launched RoseFinch7100, the first NB-IoT secure IOT chip developed in China
October	2017	Axon M, a foldable ZTE smart phone offering revolutionary user experience, was presented to the public
October	2017	The first 5G pre-commercial network in Europe, jointly built by ZTE and Wind Tre and Open Fiber of Italy, was commissioned
December	2017	ZTE launched ThingxCloud, a new-generation IOT platform
December	2017	ZTE launched SBA 5G core network products

Highlights of Accounting Data and Financial Indicators

(I) STATEMENT ON RETROSPECTIVE ADJUSTMENTS TO OR RESTATED ACCOUNTING DATA OF THE PREVIOUS YEAR BY THE COMPANY BECAUSE OF CHANGES IN ACCOUNTING POLICIES OR FOR THE RECTIFICATION OF ACCOUNTING ERRORS

PRC ASBEs

(1) Government grants

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

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

(2) Gains/losses from the disposal of assets

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

HKFRSs

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

Highlights of Accounting Data and Financial Indicators

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

Unit: RMB in millions

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

Highlights of Accounting Data and Financial Indicators

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

Unit: RMB in millions

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

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

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

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

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

Highlights of Accounting Data and Financial Indicators

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

Note 1: Basic earnings per share and basic earnings per share after extraordinary items for 2017, 2016 and 2015 have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods;

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

Note 3: Net cash flows from operating activities per share and net assets per share attributable to holders of ordinary shares of the listed company for and as at the end of 2017, 2016 and 2015 have been calculated on the basis of the total share capital as at the end of the respective periods.

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

Unit: RMB in millions

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

Highlights of Accounting Data and Financial Indicators

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

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

Unit: RMB in millions

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

Unit: RMB in millions

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

Highlights of Accounting Data and Financial Indicators

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

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

Note 1: Basic earnings per share for 2017, 2016 and 2015 have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods, basic earnings per share for previous years have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve;

Note 2: Net assets per share for 2017, 2016 and 2015 have been calculated on the basis of the total share capital as at the end of the respective periods, net assets per share for previous years have been restated to reflect the implementation of the Company's 2014 plan for profit distribution and conversion of capital reserve.

(IV) THE AMOUNTS OF NET PROFIT AND NET ASSETS OF THE GROUP FOR THE YEAR ENDED AND AS AT 31 DECEMBER 2017 CALCULATED IN ACCORDANCE WITH PRC ASBEs ARE ENTIRELY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.

Summary of the Company's Business

I. PRINCIPAL BUSINESSES

The Group is dedicated to the provision of ICT products and solutions that satisfy the needs of customers, integrating design, development, production, sale and services with a special focus on carriers' networks, government and corporate business and consumer business. There was no significant change to the principal businesses of the Group during the year.

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

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

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

II. THE INDUSTRY IN WHICH WE OPERATE

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

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

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

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 2017, the Group continued to focus on its principal business and increase its R&D investment in core areas in pursuit of proprietary innovation in core technologies in persistent implementation of its strategy to lead in 5G. We maintained our leading position in core technologies such as 5G wireless, core network, bearer, access and chips. We were actively involved in global network construction and technical evolution with a strong focus on the mainstream carriers' market and high-worth customers, in line with our commitment to

Summary of the Company's Business

providing the world with more convenient services in interconnection and communication. We were also vigorously investigating new technologies and engaged in close cooperation with our partners in a more open-minded manner in a joint effort to develop a business chain and ecosphere that benefits all.

With the imminent approach of the 5G era and the expedited application of ICT technologies across various industries and sectors, the Group started to focus on leading the market in 5G innovations in its core strategic planning.

In connection with wireless products, we completed all aspect testings in the second-stage 5G technology R&D test of China in September 2017. These included testing under 7 major scenarios including: continuous wide coverage, high capacity at hot spots (low frequency and high frequency), low latency and high reliability and mega connection at low power consumption. We pioneered in the application of 5G technologies in 4G setting as we became the first manufacturer among our peers to launch commercialised Massive MIMO products. Large-scale commercial application of Pre-5G continued with the deployment of over 110 Pre-5G networks in more than 60 countries. In terms of advancement of the industry, we persisted in the formulation of uniform global 5G standards under the direction of 3GPP. In early 2017, the Group became an official member of 5G Automotive Association to strengthen cooperation along the vertical chain of 5G and expand industrial applications to create an open and mutually beneficial 5G business ecosphere. We worked with Qualcomm and China Mobile to develop interoperability tests and OTA (Over-the-Air Technology) outdoor tests based on 5G NR protocols in a further affirmation of our position as a leader in 5G.

In wireline products, we led the industry in announcing 5G bearer and 5G Flexhual solutions, as well as a series of 5G bearer pre-commercial equipment. In network architecture, we launched Cloud ServCore, a service-oriented prototype 5G cloud solution. As one of the leaders in network cloudification, we have successfully deployed over 240 SDN/NFV commercial/experimental bureaus around the world. We completed the first OTN VC cross-functional test on an operating network for China Mobile, while providing clients with transmission ducts featuring large capacity, low latency and hard separation.

In government and corporate business, we made breakthroughs in the market of power companies in 2017, as we won the tenders of Ningxia Power Company, Gansu Power Company, Hubei Power Company and Sichuan Power Company under the national power grid for IMS exchange system projects to further consolidate our market shares in the national power grid market.

In new sector applications, we provide NB-IoT end-to-end solutions for smart car parking, smart manhole covers and smart road lamps to assist in the new generation IOT deployment of China Telecom in Xiong An New District, Hebei.

In consumer business, we launched the world's first Gigabit Phone with a maximum download speed of 1Gbps. In October 2017, Axon M, the foldable dual-screen handset model, was also launched.

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 2017, the Group held patent assets of over 69,000 items, including granted patents of over 30,000 items. We continued to foster strengths in technologies and patents for key products and technologies such as 5G/4G, smart terminals, optical communication, cloud computing and big data to enhance our ability to counter patent risks on an ongoing basis. In addition, we claimed 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 40,000 research papers in aggregate to international standardisation organisations.

Summary of the Company's Business

The Group was also a key participant and contributor in the research of 5G technologies and standards. As a core member of IMT-2020, we headed over 30% of its topical research projects and served as the leader of three core research groups: the IEEE group, network technology group and transmission technology group, respectively. We were assigned chief editorships for three new 5G air-interface standards, namely, RAN2 (Radio Access Network), RAN3 and RAN4. The Group also headed research projects on key 5G technologies, such as 3GPP NOMA (Non Orthogonal Multiple Access) and network slicing.

In 2017, the Group received the "National Technology Invention Award — Second Class" for its "smart synergy network and application" project and the "National Technology Progress Award — Second Class" for the jointly undertaken "large-scale access convergence system technology and complete equipment set" project. The jointly undertaken "VoLTE key technological innovation and large-scale application" project received a technology progress award (first class) from Chinese Institute of Communication, while another jointly undertaken project, "ultra-large capacity optical access technology and application featuring high-efficiency integration" received a technology progress award (first class) from Chinese Institute of Electronics. Separately, the Group also garnered 4 technology progress awards (second class) from Chinese Institute of Communication and 2 technology progress awards (second class) from Chinese Institute of Electronics.

During 2017, 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 and the industrial conversion and upgrade project of MIIT.

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 32 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 NDRC.


Clothing store 50
742 53
Cafe 110
1154 231
Museum 570
2879 651

Report of the Board of Directors

The Board of Directors is pleased to present its audited operating results report together with the financial statements of the Group for the year ended 31 December 2017.

BUSINESS OF THE GROUP

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

FINANCIAL RESULTS

Please refer to page 162 and page 330 of this report for the results of the Group for the year ended 31 December 2017 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

FINANCIAL SUMMARY

Set out on pages 20–22 of this report are the results and financial position of the Group for the three financial years ended 31 December 2017 prepared in accordance with the PRC ASBEs.

Set out on page 23–24 of this report are the results and financial position of the Group for the five financial years ended 31 December 2017 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 2013, 2014, 2015, 2016 and 2017 prepared in accordance with HKFRSs.

(I) Business Review for 2017

1. Overview of the domestic telecommunications industry for 2017

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

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

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

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

Report of the Board of Directors

2. *Overview of the global telecommunications industry for 2017*

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

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

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

3. *Operating results of the Group for 2017*

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

(1) By market

The domestic market

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

Report of the Board of Directors

The international market

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

(2) By business segment

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

Carriers' networks

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

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

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

Government and corporate business

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

Report of the Board of Directors

Consumer business

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

For financial results of the year analysed by major financial indicators adopted by the Group, please refer to section (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 (XXXI) 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

Unit: RMB in millions

Revenue mix	Operating revenue	As a percentage of operating revenue	Operating costs	Gross profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in gross profit margin (percentage points)
I. By industry							
Manufacturing of communication equipment	108,815.3	100%	75,005.8	31.07%	7.49%	7.00%	0.32
Total	**108,815.3**	**100%**	**75,005.8**	**31.07%**	**7.49%**	**7.00%**	**0.32**
II. By business segment							
Carriers' networks	63,782.3	58.62%	38,240.9	40.04%	8.32%	6.68%	0.92
Government and corporate business	9,830.6	9.03%	6,955.5	29.25%	10.41%	24.17%	(7.84)
Consumer business	35,202.4	32.35%	29,809.4	15.32%	5.24%	4.04%	0.98
Total	**108,815.3**	**100%**	**75,005.8**	**31.07%**	**7.49%**	**7.00%**	**0.32**
III. By region							
The PRC	61,958.6	56.94%	39,950.1	35.52%	5.82%	2.55%	2.06
Asia (excluding the PRC)	15,786.7	14.51%	10,535.6	33.26%	8.39%	0.34%	5.35
Africa	3,766.1	3.46%	2,782.9	26.11%	(34.52%)	(13.82%)	(17.74)
Europe, Americas and Oceania	27,303.9	25.09%	21,737.2	20.39%	22.07%	24.82%	(1.75)
Total	**108,815.3**	**100%**	**75,005.8**	**31.07%**	**7.49%**	**7.00%**	**0.32**

Report of the Board of Directors

(1) Analysis of change in revenue

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

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

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

Unit: RMB in millions

2017			2016 Note					
Operating revenue	**Operating costs**	**Gross profit margin**	Operating revenue	Operating costs	Gross profit margin	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in gross profit margin (percentage points)
108,815.3	**75,005.8**	**31.07%**	99,290.2	67,826.7	31.69%	9.59%	10.58%	(0.62)

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

Hunan ZTE ICT Co., Ltd. ("Hunan ICT"), a subsidiary of the Company, completed the disposal of 70% equity interests in Hengyang ICT Real Estate Co., Ltd. ("Hengyang ICT") on 31 March 2017 and Hengyang ICT had been excluded from the consolidated financial statements of the Group as from 31 March 2017. The Company completed the disposal of 85% equity interests in ZTE Supply Chain Company Limited ("ZTE Supply Chain") on 20 April 2017 and ZTE Supply Chain had been excluded from the consolidated financial statements of the Group as from 20 April 2017. The Company completed the disposal of 81% equity interests in Beijing Zhongbao Net Shield Technology Co., Ltd. ("Zhongbao Net Shield") on 29 June 2017 and Zhongbao Net Shield had been excluded from the consolidated financial statements of the Group as from 29 June 2017. The Company completed the disposal of 10.1% equity interests in Nubia on 17 August 2017 and Nubia had been excluded from the consolidated financial statements of the Group as from 17 August 2017. ZTE ICT Company Limited ("ZTE ICT"), a subsidiary of the Company, completed the disposal of 45% equity interests in Huanggang Education Valley Investment Holdings Co., Ltd. ("Huanggang Education Valley") on 13 November 2017 and Huanggang Education Valley had been excluded from the consolidated financial statements of the Group as from 13 November 2017. ZTE ICT completed the disposal of 100% equity interests in Shenzhen Zhonghu Industrial Development Co., Ltd. ("Zhonghu Industrial") on 25 December 2017 and Zhonghu Industrial had been excluded from the consolidated financial statements of the Group as from 25 December 2017. Excluding the operating revenue and operating costs of the aforesaid companies for the corresponding period of 2016, the operating revenue and operating costs of the Group for 2017 would have grown by 9.59% and 10.58%, respectively, as compared to the same period last year, while gross profit margin dropped by 0.62 percentage point, year-on-year.

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

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

Unit: RMB in millions

Industry	Item	2017 Amount	2017 As a percentage of operating costs	2016 Amount	2016 As a percentage of operating costs	Year-on-year increase/ decrease
Manufacturing of communication equipment	Raw materials	**61,144.5**	**81.52%**	56,065.2	79.98%	9.06%
	Engineering costs	**11,789.1**	**15.72%**	11,866.8	16.93%	(0.65%)
	Total	**72,933.6**	**97.24%**	67,932.0	96.91%	7.36%

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

Unit: RMB in millions

Item	**2017**	2016	Year-on-year increase/decrease
Selling and distribution expenses	**12,104.4**	12,458.2	(2.84%)
Administrative expenses	**3,057.2**	2,487.9	22.88%
Finance expenses	**1,043.5**	207.8	402.17% Note 1
Income tax	**1,332.6**	640.1	108.19% Note 2

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

Note 2: Reflecting mainly the increase in profit of the Group's subsidiaries for the period.

4. *Research and development expense of the Group*

Item	**2017**	2016	Year-on-year increase/decrease
Headcount of R&D personnel	**28,942**	30,086	(3.80%)
R&D personnel as a percentage of total headcount	**38.71%**	36.93%	Increased by 1.78 percentage points
Amount of R&D expense (RMB in million) Note	**12,962.2**	12,762.1	1.57%
R&D expense as a percentage of operating revenue	**11.91%**	12.61%	Decreased by 0.70 percentage point
Amount of capitalised R&D expense (RMB in million)	**1,615.6**	1,447.3	11.63%
Capitalised R&D expense as a percentage of R&D expense	**12.46%**	11.34%	Increased by 1.12 percentage points

Note: Certain amount of government grants relating to day-to-day operations were deducted against R&D expense in accordance with the revised accounting standard on government grants applicable to the period. Had the comparative amount for the same period last year been retrospectively adjusted, the amount invested in R&D would have increased by 10.89%.

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5. Breakdown of the Group's cash flow

Unit: RMB in millions

Item	2017	2016	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**127,065.0**	124,230.6	2.28%
Sub-total of cash outflows from operating activities	**119,845.0**	118,970.4	0.74%
Net cash flows from operating activities	**7,220.0**	5,260.2	37.26%[Note 1]
Sub-total of cash inflows from investing activities	**3,897.5**	4,070.9	(4.26%)
Sub-total of cash outflows from investing activities	**8,832.1**	7,089.9	24.57%
Net cash flows from investing activities	**(4,934.6)**	(3,019.0)	(63.45%)[Note 2]
Sub-total of cash inflows from financing activities	**35,250.9**	32,958.4	6.96%
Sub-total of cash outflows from financing activities	**37,010.5**	31,731.9	16.63%
Net cash flows from financing activities	**(1,759.6)**	1,226.5	(243.47%)[Note 3]
Net increase in cash and cash equivalents	**59.5**	3,432.8	(98.27%)

Note 1: Reflecting mainly the increase in cash received from the sales of goods and provision of labour services;

Note 2: Reflecting mainly the year-on-year decrease in cash received for the disposal of subsidiaries;

Note 3: Reflecting mainly the increase in cash paid for the repayment of debts.

For an explanation of reasons for the difference between net cash flows from operating activities and net profit of the Group for the year, please refer to Note V 55. Supplemental information on the cash flow statement to the financial statements prepared under PRC ASBEs.

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

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

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

The Group's operating profit for 2017 amounted to RMB6,752.9 million, representing year-on-year growth of 479.40% which reflected mainly the increase in revenue, gross profit and investment income coupled with the modified structure of presentation for government grants in line with the amendment of the accounting standard relating to government grants. Operating revenue amounted to RMB108,815.3 million, representing year-on-year growth of 7.49%, which reflected mainly year-on-year growth in operating revenue from the three principal business segments, namely, carriers' networks, government and corporate business, and consumer business. Investment income amounted to RMB2,540.3 million, an increase by 54.87% as compared to the same period last year reflecting mainly investment income from the partial disposal of equity interests in Nubia during the period. Non-operating income amounted to RMB159.3 million, representing year-on-year decrease of 96.35%, which was attributable mainly to the modified structure of presentation for government grants in line with the amendment of the accounting standard relating to government grants. Non-operating expenses amounted to RMB193.3 million, representing year-on-year decrease of 96.93%, which was attributable mainly to the recognition of losses arising from penalties agreed to be paid by the Company amounting to approximately USD892 million following the settlement between the Company and relevant U.S. authorities in March 2017 in the 2016 financial statements in accordance with relevant accounting standards.

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

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The Group's gross profit margin for 2017 was 31.07%, versus 30.75% for the previous year.

7. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in millions

Item	As at 31 December 2017		As at 31 December 2016		Year-on-year increase/ decrease in percentage of total assets (percentage points)
	Amount	**As a percentage of total assets**	Amount	As a percentage of total assets	
Total assets	**143,962.2**	**100%**	141,640.9	100%	–
Cash	**33,407.9**	**23.21%**	32,349.9	22.84%	0.37
Trade receivables	**24,345.3**	**16.91%**	25,998.2	18.36%	(1.45)
Inventory	**26,234.1**	**18.22%**	26,810.6	18.93%	(0.71)
Investment properties	**2,023.8**	**1.41%**	2,016.5	1.42%	(0.01)
Long-term equity investments	**3,960.6**	**2.75%**	665.9	0.47%	2.28
Fixed assets	**8,694.5**	**6.04%**	7,516.2	5.31%	0.73
Construction in progress	**1,473.0**	**1.02%**	1,729.5	1.22%	(0.20)
Short-term loans	**14,719.0**	**10.22%**	15,132.1	10.68%	(0.46)
Long-term liability due within one year	**3,816.8**	**2.65%**	1,932.0	1.36%	1.29
Long-term loans	**3,002.1**	**2.09%**	5,018.3	3.54%	(1.45)

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(2) Assets and liabilities at fair value

① Items relating to fair value measurement

Unit: RMB in thousands

Item	Opening balance	Gains/ losses arising from fair value change for the period	Cumulative fair value change dealt with in equity	Impairment charge for the period	Amount purchased for the period	Amount disposed of for the period	Closing balance
Financial assets							
Including: 1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	—	—	—	—	—	—	—
2. Derivative financial assets	54,857	62,799	(862)	—	—	—	116,794
3. Available-for-sale financial assets	1,315,085	—	1,521,924	—	132	470,072	1,711,846
Sub-total of financial assets	1,369,942	62,799	1,521,062	—	132	470,072	1,828,640
Investment properties	2,016,470	7,339	—	—	—	—	2,023,809
Productive living assets	—	—	—	—	—	—	—
Others	—	—	—	—	—	—	—
Total	**3,386,412**	**70,138**	**1,521,062**	**—**	**132**	**470,072**	**3,852,449**
Financial liabilities Note	40,148	(11,837)	(11,465)	—	—	—	49,830

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/USD, RMB/EUR and other foreign currencies 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.

(3) 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	54,857	62,799	(862)	—	116,794
2. Loans and receivables	36,178,872	—	—	1,364,420	39,733,110
3. Available-for-sale financial assets	38,490	—	(2,699)	—	32,911
4. Held-to-maturity investments	—	—	—	—	—
Sub-total of financial assets	**36,272,219**	**62,799**	**(3,561)**	**1,364,420**	**39,882,815**
Financial liabilities	13,157,636	(11,837)	(11,465)	—	12,437,292

(4) 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 mainstream carriers and government and corporate clients around the world. Through the provision of innovative technology and product solutions to telecommunications carriers and government and corporate clients in 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 2017 to its largest customer amounted to RMB23,151.0 million, accounting for 21.28% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB53,184.3 million, accounting for 48.88% 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 RMB3,169.2 million in 2017, accounting for 5.46% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB10,612.9 million, accounting for 18.28% of the total purchases of the Group for the year. The Company held 49.9% equity interests in Nubia, one of the five largest suppliers. Save as aforesaid, 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 equity investments as at the end of 2017 amounted to approximately RMB3,960,597,000, representing an increase of 494.79% compared to approximately RMB665,876,000 as at the end of 2016.

(2) For details of the Company's equity investment or non-equity investment during the year, please refer to the section headed "Material Matters (V) Asset Transactions" in this report.

(3) Investment in financial assets

① Investment in securities

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

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gains/loss arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed during the period	Gain/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	300438	Great Power Note 1	1,547.62	Fair-value measurement	14,175.00	–	1,295.09	–	12,825.31	10,820.49	1,464.50	Available-for-sale financial assets	Issue proceeds
Stock	300502	Eoptolink Note 1	1,385.12	Fair-value measurement	30,761.78	–	15,005.71	–	7,900.75	7,396.82	15,980.16	Available-for-sale financial assets	Issue proceeds
Stock	603986	Giga Device Note 1	1,813.15	Fair-value measurement	56,511.70	–	71,998.80	13.15	26,281.15	24,527.18	73,281.66	Available-for-sale financial assets	Issue proceeds
Stock	603633	Laimu Note 1	2,000.00	Fair-value measurement	13,670.00	–	4,016.67	–	–	41.67	6,016.67	Available-for-sale financial assets	Issue proceeds
Stock	603920	Olympic Circuit Technology Note 1	2,562.00	Fair-value measurement	2,562.00	–	19,362.37	–	–	–	21,924.37	Available-for-sale financial assets	Issue proceeds
Stock	002902	Mentech Note 1	1,655.50	Fair-value measurement	1,655.50	–	18,033.39	–	–	51.45	19,688.89	Available-for-sale financial assets	Issue proceeds
Stock	002036	Lianchuang Electronic Note 2	3,266.00	Fair-value measurement	13,196.56	–	6,794.65	–	–	25.15	10,060.65	Available-for-sale financial assets	Issue proceeds
Stock	300691	Union Optech Note 2	3,498.71	Fair-value measurement	3,498.71	–	17,100.61	–	–	–	20,599.32	Available-for-sale financial assets	Issue proceeds
Stock	ENA: TSV	Enablence Technologies Note 3	3,583.26	Fair-value measurement	3,193.45	–	(1,414.87)	–	–	–	2,168.39	Available-for-sale financial assets	Internal funds
Other securities investments held at the end of the period			–	–	–	–	–	–	–	–	–	–	–
Total			**21,311.36**	**–**	**139,224.70**	**–**	**152,192.42**	**13.15**	**47,007.21**	**42,862.76**	**171,184.61**	**–**	**–**

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

Note 2: Figures corresponding to Lianchuang Electronic and Union Optech 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 HKD25,979,600, equivalent to approximately RMB21,683,900 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.83465) on 31 December 2017.

B. Details in investment in securities

a. Shareholdings in Great Power

As at the end of the year, the Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund, a partnership reported in the consolidated financial statements of the Company. In 2017, Zhonghe Chunsheng Fund transferred 4,007,400 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 492,600 shares in Great Power, accounting for 0.18% of the total share capital of Great Power.

b. Shareholdings in Eoptolink

In 2017, Zhonghe Chunsheng Fund transferred 2,323,100 shares in Eoptolink (a company listed on the GEM Board of the Shenzhen Stock Exchange) it held. As at the end of the year, Zhonghe Chunsheng Fund held 5,512,300 shares in Eoptolink (following the implementation of the 2016 equity distribution plan), accounting for 2.32% of the total share capital of Eoptolink.

c. Shareholdings in Giga Device

In 2017, Zhonghe Chunsheng Fund transferred 1,859,200 shares and acquired 1,000 shares in Giga Device (a company listed on the Shanghai Stock Exchange). As at the end of the year, Zhonghe Chunsheng Fund held 4,492,500 shares in Giga Device (following the implementation of the 2016 equity distribution plan), accounting for 2.22% of the total share capital of Giga Device.

d. 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.

e. Shareholdings in Olympic Circuit Technology

As at the end of the year, Zhonghe Chunsheng Fund held 12,390,900 shares in Olympic Circuit Technology, a company listed on the Shanghai Stock Exchange, accounting for 3.08% of the total share capital of Olympic Circuit Technology.

f. Shareholdings in Mentech

As at the end of the year, Zhonghe Chunsheng Fund held 5,145,000 shares in Mentech, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 3.68% of the total share capital of Mentech.

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g. Shareholdings in Lianchuang Electronic

As at the end of the year, the Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaxing Fund, which was a partnership reported in the consolidated financial statements of the Company. As at the end of the year, Jiaxing Fund held 6,887,600 shares in Lianchuang Electronic, a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange, accounting for 1.23% of the total share capital of Lianchuang Electronic.

h. Shareholdings in Union Optech

As at the end of the year, Jiaxing Fund held 2,763,600 shares in Union Optech, a company listed on the GEM Board of the Shenzhen Stock Exchange, accounting for 3.23% of the total share capital of Union Optech.

i. Shareholdings in Enablence Technologies

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

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

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	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	Foreign exchange forwards	–	2017/5/31	2018/12/28	99,003.19	364,630.49	273,540.20	–	190,093.49	6.01%	(1,759.07)
Financial institution	N/A	No	Foreign exchange forwards	–	2017/8/31	2018/12/28	117,171.13	345,142.43	297,122.35	–	165,191.20	5.22%	(1,528.63)
Financial institution	N/A	No	Foreign exchange forwards	–	2017/5/16	2018/12/24	16,608.88	166,497.07	76,389.91	–	106,716.04	3.37%	(987.52)
Other financial institution	N/A	No	Foreign exchange forwards	–	2017/5/18	2018/12/12	163,592.39	977,712.64	667,767.69	–	473,537.34	14.96%	(4,381.97)
Total				**–**	**–**	**–**	**396,375.59**	**1,853,982.63**	**1,314,820.15**	**–**	**935,538.07**	**29.56%**	**(8,657.19)**

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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 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, and "Announcement Resolutions of the Fifteenth Meeting of the Seventh Session of the Board of Directors" and "Announcement on the Application for Derivative Investment Limits for 2017," both dated 23 March 2017.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	"Announcement on Resolutions of the 2015 Annual General Meeting" dated 2 June 2016 and "Announcement on Resolutions of the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017" dated 20 June 2017.
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	In 2017, the Company conducted value-protection derivative investments, the major risks and control measures of which are discussed as follows: 1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date; 2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company's budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company's current assets was insignificant; 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; Obscure terms in the trade contract may result in legal risks;

	5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.
Changes in the market prices or fair values of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives	The Company has recognised gains/losses from investments in derivatives during the reporting period. Total losses recognised for the reporting period amounted to RMB86,571,900, comprising gains from fair-value change of RMB50,962,400 and recognised investment losses of RMB137,534,300. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period	There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.
Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control	Independent Non-executive Directors' Opinion: The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. 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 the types of such derivative investment;

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 investment amount at the beginning of the period represented the amount denominated in the original currency translated at the exchange rate prevailing as at the end of the reporting period.

Report of the Board of Directors

(4) Entrusted fund management and entrusted loans

① Entrusted fund management

a. General information of entrusted fund management during the year

Unit: RMB in ten thousands

Product type	Source of fund	Amount incurred	Outstanding amount	Overdue and unrecovered amount
Bank investment product	Internal fund and issue proceeds	120,894	77,280	—
Total		**120,894**	**77,280**	**—**

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

☐ Applicable ✓ N/A

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

(5) Use of Issue Proceeds

☐ Applicable ✓ N/A

10. Material asset and equity disposal by the Group

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

11. Analysis of principal subsidiaries and investee companies

Unit: RMB in millions

Name of company	Corporate type	Principal operations	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Software development	RMB51.08 million	15,770.9	3,000.6	17,935.2	1,733.3	1,653.7
ZTE Capital	Subsidiary	Trusted management of venture investment funds	RMB30 million	3,652.2	3,561.4	6.4	316.0	301.7
ZTE Group Finance	Subsidiary	Credit authentication and agency services, loans and finance leasing	RMB1,000 million	26,062.5	1,768.7	568.2	365.2	273.7
ZTE HK	Subsidiary	Sales and technical support of communication products	HKD995 million	23,733.5	1,744.2	25,063.9	437.7	272.8

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

For the year, the operating results of the 4 subsidiaries had a material impact on the Company's consolidated operating results, including 3 subsidiaries which reported year-on-year difference of more than 30% in operating results: ZTE Capital reported year-on-year decrease in net profit of 49.85% reflecting mainly the decrease in stock investment gains; ZTE Group Finance reported year-on-year net profit growth of 50.10%, reflecting mainly the increase in income from the business of placements with other financial institutions; ZTE HK reported year-on-year net profit growth of 189.18%, reflecting mainly the decrease in asset impairment loss.

Report of the Board of Directors

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

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

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

Report of the Board of Directors

REVENUE ANALYSIS BY BUSINESS SEGMENT AND REGION

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

Unit: RMB in millions

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

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

Unit: RMB in millions

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

The Group reported RMB108,815.3 million in operating revenue for 2017, improving by 7.5% as compared with the same period last year. Operating revenue generated from the domestic business increased by 5.8% to RMB61,958.6 million, while operating revenue generated from the international business increased by 9.8% to RMB46,856.7 million, as compared with the same period last year.

Analysed by business segment, year-on-year growth in the Group's operating revenue for 2017 reflected mainly year-on-year growth in operating revenue from the three principal business segments of carriers' networks, government and corporate business and consumer business. The 8.3% year-on-year increase in operating revenue from the Group's carriers' networks for 2017 reflected mainly the year-on-year increase in operating revenue from 4G system products and optical access products in the domestic and international markets and optical transmission products in the domestic market. The 10.4% year-on-year increase in operating revenue from the Group's government and corporate business for 2017 reflected mainly the year-on-year increase in operating revenue from the government and corporate business in the domestic and international markets. The 5.2% year-on-year increase in operating revenue from the Group's consumer business for 2017 reflected mainly the year-on-year increase in operating revenue from handset products in the international market and home terminals in the domestic market.

COST OF SALES AND GROSS PROFIT

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

Unit: RMB in millions

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

Unit: RMB in millions

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

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

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

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

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

OTHER INCOME AND GAINS

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

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2017 increased by 10.9% to RMB12,962.2 million from RMB11,689.2 million for 2016, or by 0.4 percentage point from 11.5% for 2016 to 11.9% for 2017 as a percentage of operating revenue. Such increase was attributable mainly to the continuous increase in the Group's investment in the research and development of products such as Pre-5G, 5G, high-end routers, SDN, OTN and core chips for the period.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses for 2017 decreased by 2.9% to RMB12,260.0 million from RMB12,622.4 million for 2016, reflecting mainly the decrease in the Group's advertising and promotion expenses for the period. Selling and distribution expenses as a percentage of operating revenue decreased by 1.2 percentage points to 11.3%, compared to 12.5% for 2016.

ADMINISTRATIVE EXPENSES

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

OTHER EXPENSES

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

PROFIT FROM OPERATING ACTIVITIES

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

FINANCE COSTS

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

INCOME TAX EXPENSE

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

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

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

OTHER COMPREHENSIVE INCOME

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

DEBT-EQUITY RATIO AND THE BASIS OF CALCULATION

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

The Group's debt-equity ratio for 2017 was 36.0%, declining by 2.6 percentage points as compared to 38.6% for 2016, reflecting mainly the increase in net profit for the period.

LIQUIDITY AND CAPITAL RESOURCES

In 2017, the Group's development funds were financed mainly by cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other contingent cash requirements. The Group has adopted an appropriate capital management policy and sufficient funds are in place to meet its debt repayment obligations as due, capital expenditure and the requirements of normal production operations.

Cash and cash equivalents of the Group as of 31 December 2017 amounted to RMB30,109.3 million held mainly in RMB and to a smaller extent in USD, EUR, HKD and other currencies.

CASH FLOW DATA

Unit: RMB in millions

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

OPERATING ACTIVITIES

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

INVESTING ACTIVITIES

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

FINANCING ACTIVITIES

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

CAPITAL EXPENDITURE

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

INDEBTEDNESS

Unit: RMB in millions

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

Unit: RMB in millions

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

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. The Group's RMB short-term and long-term bank loans subject to fixed interest rates were RMB4,452.2 million and RMB935.4 million respectively. USD and EUR bank loans subject to fixed interest rates were equivalent to approximately RMB4,350.9 million and the remaining USD and EUR loans were subject to floating interest rates. The Group's borrowings were mainly denominated in USD and EUR, apart from certain RMB loans.

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the fluctuations in the exchange rates of such currencies. The Group seeks to mitigate the impact of exchange rate volatility on its operations at source through business strategy guidance, internal settlement management, financing mix adjustment, internal exchange settlement and application of derivative instruments on exchange rates based on the principle of prudent exposure management. The Group also strengthens liquidity and facilitates the pricing and settlement of its overseas projects in RMB, so as to lower exchange risks in the long term.

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

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

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

CONTINGENT LIABILITIES

Unit: RMB in millions

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

CAPITAL COMMITMENTS

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

Unit: RMB in millions

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

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

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

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

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

Details of progress of acquisitions and disposals related to subsidiaries, associates and joint ventures commenced by the Group in 2017 are set out in the section headed "Material Matters — (V) Asset Transactions" in 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 2017 are set out in the sections headed "Directors, Supervisors, Senior Management and Employees," "Corporate Governance Structure" and "Material Matters — (VI) Implementation and Impact of the Company's Share Option Incentive Scheme" in this report.

CHARGES ON ASSETS

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

PLANS FOR INVESTMENTS OR ACQUISITION OF CAPITAL ASSETS

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

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

MARKET RISKS

For details of the Group's exposure to market risks, please refer to the section headed "Report of the Board of Directors — (VI) Business outlook of 2018 and risk exposures."

(IV) Compliance with laws and regulations

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

The Group is committed to ensuring compliance of its businesses and operations with applicable domestic and international laws and regulations. The Group's Compliance Management Committee monitors and supervises the Group's overall compliance with laws and regulations which have a material impact on the Group's business and reports to the Board on the status of the Group's compliance, 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.

Report of the Board of Directors

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

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 34 receptions of investors for research purposes, receiving 152 institutional investors and 11 individual investors. For details, please refer to the following table. The Company did not disclose, reveal or divulge unpublished material information to such investors.

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
External meetings	January 2017	Shanghai	UBS investors' conference	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	February 2017	Hangzhou	Zhongtai Securities investors' conference	Customers of Zhongtai Securities	Day-to-day operations of the Company	Published announcements and regular reports
	March 2017	Shanghai	Founder Securities investors' conference	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
	March 2017	Shenzhen	Everbright Securities investors' conference	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	April 2017	Hong Kong	Guotai Jun'an investors' conference	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Hong Kong	CICC investors' conference	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Hong Kong	Goldman Sachs investors' conference	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Shanghai	Founder Securities investors' conference	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Changsha	Essence Securities investors' conference	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Chengdu	CITIC Securities investors' conference	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	May 2017	Xiamen	Shenyin Wanguo investors' conference	Customers of Shenyin Wanguo	Day-to-day operations of the Company	Published announcements and regular reports
	June 2017	Guangzhou	China Merchants Securities investors' conference	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
	June 2017	Shanghai	BOCI investors' conference	Customers of BOCI	Day-to-day operations of the Company	Published announcements and regular reports
	June 2017	Hong Kong	UBS investors' conference	Customers of UBS	Day-to-day operations of the Company	Published announcements and regular reports
	June 2017	Shanghai	CICC investors' conference	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	July 2017	Shenzhen	Guosen Securities investors' conference	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	July 2017	Suzhou	Zhongtai Securities investors' conference	Customers of Zhongtai Securities	Day-to-day operations of the Company	Published announcements and regular reports
	July 2017	Shenzhen	Everbright Securities investors' conference	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	August 2017	Shenzhen	Huatai Securities investors' conference	Customers of Huatai Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shanghai	Guosen Securities investors' conference	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shanghai	Nomura Securities investors' conference	Customers of Nomura Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shenzhen	Lianxun Securities investors' conference	Customers of Lianxun Securities	Day-to-day operations of the Company	Published announcements and regular reports

Report of the Board of Directors

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
	September 2017	Nanjing	Everbright Securities investors' conference	Customers of Everbright Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Hong Kong	CLSA investors' conference	Customers of CLSA	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shenzhen	China Merchants Securities (HK) investors' conference	Customers of China Merchants Securities (HK)	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shanghai	China Securities investors' conference	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shenzhen	TF Securities investors' conference	Customers of TF Securities	Day-to-day operations of the Company	Published announcements and regular reports
	September 2017	Shenzhen	Haitong Securities investors' conference	Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	October 2017	Beijing	CICC investors' conference	Customers of CICC	Day-to-day operations of the Company	Published announcements and regular reports
	November 2017	Hong Kong	Jefferies investors' conference	Customers of Jefferies	Day-to-day operations of the Company	Published announcements and regular reports
	November 2017	Shenzhen	Credit Suisse investors' conference	Customers of Credit Suisse	Day-to-day operations of the Company	Published announcements and regular reports
	November 2017	Singapore	Morgan Stanley investors' conference	Customers of Morgan Stanley	Day-to-day operations of the Company	Published announcements and regular reports
	November 2017	Chengdu	Founder Securities investors' conference	Customers of Founder Securities	Day-to-day operations of the Company	Published announcements and regular reports
	November 2017	Shenzhen	Hua Chuang Securities investors' conference	Customers of Hua Chuang Securities	Day-to-day operations of the Company	Published announcements and regular reports
	November 2017	Shenzhen	CITIC Securities investors' conference	Customers of CITIC Securities	Day-to-day operations of the Company	Published announcements and regular reports
	November 2017	Shenzhen	Guotai Jun'an investors' conference	Customers of Guotai Jun'an	Day-to-day operations of the Company	Published announcements and regular reports
	November 2017	Shenzhen	China Merchants Securities investors' conference	Customers of China Merchants Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2017	Shenzhen	Southwest Securities investors' conference	Customers of Southwest Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2017	Hong Kong	CCBI investors' conference	Customers of CCBI	Day-to-day operations of the Company	Published announcements and regular reports
	December 2017	Shenzhen	Goldman Sachs investors' conference	Customers of Goldman Sachs	Day-to-day operations of the Company	Published announcements and regular reports
	December 2017	Shenzhen	Guosen Securities investors' conference	Customers of Guosen Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2017	Shanghai	Haitong Securities investors' conference	Customers of Haitong Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2017	Shenzhen	Essence Securities investors' conference	Customers of Essence Securities	Day-to-day operations of the Company	Published announcements and regular reports
	December 2017	Shenzhen	China Securities investors' conference	Customers of China Securities	Day-to-day operations of the Company	Published announcements and regular reports

Report of the Board of Directors

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
				Investors		
Company visits by investors	January to December 2017	Company	Verbal	Fenghe Asia, Macquarie Capital Limited, Credit Suisse, Signature Global Asset Management, Surveyor Capital, PSP Investments, Principal Global Investors, Viking Global Investors LP, Neo-Criterion Capital, GIC, Northeast Securities, SEB, KWAP, Resona Bank, Balyasny Asset Management, Lone Pine Capital, AO Asset Management, Silver Point Advisors, Capital Group, Dongxing Securities, Tokio Marine Asset Management, Shenzhen Fang Wu Innovation Capital Management Co., Ltd., Credit Suisse, Morgan Stanley, Khazanah Nasional, Allianz Global Investors, Lion Global Investors, APG Asset Management Asia, C Worldwide Asset Management, Samsung Asset Management (HK) Limited, TT International, Fullerton Fund Management, Beijing Gao Hua Securities, Goldman Sachs, Peak Investment Partners, FengHe Asia, Brilliance Capital Management, Yong Rong Assets, Yinhua Fund, Zeal Asset Management, Davidson Kempner, CCB International, UOB Asset Management, EverPoint Asset Management, CloudAlpha Capital Management, RWC, Dongxing Securities, Beijing Starock Investment Management Co., Ltd., Shenzhen Qianhai Wongtee Capital Management Co., Ltd., CICC, Myriad Asset Management, Marshall Wace Asia Limited, Harvest Global Investments, Value Partners, Tairen Capital, China Life Asset Management, Millennium Capital, BosValen Asset Management, Fullgoal Asset Management, Trilogy Partners, Parantoux Capital, Balyasny Asset Management, China Alpha Fund Management, Blue Ocean Asset Management, GF International Investment Management, China Orient International Asset Management, China Southern Asset Management, Bank of America Merrill Lynch, CPP Investment Board, GLG Partners, Yong Rong Assets, Prime Capital Management, Huatai Securities, China Life AMP, Haitong Securities, Ping An Asset Management, CSOP, Fullgoal Fund, First Seafront Fund, Wanjia Asset, Chinahead Water, PinPOINT, Eastern Marathon, Lyhd Capital, VisionGain Capital, Schroders Fund, Zhihe Investment, Wuyuehua Investment, Haofang Assets, Harmony Capital, Chijiu Investment, Huaqiang Investment, Hengxing Investment, Skyline Investment, PH Capital, Qianhai Ankang Investment, Venus Investment, LAF Capital, Value Partners, eFusion Capital, Orchid Asia, Telligent, Qianhe Yu'an, China Merchants Securities, GF Fund, Jefferies, Prusik Investment Management LLP, Macquarie, Alliance Bernstein Japan Ltd., Edinburgh Partners, Mawer Investment Management Ltd., Harding Loevner, QVT Financial LP, Och-Ziff Capital Management Hong Kong Limited, Point72 Asia (Hong Kong) Limited, PNC Capital Advisors, Taiwan Cathay Securities, Taiwan Cathay Futures, Fuh Hwa Securities Investment Trust, IGWT Investment, Nomura Asset Management, Uni-President Assets Management, Prudential Financial Securities Investment Trust, Ashmore Equities Investment Management, Asset Management ONE Singapore, Taiwan Cathay Securities, Taiwan Cathay Futures, Cathay United Bank, Fuh Hwa Securities Investment Trust, China Merchants Fund, Prudential Financial Securities Investment Trust, Telligent Capital Management, Jih Sun Securities Investment Trust, Orchid Asia, President Securities, Korea Investment, eBest Investment & Securities, NH Investment & Securities, Hanwha Investment & Securities, Hanwha Asset Management, Eugene Investment & Securities, KOne Investment Advisors, Meritz Securities, CICC, Cathay Life Insurance, Southwest Securities, CITIC Securities, Everbright Securities, Golden Eagle Fund, Orient Securities Asset Management, CITIC Prudential Fund, Optimus Prime Fund, Pan Wanchen (潘萬臣), Li Guodong (李國棟), Zhou Xiao (周曉), Liu Yangchao (劉楊超), Luo Renjie (羅仁傑), Chen Xueliang (陳學良), Mei Chuanting (梅川庭), Yan Sunting (顏孫挺), Mao Yan (毛焱), Tang Zhongmin (唐忠民), Cai Qinghua (蔡清華).	Day-to-day operations of the Company	Published announcements and regular reports

(VI) Business outlook of 2018 and risk exposures

1. Business outlook of 2018

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

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

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

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

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

2. Risk exposures

(1) Country risks

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

(2) Risk associated with intellectual property rights

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

Report of the Board of Directors

(3) Exchange rate risks

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates, which might affect the operations of the Group. The Group seeks to mitigate the impact of exchange rate volatility on its operations at source through business strategic guidance, internal settlement management, financing mix adjustment, internal exchange settlement and application of derivative instruments on exchange rates based on the principle of prudent exposure management. The Group also actively strengthens liquidity management and facilitates the pricing and settlement for its overseas projects in RMB, so as to lower its exchange rate risks in the long run.

(4) Interest rate risk

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

(5) Credit risk

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

(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 2017 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 38 and Note 54 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 36 to the financial statements prepared in accordance with HKFRSs and the section headed "Changes in shareholdings and information of shareholders — (I) Changes in share capital during the year" in this report.

6. *Competing interest*

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

7. *List of Directors*

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

8. *Approved indemnity clause*

The Company has made proper insurance arrangements for the office of its Directors, Supervisors and senior management personnel to ensure that timely and comprehensive compensation may be made in respect of economic losses incurred by third parties as a result of the discharge of duties by such Directors, Supervisors and senior management personnel. In accordance with the provisions of Section 470 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong), the aforesaid approved indemnity clause for the benefit of the Directors was effective during the financial year ended 31 December 2017 and at the time when the report of the Board of Directors prepared by the Directors was adopted in accordance with Section 391(1)(a) of the Companies Ordinance (Chapter 622 of the laws of Hong Kong).

9. *Taxation*

In accordance with the Law on Individual Income Tax of the People's Republic of China and its regulations for implementation, dividends/bonuses obtained by overseas resident individual shareholders from shares issued in Hong Kong by Mainland non-foreign-invested enterprises shall be subject, under the category of "interests, dividend, and bonus income," to individual income tax to be withheld and paid on behalf of such shareholders by the withholding agent in accordance with the law. The Company shall withhold and pay on behalf of such shareholders such tax amounts in accordance with "Notice on the Charge and Management of Individual Income Tax After the Repeal of the Document Guo Shui Fa [1993] No. 045" (Guo Shui Han [2011] No. 348)《關於國稅發[1993]045號文件廢止後有關個人所得稅徵管問題的通知》(國稅函[2011]348號》 issued by the State Administration of Taxation, "Announcement of the State Administration of Taxation on the Promulgation of the 'Administrative Measures on the Entitlements of Non-resident Taxpayers to Treatments Under Taxation Agreements'" (SAT Announcement 2015 No. 60)《國家稅務總局關於發佈〈非居民納稅人享受稅收協定待遇管理辦法〉的公告》(國家稅務總局公告2015年第60號) and pertinent laws and regulations. Shareholders are advised to consult their tax advisors on implications of the ownership and disposal of H shares of the Company in relation to PRC, Hong Kong and other taxes.

Material Matters

(I) PROFIT DISTRIBUTION

1. Proposal for profit distribution of 2017

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

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

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

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

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

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.

No profit distribution was made by the Company for 2016. The aforesaid matter was considered and approved at the 2016 Annual General Meeting held on 20 June 2017. For details, please refer to the "Announcement on Resolutions of the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017" published by the Company on 20 June 2017.

Aggregate profit distribution of the Company in the form of cash in 2015–2017 accounted for 423.06% 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."

Material Matters

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
2017	The profit distribution proposal: Proposal for profit distribution for 2017: RMB3.3 in cash (before tax) for every 10 shares based on the number of shares held by shareholders (including A shareholders and H shareholders) registered as at the close of business on the record date for profit distribution and dividend payment.	Subject to consideration and approval at the 2017 Annual General Meeting of the Company.
2016	The plan for profit distribution: No profit distribution to be made by the Company.	Considered and approved at the 2016 Annual General Meeting of the Company.
2015	The plan for profit distribution: Cash dividend of RMB2.5 (before tax) for every 10 shares held based on the total share capital of 4,154,262,354 shares (comprising 3,398,759,820 A shares and 755,502,534 H shares) of the Company as at the record date.	Considered and approved at the 2015 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 for the year of dividend distribution	As a percentage of net profit attributable to holders of ordinary shares of the listed company in the consolidated statements	Profit of the year available for distribution
2017	138,358.17 Note 1	456,817.20	30.29%	235,265.20
2016	—	(235,741.80)	—	(322,557.60)
2015	103,856.56	320,788.50	32.38%	259,051.70
Accumulated cash distribution amount in the past three years as a percentage of average annual profit available for distribution (%)				423.06%

Note 1: The cash distribution amount (before tax) for 2017 is based on the Company's total share capital of 4,192,671,843 shares as at 31 December 2017.

Note 2: 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. On 3 July 2017, the High Court of Delhi in India ruled in support of the application for the enforcement of arbitration award submitted by the said consultant firm. On 5 July 2017, the Company filed an appeal with the Supreme Court of India in respect of the aforesaid ruling of the High Court of Delhi in India. On 6 July 2017, the Supreme Court of India heard the case and ruled to reject the appeal of the Company. The High Court of Delhi in India has yet to make a ruling on the final compensation amount for the case.

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

2. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762.98 million (equivalent to approximately RMB47,816,000). 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 RMB20,558,300) 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

Material Matters

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. On 11 December 2017, the Guangdong Higher Court gave a final verdict that upheld its second trial judgement.

In July 2014, China Construction Fifth Division instituted a lawsuit with Nanshan Court, demanding the refund of RMB24.596 million together with interest of RMB9.118 million (tentatively accrued to 10 July 2014, although it should be accrued to the date on which the contract work amounts are settled in full), being indemnity claim amounts under a bank performance guarantee letter withheld by the Company. Currently, the above case is under trial suspension.

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

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

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

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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 to the United States Court of Appeals for the Federal Circuit based on the verdicts on the three patents involved in the litigation ruled by the Federal District Court of Delaware to have been subject to infringement. In November 2017, United States Court of Appeals for the Federal Circuit ruled that the Company and ZTE USA had infringed upon two out of three patents involved in the aforesaid case. No ruling has yet been made in respect of the one remaining patent involved in the case. Currently, the Federal District Court of Delaware is scheduling a trial to determine compensation in respect of the infringement of the two patents as aforesaid.

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.

6. 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 RMB198 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. On 20 July 2017, the level 2 administrative court under the tax bureau of Sao Paulo State ruled to revoke the administrative penalty imposed by the tax bureau of Sao Paulo State. On 28 August 2017, the tax bureau of Sao Paulo State filed papers with the level 2 administrative court under the tax bureau of Sao Paulo State to waive its right to appeal, upon which all litigation procedures of the case were brought to a close.

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

7. 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. Flashpoint Technology, Inc. has filed an application with the Federal District Court of Delaware to withdraw the lawsuit, which application has been accepted by the court. All litigation procedures of the case were brought to a close.

   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 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 said company filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again in respect of the said verdict of the Federal District Court of California. Currently, the United States Court of Appeals for the Federal Circuit has yet to make a 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.

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9. 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 RMB64,516,500). 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 RMB64,250,200) 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 RMB64,250,200) 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 RMB64,250,200) 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 RMB171 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.

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

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

    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 2017 where PKR amounts are translated at the exchange rate of PKR1:RMB0.06267 and BRL amounts are translated at the exchange rate of BRL1:RMB2.0577.

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

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

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

The "Statement of ZTE Corporation on Appropriation of Non-operating Funds and Other Fund Transactions with Related Parties in 2017" issued by Ernst & Young Hua Ming LLP was set out in the overseas regulatory announcement published by the Company on 15 March 2018.

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

(V) ASSET TRANSACTIONS

1. The acquisition of equity interests in Netaş, a listed Turkish company, by a subsidiary of the Company

ZTE Cooperatief U.A. ("ZTE Cooperatief"), a wholly-owned subsidiary of the Company, acquired 48.04% equity interests in NETAŞ TELEKOMÜNİKASYON A.Ş. ("Netaş"), a listed Turkish company, from OEP Turkey Tech. B. V. for a transaction price of USD101,280,539. The two parties have completed the transaction of the equity interests. ZTE Cooperatief has completed a Mandatory Tender Offer in accordance with Turkish laws and regulations. Currently, ZTE Cooperatief holds 23,351,328 A shares and 7,817,023.34 B shares in Netaş, totally accounting for 48.05% of the issued shares of Netaş. For details of the above matter, please refer to the relevant announcements published by the Company on 6 December 2016, 8 May 2017, 28 July 2017 and 19 October 2017.

2. Matters pertaining to the Shenzhen Bay Super Headquarters Base

Owing to the requirements of its operations and development, the Company won a bid for the for the land use rights of Site No. T208–0049 in the Shenzhen Bay Super Headquarters Base, Nanshan District, Shenzhen on 27 June 2017. The aforesaid matter was considered and approved at the Nineteenth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Nineteenth Meeting of the Seventh Session of the Board of Directors" and "DISCLOSEABLE TRANSACTION ACQUISITION OF LAND USE RIGHTS IN SHENZHEN" published by the Company on 27 June 2017.

Through competitive negotiations, the Company has selected Shenzhen Vanke Real Estate Co., Ltd. (深圳市萬科房地產有限公司) ("Vanke") to provide development, construction, sales and operational services in respect of land site No. T208–0049 for the Company and entered into a Letter of Intent and a Supplemental Agreement on the Letter of Intent with Vanke on 25 December 2017 and 25 January 2018. For details please refer to the "Overseas Regulatory Announcement Announcement on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd." and the "Overseas Regulatory Announcement Announcement Updates on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd." published by the Company on 26 December 2017 and 25 January 2018, respectively.

On 9 February 2018, the Company and Vanke signed transaction documents including the "Framework Agreement for Entrustment of Development, Construction, Sale and Operation", pursuant to which Vanke agreed to provide to the Company the following services: (1) the development and construction of properties with a GFA of 189,890 square metres on land site No. T208–0049; (2) sales service in respect of available-for-sale commercial properties and hotel properties with GFA of 35,000 square metres and 20,000 square metres, respectively; and (3) operational service in respect of office properties and premises for cultural facilities with

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GFA of 44,200 square metres and 6,100 square metres, respectively. The aforesaid matter was considered and approved at the Twenty-seventh Meeting of the Seventh Session of the Board of Directors of the Company, pending submission to the general meeting for consideration. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-seventh Meeting of the Seventh Session of the Board of Directors" and "DISCLOSEABLE TRANSACTION FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT CONSTRUCTION, SALES AND OPERATION" published by the Company on 9 February 2018.

3. Disposal of 10.1% equity interests in Nubia by the Company

Based on considerations in relation to the strategic development of Nubia, the Company, Pingxiang Yingcai Investment Consulting Company Limited, Suning Commerce Group Co., Ltd., Nanjing Hengmian Enterprise Management Partnership (Limited Partnership), Nanchang Gaoxin New Industry Investment Co., Ltd. ("Nanchang Gaoxin") and Nubia entered into the Sale and Purchase Agreement in Nubia Technology Limited ("Sale and Purchase Agreement") and Nubia Technology Limited Shareholders' Agreement on 27 July 2017. Pursuant to the Sale and Purchase Agreement, the Company transferred 10.1% equity interests in subsidiary Nubia to Nanchang Gaoxin for a consideration of RMB727.2 million. The aforesaid transfer of equity interests was completed on 17 August 2017 and investment gains (before tax) amounting to approximately RMB2,164 million in aggregate were booked. The Company currently holds 49.9% equity interests in Nubia, which is excluded from the Company's consolidated statements.

The aforesaid matter was considered and approved at the Twenty-first Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Overseas Regulatory Announcement Announcement of Resolutions of the Twenty-first Meeting of the Seventh Session of the Board of Directors" and "DISCLOSEABLE TRANSACTION DISPOSAL OF 10.1% OF THE EQUITY INTEREST IN NUBIA TECHNOLOGY LIMITED" published by the Company on 27 July 2017.

4. Transfer of 43.66% shares in ZTEsoft by the Company

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

The aforesaid matter was considered and approved at the Twenty-seventh Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-seventh Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on Matters pertaining to the Transfer of Certain Shares in ZTEsoft Technology Co., Ltd" published by the Company on 9 February 2018.

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

1. The 2013 Share Option Incentive Scheme

(1) Summary of the 2013 Share Option Incentive Scheme

① Objective

The 2013 Share Option Incentive Scheme has been implemented by the Company to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibility of the management and key personnel of the Company and retain talent, so as to facilitate sustainable development of the Company and ensure the realisation of its development targets.

② Adjustments to scheme participants and the number and exercise price of share options

Scheme participants of the 2013 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to the Company's overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses and immediate or close family members).

Pursuant to the "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 2013 Share Option Incentive 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 was adjusted from 103,200,000 to 102,989,000 under the 2013 Share Option Incentive Scheme.

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 2013 Share Option Incentive 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.

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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 and the number of share options granted under the 2013 Share Option Incentive Scheme was approved. After adjustments, the number of participants was revised from 1,429 to 1,357 and the number of share options granted from 116,613,000 to 112,014,630 under the 2013 Share Option Incentive Scheme. The number of participants entitled to exercise share options for the second exercise period under the 2013 Share Option Incentive Scheme 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 Cancellation of Certain Share Options" considered and approved at the Twenty-fourth Meeting of the Seventh Session of the Board of Directors of the Company held on 26 October 2017, 36,000 granted and unexercised share options of 2 participants outstanding as at the end of the exercisable period of the second exercise period and the exercise of which had been waived by such participants shall be withdrawn and cancelled by the Company without compensation.

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 convened on 23 March 2017, the exercise conditions for the third exercise period under the 2013 Share Option Incentive Scheme had not been fulfilled, and share options that could not be exercised owing to the non-fulfillment of conditions pertaining to business results would lapse with immediate effect and withdrawn and cancelled by the Company without compensation in accordance with the 2013 Share Option Incentive Scheme (Revised Draft). A total of 44,356,320 share options had been granted in respect of the third exercise period.

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 2013 Share Option Incentive Scheme at the exercise price and subject to the conditions of exercise. The source of shares under the 2013 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. A share options in respect of a total of 67,622,310 A shares were exercised by participants under the 2013 Share Option Incentive Scheme, accounting for approximately 1.61% of the Company's total share capital in issue and approximately 1.97% 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 2013 Share Option Incentive Scheme and other effective share option incentive schemes of the Company (if any) at any time must not exceed 1% of the Company's total share capital of the same class, and the maximum entitlement which may be granted to a scheme participant (including exercised, cancelled and outstanding share options) within any 12-month period shall not exceed 1% of the Company's total share capital of the same class.

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

The 2013 Share Option Incentive Scheme of the Company shall remain in force for 5 years from the date of grant (i.e. 31 October 2013). There shall be a vesting period of 2 years from the date of grant, after which share options can be exercised according to the following proportion, subject to the fulfillment of the exercise conditions:

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

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 2013 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 2013 Share Option Incentive Scheme of the Company was deemed fulfilled and the exercise period shall be from 1 November 2016 to 31 October 2017.

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 2013 Share Option Incentive Scheme had not been fulfilled.

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:

a. 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

b. 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.

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During the validity period of the 2013 Share Option Incentive Scheme, in the event of any dividend distribution, capitalisation through conversion of capital reserves, bonus issue, sub-division, rights issue or consolidation of shares in relation to the A shares of the Company before the exercise of the share options, an adjustment to the exercise price shall be made accordingly.

Following the implementation of the 2013 profit distribution plan, 2014 plan for profit distribution and conversion of capital reserve and 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 Adjustments to scheme participants and the number and exercise price of share options" above.

⑥ Approval procedures fulfilled

The 2013 Share Option Incentive Scheme implemented by the Company has been approved by the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. For details, please refer to the "Announcement of Matters relating to the Grant of Share Options" published by the Company on 31 October 2013.

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

Share options under the 2013 Share Option Incentive Scheme of the Company shall be exercised on a voluntary basis. During the year, a total of 8,043,671 share options were exercised, increasing the number of A shares of the Company by 8,043,671 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 RMB36.63. As considered and approved at the Twenty-fourth Meeting of the Seventh Session of the Board of Directors held on 26 October 2017, the Company cancelled a total of 36,000 share options which were unexercised and outstanding as at the close of the exercisable period of the second exercise period and a total of 44,356,320 share options granted for the third exercise period but for which exercise rights had not been obtained. 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 options cancelled during the reporting period	Number of options lapsed during the reporting period	Number of outstanding options at the end of the reporting period	Weighted average closing price (RMB/share) Note
Zhang Jianheng	Non-executive Director	25,200	0	10,800	0	25,200	0	0	–
Zhao Xianming	Executive Director and President	240,000	0	0	0	240,000	0	0	–
Xu Huijun	Executive Vice President	294,000	0	126,000	126,000	168,000	0	0	19.12
Zhang Zhenhui	Executive Vice President	93,600	0	0	0	93,600	0	0	–
Pang Shengqing	Executive Vice President	216,000	0	0	0	216,000	0	0	–
Xiong Hui	Executive Vice President	243,700	0	51,700	51,700	192,000	0	0	15.95
Shao Weilin	Executive Vice President and Chief Financial Officer	57,600	0	0	0	57,600	0	0	–
Cao Wei	Board Secretary	58,800	0	25,200	25,200	33,600	0	0	23.93
Other scheme participants	–	51,207,091	0	7,865,971	7,840,771	43,366,320	0	0	20.08
Total	**–**	**52,435,991**	**0**	**8,079,671**	**8,043,671**	**44,392,320**	**0**	**0**	**20.05**

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

For details of the date of grant, validity period, vesting period, exercise period and exercise price under the 2013 Share Option Incentive Scheme in respect of the share options set out in the table above, please refer to the section headed "(1) Summary of the 2013 Share Option Incentive Scheme" above.

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

① Valuation of the share options

The Company has adopted the Binomial Tree model to calculate the value of the 2013 share options. The date of grant (31 October 2013) has been adopted as the measurement date and the estimated value of the 2013 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
Initial 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 periods, 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

Specific accounting treatments of share options and the impact on the Company's financial conditions and operating results for the year are set out in Note XI to the financial statements prepared under PRC ASBEs and Note 37 to the financial statements prepared under HKFRSs.

2. The 2017 Share Option Incentive Scheme

(1) Summary of the 2017 Share Option Incentive Scheme

① Objective

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

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② Adjustments to scheme participants and the number and exercise price of share options

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

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

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

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

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

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

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

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

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

⑤ *Exercise price and basis of determination*

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

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

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

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

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

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

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⑥ *Approval procedures fulfilled*

The 2017 Share Option Incentive Scheme implemented by the Company has been approved by the Remuneration and Evaluation Committee, Board of Directors, Supervisory Committee and general meeting of the Company. For details, please refer to the "Announcement of Matters relating to the Grant of 2017 Share Options" published by the Company on 6 July 2017.

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

During the year, a total of 149,601,200 share options were exercised, the details of which 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 cancelled during the reporting period	Number of options lapsed during the reporting period	Number of outstanding options at the end of the reporting period
Zhang Jianheng	Non-executive Director	0	50,000	0	0	0	50,000
Luan Jubao	Non-executive Director	0	50,000	0	0	0	50,000
Zhao Xianming	Executive Director and President	0	800,000	0	0	0	800,000
Wang Yawen	Non-executive Director	0	50,000	0	0	0	50,000
Tian Dongfang	Non-executive Director	0	50,000	0	0	0	50,000
Zhao Yichao	Non-executive Director	0	50,000	0	0	0	50,000
Xu Huijun	Executive Vice President	0	550,000	0	0	0	550,000
Zhang Zhenhui	Executive Vice President	0	550,000	0	0	0	550,000
Pang Shengqing	Executive Vice President	0	450,000	0	0	0	450,000
Xiong Hui	Executive Vice President	0	450,000	0	0	0	450,000
Shao Weilin	Executive Vice President and Chief Financial Officer	0	237,600	0	0	0	237,600
Cao Wei	Board Secretary	0	200,000	0	0	0	200,000
Other scheme participants	–	0	146,113,600	0	0	0	146,113,600
Total	**–**	**0**	**149,601,200**	**0**	**0**	**0**	**149,601,200**

Note: Mr. Li Quancai, a participant under the 2017 Share Option Incentive Scheme of the Company, was elected Staff Representative Supervisor of the Company on 3 November 2017, and the 118,000 A share options previously granted to him were void as a result of his appointment as Supervisor of the Company. The Company will adjust the number of 2017 share options and participants following the performance of due review procedures.

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

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

① Valuation of the share options

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

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

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

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

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

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

In accordance with "ASBEs No. 11 — Share-based Payment," services rendered by participants during the period may be charged to relevant costs or expenses and the capital reserve at the fair value on the date of grant based on the Company's best estimates of exercisable share options. Costs and expenses which have been recognised will not be adjusted during the exercise period of the share options. At each balance sheet date, exercised share options are recognised in the capital reserve. Specific accounting treatments of share options and the impact on the Company's financial conditions and operating results for the year and in future are set out in Note XI to the financial statements prepared under PRC ASBEs and Note 37 to the financial statements prepared under HKFRSs.

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

To replenish cash flow required for the Company's business development, optimise the Company's capital structure and enhance its ability to counter financial risks, the Company proposed to issue not more than 686,836,019 A shares to not more than 10 specific investors compliant with CSRC provisions (including securities investment fund management companies, securities companies, insurance institution investors, trust investment companies, finance companies, qualified overseas institutional investors and other legal investors). Gross proceeds from the non-public issuance of A Shares will not exceed RMB13 billion. Net proceeds after deduction of issue expenses will be applied towards the "technology research and product development

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relating to 5G network evolution" and as "replenishment of working capital". The aforesaid matter has been considered and passed at the Twenty-sixth Meeting of the Seventh Session of the Board of Directors of the Company pending consideration and approval at the general meeting. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-sixth Meeting of the Seventh Session of the Board of Directors" and the "(1) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES UNDER GENERAL MANDATE AND (2) PROPOSED AMENDMENTS TO THE ARTICLES OF ASSOCIATION" published by the Company on 31 January 2018.

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

(VIII) EXTERNAL INVESTMENT

1. Subscription for Zhonghe Qiushi Fund by the Company

ZTE Capital, a subsidiary of the Company, has proposed to establish by way of promotion as general partner Shenzhen Nanshan Zhonghe Qiushi Industrial Fund (Limited Partnership) (深圳南山中和秋實產業基金(有限合夥)) (tentative title subject to the final approval of the industrial and commercial registration authorities, hereinafter the "Zhonghe Qiushi Fund") and subscribe for Zhonghe Qiushi Fund with a capital contribution of RMB20 million. The Company has also proposed to subscribe for shares in Zhonghe Qiushi Fund as limited partner with a capital contribution of RMB1,280 million. Zhonghe Qiushi Fund principally invests in businesses capable of offering strategic synergies for the Company. The aforesaid matter was considered and approved by the Sixteenth Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Sixteenth Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Subscription for Zhonghe Qiushi Fund" published by the Company on 17 April 2017.

Based on the considerations for the Company's strategic development, the "Resolution on the Termination of the Establishment of Zhonghe Qiushi Fund" was considered and approved at the Twenty-fifth Meeting of the Seventh Session of the Board of Directors of the Company on 29 December 2017, pursuant to which approval was granted to terminate the establishment of Zhonghe Qiushi Fund. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-fifth Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement Updates on the Zhonghe Qiushi Fund" published by the Company on 29 December 2017.

2. Participation in the establishment of Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership) by a subsidiary of the Company

ZTE Group Financial Holdings (Hangzhou) Limited (中興通訊集團金融控股(杭州)有限公司) ("ZTE FH", a wholly-owned subsidiary of the Company), ZTE Xingyun Industrial Investment Management (Hangzhou) Company Limited (中興興雲產業投資管理(杭州)有限公司) (a subsidiary of ZTE FH) have proposed to jointly establish Guangxing Yunhe Industrial Equity Investment Fund (Limited Partnership) (廣興雲合股權投資產業基金(有限合夥)) (tentative name, now finalised as "Guangyun Hexing Equity Investment Fund (Hangzhou) Partnership (Limited Partnership" (廣雲和興股權投資基金(杭州)合夥企業(有限合夥) following approval by the industrial and commercial administrative authorities) with Guangfa Hexin Industrial Investment Management Company Limited (廣發合信產業投資管理有限公司). The aforesaid matter was considered and approved at the Ninth Meeting of the Seventh Session of the Board of Directors. 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.

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Based on considerations for the Company's strategic development, the "Resolution on the Dissolution, Liquidation and Cancellation of Guangyun Hexing Equity Investment Fund (Hangzhou) Partnership Enterprise (Limited Partnership)" was considered and approved at the Twenty-fifth Meeting of the Seventh Session of the Board of Directors of the Company on 29 December 2017, pursuant to which approval was granted to the dissolution, liquidation and cancellation of Guangyun Hexing Equity Investment Fund (Hangzhou) Partnership Enterprise (Limited Partnership). For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-fifth Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement Updates on the Guangxing Yunhe Industrial Fund" published by the Company on 29 December 2017.

(IX) APPLICATION BY SHANGHAI ZHONGXING FOR QUOTATION ON NATIONAL EQUITIES EXCHANGE AND QUOTATIONS ("NEEQ")

Pursuant to the "Resolution of the Company on the Proposed Application for Quotation on the National Equities Exchange and Quotations by Shanghai Zhongxing Telecom Equipment Technologies Company Limited, a Subsidiary of the Company" considered and approved at the Thirty-third Meeting of the Sixth Session of the Board of Directors of the Company, approval was granted to the general conversion of Shanghai Zhongxing Telecom Equipment Technologies Company Limited and its application for quotation on NEEQ. The inaugural meeting of Shanghai Zhongxing Telecom Equipment Technologies Company Limited was held on 28 December 2015 and the company was renamed Shanghai Zhongxing Telecom Equipment Technologies Corporation ("Shanghai Zhongxing"). Shanghai Zhongxing was granted an approval for quotations of its shares on NEEQ on 21 February 2017. For details of the aforesaid matters, please refer to the relevant announcements published by the Company on 11 November 2015, 29 March 2016, 2 February 2017 and 20 February 2017, respectively.

(X) TERMINATION OF QUOTATION ON NEEQ OF ZTESOFT, A SUBSIDIARY OF THE COMPANY

Reference is made to the announcements of the Company dated 6 April, 29 April, 19 May, 29 July and 18 August 2016, respectively, in relation to the quotation of the ZTEsoft, a subsidiary of the Company, on NEEQ and the announcement of the Company dated 29 December 2016 in relation to the proposed establishment of the phase I staff shareholding plan, the incorporation the ZTEsoft No. 1 Designated Asset Management Plan (中興軟創1號定向資產管理計劃) (the "Asset Management Plan") as entrusted by the said staff shareholding plan, and the private placing of shares to the Asset Management Plan by ZTEsoft.

At the Twenty-fourth Meeting of the Seventh Session of the Board of Directors of the Company held on 26 October 2017, the "Resolution of the Company on the Proposed Application for the Termination of Quotation on National Equities Exchange and Quotations and the Termination of the Share Issue Plan by ZTEsoft Technology Co., Ltd*, a subsidiary" was considered and passed to approve ZTEsoft's application for the termination of quotation on NEEQ and termination of the private placing of shares to the Asset Management Plan. Quotation of the shares of ZTEsoft on the NEEQ has been terminated as from 7 December 2017.

In line with the ZTEsoft's need for business development, the "Resolution on the Proposed Ongoing Implementation of the Staff Shareholding Plan of ZTEsoft Technology Co., Ltd, a subsidiary" is considered and passed at the Twenty-fifth Meeting of the Seventh Session of the Board of Directors of the Company held on 29 December 2017, granting approval to the ongoing implementation of the staff shareholding plan in the form of a limited partnership enterprise by ZTEsoft and the private placing of no more than 60 million new shares to the staff shareholding vehicle at a placing price of RMB3.01/share to raise proceeds of no more than RMB180.60 million. In January 2018, the ZTEsoft has completed the issuance of 60 million shares to the staff shareholding vehicle.

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(XI) REGISTRATION AND ISSUE OF MEDIUM TERM NOTES BY THE COMPANY

To meet the Company's long-term working capital requirements and optimise debt structure, the "Resolution on the Proposed Registration and Issue of Perpetual Medium Term Notes" was considered and passed at the Twenty-fourth Meeting of the Seventh Session of the Board of Directors and the First Extraordinary General Meeting of 2017 of the Company, granting approval to the Company's application to the National Association of Financial Market Institutional Investors ("NAFMII") for the registration and issue of Perpetual Medium Term Notes with an amount of not more than RMB3,500 million. The issue shall be conducted in China's inter-bank bond market by the lead underwriter by way of book-building and centralised placing. The interest rate for the issue shall be determined according to market conditions. Proceeds from the issue shall be applied to provide additional working capital, facilitate repayment of due debts and meet other needs in compliance with NAMFII requirements.

For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-fourth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on the Proposed Registration and Issue of Perpetual Medium Term Notes" published on 26 October 2017 and the "Announcement on Resolutions of the First Extraordinary General Meeting of 2017" published on 14 December 2017 by the Company.

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

To meet the Company's working capital requirements and expand its financing channels, the "Resolution on the Proposed Registration for the Issue of Super and Short-term Commercial Paper" was considered and passed at the Twenty-fourth Meeting of the Seventh Session of the Board of Directors and the First Extraordinary General Meeting of 2017 of the Company, granting approval to the Company's application to the NAFMII for the registration and issue of super and short-term commercial paper with an amount of not more than RMB8,000 million. The issue shall be conducted in China's inter-bank bond market by the lead underwriter by way of book-building and centralised placing. The interest rate for the issue shall be determined according to market conditions. Proceeds from the issue shall be applied to provide additional working capital, facilitate repayment of due debts and meet other needs in compliance with NAMFII requirements.

For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-fourth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on the Proposed Registration and Issue of Super and Short-term Commercial Paper" published on 26 October 2017 and the "Announcement on Resolutions of the First Extraordinary General Meeting of 2017" published on 14 December 2017 by the Company.

(XIII) COMPLETION OF PAYMENT FOR THE 2015 TRANCHE II MEDIUM TERM NOTES

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

On 27 January 2015, the Company completed the issue of the 2015 Tranche I Medium Term Notes with an amount of RMB6,000 million. On 6 February 2015, the Company completed the issue of the 2015 Tranche II Medium Term Notes with an amount of RMB1,500 million. On 20 November 2015, the Company completed the issue of the 2015 Tranche III Medium Term Notes with an amount of RMB1,500 million.

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

(XIV) UPDATES ON THE COMPANY'S WAIVER OF PREFERENTIAL RIGHT FOR SUBSCRIPTION AND CAPITAL CONTRIBUTION IN RESPECT OF XI'AN ZHONGXING NEW SOFTWARE COMPANY LIMITED

Pursuant to the "Resolution of the Company on the investment by CDB Development Fund Co., Ltd. (國開發展基金有限公司) in Xi'an Zhongxing New Software Company Limited (西安中興新軟件有限責任公司), a wholly-owned subsidiary of the Company" considered and approved at the Eighth Meeting of the Seventh Session of the Board of Directors of the Company, approval was granted to the Company and Xi'an Zhongxing New Software Company Limited ("Xi'an New Software"), its wholly-owned subsidiary, to enter into the "CDB Development Fund Investment Agreement" (the "Investment Agreement") with CDB Development Fund Co., Ltd. ("CDB Development Fund"). Pursuant to the Investment Agreement, CDB Development Fund has proposed to invest RMB675 million in Xi'an New Software by way of capital increase, in connection with which the Company shall waive its preferential right of subscription and capital contribution. 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. 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.

As at the end of the reporting period, the two parties had not entered and did not expect to subsequently enter into the Investment Contract, as they had failed to agree on terms in the Investment Agreement in relation to the investment return rate, and the joint liability guarantee provided by the Company for Xi'an New Software under the Investment Contract had not been incurred.

(XV) 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, relevant updates and details of the settlement on 9 March, 23 March, 28 March, 6 April, 28 June, 19 August and 18 November 2016, 14 February, 24 February, 8 March, 23 March, 24 March and 29 March 2017, respectively.

For details of the agreements reached between the Company and the BIS, United States Department of Justice ("DOJ") and the Office of Foreign Assets Control of the United States Department of Treasury ("OFAC"), please refer to the "INSIDE INFORMATION — UPDATE INFORMATION IN RELATION TO THE EXPORT RESTRICTIONS BY THE UNITED STATES DEPARTMENT OF COMMERCE" of the Company dated 8 March 2017. In accordance with the said agreements, the Company had made payments of approximately USD826 million to the relevant U.S. authorities in 2017.

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(XVI) 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 2017 reaching the benchmark for public disclosure as defined under the Shenzhen Listing Rules.

Counterparty to connected transaction	Nature of connection	Classification	Subject matter	Pricing principle	Price (RMB)	Amount (RMB in ten thousands)	As a percentage of transactions in the same classification (%)	Whether approved cap has been exceeded	Settlement	Market price for similar transactions available (RMB)	Domestic announcement date	Domestic announcement index
Zhongxingxin and its subsidiaries and investee companies	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials 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.	38,248.20	0.68%	No	Commercial acceptance bill	N/A	2015-9-23 2017-1-20	Announcement No. 201548 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201703 "Announcement on Execution of Supplemental Agreement for the 2016 -2018 Purchase Framework Agreement with Zhongxingxin, a Connected Party"

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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
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 communication 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.	31,879.14 Note 1	0.57%	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 had 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.	2,924.99 Note 2	0.05%	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 more than half of the board members can be controlled by another company for which a natural person related to the Company had 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.	1,790.79 Note 2	0.03%	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***	A company for which a natural person related to the Company acted as chairman and its subsidiaries	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		The purchase price is not higher than the price at which products (or services) are sold by Zhongxing Hetai to other customers purchasing similar products (or services) in similar quantities. The actual price will be confirmed upon execution of specific agreements by the two parties.	3,434.29	0.06%	No	Tele-transfer	N/A	2016–4–29	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 had previously acted as director	Property leasing	(1) From 18 April 2015 to 17 April 2017: Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 30,000 sq.m.; Lease of parking spaces: 25 ground-level parking spaces and 127 underground parking spaces by the Company from the connected party (2) From 18 April 2017 to 17 December 2017: Lease of property located at No. 19 Huayuan East Road, Haidian District, Beijing with an intended leased area of 30,000 sq.m.; lease of parking spaces: 25 ground-level parking spaces and 126 underground parking spaces by the Company from the connected party		(1) From 18 April 2015 to 17 April 2017: 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 the Company and no management fees are payable.) (2) From 18 April 2017 to 17 December 2017: Monthly rent of RMB155/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 the Company and no management fees are payable.)	2,713.15 Note 2	3.33%	No	Tele-transfer	N/A	2015–3–26 2017–3–24	Announcement No. 201512 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 201721 "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 had 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.	488.64 Note 2	0.60%	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***	A company for which a natural person related to the Company acted as chairman and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities to the connected party by the Company		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	22.89%	No	Tele-transfer	N/A	2016-4-29	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***	A company for which a natural person related to the Company acted as chairman and its subsidiaries	Financial services	Provision of deposit services to the connected party by ZTE Group Finance		The standard deposit interest rate announced by the People's Bank of China ("PBOC") was adopted; in case 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.	4,578.77 Note 3	0.37%	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"
Mobi Antenna*	A company at which a former supervisor of Zhongxingxin, the controlling shareholder of the Company, acted as director	Financial services	Provision of bill discounting services to the connected party by ZTE Group Finance		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 4	–	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"
航天歐華	A company for which a natural person related to the Company acted as director	Sale of products	The sale of digital communication products and communication 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.	14,359.18	0.13%	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 more than half of the board members can be controlled by another company for which a natural person related to the Company had 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.	– Note 2	–	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				–	–	**108,121.35**	**N/A**	–	–	–	–	–

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations.
Effect of the connected transaction on the independence of the listed company	The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.

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The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	At the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries by the Group in 2017 be capped at RMB900 million (before VAT); pursuant to the Supplemental Agreement for the Zhongxingxin Purchase Framework Agreement between the Company and Zhongxingxin considered and approved at the Thirteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 January 2017, the scope of the Zhongxingxin Purchase Framework Agreement was extended to cover Zhongxingxin, its subsidiaries and investee companies (companies in which Zhongxingxin directly or indirectly held equity interests of 30% or above); 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 2017 be revised to RMB1,900 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 2017 be capped at RMB75 million and RMB79 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 2017 be capped at RMB31 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 Fifteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 23 March 2017, 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 RMB40 million for a term commencing on 18 April 2017 and ending on 17 December 2017;

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	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 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 ending on 30 June 2017; the Company estimated the procurement of hotel services from Zhongxing Hetai, a connected party, and its subsidiaries will be capped at RMB90 million for the period commencing on 1 July 2017 and ending on 30 June 2018; and Zhongxing Hetai and its subsidiaries estimated that the lease of properties and related equipment and facilities from the Company will be capped at RMB85 million for the period commencing on 1 July 2017 and ending on 30 June 2018; 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 2017 shall be capped at RMB100 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 2017 shall be capped at RMB450 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 2017 be capped at RMB1,100 million (before VAT); and Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.
Reason for the substantial difference between transaction prices and referential market prices (if applicable)	N/A

* As the director of Mobi Antenna had ceased to be supervisor of Zhongxingxin, controlling shareholder of the Company, as from 23 June 2016, Mobi Antenna has ceased to be a connected party of the Company as defined under the Shenzhen Listing Rules as from 23 June 2017.

** As the natural person related to the Company had ceased to be director of Zhongxing Development as from 19 July 2016, Zhongxing Development has ceased to be a connected person of the Company as from 19 July 2017, and Chongqing Zhongxing Development and Huatong, being subsidiaries of Zhongxing Development, as well as Nanchang Software, of which more than half of the board members can be controlled Zhongxing Development, have ceased to be connected parties of the Company as defined under the Shenzhen Listing Rules as from 19 July 2017.

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*** As the natural person related to the Company had ceased to be chairman of Zhongxing Hetai as from 26 September 2017 and director of 上海市和而泰酒店投資管理有限公司 and 南京中興和泰酒店管理有限公司, subsidiaries of Zhongxing Hetai, as from 20 October 2017, Zhongxing Hetai and its subsidiary 西安中興和泰酒店管理有限公司 will cease to be connected parties of the Company as defined under the Shenzhen Listing Rules as from 26 September 2018, and上海市和而泰酒店投資管理有限公司 and 南京中興和泰酒店管理有限公司 will cease to be connected parties of the Company as defined under the Shenzhen Listing Rules as from 20 October 2018.

**** 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 connected transactions between the connected party and the Company for the period from 1 January 2017 to 22 June 2017.

Note 2: The amount represented connected transactions between the connected party and the Company for the period from 1 January 2017 to 18 July 2017.

Note 3: The amount represented the estimated maximum daily deposit balance (principal cum interest) for the period from 1 January 2017 to 31 December 2017.

Note 4: The amount represented the estimated maximum daily balance of outstanding discounted bills (principal cum interest) for the period from 1 January 2017 to 22 June 2017.

Note 5: ZTE Group Finance provided settlement services to Zhongxing Hetai and its subsidiaries in 2017, 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 6: 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 7: For details of the relevant connected transactions, please refer to Note X to the financial statements prepared in accordance with PRC ASBEs.

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

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

The Company had no connected transaction involving joint investment in third parties during the year.

(4) Creditors and debtors with connected parties

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

(5) Other material connected transactions

The Company had no other material connected transactions during the year.

2. Continuing connected transactions under the Hong Kong Listing Rules

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

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

The Group has entered into connected transaction framework agreements with the following connected parties, and has fulfilled the statutory procedures of reporting and announcement in accordance with relevant clauses under Chapter 14A of the Hong Kong Listing Rules based on the estimated annual cap of each connected transaction. For details, please refer to the "Continuing Connected Transactions — Purchases of Raw Materials from Zhongxingxin" published on 22 September 2015. 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 amendments stated in the foregoing, 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 remained unchanged. For details, please refer to the "CONTINUING CONNECTED TRANSACTIONS — SUPPLEMENTAL AGREEMENT IN RESPECT OF PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN" published on 19 January 2017.

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

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

Zhongxingxin is the largest shareholder of the Company. As controlling shareholder of the Company, Zhongxingxin is a connected person of the Company under the Hong Kong Listing Rules. Companies in which Zhongxingxin held, directly or indirectly, 30% shareholdings or above are associates of Zhongxingxin and, therefore, connected persons of the Company under the Hong Kong Listing Rules.

- Total transaction amount in 2017:

Approximately RMB382,482,000

- Price and other terms:

Pursuant to the the "Zhongxingxin Purchase Framework Agreement" entered into between the Group and Zhongxingxin dated 22 September 2015 in respect of the purchase of raw materials by the Group from Zhongxingxin and its subsidiaries considered and approved at the Thirty-first Meeting of the Sixth Session of the Board of Directors of the Company held on 22 September 2015 and the "Supplemental Agreement of the Zhongxingxin Purchase Framework Agreement" between the Company and Zhongxingxin dated 19 January 2017 effective from 1 January 2016 to 31 December 2018, the amounts of purchases by the Group from Zhongxingxin and companies in which it held, directly or indirectly, 30% shareholdings or above for 2016–2018 were 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 companies in which it held, directly or indirectly, 30% shareholdings or above were selected through the Group's qualification and bidding procedures as described above. For details, please refer to the "Continuing Connected Transactions — Purchases of Raw Materials from Zhongxingxin" published on 22 September 2015 by the Company. The Directors confirm that the accreditation of qualifications, bidding procedures, pricing bases and internal Group procedures under the Zhongxingxin Purchase Framework Agreement will effectively ensure that the Group's purchases from Zhongxingxin and companies in which it held, directly or indirectly, 30% shareholdings or above are made on an arm's length basis and on normal commercial terms without

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compromising the interests of the Group and its independent shareholders as a whole. The Group will settle the payment by commercial acceptance bill for the products within 210 days from the date of inspection and acceptance of the raw materials.

Pursuant to and subject to the terms of the Zhongxingxin Purchase Framework Agreement, the Group will issue purchase orders to (or enter into individual agreements with) Zhongxingxin and companies in which it held, directly or indirectly, 30% shareholdings or above from time to time, specifying, among other things, product types, agreed quantities and prices, quality specifications, delivery schedules, locations and modes, as well as other contract details. Prices shall be determined on the basis of the prices for which tenders are won by Zhongxingxin and companies in which it held, directly or indirectly, 30% shareholdings or above. The annual cap for purchase in 2017 was estimated at RMB900 million (before VAT).

- Purpose of the transaction:

Zhongxingxin and companies in which it held, directly or indirectly, 30% shareholdings or above had been selected as suppliers through the Group's qualification and bidding procedures as they had consistently been able to meet the Group's stringent demands for product supply, product quality and timely delivery. The Group consider it very important and beneficial to have reliable and cooperative suppliers, and purchasing raw materials required for the Group's products from Zhongxingxin and companies in which it held, directly or indirectly, 30% shareholdings or above 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;
- 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;

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

(2) Connected transactions

During 2017, the Group was engaged in certain transactions with its connected parties under HKFRSs, the details of which are set out in Note 47 to the financial statements.

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

Chengdu ZTE Software Company Limited (成都中興軟件有限責任公司) ("Chengdu Software"), a subsidiary of the Company, leased a property from Zhongxingxin in 2017 for a rental amount of RMB8,827,000. Such transaction is exempted from compliance with connected transaction provisions under Rule 14A.76.

Xi'an New Software, a subsidiary of the Company, leased a property to Zhongxing Instruments (Shenzhen) Co., Ltd. (中興儀器(深圳)有限公司) ("Zhongxing Instruments"), a subsidiary of Zhongxingxin in 2017 for a rental amount of RMB1,443,000. Such transaction is exempted from compliance with connected transaction provisions under Rule 14A.76. Zhongxing Instruments has ceased to be a subsidiary of Zhongxingxin as from 14 December 2017 and therefore has ceased to be a connected person of the Company as defined under the Hong Kong Listing Rules.

ZTE Group Finance, a subsidiary of the Company, provided commercial acceptance bills discounting service for an amount of RMB3,178,400 to Pylon Technologies Co., Ltd. ("Pylon", a company in which Zhongxingxin held 40.4547% shares) and received bills discounting service interests amounting to RMB84,900 from Pylon in one time in 2017. Such transaction has been exempted from compliance with provisions relating to connected transactions pursuant to Rule 14A.76.

During 2017, the Group sold wireless communication system equipment products etc. with a total amount of RMB25,063,000 to Zhongxingxin and companies in which it held, directly or indirectly, 30% shareholdings or above. Such transaction has been exempted from compliance with provisions relating to connected transactions pursuant to Rule 14A.76.

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

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(XVII) 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 by the Company during the year

A. Provision of guarantee for ZTE (Wenzhou) Railway Communication Technology Limited by the Company

The Company and ZTE (Wenzhou) Railway Communication Technology Limited ("ZTE Wenzhou"), a subsidiary of the Company, have proposed to form a joint tendering entity to bid for the public security communications systems integration and equipment procurement project for the first-phase construction of Wenzhou Suburban Railway Line S1 (the "Wenzhou Public Security Communications Project"). If the project tender is successful, the Company and ZTE Wenzhou will enter into the "Wenzhou Suburban Railway Line S1 Phase I Construction — Public Security Communications Systems Integration and Equipment Procurement Contract" (the "Wenzhou Public Security Communications Contract") with Wenzhou Xingfu Railway Transportation Corporation ("Wenzhou Xingfu Railway Corporation"), pursuant to which the Company and ZTE Wenzhou will provide public security communications systems integration and equipment procurement services to Wenzhou Xingfu Railway Corporation. The Company has proposed to provide guarantee for tender deposit amounting to RMB800,000 in respect of the tendering obligations of ZTE Wenzhou for the Wenzhou Public Security Communications Project for a period commencing on the closing date for the tender and ending on the date of execution of the "Wenzhou Public Security Communications Contract" if the project tender is successful, or a period commencing on the closing date for the project tender and ending on the date on which a notice of unsuccessful bidding is received if the tender is not successful. The Company has proposed to provide, upon successful bidding, guarantee by way of performance bond amounting to not more than RMB3.30 million in respect of the performance obligations of ZTE Wenzhou under the "Wenzhou Public Security Communications Contract" for a period commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate.

The aforesaid matter has been considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors of the Company. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-third Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on Third-party Guarantee" published by the Company on 29 September 2017.

B. Provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries by the Company

To facilitate the Company's overseas business development, the Company has proposed to provide a guarantee amount for contract performance (including but not limited to the execution of guarantee agreements by the parent company and the provision of bank guarantees) of not exceeding USD200 million in aggregate for its overseas wholly-owned subsidiaries. The aforesaid guarantee amount will be applied on a revolving basis during an effective period commencing on the date on which the provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries by the Company is considered and approved at the general meeting of the Company (i.e., 14 December 2017) and ending on the date of the Company's 2017 annual general meeting. Any unutilised amount outstanding upon the expiry of the effective period will be cancelled by the Company. During the effective period, if the total amount of guarantee provided to third parties by the Company has exceeded 50% of its latest audited net asset value, no guarantee for contract performance provided to such overseas wholly-owned subsidiaries within the aforesaid guarantee limit shall thereafter be submitted to the general meeting of the Company for consideration. After the general meeting of

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the Company has considered and approved provision of a guarantee amount for contract performance for overseas wholly-owned subsidiaries, the Board of Directors of the Company shall be responsible for the approval of specific guarantees within the limit, and shall fulfill obligations in information disclosure.

The aforesaid matter has been considered and passed at the Twenty-fourth Meeting of the Seventh Session of the Board of Directors and the First Extraordinary General Meeting of 2017 of the Company. For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Twenty-fourth Meeting of the Seventh Session of the Board of Directors" and the "Overseas Regulatory Announcement Announcement on the Provision of a Guarantee Amount for Contract Performance for Overseas Wholly-owned Subsidiaries" published on 26 October 2017 and the "Announcement on Resolutions of the First Extraordinary General Meeting of 2017" published on 14 December 2017 by the Company.

(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**
Beijing Fuhua Yuqi Information Technology Co., Ltd. Note 1	1 December 2016 201678	RMB21,019,250	1 April 2017	RMB21,019,250	Joint liability assurance	From the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of obligations under the Technology Development (Entrustment) Contract.	No	No
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)		–		Total amount of third-party guarantee actually incurred during the reporting period (A2)		RMB21,019,300		
Total amount of third-party guarantee approved as at the end of the reporting period (A3)		RMB39,410,600		Total amount of third-party guarantee actually incurred as at the end of the reporting period (A4)		RMB28,784,800		

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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 France SASU Note 4	14 December 2011 201152	EUR10 million	N/A	—	Assurance	From maturity to the date on which performance of obligations of ZTE France under the "SMS Contract" and "PATES Contract" expires or terminates (whichever is later)	N/A	No
PT. ZTE Indonesia Note 5	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 5	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 6	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 7	24 September 2014 201440 8 January 2016 201605	USD60 million	27 November 2014	USD46.81 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 7	24 September 2014 201440 8 January 2016 201605	USD2 million	4 January 2015	USD2 million	Joint liability	Not more than 6 years from the date on which the bank letter of guarantee comes into effect upon issuance.	No	No
ZTE (H.K.) Limited or ZTE COOPERATIEF UA Note 8	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

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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
Guarantees provided by the Company on behalf of subsidiaries								
			8 September 2016	EUR50 million	Joint liability assurance	From 8 September 2016 to (1) 8 February 2021, or (2) the irrevocable settlement in full by ZTE COOPERATIEF of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
			10 April 2017	EUR30 million	Joint liability assurance	From 10 April 2017 to (1) 22 December 2020, or (2) the irrevocable settlement in full by ZTE COOPERATIEF of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first	No	No
PT. ZTE Indonesia Note 9	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 10	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 11	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
ZTE (Wenzhou) Railway Communication Technology Limited Note 12	30 September 2017 201765	RMB0.80 million	18 October 2017	RMB0.80 million	Joint liability assurance	Commencing on the closing date for the tender and ending on the date of execution of the "Wenzhou Public Security Communications Contract".	No	No
		RMB3.30 million	28 December 2017	RMB3,152,500	Joint liability assurance	Commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate.	No	No

Total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1)	RMB1,310,600,000 Note 13	Total amount of guarantee on behalf of subsidiaries actually incurred during the reporting period (B2)	RMB458,790,300
Total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3)	RMB9,211,693,500 Note 13	Total amount of guarantee on behalf of subsidiaries actually incurred as at the end of the reporting period (B4)	RMB6,128,038,400

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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 14	N/A	RMB160 million	30 December 2014	RMB63,222,700	Joint liability	5 years (from the date of drawdown)	No	No
西安中興通訊終端科技有限公司Note 15	N/A	RMB60,005,000	13 March 2015	RMB60,005,000	Joint liability	5 years	No	No
深圳市中興新能源汽車服務有限公司 Note 16	N/A	RMB60 million	29 December 2015	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 17	N/A	EUR11,173,111	31 May 2016	EUR11,173,111	Joint liability	From 31 May 2016 to 31 January 2020	No	No
西安克瑞斯半導體技術有限公司Note 18	N/A	USD30 million	26 January 2017	USD423,958	Joint liability	Commencing on the date on which the "Guarantee Contract" comes into effect and ending upon on the conclusion of a 2-year period during which 克瑞斯 has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding.	No	No
ZTE (Australia) Pty Ltd. Note 19	N/A	USD40 million	N/A	–	Joint liability	Commencing on the date on which the "PTA-LTE-R Project Contract" comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Australia under the "PTA-LTE-R Project Contract" is completed.	N/A	No
		USD3 million	N/A	–	Joint liability	Commencing on the date on which the guarantee letter comes into effect and ending on the date on which performance of the obligations of ZTE Australia under the "PTA-LTE-R Project Contract" is completed.	N/A	No
		USD40 million	N/A	–	Joint liability	Commencing on the date on which the "PTA-LTE-R Project Contract" comes into effect and ending on the date on which performance of the obligations of ZTE Australia under the "Joint Entity Agreement" is completed.	N/A	No
Probil Bilgi İşlem Destek ve Danışmanlık San. ve Tic.A.Ş.Note 20	N/A	USD2,153,300	14 November 2012	USD2,153,300	Joint liability	Commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which performance of the obligations of Probil under the "Systems Integration Agreement" is completed.	No	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş.Note 20	N/A	EUR10,753,800	5 May 2017	EUR10,753,800	Joint liability	Commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed	No	No
Total amount of guarantee for subsidiary approved during the reporting period (C1)		RMB821,972,600		Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)			RMB86,569,600	
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)		RMB1,203,111,600		Total amount of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)			RMB370,931,300	

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Total amount guaranteed by the Company (sum of the three categories aforesaid)			
Total amount of guarantee approved during the reporting period (A1+B1+C1)	RMB2,132,572,600	Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)	RMB566,379,200
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)	RMB10,454,215,700	Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)	RMB6,527,754,500
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company		20.63%	
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)		RMB5,798,152,300	
Amount of total guarantee exceeding 50% of net assets (F)		0	
Aggregate amount of the three guarantee amounts stated above (D+E+F)		RMB5,798,152,300	
Statement on liability incurred during the reporting period or potential joint liability for debt settlement (if any) in respect of outstanding guarantees		N/A	
Statement on provision of guarantee to third parties in violation of stipulated procedures (if any)		N/A	

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

Note 2: Following consideration by the board of directors 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 and was not expected to be issued in the future, and the aforesaid guarantee had not been incurred.

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: 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 5: 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.

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Note 6: The Company sought medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee by way of joint liability assurance for an amount of not more than USD600 million (or not more than RMB4,000 million) in relation to the aforesaid debt financing of ZTE HK. The aforesaid guarantee was considered and passed at the Sixteenth Meeting of the Sixth Session of the Board of Directors and the 2013 Annual General Meeting of the Company. The total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) represented the higher of USD600 million or RMB4,000 million. In July 2014, ZTE HK entered into a USD450 million syndicate loan agreement with 12 international banks including BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide joint liability assurance for an amount of not more than USD450 million in favour of the lending banks for ZTE HK. ZTE HK 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 7: 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, USD46.81 million of the USD60 million performance guarantee provided by the Company for ZTE Malaysia and the USD2 million bank letter of guarantee issued by relevant banks and applied for by the Company on behalf of ZTE Malaysia had come into effect.

Note 8: 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 COOPERATIEF"), each a wholly-owned subsidiary, as the principal. The Company provided guarantee for ZTE HK or ZTE COOPERATIEF by way of joint liability assurance for an amount of not more than EUR200 million (or the equivalent in other currencies, calculated according to the Company's foreign currency statement book exchange rate) in relation to the aforesaid debt financing for a term of not more than 5 years (from the date on which the debt financing agreement takes effect). The aforesaid matter was considered and approved at the Twenty-fifth Meeting of the Sixth Session of the Board of Directors and the 2014 Annual General Meeting of the Company. ZTE COOPERATIEF entered into respective loan agreements with Bank of China Limited, Luxembourg Branch ("BOC Luxembourg") and Banco Santander, S.A., Hong Kong Branch ("Santander HK") for amounts of EUR70 million and EUR30 million, respectively, in June 2015. At the same time, the Company entered into guarantee agreements with BOC Luxembourg and Santander HK, respectively, to provide guarantee to BOC Luxembourg and Santander HK for amounts of not more than EUR70 million and EUR30 million, respectively, by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF. ZTE COOPERATIEF entered into a loan agreement with Credit Agricole CIB ("Credit Agricole") for an amount of EUR50 million in February 2016. At the same time, the Company entered into a guarantee agreement with Credit Agricole to provide guarantee to Credit Agricole for an amount of not more than EUR50 million in September 2016 by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF. ZTE COOPERATIEF entered into a loan agreement with Banco Bilbao Vizcaya Argentaria, Hong Kong ("Banco Bilbao HK") for an amount of EUR30 million in April 2017. At the same time, the Company entered into a guarantee agreement with Banco Bilbao HK to provide guarantee to Banco Bilbao HK for an amount of not more than EUR30 million by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE COOPERATIEF.

Note 9: 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. As at the end of the reporting period, the relevant guarantee agreement had yet to be signed and was not expected to be signed in the future, and the aforesaid guarantee had not been incurred.

Note 10: At the Eighth Meeting of the Seventh Session of the Board of Directors, it was considered and approved that guarantee be provided by the Company by way of joint liability assurance in connection with the debt financing of ZTE Heyuan for an amount of not more than RMB500 million for a term of not more than 3 years (from the date on which the debt financing agreement comes into effect). ZTE Heyuan entered into a RMB400 million loan agreement with Bank of China Corporation, Shenzhen Branch ("BOC Shenzhen") in November 2016. At the same time, the Company entered into a guarantee agreement with BOC Shenzhen to provide joint liability assurance for an amount of not more than RMB400 million to guarantee the due performance of obligations under the loan agreements by ZTE Heyuan.

Note 11: 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 not been signed and was not expected to be signed in the future, and the aforesaid guarantee had not been incurred.

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Note 12: As considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors, the provision of the following guarantees for ZTE Wenzhou by the Company was approved: (1) Guarantee for tender deposit: the Company providing a guarantee for tender deposit amounting to RMB800,000 in respect of the tendering obligations of ZTE Wenzhou for the Wenzhou Public Security Communications Project for a period: 1) commencing on the closing date for the tender and ending on the date of execution of the "Wenzhou Public Security Communications Contract" if the project tender is successful; or 2) period commencing on the closing date for the project tender and ending on the date on which a notice of unsuccessful bidding is received if the tender is not successful. On 28 December 2017, the joint entity formed by the Company and ZTE Wenzhou was granted the tender. As at the end of the reporting period, the "Wenzhou Public Security Communications Contract" had yet to be executed and the guarantee for tender deposit remained in effect; (2) Guarantee by way of performance bond: upon successful bidding, the Company will provide a guarantee by way of performance bond amounting to not more than RMB3.30 million in respect of the performance obligations of ZTE Wenzhou under the "Wenzhou Public Security Communications Contract" for a period commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate. The Company has applied to the relevant bank for the issuance of a bank guarantee letter providing guarantee by way of performance bond with a cumulative maximum amount of RMB3,152,500 in respect of the performance obligations of ZTE Wenzhou under the "Wenzhou Public Security Communications Contract" for a period commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate. As at the end of the reporting period, the performance bond had come into effect. ZTE Wenzhou had provided counter-guarantees in equivalent amounts to the Company in respect of the two aforesaid guarantees.

Note 13: The computations of the total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) include a USD200 million guarantee provided for overseas wholly-owned subsidiaries. As at the end of the reporting period, the aforesaid guarantee amount had yet to be utilised.

Note 14: It was considered and approved at the board meeting and general meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide guarantee by way of joint liability assurance for an amount of RMB160 million in respect of the project financing of ZTE ICT Company Limited ("ZTE ICT"), a controlling subsidiary of the Company, for a term of 5 years (from the date of issuance of the loan). As at the end of the reporting period, the aforesaid guarantee documents had come into effect and guarantee for an amount of RMB63,222,700 had come into effect. The other shareholder of ZTE ICT (holding a 10% interest in ZTE ICT) had provided a counter-guarantee for RMB16 million in favour of ZTE Group Finance in respect of the aforesaid guarantee.

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

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

Note 17: It was considered and approved at the board meeting of ZTEsoft, 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 18: It was considered and approved at the board meeting of ZTE Micro-electronics, a subsidiary of the Company, that ZTE Micro-electronics would provide joint liability guarantee for an amount of not more than USD30 million in connection with the procurement orders between 西安克瑞斯半導體技術有限公司 ("克瑞斯"), its wholly-owned subsidiary, and Taiwan Semiconductor Manufacturing Company Limited ("TSMC") for a term commencing on the date on which the "Guarantee Contract" comes into effect and ending upon on the conclusion of a 2-year period during which 克瑞斯 has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding. As at the end of the reporting period, the guarantee documents had come into effect and guarantee for an amount of USD423,958 had come into effect.

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

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

Note 21: The guaranteed amounts are translated at the following book exchange rates of the Company as at 31 December 2017: USD1: RMB6.5325, EUR1: RMB7.7926, INR1: RMB0.10232.

3. For the special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company furnished by Independent Non-Executive Directors of the Company, please refer to the "Independent Opinion of Independent Non-executive Directors on Relevant Matters of the Twenty-Eighth Meeting of the Seventh Session of the Board of Directors" published by the Company on 15 March 2018.

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) 9. Analysis of Investment" in this report.

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	Completed
2	GSM Phase II project contract between the Company and Ethiopian Telecommunications Corporation	20 September 2007	By reference to market prices	USD478 million	No	Completed
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	Completed

Material Matters

(XVIII) UNDERTAKING

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

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

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

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

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

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

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

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

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

☐ Applicable ✓ N/A

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

☐ Applicable ✓ N/A

(XX) EXPLANATORY STATEMENT ON CHANGES IN THE ACCOUNTING POLICIES, ACCOUNTING ESTIMATES, AND AUDITING METHODS FOR THE YEAR IN COMPARISON WITH THE PREVIOUS ANNUAL FINANCIAL REPORT

✓ Applicable ☐ N/A

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

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

☐ Applicable ✓ N/A

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

New subsidiaries established during 2017 included: tier-one subsidiaries ZTE Kela Technology (Suzhou) Co., Ltd., Xi'an ZTE IOT Terminal Co., Ltd., ZTE (Xi'an) Co., Ltd., Wuhan ZTE Smart City Research Institute Co., Ltd., ZTE (Kunming) Smart City Industry Research Institute Co., Ltd., ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd., ZTE (Nanjing) Co., Ltd.; tier-two subsidiaries Zhejiang ZTE ICT Co., Ltd., ZTE Xingyun Industrial Investment Management (Hangzhou) Co., Ltd., PT. NUBIA TECHNOLOGY INDONESIA, Nubia (Thailand) CO., LTD, Nubia USA, Inc., Shenzhen ZTE Zhiping Technology Co., Ltd., ZTE HK Telecommunication Jamaica Limited, Shenzhen ZTE Smart Net Technology Co., Ltd., ZTE Communication LLC (Oman), Shenzhen Zhonghu Industrial Development Co., Ltd., ZTE Smart (Guangzhou) Auto Sales Co., Ltd., ZTE ICT Suzhou Technology Co., Ltd., Yibin ZTE ICT Co., Ltd., ZTE (Fiji) PTE Limited, ZTE Smart (Wuhan) Auto Sales Co., Ltd, Zhongxing Trinidad and Tobago Limited; tier-three subsidiaries ZTE d.o.o. Beograd, ZTE NICARAGUA, S.A, Chongqing Zhongwan Wangsheng Technology Co., Ltd., ZTESoft Luxembourg SARL, Qingdao ZTE ICT Information Technology Co., Ltd., ZTE Luxembourg Sarl; and tier-four subsidiaries ZTE ITALIA SERVIZI S.R.L., NAS Netcare Administration Services GmbH, NCS Netcare Consulting and Engineering Services GmbH; newly acquired tier-two subsidiaries included Suzhou Laxense Technology Co., Ltd.; and newly acquired tier-three subsidiaries included Netaş and Shenzhen Saijiaxun Investment Development Enterprise (Limited Partnership).

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

(XXIII) APPOINTMENT OF AUDITORS BY THE COMPANY

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

(XXIV) 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.

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

(XXVI) 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

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

☐ Applicable ✓ N/A

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

(XXIX) 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.

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

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(XXXI) 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 defined poverty aid were mainly focused on education: (1) Xinghua Education Assistance Programme: in 2017, the Company joined forces with Gansu Province Xinghua Education Assistance Foundation to launch the Gansu Education Assistance Campaign offering financial assistance to high school and university students; a 10-day summer camp trip to Shenzhen entitled "Dream Building Journey" for 30 high school students from impoverished areas was organised; (2) Azure Reading (Education Assistance for Rural Children) Programme: In July 2017, the Company collaborated with Xiamen Undertakers's Action to launch the Azure Reading (Education Assistance for Rural Children) Programme, helping schools in Gansu and Yunnan to build classroom library corners to provide good books and reading aids to children in impoverished areas, so as to enhance local education in these areas.

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

Indicator	Unit	Count/status
I. Overview	—	—
Including: 1. Cash	RMB in ten thousands	667.2
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	1,227
1.3 Amount contributed for the improvement of educational resources in impoverished areas	RMB in ten thousands	323.7
2. Other projects	—	—
Including 2.1 Number of projects	Project	1
2.2 Amount contributed	RMB in ten thousands	43.5
III. Awards (details and class)	—	(1) "11th People's Enterprise Social Responsibility Award — Overseas Contribution Award of the Year" by www.people.com.cn; (2) "Outstanding Contribution Award" by China Foundation for Poverty Alleviation; (3) "Award for Women and Children Charity Work in China" by All-China Women's Federation.

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In 2018, the Company will continue to focus on the education sector in its performance of social responsibilities in defined poverty aid, which will include cooperation with Gansu Xinghua Education Assistance Foundation to provide financial assistance for underprivileged high school and university students on an ongoing basis. We will continue to help enhancing elementary education in impoverished areas through ongoing implementation of the Azure Reading (Education Assistance for Rural Children) Programme, and will also help improve the standards of teachers in these areas.

2. Status in relation to environmental protection

Whether the listed company and its subsidiaries are key pollutant discharge units announced by the environmental protection authorities

☐ Applicable ✓ N/A

The Company is concerned with the environmental impact of its operations. We have streamlined and improved the environmental management systems in our production and operations and strived to reduce the environmental impact through the entire life cycle of our products by exercising control at the source of production. In the meantime, in active response to climate changes, the Company has introduced clean energy and reduced the discharge of waste on the back of its formidable strengths in technology. In active fulfilment of our environmental responsibility, we have given careful consideration to the environmental implications of every stage in our operations and taken 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 have also launched 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 2017" published by the Company on 15 March 2018.

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	**4,820,945**	**0.12%**	**275,400**	**–**	**–**	**–1,911,635**	**–1,636,235**	**3,184,710**	**0.08%**
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	4,820,945	0.12%	275,400	–	–	–1,911,635	–1,636,235	3,184,710	0.08%
II. Shares not subject to lock-up	**4,179,807,227**	**99.88%**	**7,768,271**	**–**	**–**	**1,911,635**	**9,679,906**	**4,189,487,133**	**99.92%**
1. RMB ordinary shares	3,424,304,693	81.83%	7,768,271	–	–	1,911,635	9,679,906	3,433,984,599	81.90%
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H shares)	755,502,534	18.05%	–	–	–	–	–	755,502,534	18.02%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**4,184,628,172**	**100.00%**	**8,043,671**	**–**	**–**	**–**	**8,043,671**	**4,192,671,843**	**100.00%**

Note 1: During the year, a total of 8,043,671 A share options were exercised by participants in the 2013 share option incentive scheme of the Company, and the number of A shares of the Company increased by 8,043,671 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.

(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 2016	Number of A shares unlocked during the year Note 1	Increase in the number of A shares subject to lock-up during the year Note 2	Number of A shares subject to lock-up at the end of the year	Reason for lock-up	Date of unlocking
1	Yin Yimin	569,549	–	–	569,549	Restricted senior management shares	–
2	Xu Huijun	473,138	–	94,500	567,638	Restricted senior management shares	–
3	Pang Shengqing	550,261	–	–	550,261	Restricted senior management shares	–
4	Zhao Xianming	488,636	–	–	488,636	Restricted senior management shares	–
5	Xie Daxiong	371,852	–	–	371,852	Restricted senior management shares	–
6	Wei Zaisheng	329,758	–	–	329,758	Restricted senior management shares	–
7	Zhang Zhenhui	163,800	–	–	163,800	Restricted senior management shares	–
8	Zhou Huidong	52,756	–	17,586	70,342	Restricted senior management shares	–
9	Xia Xiaoyue	38,195	–	–	38,195	Restricted senior management shares	–
10	Cao Wei	–	–	18,900	18,900	Restricted senior management shares	–
11	Others	1,783,000	1,774,721	7,500	15,779	Restricted senior management shares	–
	Total	**4,820,945**	**1,774,721**	**138,486**	**3,184,710**	**–**	**–**

Note 1: The reduction in the number of shares subject to lock-up is attributable to (1) permission for Directors, Supervisors and senior management of the Company to dispose of up to 25% of their shareholdings through the stock exchange each year under relevant domestic regulations; (2) release of lock-up of shareholdings by departed Directors, Supervisors and Senior Management in accordance with relevant 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) a lock-up applying to shareholdings of 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 said A share options granted was completed in November 2013. 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 8,043,671 A share options were exercised by participants in the Scheme of the Company, and the number of A shares of the Company increased by 8,043,671 shares accordingly. The matters had no material impact on the structure of assets and liabilities of the Company.

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

3. 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 2017	There were 266,964 shareholders (comprising 266,633 holders of A shares and 331 holders of H shares)
As at 28 February 2018, namely the last day of the preceding month of the date of publication of the Annual Report	There were 318,364 shareholders (comprising 318,034 holders of A shares and 330 holders of H shares)

Changes in Shareholdings and Information of Shareholders

Shareholdings of shareholders holding 5% or above of the shares or top 10 shareholders							
Name of shareholders		Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/ decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen (shares)
1.	Zhongxingxin	State-owned corporation	30.34%	1,271,868,333	+2,038,000	–	Nil
2.	HKSCC Nominees Limited	Foreign shareholders	17.99%	754,291,510	+289,792	–	Unknown
3.	Central Huijin Asset Management Ltd.	State-owned corporation	1.25%	52,519,600	–	–	Nil
4.	Fang Deji (方德基)	Domestic natural person	1.08%	45,450,161	+45,450,161	–	Nil
5.	NSSF Portfolio #104	Others	1.00%	41,988,781	+41,988,781	–	Nil
6.	Hunan Nantian (Group) Co., Ltd	State-owned corporation	0.99%	41,516,065	−1,140,943	–	Nil
7.	NSSF Portfolio #401	Others	0.55%	23,000,062	+2,000,111	–	Nil
8.	Li Fengying (李鳳英)	Domestic natural person	0.54%	22,574,667	+22,574,667	–	Nil
9.	Sun Huigang (孫惠剛)	Domestic natural person	0.49%	20,511,339	+20,511,339	–	Nil
10.	NSSF Portfolio #117	Others	0.48%	20,000,000	+20,000,000	–	Nil

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

Descriptions of any connected party relationships or concerted party relationships among the above shareholders	1. Zhongxingxin was neither a connected party nor a concerted party of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.
Description of involvement in financing and securities lending businesses of top 10 shareholders (if any)	Fang Deji (4th ranking shareholder) and Li Fengying (8th ranking shareholder) of the top 10 shareholders held 45,450,161 A shares and 22,574,667 A shares, respectively, in the Company through credit securities accounts.

Changes in Shareholdings and Information of Shareholders

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

Note 2: During the year, no strategic investors or ordinary legal persons were required to hold shares for a designated period under the placing of new shares by the Company.

Note 3: Shareholders holding 5% or above of the Company's shares — Zhongxingxin, controlling shareholder of the Company, purchased 2,038,000 H shares in the Company via the Shenzhen-Hong Kong Stock Connect during the year. As at the end of the year, Zhongxingxin held 1,271,868,333 shares in the Company in aggregate, representing 30.34% of the total share capital of the Company. Changes in the shareholdings of the Zhongxingxin during the year are as follows:

Name of shareholder	Increase/ decrease of number of shares held during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Class of shares held	Number of shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	0	1,269,830,333	A shares	0	1,269,830,333	Nil
	+2,038,000	2,038,000	H shares	0	2,038,000	Nil

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

☐ Yes ✓ No

THE COMPANY HAD NO PREFERENTIAL SHARES.

2. Controlling shareholder of the Company

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

Name of controlling shareholder:	Zhongxingxin
Legal representative:	Wei Zaisheng
Date of incorporation:	29 April 1993
Uniform social credit code:	91440300192224518G
Registered capital:	RMB100 million
Scope of business:	Design and production of cabinets and cases; R&D of machine vision systems integration, R&D of robotic vision systems integration, design and production of optical instruments, industrial cameras and instruments, design and production of high-end mechanical equipment, computer systems integration, and technology development, technology transfer, technical services, technical consultation and import and export of technologies in relation to software and hardware of computer vision data processing systems; leasing of owned housing properties; industrial investment; import and export business.

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

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 three shareholders, Xi'an Microelectronics, Aerospace Guangyu and Zhongxing WXT. In April 2017, Aerospace Guangyu transferred 2.5% equity interests in Zhongxingxin to Guoxing Ruike. Upon closing of the transfer, Xi'an Microelectronics, Aerospace Guangyu, Zhongxing WXT and Guoxing Ruike held a 34%, 14.5%, 49% and 2.5% stake in Zhongxingxin, respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of directors of Zhongxingxin, respectively. Therefore, no shareholder of Zhongxingxin has the right to control the financial and operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. Details of the four shareholders of Zhongxingxin are as follows:

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

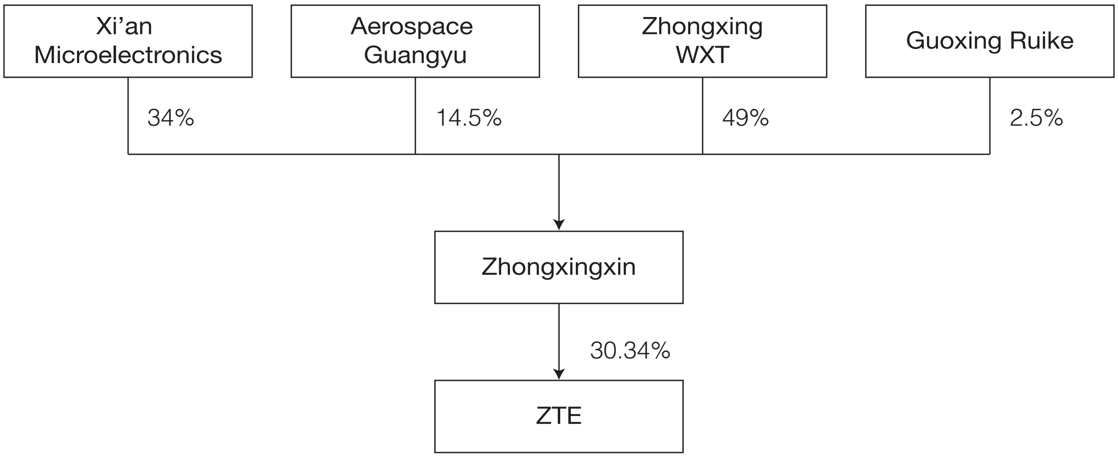
Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a wholly state-owned enterprise established on 17 August 1989. The legal representative is Cui Yuping and the registered capital amounts to RMB17,950,000. Its Uniform social credit code is 91440300192175031U. The scope of business includes aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile, sales of automobile; domestic trade; import and export operations; trade brokerage and agency; lease of owned properties; wholesale of aqua-products; sales of mining products (other than mining products required to be centrally purchased by entities designated by the State) and timber; sales of goldware and silverware (other than items prohibited under laws, administrative regulations or State Council decisions and subject to the obtaining of relevant permits for restricted items); wholesale of pre-packaged 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 Uniform social credit code is 9144030027941498XF. The scope of business includes the development and production of telecommunications and transmission equipment, ancillary equipment, computer and peripheral equipment (excluding restricted projects); investment in industrial operations (subject to separate applications for specific projects).

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

Changes in Shareholdings and Information of Shareholders

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



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 2017, the following shareholders held interests or short positions in 5% or more in various classes of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shares held	Shareholding as an approximate percentage (%) of: Note	
			Total share capital	Class shares
Zhongxingxin Note 2	Beneficial owner	1,269,830,333 A shares (L)	30.29% (L)	36.94% (L)
Zhongxing WXT	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A shares (L)	30.29% (L)	36.94% (L)
Xi'an Microelectronics	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A shares (L)	30.29% (L)	36.94% (L)
China Aerospace Electronics Technology Research Institute	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A shares (L)	30.29% (L)	36.94% (L)
China Aerospace Science and Technology Corporation	Interests of corporation controlled by the substantial shareholder	1,269,830,333 A shares (L)	30.29% (L)	36.94% (L)
BlackRock, Inc.	Interests of corporation controlled by you	44,318,692 H shares (L)	1.06% (L)	5.87% (L)
	Interests of corporation controlled by you	3,177,880 H shares (S)	0.08% (S)	0.42% (S)
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.92% (L)	5.08% (L)

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

Changes in Shareholdings and Information of Shareholders

Note 1: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital (4,192,671,843 shares), total number of A shares (3,437,169,309 shares) and total number of H shares (755,502,534 shares) as at 31 December 2017.

Note 2: Zhongxingxin, controlling shareholder of the Company, acquired 2,038,000 H shares in the Company, accounting for 0.27% of the H shares of the Company, via Shenzhen — Hong Kong Stock Connect during the year.

Save as disclosed above, as at 31 December 2017, 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. Repurchase, sale and redemption of securities

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

8. Public float

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

Directors, Supervisors, Senior Management and Employees

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

1. Brief biographies of Directors

Mr. 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 Zhongxingxin between 1993 and 1997. From 1997 to February 2004 he had been the Company's Vice President and Senior Vice President 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 ZTE Capital since October 2010 and chairman of Zhongxingxin from August 2015 to September 2017. He has been Executive Director of the Company since November 1997 and was general manager of the Terminal Division of the Company from October 2016 to April 2017. Since March 2017, he has been the Chairman of the Company. Mr. Yin has many years of experience in the telecommunications industry and over 27 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 has extensive experience in management and operations.

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 before obtaining an MBA degree from Zhongnan University of Economics and Law in 2000. He 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. Thereafter, he had been principal deputy plant manager and plant manager of Wanshan Plant of the 066 Base of the headquarters of China Aerospace from 1993 to 2000, plant manager of Hongfeng Plant of the 066 Base of China Aerospace Science and Industry Corporation from 2000 to 2006, head of the technology centre of Research Institute No. 9 of China Aerospace Science and Industry Corporation from 2006 to 2008, chairman of Wanshan Special Vehicle Co., Ltd. (萬山特種車輛有限公司) under Research Institute No. 9 of China Aerospace Science and Industry Corporation from February 2008 to July 2008, and general manager of Henan Aerospace Science and Industry Corporation and chief of the Henan Aerospace Administration from July 2008 to October 2014. 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.

Directors, Supervisors, Senior Management and Employees

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, while also serving as Chairman of the Company from April 2016 to March 2017. Mr. Zhao has many years of experience in the telecommunications industry and over 27 years 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. He currently holds the professional title of researcher. From 1985 to 2000, Mr. Wang had 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 China Yuanwang (Group) Corporation (中國遠望(集團)總公司). Since February 2003, he has been deputy general manager of China Aerospace Times Electronics Corporation (中國航天時代電子有限公司). From February 2003 to January 2015, he had also served successively as general manager and chairman of China Times Yuanwang Technology Co., Ltd. (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. (航天時代電子技術股份有限公司) (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 Accounting of Jiangxi University of Finance and Economics in 1986 majoring in accounting and subsequently obtained an MBA degree from International East-West University of the United States in 1999. He 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 Shanghai Jiulian Securities Broker Co., Ltd. (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 Aerospace Securities Co., Ltd. (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.

Directors, Supervisors, Senior Management and Employees

Mr. Wei Zaisheng, born 1962, is a Non-executive Director of the Company. Mr. Wei holds a master's degree in business administration from Peking University obtained in 2004. He 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 Executive Vice President and Chief Financial Officer of the Company from 2008 to September 2017. He was Executive Director of the Company from March 2016 to September 2017. He was appointed member of the Accounting Informatisation Committee and the XBRL Regional Steering Committee (China), respectively by the Ministry of Finance in November 2008, and was further appointed member of the Accounting Standards Strategic Committee by the Ministry of Finance in December 2014. He was appointed a expert supervisor for the special support plan under the national training programme for leaders in the accounting profession in June 2015. Mr. Wei has been chairman of Zhongxingxin since October 2017. Mr. Wei is vastly experienced in management and operations.

Mr. Zhai Weidong, born 1967, is a Non-executive Director of the Company. Mr. Zhai holds the title of senior engineer having obtained his bachelor's degree from Harbin Vessel Engineering Institute in 1989 majoring in Electronic Engineering, and his master's degree (Information and Signal Processing) from Shanghai Jiaotong University in 1996. Mr. Zhai joined Zhongxingxin in March 1996. From November 1997 to August 2015 he was under the employment of the Company, having served as head of the No. 2 Video Development Office under Nanjing Research Institute, head of the Surveillance Device Development Department under Shenzhen R&D Centre, general manager of surveillance products, assistant to Senior Vice President, and director and general manager of Shenzhen ZNV Technology Co., Ltd. He has been director and general manager of Zhongxingxin, controlling shareholder of the Company since September 2015, with extensive experience in management and operations.

Mr. Shi Lirong, born 1964. Mr. Shi graduated from Tsinghua University in 1984 with a bachelor's degree in wireless and information technology and Shanghai Jiaotong University in 1989 with a master's degree in telecommunications and electronic engineering 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 general 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 was Non-executive Director of the Company from March 2016 to February 2017.

Mr. Richard Xike Zhang, born 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 elected as one of 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 Global Partner with a Mainland Chinese background in McKinsey's 80-year history, he served clients primarily in 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.

Directors, Supervisors, Senior Management and Employees

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. Mr. Chen holds the title of Accounting Professor and is currently professor and doctoral supervisor of the Department of Accounting, 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 Double Medical Technology Inc. (a company listed on the Small and Medium Enterprise Board of Shenzhen Stock Exchange) and Sinoma International Engineering Co., Ltd. (a company listed on Shanghai Stock Exchange). Mr. Chen was an Independent Non-executive Director of the Company from July 2003 to July 2009. Mr. Chen has a strong academic and professional background as well as proven experience in accounting and finance.

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 pursuing his 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 and 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, 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 Renmin University of China 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 a 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 doctoral supervisor at George Washington University (tenured), 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 was associate professor from 2007 to 2017, professor since 2017, 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 an independent non-executive director of Shandong Gold Mining Co., Ltd. (a company listed on Shanghai Stock Exchange). Mr. Teng has a 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 holds the professor title, having graduated from Tsinghua University in 2002 with a doctorate degree, specialising in quantitative economics. He has been studying and working at Tsinghua University since 1982 and is currently professor and doctoral supervisor 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), 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 a strong academic background and proven experience in corporate finance and business model research.

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 awarded the first Shenzhen Mayor Prize. Mr. Xie is currently the director of the National Key Laboratory for Mobile Networks and Mobile Multi-media Technologies and a standing member of the Communications Science and Technology Committee under the Ministry of Industry and Information Technology. Mr. Xie has many years of experience in telecommunications industry and over 21 years of management experience.

Ms. Xu Weiyan, born 1962, is a 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 obtained the qualification of 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 Zhongxingxin's finance committee and deputy head of the president's office. She is concurrently a director of Zhongxingxin. 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.

Mr. Wang Junfeng, born 1966, is a 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). From 2009 to October 2016, he had been financial controller of the electric sector, head of the finance centre and deputy chief accountant of CASIC Shenzhen (Group) Company Limited; from December 2016 to December 2017 he was director of CASIC Shenzhen (Group) Company Limited; since October 2016 he has been director of Shenzhen Aerospace Industrial Technology Research Institute Limited with a spell as deputy chief accountant. He is currently director of Shenzhen Aerospace Industrial Technology Research Institute Limited in charge of human resources.

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 and Head of the Planning Department. She is currently Deputy Head of the Human Resources Department of the Company.

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

Mr. Zhou Huidong, born 1976, graduated from Peking University with a bachelor's degree majoring in finance and accounting in July 1998 and obtained a master's degree from Guanghua School of Management of Peking University in July 2014. Mr. Zhou was Supervisor of the Company from June 2010 to August 2017. He is a certified public accountant and a certified tax agent.

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. 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 19 years of management experience in wireline, wireless and engineering services.

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 since 2014. 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 14 years of management experience.

Directors, Supervisors, Senior Management and Employees

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, general manager of Marketing Division I of the Sales System of the Company from 2005 to 2011, 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 21 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. Shao Weilin, born 1972, has been Executive Vice President and Chief Financial Officer of the Company since September 2017 and is currently in charge of the Company's financial management. Mr. Shao graduated from Guangdong College of Commerce with a bachelor's degree in Economics in 1996, majoring in International Trade. In 2013, he obtained a master's degree in business administration from the University of Minnesota. Mr. Shao worked with the Financial Department of the Shenzhen Branch of Guangdong International Trust & Investment Co., Ltd. from July 1996 to March 1999 before joining the Company in April 1999, successively holding positions of Head of the International Financing Division (African and Latin American Markets), Head of the International Financing Department, and Deputy Head and Head of the Global Financial Business Centre of the Company until 2016. He has been director of ZTE Group Finance Co., Ltd. since 2013 and director of ZTE (H.K.) Limited since October 2016. From 2016 to September 2017, he was Assistant to the President and Head of the Global Financial Business Centre. Mr. Shao has many years of experience in the finance and telecommunications industries and over 19 years of management experience.

Mr. Zeng Xuezhong, born 1973, 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 Executive Vice President of the Company from January 2014 to April 2017.

Directors, Supervisors, Senior Management and Employees

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 governmental 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 served 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 20 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 served as Supervisor of the Company. In 2011, he was Assistant to the President responsible for the Company's Architecture and Process. From March 2012 to March 2016, he was Senior Vice President of the Company in charge of Process 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, process and quality control of the Company. Mr. Chen has many years of experience in the telecommunications industry and over 21 years of management experience.

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

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

No.	Name	Gender	Age	Title	Status of office	Term of office commencing on Note 1	Term of office ending on Note 1	Number of A shares held at the beginning of the reporting period (shares)	Increase in the number of A shares held during the period (shares)	Decrease in the number of A shares held during the period (shares)	Number of A shares held at the end of the reporting period (shares)	Reasons for changes	Total payable remuneration received from the Company during the reporting period (RMB in ten thousands)	Whether remuneration is received from related parties Note 2
Directors of the Company														
1	Yin Yimin Note 3	Male	54	Chairman	Incumbent	3/2017	3/2019	759,400	–	–	759,400	–	589.1 Note 13	No
				Director		3/2016	3/2019							
2	Zhang Jianheng	Male	56	Vice Chairman	Incumbent	3/2016	3/2019	–	–	–	–	–	10.0	Yes
3	Luan Jubao	Male	55	Vice Chairman	Incumbent	3/2016	3/2019	–	–	–	–	–	10.0	Yes
4	Zhao Xianming Note 3	Male	51	Chairman	Resigned	3/2016	3/2017	651,515	–	162,879	488,636	Note 12	545.2	No
				Director	Incumbent	3/2016	3/2019							
				President		4/2016	3/2019							
5	Wang Yanwen	Male	54	Director	Incumbent	3/2016	3/2019	–	–	–	–	–	10.0	Yes
6	Tian Dongfang	Male	57	Director	Incumbent	3/2016	3/2019	–	–	–	–	–	10.0	Yes
7	Zhan Yichao	Male	54	Director	Incumbent	3/2016	3/2019	–	–	–	–	–	10.0	Yes
8	Wei Zaisheng Note 4	Male	55	Director	Incumbent	3/2016	3/2019	439,677	–	–	439,677	–	290.3	Yes
				Executive Vice President and Chief Financial Officer	Resigned	4/2016	9/2017							
9	Zhai Weidong Note 5	Male	50	Director	Incumbent	6/2017	3/2019	–	–	–	–	–	5.3	Yes
10	Shi Lirong Note 6	Male	53	Director	Resigned	3/2016	2/2017	660,613	–	660,613	–	Note 12	27.5	No
11	Richard Xike Zhang	Male	47	Independent Non-executive Director	Incumbent	3/2016	3/2019	–	–	–	–	–	13.0	Yes
12	Chen Shaohua	Male	56	Independent Non-executive Director	Incumbent	3/2016	3/2019	–	–	–	–	–	13.0	Yes
13	Lü Hongbing	Male	51	Independent Non-executive Director	Incumbent	3/2016	3/2019	–	–	–	–	–	13.0	Yes
14	Bingsheng Teng	Male	47	Independent Non-executive Director	Incumbent	3/2016	3/2019	–	–	–	–	–	13.0	Yes
15	Zhu Wuxiang	Male	52	Independent Non-executive Director	Incumbent	3/2016	3/2019	–	–	–	–	–	13.0	Yes

Directors, Supervisors, Senior Management and Employees

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
Supervisors of the Company														
16	Xie Daxiong	Male	54	Chairman of Supervisory Committee	Incumbent	3/2016	3/2019	495,803	–	–	495,803	–	295.2	No
17	Xu Weiyan	Female	55	Supervisor	Incumbent	3/2016	3/2019	11,039	–	–	11,039	–	381.0	Yes
18	Wang Junfeng	Male	51	Supervisor	Incumbent	3/2016	3/2019	–	–	–	–	–	–	Yes
19	Xia Xiaoyue	Female	42	Supervisor	Incumbent	3/2016	3/2019	50,927	–	–	50,927	–	124.8	No
20	Li Quancai Note 7	Male	56	Supervisor	Incumbent	11/2017	3/2019	–	–	–	–	–	168.2	No
21	Zhou Huidong Note 8	Male	41	Supervisor	Resigned	3/2016	8/2017	70,342	–	–	70,342	–	49.3	No
Senior management of the Company														
22	Xu Huijun	Male	44	Executive Vice President	Incumbent	4/2016	3/2019	630,851	126,000	–	756,851	Note 12	444.8	No
23	Zhang Zhenhui	Male	44	Executive Vice President	Incumbent	4/2016	3/2019	218,400	–	–	218,400	–	448.3	No
24	Pang Shengqing	Male	49	Executive Vice President	Incumbent	4/2016	3/2019	733,682	–	–	733,682	–	393.3	No
25	Xiong Hui Note 9	Male	48	Executive Vice President	Incumbent	1/2017	3/2019	10,000	51,700	51,700	10,000	Note 12	445.8	No
26	Shao Weilin Note 10	Male	45	Executive Vice President and Chief Financial Officer	Incumbent	9/2017	3/2019	–	–	–	–	–	268.3	No
27	Zeng Xuezhong Note 11	Male	44	Executive Vice President	Resigned	4/2016	4/2017	414,630	–	414,630	–	Note 12	27.0	No
28	Fan Qingfeng Note 9	Male	49	Executive Vice President	Resigned	4/2016	1/2017	685,687	–	260,000	425,687	Note 12	296.4	No
29	Chen Jianzhou Note 9	Male	47	Executive Vice President	Resigned	4/2016	1/2017	187,327	–	99,558	87,769	Note 12	138.5	No
30	Cao Wei	Female	41	Secretary to the Board	Incumbent	4/2016	3/2019	–	25,200	–	25,200	Note 12	207.9	No
–	**Total**	–	–	–	–	–	–	**6,019,893**	**202,900**	**1,649,380**	**4,573,413**	–	**5,261.2**	–

Note 1: The starting and ending dates of the term of office set out in this table are the starting and ending dates of the term of office of the Directors of the Seventh Session of the Board of Directors, Supervisors of the Seventh Session of the Supervisory Committee and senior management of the Company appointed by the Seventh Session of the Board of Directors. For the starting dates of their first appointments with the Company and changes in the appointments of the Directors, Supervisors and senior management of the Company, please refer to the section headed "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: Mr. Zhao Xianming tendered his resignation from the position of Chairman of the Company in March 2017. At the Fourteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 14 March 2017, Mr. Yin Yimin was elected Chairman of the Company.

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

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

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

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

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

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

Note 10: Mr. Shao Weilin was elected Executive Vice President and Chief Financial Officer of the Company at the Twenty-third Meeting of the Seventh Session of the Board of Directors held on 29 September 2017.

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

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

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

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

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

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

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

Name	Name of shareholder	Position with the shareholder	Commencement of term of office	Conclusion of term of office	Whether receiving remuneration from shareholders entities
Yin Yimin Note 1	Zhongxingxin	Chairman	August 2015	September 2017	No
Luan Jubao	Zhongxingxin	Vice chairman	August 2015	August 2018	Yes
Tian Dongfang	Zhongxingxin	Vice chairman	August 2015	August 2018	Yes
Zhan Yichao	Zhongxingxin	Director	August 2015	August 2018	Yes
Wei Zaisheng Note 2	Zhongxingxin	Director	August 2015	August 2018	Yes
		Chairman	October 2017	August 2018	
Zhai Weidong	Zhongxingxin	Director and general manager	August 2015	August 2018	Yes
Xu Weiyan Note 3	Zhongxingxin	Supervisor	June 2016	September 2017	No
		Director	September 2017	August 2018	Yes
Wang Junfeng Note 4	Zhongxingxin	Supervisor	March 2017	September 2017	No

Note 1: Mr. Yin Yimin has ceased to be director and chairman of Zhongxingxin as from September 2017.

Note 2: Mr. Wei Zaisheng has been appointed chairman of Zhongxingxin as from October 2017.

Note 3: Ms. Xu Weiyan has ceased to be supervisor of Zhongxingxin as from September 2017 and has been appointed director of Zhongxingxin as from September 2017.

Note 4: Mr. Wang Junfeng has been appointed supervisor of Zhongxingxin as from March 2017 and has ceased to be supervisor of Zhongxingxin as from September 2017.

(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
Yin Yimin Note 1	Zhongxing WXT	Vice chairman	No
	Shenzhen Hekang Investment Management Company Limited	Executive director	No
	ZTE Capital	Chairman	No
		General manager	Note 2
	Shenzhen Zhonghe Chunsheng Fund	Executive manager	No
	Jiaxing Xinghe Capital Management Company Limited	Executive director/general manager	No
	Changshu Changxing Capital Management Company Limited	Chairman/general manager	No
Zhang Jianheng Note 3	China Aerospace Science and Technology Corporation	Deputy general manager	Yes
	國華軍民融合產業發展基金(有限合夥)	Representative of executive partner	No
	國創基金管理有限公司	Chairman	No
Luan Jubao	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
Zhao Xianming Note 4	Held positions in 3 subsidiaries including ZTE Microelectronics	Chairman	No
Wang Yawen	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
	西安西嶽電子技術有限公司	Chairman	No
	西安太乙電子有限公司	Chairman	No
	Shenzhen Zhongxing Information Company Limited	Chairman	No
Zhan Yichao	Aerospace Guangyu	Director	No
	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
	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 5	ZTE Group Finance	Chairman	No
	Zhongxing WXT	Director	No

Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Zhai Weidong Note 6	Sindi Technologies Co., Ltd	Chairman	No
	Shenzhen Xinyu Tengyue Electronics Co., Ltd	Director	No
	Pylon Technologies Co,. Ltd	Chairman	No
	ZTE Quantum Co., Ltd	Chairman	No
	Huizhou Zhongxing Telecommunications Equipment Company Limited	Chairman	No
	Shanghai ZTE New Energy Technology Co., Ltd.	Chairman	No
	Huizhou Quantum Communications Equipment Co., Ltd.	Chairman	No
	Shenzhen Zhongxing Hechuang Investment Management Company Limited	Chairman	No
	Hefei Zhongxing Hechuang Investment Management Company Limited	Executive director	No
	Nanjing Zhongxing Heying Venture Investment Fund (Limited Partnership)	Representative of executive partner	No
	ZTE Overseas Limited	Director	No
	Shenzhen Zhongxing Xinli Precision Mechanical & Electrical Technology Co., Ltd.	Chairman	No
	Shenzhen ZTE New Cloud Service Co., Ltd.	Director	No
Shi Lirong	Zhongxing WXT	Director	No
Richard Xike Zhang	Apax Partners	Equity Partner and Head of Greater China	Yes
Chen Shaohua Note 7	Xiamen University	Professor	Yes
	Double Medical Technology Inc.	Independent non-executive director	Yes
	Sinoma International Engineering Co., Ltd	Independent non-executive director	Yes
Lü Hongbing	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	Professor/head/associate dean	Yes
	Shandong Gold Mining Co., Ltd.	Independent non-executive director	Yes
Zhu Wuxiang Note 8	Tsinghua University	Professor	Yes
	Beijing Properties (Holdings) Ltd.	Independent non-executive director	Yes
	China Fortune Land Development 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
Xie Daxiong	Held positions in 2 subsidiaries including Guangdong ZTE Newstart Technology Co., Ltd.	Chairman	No
Xu Weiyan Note 9	Held positions in 6 subsidiaries including 中興光電子技術有限公司	Supervisor/chairman of supervisory committee	No
	Puxing Mobile Tech Company Limited	Chairman of supervisory committee	No
	西安城投智能充電股份有限公司	Chairman of supervisory committee	No
Wang Junfeng Note 10	Shenzhen Aerospace Industrial Technology Research Institute Limited	Director	Yes
	Nanjing Areospace Yinshan Electric Co., Ltd	Director	No
	航天歐華	Director	No
	航天亮麗電氣有限責任公司	Chairman	No

Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Li Quancai	Held positions in 2 subsidiaries including Xi'an Zhongxing New Software Company Limited	General manager	No
	Shenzhen Zhongxing Yihe Investment Development Co., Ltd.	Director	No
	Shenzhen Yihe Tiancheng Investment Development Co., Ltd.	Supervisor	No
	Shenzhen Xiaohe Technology Co., Ltd.	Director	No
	Shenzhen Zhongxing Yihe Tianmei Investment Development Co., Ltd.	Supervisor	No
	Shenzhen Yihe Tiancheng Catering Management Co., Ltd.	Director	No
Zhou Huidong Note 11	Henan ZTE Photovoltaics Technology Co., Ltd.	Supervisor	No
	前海融資租賃股份有限公司	Chairman of supervisory committee	No
Xu Huijun	Held positions in 16 subsidiaries including ZTE Microelectronics	Chairman/director	No
Zhang Zhenhui	Xi'an Jing Cheng (Nigeria)	Director	No
Pang Shengqing	Held positions in 5 subsidiaries including ZTE (Heyuan) Company Limited	Chairman/director	No
	KAZNURTEL Limited Liability Company	Director	No
Shao Weilin	Held positions in 18 subsidiaries including ZTE Group Finance	Chairman/director	No
樊慶峰	Held positions in 2 companies including Zhongxing Hetai	Chairman	No
陳健洲	ZTE HK	General manager	Yes
	新訊控股有限公司	Director	No
曹巍	ZTE Capital	Director	No

Note 1: Mr. Yin Yimin was appointed chairman of Nubia in June 2017 and has ceased to be chairman of Nubia as from July 2017.

Note 2: Mr. Yin Yimin received project rewards at ZTE Capital in January 2017 during the reporting period. Following his appointment as Chairman of the Company in March 2017, he has not received any remuneration at ZTE Capital.

Note 3: Mr. Zhang Jianheng has ceased to be non-executive director and board chairman of China Aerospace International Holding Limited as from February 2017 and chairman of 航天投資控股有限公司 as from November 2017. He has been appointed chairman of 國創基金管理有限公司 as from June 2017.

Note 4: Mr. Zhao Xianming has ceased to be chairman of 11 subsidiaries including Shenzhen Zhongxing Software Company Limited as from September 2017.

Note 5: Mr. Wei Zaisheng has ceased to be: chairman of Shenzhen ZTE Asset Management Company Limited and Shenzhen ZTE Cloud Service Company Limited, respectively, and director of 9 subsidiaries including Shenzhen Zhongxing Software Company Limited as from September 2017; chairman of ZTE Group Finance Holdings (Hangzhou) Limited and director of ZTE (H.K.) Limited as from October 2017; chairman of Shenzhen ZTE Jinyun Technology Company Limited as from November 2017; and director of ZTE Microelectronics Company Limited as from December 2017.

Note 6: Mr. Zhai Weidong has been appointed chairman of 新力精密機電技術有限公司 as from August 2017 and director of 深圳市中興新雲服務有限公司 as from December 2017.

Note 7: Mr. Chen Shaohua has ceased to be independent non-executive director of Fujian Septwolves Industrial Co., Ltd. as from April 2017 and independent non-executive director of China United Property Insurance Corporation as from December 2017.

Note 8: Mr. Zhu Wuxiang has ceased to be independent non-executive director of Dongxing Securities Co., Ltd as from November 2017.

Note 9: Ms. Xu Weiyan has been appointed supervisor of 深圳市中興系統集成技術有限公司 as from March 2017 and supervisor of Shanghai Zhongxing Telecom Equipment Technologies Corporation as from October 2017.

Note 10: Mr. Wang Junfeng has ceased to be: director of 廣東歐科空調製冷有限公司 as from April 2017, director of 深圳航天科創實業有限公司 as from September 2017, and director of CASIC Shenzhen (Group) Company Limited and Aerospace Guangyu, respectively, as from December 2017.

Note 11: Mr. Zhou Huidong has ceased to be: chairman of supervisory committee of Shenzhen ZTE Asset Management Company Limited and supervisor of 深圳市中興通訊節能服務有限責任公司 as from January 2017; chairman of supervisor committee of 中興耀維科技江蘇有限公司 and Shenzhen Guoxin Electronics Development Company Limited and supervisor of Zhongbao Net Shield as from February 2017; supervisor of Jinyun Technology Company Limited as from March 2017; supervisor of 15 subsidiaries including Zhongxing (Shenyang) Financial Technology Company Limited and of Zhongxing Hetai as from September 2017; chairman of supervisory committee of 3 subsidiaries including 中興智能汽車有限公司 as from October 2017; supervisor of 7 subsidiaries including 北京中興高達通信技術有限公司 and of 上海中興思秸通訊有限公司 and director of 中興健康科技有限公司 as from November 2017; and supervisor of 3 subsidiaries including ZTE Microelectronics Company Limited as from December 2017.

Directors, Supervisors, Senior Management and Employees

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

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

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

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

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

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

Pursuant to the “Resolution on the appointment and removal of senior management personnel” considered and approved 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 continued 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 effect on the date of said announcement. Following his resignation, Mr. Shi Lirong no longer held 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, had 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, Executive Director, 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 of the Company is concluded (namely, 29 March 2019).

Directors, Supervisors, Senior Management and Employees

As disclosed in the "Announcement on Resignation of Senior Management" published by the Company on 5 April 2017, Mr. Zeng Xuezhong, Executive Vice President of the Company had tendered his resignation from the position of Executive Vice President of the Company due to personal reasons. Mr. Zeng Xuezhong's resignation became effective on the date of the said announcement. Following his resignation, Mr. Zeng Xuezhong no longer held any position at the Company.

At the 2016 Annual General Meeting of the Company held on 20 June 2017, Mr. Zhai Weidong was elected as a non-independent and non-executive director of the Seventh Session of the Board of Directors of the Company, for a term commencing on the date on which this resolution is considered and approved at the 2016 Annual General Meeting and ending upon the conclusion of the term of the Seventh Session of the Board of Directors of the Company (namely, 29 March 2019).

On 11 August 2017, the Supervisory Committee of the Company received a Resignation Report in writing from Staff Representative Supervisor Mr. Zhou Huidong. Due to his other personal commitments, Mr. Zhou Huidong tendered his resignation from the position of Staff Representative Supervisor of the Company. The resignation of Mr. Zhou Huidong came into effect upon delivery of the Resignation Report at the Supervisor Committee. For details, please refer to the "Announcement Resignation of Staff Representative Supervisor" published by the Company on 11 August 2017.

As disclosed in the "Announcement of Change of Executive Vice President and Chief Financial Officer and Re-designation of Director" published by the Company on 29 September 2017, Mr. Wei Zaisheng, Executive Director, Executive Vice President and Chief Financial Officer of the Company tendered to the Board of Directors his resignation from the position of Executive Vice President and Chief Financial Officer of the Company owing to changes in work. At the same time, Mr. Wei Zaisheng's position as Executive Director of the Company was re-designated as Non-executive Director. Other than that, Mr. Wei Zaisheng was not holding any other position at the Company. The resignation and re-designation as Director of Mr. Wei Zaisheng became effective on 29 September 2017, and the term of office of Mr. Wei Zaisheng as Non-executive Director of the Company will end on the date on which the term of the Seventh Session of the Board of Directors concludes (namely, 29 March 2019).

Pursuant to the "Resolution on the Appointment of Senior Management" considered and passed at the Fourth Meeting of the Nomination Committee of the Seventh Session of the Board of Directors and the Twenty-third Meeting of the Seventh Session of the Board of Directors of the Company held on 29 September 2017, it was approved that Mr. Shao Weilin be appointed Executive Vice President and Chief Financial Officer of the Company for a term commencing on the date on which the appointment was considered and approved at the meeting of the Board of Directors and ending on the date on which the term of the Seventh Session of the Board of Directors concludes (namely, 29 March 2019).

Mr. Li Quancai was elected at the staff representatives' assembly of the Company Staff Representative Supervisor of the Seventh Session of the Supervisory Committee of the Company for a term commencing on 3 November 2017 and ending on the date on which the Seventh Session of the Supervisory Committee of the Company concludes (namely, 29 March 2019). For details, please refer to the "Announcement on the Election of Staff Representative Supervisor of the Seventh Session of the Supervisory Committee" published by the Company on 3 November 2017.

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.

Directors, Supervisors, Senior Management and Employees

(VII) INFORMATION ON GROUP EMPLOYEES

As at the end of the year, the Group had 74,773 employees (including 58,940 as employees of the parent company), with an average age of 33. There were 142 retired employees, including 84 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	28,942	38.7%
Marketing and sales	11,375	15.2%
Customer service	12,172	16.3%
Manufacturing	16,851	22.5%
Financial	871	1.2%
Administration	4,562	6.1%
Total	**74,773**	**100.0%**

2. Classification by academic qualifications as follows:

Academic qualifications	Headcount	As an approximate percentage of total headcount
Doctorate degree	416	0.6%
Master's degree	22,903	30.6%
Bachelor's degree	29,451	39.4%
Others	22,003	29.4%
Total	**74,773**	**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 insurance for accidents, business traveling insurance, housing subsidies, retirement and other miscellaneous benefits. In accordance with applicable laws and regulations of countries where our employees were located, the Group participated in social security contribution plans organised by the relevant government authorities, under which the Group paid monthly contributions towards each employee's social security funds in an amount equivalent to a specified percentage of his/her monthly salaries.

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

Corporate Governance Structure

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

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

I. Status of Corporate Governance

The Company improves its corporate governance systems and regimes, regulate operations and optimise internal control regimes on an ongoing basis in accordance with requirements of the Company Law, Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of CSRC.

During the year, 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 "2016 Summary Report and 2017 Work Plan for Internal Control and Audit" has been formulated and reviewed at the Eighth Meeting of the Audit Committee of the Seventh Session of the Board of Directors and the Fifteenth 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 regulatory authorities in China against the Company.

(I) **Shareholders and general meetings:** The Company has established a corporate governance structure to ensure that all shareholders, minority shareholders in particular, can fully exercise their rights and enjoy equal status. Sufficient time is provided at general meetings of shareholders, 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 revised Rules for General Meetings of Listed Companies, the Company has introduced on-site and online voting to afford convenience for shareholders participating in its general meetings, as well as the practice of separately disclosing the votes of minority shareholders in announcements of resolutions of general meetings to give an adequate account of the views of minority shareholders. In addition, shareholders may contact the Company through its shareholder hotline during normal working hours or contact and communicate with the Company through its designated e-mail address and the investors' relations interactive platform of the Shenzhen Stock Exchange. The Company also maintains 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 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 shall 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 for Supervisory Committee Meetings.

(V) **Performance appraisal and incentive mechanism:** During the year, the Remuneration and Evaluation Committee of the Board of Directors linked the salaries of the senior management with the results of the Company and personal performance in accordance with the Scheme for the Administration of Senior Management's Performance. Senior management personnel are recruited and appointed in strict compliance with relevant rules, regulations and the Articles of Association. The Company has established a long-term incentive mechanism closely linked with the Company's business performance and long-term strategy, 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.

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

(VII) **Information disclosure and transparency:** The Secretary to the Board of Directors and dedicated officers are responsible for handling information disclosure, arranging receptions of visiting shareholders and answering enquiries on behalf of the Company. 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.

Corporate Governance Structure

(VIII) Rules and regulations established

No.	Title	Date of disclosure Note
1	Articles of Association	20 June 2017
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	26 October 2017
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

On 20 June 2017, the Company convened the 2016 Annual General Meeting and the First A Shareholders' Class Meeting of 2017 by way of a combination of on-site voting and online voting and convened the First H Shareholders' Class Meeting of 2017 by way of on-site voting. For relevant details, please refer to the "Announcement on Resolutions of the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017" published by the Company on 20 June 2017.

The First Extraordinary General Meeting of 2017 of the Company was held on 14 December 2017 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 2017" published by the Company on 14 December 2017.

Corporate Governance Structure

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 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 scientificity and objectiveness of the Company's decisions.

Attendance of Independent Non-executive Directors of the Company at Board meetings and general meetings in 2017 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 Note 1
Richard Xike Zhang	13	6	5	2	0	No	4	0
Chen Shaohua	13	8	5	0	0	No	4	0
Lü Hongbing	13	6	5	2	0	No	4	0
Bingsheng Teng	13	5	5	3	0	No	4	3
Zhu Wuxiang	13	8	5	0	0	No	4	1

Note 1: The 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 held on 20 June 2017 were counted as 3 general meetings by the Company. Hence the Company has held 4 general meetings in 2017.

The Company has adopted recommendations in respect of the Company proposed by the Independent Non-executive Directors. For details, please refer to the "Overseas Regulatory Announcement" published by the Company on 15 March 2018.

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

During the year, the specialist committees under the Board of Directors of the Company convened meetings and performed their duties in strict accordance with the provisions and requirements of the Articles of Association, Rules of Procedure of the Board Meetings and their respective working rules, playing an important role in ensuring scientific decision making at the Board of Directors 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.

Corporate Governance Structure

(1) Issue of three review opinions on the 2017 annual financial report of the Company

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

First, the Audit Committee examined the unaudited financial statements and issued an opinion in writing. The Audit Committee was of the view that: relevant accounting standards had been appropriately applied and all significant accounting systems adopted had been consistent with those adopted for 2016; key financial indicators calculated on the basis of data from the 2017 financial accounts were consistent with preliminary judgements made by the Committee members based on known facts and comparison with financial indicators of 2016. The passing of the financial statements to the PRC and Hong Kong auditors for auditing was approved.

Second, Following timely review of the preliminary opinion of the audit report and discussions with the PRC and Hong Kong auditors, the Audit Committee was of the view that the preliminary audit results of the 2017 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 2017. The Audit Committee was of the view that the report was a true representation of the financial conditions of the Company in 2017 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 2018. In accordance with "Guidelines for Work of the Audit Committee relating to the Annual Report", the Company arranged the timely report of such audit timetable to the Audit Committee. Following discussion with the accountants' firms, the Audit Committee was of the view that the annual audit timetable scheduled by the Company according to actual circumstances was appropriate, and the Audit Committee concurred with the annual audit plan arranged by the accountants' firms. During the course of audit, members of the Audit Committee held discussions with principal officers in charge of the assignment to inform themselves of the progress of audit and concerns of the accountants. Such concerns were then communicated to relevant departments of the Company in a timely manner. The Audit Committee also issued two letters to the accountants' firms requesting auditors in charge of the assignment to expedite their work in accordance with the original timetable.

(3) Summary report on the 2017 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 2017 to March 2018. 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.

Corporate Governance Structure

The PRC auditors of the Company performed auditing on the internal control of the Company's financial reporting during the period from October 2017 to March 2018. 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 unqualified opinion were then submitted to the Audit Committee.

During the course of the annual audit, the Audit Committee held discussions and exchanged views with the PRC and Hong Kong auditors of the Company, and also examined the annual audit report furnished by the PRC and Hong Kong auditors. The Audit Committee was of the view that the PRC and Hong Kong auditors of the Company were capable of performing their tasks in strict accordance with audit regulations, focusing on knowledge of the Company and the environment in which it operated, understanding the building, improvement and implementation of the Company's internal control, demonstrating acute risk awareness and completing the audit work in accordance with the audit timetable. The auditors maintained their independence and prudence in the course of audit and completed the audit of the Company's 2017 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 2018, and to re-appoint Ernst & Young Hua Ming LLP as the internal control auditor of the Company for 2018.

(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 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 and the Third Exercise Period under the 2013 Share Option Incentive Scheme of the Company.

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 appointment and removal of senior management personnel and the nomination of the candidate for Non-independent Director.

Corporate Governance Structure

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 and 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 staff, 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.

Corporate Governance Structure

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

1. Establishment of internal control departments

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

The Internal Control Committee was established in 2017 with the aim of further enhancing the internal control and risk prevention abilities of the Company. As a corporate-level internal control administration, the Internal Control Committee is responsible for the soundness and effectiveness of the Company's internal control and exercises the functions of decision making, planning, supervision and instruction in respect of the Company's internal control. The Internal Control Committee is supported by a secretarial group and an internal control development group.

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

2. Establishment and implementation of internal control system

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

The Company has formulated and 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 Basic Rules for Corporate Internal Control with reference to the Internal Control Handbook.

Corporate Governance Structure

During 2017, the Company was mainly engaged in the following internal control operations:

During the first quarter of 2017, the Company was mainly engaged in review and assessment of internal control operations in 2016 with the production of the 2016 internal control assessment report and the completion of the compliance check for investments in derivatives and securities in 2016. Special tasks under the “Operation Sunshine ZTE” initiative were also launched. For details, please refer to the section headed “Material Matters” in the 2017 first quarterly report of the Company.

During the second quarter of 2017, the Company conducted the annual rotation of key positions for 2017, commenced internal control assessment for 2017, strengthened self-assessment of internal control at the subsidiaries, optimised the accountability system and mechanisms for the control of material risks, established a credit score system for general staff and management officers, and facilitated improvements organisational and individual abilities. For details, please refer to the section headed “Material Matters” in the 2017 interim report of the Company.

During the third quarter of 2017, the Company continued with its initiatives in rotation for key positions, risk control in relation to outsourcing contracts of overseas projects, sunshine supply chain and risk control for the government and corporate service segment, credit management and self-assessment of internal control. Internal control administration for subsidiaries were strengthened, and relevant control mechanisms were optimised. Reviews were conducted in respect of internal control and audit in the first half of 2017, and reports were submitted to the Audit Committee and the Board of the Company. For details, please refer to the section headed “Material Matters” in the 2017 third quarterly report of the Company.

Internal control development during the fourth quarter of 2017:

(1) Establishment of the Internal Control Committee of the Company with a secretarial group and an internal control development group to further enhance the Company’s internal administration, standardise internal control actions, strengthen risk prevention and control and expedite internal control development;

(2) Reorganisation of the former risk control teams under the business units into internal control teams with greater responsibilities for the business unit manager and the corresponding financial manager to oversee the internal control team;

(3) Commencement self-inspection of systems with a strong focus on the implementation of systems and the completeness, reasonableness and effectiveness of the systems;

(4) Completion of self-assessment of internal control and amendments to the internal control handbook (2017);

(5) Completion of annual rotation for key positions and specific internal control tasks under the “Operation Sunshine” initiative;

(6) Working with Ernst and Young Hua Ming (LLP) on the audit of the Company’s internal control for 2017.

(7) Enhancement of internal control training for management officers of the Group, universal promotion of know-how in internal control among all employees, full roll-out of activities such as case sharing, knowledge transmitting and internal control process demonstration in respect of risk management and internal control for key business operations.

Corporate Governance Structure

3. The 2017 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 2017 (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 93.8% 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 95.9% of the total operating revenue recorded in the consolidated financial statements of the Company. For the principal units under assessment and standards for assessing deficiencies in financial reports and non-financial reports and other details of the Company's internal control, please refer to the "Overseas Regulatory Announcement" published by the Company on 15 March 2018.

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 2017, 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 "Overseas Regulatory Announcement" published by the Company on 15 March 2018.

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 2017, 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, Securities Law, 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.

Corporate Governance Structure

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 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 2017, the Company convened 4 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 2017 are set out in the section of this report headed "Report of the Board of Directors (V) Records of reception of investors, communications and press interviews during the year".

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

Owing to the replacement of the Company's business licence and the issue of additional A shares as a result of the exercise of options by participants following the fulfilment of exercise conditions for the first and the second exercise periods under the 2013 A Share Option Incentive Scheme, Articles 2, 24 and 27 of the Articles of Association have been amended accordingly.

Corporate Governance Structure

Article 2

The original article which reads:	……The Company was incorporated by subscription method on the basis of the approval document No. [1997] 42 issued by the Shenzhen Municipal People's Government. The Company obtained an enterprise legal person business licence following its registration with the Shenzhen Administration for Industry and Commerce on 11 November 1997. The Company's business licence number is Shen Si Zi N35868 and its registration number is 440301103852869.
Is amended to read:	……The Company was incorporated by subscription method on the basis of the approval document No. [1997] 42 issued by the Shenzhen Municipal People's Government. The Company obtained an enterprise legal person business licence following its registration with the Shenzhen Administration for Industry and Commerce on 11 November 1997. The Company's standardised social credit code is 9144030027939873X7.

Article 24

The original article which reads:	……Subsequent to its establishment, the Company shall issue 4,125,049,533 ordinary shares, comprising 755,502,534 H Shares, accounting for 18.31% of the total number of ordinary shares issuable by the Company; and 3,369,546,999 Domestic Shares, accounting for 81.69% of the total number of ordinary shares issuable by the Company.
Is amended to read:	……Subsequent to its establishment, the Company shall issue 4,185,896,909 ordinary shares, comprising 755,502,534 H Shares, accounting for 18.05% of the total number of ordinary shares issuable by the Company; and 3,430,394,375 Domestic Shares, accounting for 81.95% of the total number of ordinary shares issuable by the Company.

Article 27

The original article which reads:	……The registered capital of the Company shall be RMB4,125,049,533.
Is amended to read:	……The registered capital of the Company shall be RMB4,185,896,909.

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.

Corporate Governance Structure

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 2017. 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 Mr. Yin Yimin (Chairman and Executive Director) and Mr. Zhao Xianming (Executive Director and President), 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 7 Non-executive Directors, namely Mr. Zhang Jianheng, Mr. Luan Jubao, Mr. Wang Yawen, Mr. Tian Dongfang, Mr. Zhan Yichao, Mr. Wei Zaisheng and Mr. Zhai Weidong, 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. With the exception of Mr. Zhai Weidong, Non-executive Director of the Seventh Session of the Board of Directors of the Company who has been appointed for a term commencing on 20 June 2017 and ending on 29 March 2019, 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.

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".

Corporate Governance Structure

(IV) Board Meetings

1. The Articles of Association requires that the Board of Directors convene at least 4 meetings a year. In 2017, the Board of Directors of the Company convened 13 meetings. In 2017, the Company convened 4 general meetings. Attendance of Directors at the meetings of the Board of Directors and the general meetings in 2017 was set out in the following table:

Number of meetings		Board meetings 13		General meetings 4	
Directors Note 1	Attendance in person	Attendance by proxy	Attendance Note 2	Attendance in person	Attendance Note 2
Chairman and Executive Director					
Yin Yimin	12	1	12/13	4	4/4
Vice Chairman and Non-executive Director					
Zhang Jianheng	8	5	8/13	0	0/4
Luan Jubao	13	0	13/13	4	4/4
Non-executive Director					
Wang Yawen	9	4	9/13	3	3/4
Tian Dongfang	11	2	11/13	1	1/4
Zhan Yichao	10	3	10/13	3	3/4
Wei Zaisheng	13	0	13/13	3	3/4
Zhai Weidong (appointed with effect from 20 June 2017)	6	1	6/7	1	1/1
Shi Lirong (Resigned with effect from 21 February 2017)	1	0	1/1	0	0/0
Executive Director					
Zhao Xianming	13	0	13/13	4	4/4
Independent Non-executive Director					
Richard Xike Zhang	11	2	11/13	0	0/4
Chen Shaohua	13	0	13/13	0	0/4
Lü Hongbing	11	2	11/13	0	0/4
Bingsheng Teng	10	3	10/13	3	3/4
Zhu Wuxiang	13	0	13/13	1	1/4

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 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 interim 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 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 1 January 2017 to 14 March 2017, the office of the Chairman and the office of the President had been concurrently assumed by Mr. Zhao Xianming. The Company is of the view that, the structure of the Company operated as such will not undermine the checks and balances between the Board of Directors and the management. Members of the Board of Directors have made contributions to the Company with their extensive experience, and the Company believes that it will be able to ensure that the checks and balances between the Board and the management will remain unaffected.

In order to enhance corporate governance and separate the roles of the chairman and the chief executive officer, Mr. Zhao Xianming tendered his resignation from the office of Chairman of the Seventh Session of the Board of Director. Following his resignation, Mr. Zhao Xianming has continued to serve as Executive Director and President of the Company. At the Fourteenth Meeting of the Seventh Session of the Board of Directors of the Company held on 14 March 2017, Mr. Yin Yimin was elected Chairman of the Seventh Session of the Board of Directors, for a term commencing on 14 March 2017 and ending on the date on which the Seventh Session of the Board of Directors is concluded (namely, 29 March 2019). The Company has fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules since 14 March 2017.

Corporate Governance Structure

(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 2017:

Contents Directors	Laws, regulations and rules Reading materials	 Attendance at talks or seminars
Chairman and Non-executive Director		
Yin Yimin	√	—
Vice Chairman and Non-executive Director		
Zhang Jianheng	√	—
Luan Jubao	√	—
Non-executive Director		
Shi Lirong (Resigned with effect from 21 February 2017)	√	—
Wang Yawen	√	—
Tian Dongfang	√	—
Zhan Yichao	√	—
Wei Zaisheng	√	—
Zhai Weidong (appointed with effect from 20 June 2017)	√	√
Executive Director		
Zhao Xianming	√	—
Independent Non-executive Director		
Richard Xike Zhang	√	—
Chen Shaohua	√	—
Lü Hongbing	√	—
Bingsheng Teng	√	—
Zhu Wuxiang	√	√

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 Twenty-second Meeting of the Seventh Session of the Board of Directors held on 24 August 2017, 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.

Corporate Governance Structure

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. 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, 1 Non-executive Director and 1 Executive Director. As at the end of the year, the convenor of the Remuneration and Evaluation Committee of the Seventh Session of the Board of Directors was Mr. Bingsheng Teng, Independent Non-executive Director. Members of the committee included Mr. Yin Yimin, Mr. Zhang Jianheng, Mr. Richard Xike Zhang, Mr Chen Shaohua and Mr. Zhu Wuxiang. The Remuneration and Evaluation Committee held 7 meetings in 2017. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in Person Note	Attendance by Proxy Note
Bingsheng Teng	5/7	2/7
Yin Yimin (Appointed with effect from 14 March 2017)	7/7	0/7
Zhang Jianheng	4/7	3/7
Shi Lirong (Resigned with effect from 21 February 2017)	0/0	0/0
Richard Xike Zhang	5/7	2/7
Chen Shaohua	7/7	0/7
Zhu Wuxiang	6/7	1/7

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.

Corporate Governance Structure

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

The Remuneration and Evaluation Committee held 7 meetings in 2017 to consider and approve the performance of and annual bonus amount for senior management personnel for 2016, performance management measures for senior management personnel for 2017, the 2017 Share Option Incentive Scheme, the renewal of "Directors', Supervisors' and senior management's liability insurance" and the cancellation of certain share options.

(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, 2 Non-executive Directors and 1 Executive Director. As at the end of the year, the convenor of the Nomination Committee of the Seventh Session of the Board of Directors was Mr. Zhu Wuxiang, Independent Non-executive Director, and members of the committee included Mr. Yin Yimin, Mr. Luan Jubao, Mr. Wang Yawen, Mr. Richard Xike Zhang, Mr. Lü Hongbing and Mr. Bingsheng Teng.

The Nomination Committee held 3 meetings in 2017. Attendance at the meeting was as follows:

Members of the Nomination Committee	Attendance in Person Note	Attendance by Proxy Note
Zhu Wuxiang	3/3	0/3
Yin Yimin (Appointed with effect from 14 March 2017)	2/2	0/2
Luan Jubao	3/3	0/3
Shi Lirong (Resigned with effect from 21 February 2017)	1/1	0/1
Wang Yawen	2/3	1/3
Richard Xike Zhang	1/3	2/3
Lü Hongbing	2/3	1/3
Bingsheng Teng	3/3	0/3

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.

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 new senior management personnel, the Nomination Committee will also propose to the Board of Directors candidates to be appointed as senior management personnel and furnish the Board of Directors with relevant information.

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

(3) The Nomination Committee has formulated a Board Diversity Policy, which has been set out in the Working Rules of the Nomination Committee. 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 3 meetings in 2017 to consider and approve the appointment and removal of senior management personnel and the nomination of the candidate for non-independent Director.

(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 included 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.

Corporate Governance Structure

The Audit Committee held 6 meetings in 2017. Attendance at the meetings was as follows:

Members of the Audit Committee	Attendance in person	Attendance by proxy
Chen Shaohua	6/6	0/6
Luan Jubao	4/6	2/6
Tian Dongfang	4/6	2/6
Zhan Yichao	3/6	3/6
Lü Hongbing	5/6	1/6
Bingsheng Teng	5/6	1/6
Zhu Wuxiang	5/6	1/6

3. Work of the Audit Committee during the year

In 2017, the Audit Committee held 6 meetings to consider and approve audit arrangements, regular financial reports, profit distribution plans, appointment of reporting accountants, guarantees, derivatives, investments in securities, internal control audit report of the Company, and maintained close liaison with the auditors.

For details of work conducted by the Audit Committee of the Company in fulfilment of its duties for reviewing the risk management and internal control systems of the Company during 2017, 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.

Corporate Governance Structure

Further details of the remuneration of Directors and Supervisors for 2017 are set out in Note 8 to the financial statements prepared in accordance with HKFRSs.

(II) Interests

1. Service contracts and contractual interests of Directors and Supervisors

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

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

None of the Directors and Supervisors of the Company or entities which are connected to the Directors and Supervisors was or had been materially interested, either directly or indirectly, in any transactions, arrangements and contracts of significance to which the Group is a party subsisting during or at the end of 2017.

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

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

4. Securities transactions by Directors and Supervisors

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

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 welfare benefits including insurance for accidents, business travel insurance, housing subsidies, retirement and other benefits. In accordance with relevant regulations of countries where the employees are located, the Group participates in social insurance plans organised by the relevant government authorities, under which the Group pays contributions towards each employee's social insurance fund in an amount equivalent to a specified percentage of his/her monthly salaries. Further details of the remuneration of top 5 employees of the Company for 2017 are set out in Note 9 to the financial statements prepared in accordance with HKFRSs.

Corporate Governance Structure

Details of staff retirement benefits provided by the Group are set out in Note 32 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 13 consecutive years since 2005. Ernst & Young has been appointed the Company's Hong Kong auditor for 14 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 6 years and the year under review was the third year for which she acted in the capacity of undersigning accountant. Ms. Ma Jing 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.

Financial report audit fees payable to the PRC auditor and the Hong Kong auditor for 2017 were paid in a consolidated manner, whereby an aggregate audit fee of RMB7 million was paid to Ernst & Young Hua Ming and Ernst & Young.

Ernst & Young Hua Ming was appointed the Company's internal control auditor for 2017. The amount of 2017 internal control audit fee paid to Ernst & Young Hua Ming by the Company was RMB1 million.

In 2017, Ernst & Young provided audit services for ZTE HK for an audit fee of HKD550,000. Ernst & Young Hua Ming provided audit services for other subsidiaries of the Company for an audit fee of RMB603,500.

In 2017, Ernst & Young provided tax return and tax advisory services to the Company and ZTE HK for a fee of HKD69,100. Save as the aforesaid, Ernst & Young did not provide other significant non-audit services to the Group.

Item	Amount	Auditor
Audit fees 2017	RMB7 million	Ernst & Young Hua Ming (PRC) Ernst & Young (Hong Kong)
Internal control audit fees 2017	RMB1 million	Ernst & Young Hua Ming
Audit fees for ZTE HK 2017	HKD550,000	Ernst & Young (Hong Kong)
Audit fees for other subsidiaries of the Company 2017	RMB603,500	Ernst & Young Hua Ming (PRC)
Fees for tax return and tax advisory services 2017	HKD69,100	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 Directors, Supervisors and Senior Management". In 2017, the Company Secretary received more than 15 hours of training to update her professional skills and expertise.

Corporate Governance Structure

VIII. Accountability and Audit

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

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

A statement of the Company's Hong Kong auditor on its reporting responsibility and views on the financial statements of the Company for the year ended 31 December 2017 is set out in the Independent Auditors' Report on page 324–329 of this report.

IX. Risk Management and Internal Control

The Board of Directors of the Company is responsible for reviewing the Company's risk management and internal control systems to ensure 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 shall ensure the adequacy of resources, staff qualifications and experience for accounting, internal audit and financial reporting functions, and of the courses and budget for staff training.

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 involves the business units and functional departments as the main units responsible for implementation. The second line of protection involves the Internal Control Committee. It is the unit responsible for decision-making, planning, supervision, direction and enforcement in respect of risk management and internal control. The third line of protection involves the Audit Committee and the audit department. It is the supervisory unit for risk management and internal control responsible for internal audit.

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 Basic Rules for Corporate Internal Control with reference to the Internal Control Handbook.

Corporate Governance Structure

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 2017.

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 2017, please refer to the section headed "Part I. VIII — Internal Control" in this chapter.

Report of the PRC Auditors

Ernst & Young Hua Ming (2018) Shen Zi No. 60438556_H01
ZTE CORPORATION

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To the Shareholders of ZTE Corporation:

I. AUDIT OPINION

We have audited the accompanying financial statements of ZTE Corporation which comprise the consolidated and company balance sheets as at 31 December 2017, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2017 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 2017 and the consolidated and company results of operation and cash flows of ZTE Corporation for the year ended 31 December 2017.

II. BASIS FOR OPINION

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

III. KEY AUDIT MATTERS

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

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

Ernst & Young Hua Ming (2018) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (continued)

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 in the consolidated financial statements and company financial statements 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.40; for disclosure of amounts due from/to customers for contract works, please refer to Note V.8.*	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.

Report of the PRC Auditors

Ernst & Young Hua Ming (2018) Shen Zi No. 60438556_H01
ZTE CORPORATION

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 (including bills receivable and long-term receivables) on the consolidated financial statement as at 31 December 2017 was approximately RMB27,642,988,000, represents 19% of the Group's total assets. The corresponding amount on the company report was RMB34,824,591,000, represents 26% of the Company's total assets. The Group conducts separate 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 of the relevant objective evidence. For trade receivables that are not individually significant and those which 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.*	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.

Report of the PRC Auditors

Ernst & Young Hua Ming (2018) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (continued)

Key audit matter:	How our audit addressed the key audit matter:
Inventory impairment Provision	
As at 31 December 2017, the carrying amount of inventories on the consolidated financial statements was RMB26,234,139,000, represents 18% of the Group's total asset. The corresponding amount on the company report was RMB16,484,640,000, represents 12% of the Company's total assets. 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: 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.

IV. OTHER INFORMATION

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

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

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

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

Report of the PRC Auditors

Ernst & Young Hua Ming (2018) Shen Zi No. 60438556_H01
ZTE CORPORATION

V. RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

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

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

Ernst & Young Hua Ming (2018) Shen Zi No. 60438556_H01
ZTE CORPORATION

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

(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:

Beijing, PRC

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

PRC certified public accountant:
Ma Jing (馬婧)

15 March 2018

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	2017	2016
Current assets			
Cash	1	**33,407,879**	32,349,914
Derivative financial assets	2	**116,794**	54,857
Bills receivable	3	**2,052,945**	1,984,493
Trade receivables	4	**24,345,283**	25,998,188
Factored trade receivables	4	**1,080,449**	2,261,280
Other receivables	5	**3,629,933**	4,430,072
Prepayments	6	**591,664**	1,739,691
Inventories	7	**26,234,139**	26,810,568
Amount due from customers for contract works	8	**9,012,909**	9,345,123
Other current assets	20	**7,758,594**	7,877,874
Total current assets		**108,230,589**	112,852,060
Non-current assets			
Available-for-sale financial assets	9	**3,181,668**	2,659,667
Long-term trade receivables	10	**1,244,760**	1,376,563
Factored long-term trade receivables	10	**2,608,006**	1,391,746
Long-term equity investments	11	**3,960,597**	665,876
Investment properties	12	**2,023,809**	2,016,470
Fixed assets	13	**8,694,456**	7,516,241
Construction in progress	14	**1,472,986**	1,729,450
Intangible assets	15	**4,741,615**	4,354,096
Deferred development costs	16	**1,902,077**	1,365,890
Goodwill	17	**308,806**	186,206
Deferred tax assets	18	**1,464,250**	1,604,575
Long-term deferred assets		**34,983**	34,953
Other non-current assets	20	**4,093,613**	3,887,117
Total non-current assets		**35,731,626**	28,788,850
TOTAL ASSETS		**143,962,215**	141,640,910

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

Consolidated Balance Sheet

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

Liabilities	Note V	2017	2016
Current liabilities			
Short-term loans	21	**14,719,023**	15,132,120
Bank advances on factored trade receivables	4	**1,080,472**	2,263,015
Derivative financial liabilities	22	**49,830**	40,148
Bills payable	23	**10,848,511**	11,689,957
Trade payables	24	**23,614,556**	25,243,881
Amount due to customers for contract works	8	**8,050,655**	5,876,790
Advances from customers	25	**8,702,351**	8,092,164
Salary and welfare payables	26	**7,389,544**	5,169,051
Taxes payable	27	**1,263,723**	997,189
Dividends payable	28	**1,322**	50,317
Other payables	29	**7,070,099**	13,660,418
Deferred income		**454,891**	712,657
Provisions	30	**533,126**	887,366
Long-term loans due within one year	31	**3,816,844**	1,932,025
Total current liabilities		**87,594,947**	91,747,098
Non-current liabilities			
Long-term loans	32	**3,002,146**	5,018,276
Bank advances on factored long-term trade receivables	10	**2,948,006**	1,391,746
Provision for retirement benefits	26	**133,191**	146,106
Deferred tax liabilities	18	**338,131**	98,380
Deferred income		**1,224,978**	790,223
Other non-current liabilities	33	**3,340,669**	1,563,991
Total non-current liabilities		**10,987,121**	9,008,722
Total liabilities		**98,582,068**	100,755,820

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

Consolidated Balance Sheet

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

Shareholder's equity	Note V	**2017**	2016
Shareholder's equity			
Share capital	34	**4,192,672**	4,184,628
Capital reserves	35	**11,304,854**	10,734,300
Other comprehensive income	36	**(723,770)**	(822,724)
Surplus reserve	37	**2,205,436**	2,022,709
Retained profits	38	**14,667,683**	10,282,238
Total equity attributable to holders of ordinary shares of the parent		**31,646,875**	26,401,151
Other equity instruments			
Including: perpetual capital instruments	39	**9,321,327**	9,321,327
Non-controlling interests		**4,411,945**	5,162,612
Total shareholders' equity		**45,380,147**	40,885,090
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**143,962,215**	141,640,910

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

The financial statements set out on pages 159 to 323 have been signed by:

Legal representative:	Chief Financial Officer:	Head of Finance Division:
Yin Yimin	Shao Weilin	Xu Jianrui

Consolidated Income Statement

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

	Note V	2017	2016
Operating revenue	40	**108,815,273**	101,233,182
Less: Operating costs	40	**75,005,818**	70,100,658
Taxes and surcharges	41	**942,119**	868,208
Selling and distribution costs	42	**12,104,355**	12,458,152
Administrative expenses	43	**3,057,208**	2,487,918
Research and development costs		**12,962,245**	12,762,055
Finance costs	46	**1,043,482**	207,773
Impairment losses	47	**2,533,608**	2,853,127
Add: Gains from changes in fair values	44	**58,301**	29,978
Investment income	45	**2,540,328**	1,640,279
Including: Share of (losses)/profits of associates and joint ventures		**(128,201)**	45,166
(Losses)/gains from asset disposal	48	**(31,275)**	—
Other gains	49	**3,019,138**	—
Operating profit		**6,752,930**	1,165,548
Add: Non-operating income	50	**159,277**	4,361,548
Less: Non-operating expenses	50	**193,283**	6,294,847
Total profit/(loss)		**6,718,924**	(767,751)
Less: Income tax	52	**1,332,582**	640,118
Net profit/(loss)		**5,386,342**	(1,407,869)
Holders of ordinary shares of the parent		**4,568,172**	(2,357,418)
Holders of perpetual capital instruments		**501,300**	501,300
Non-controlling interests		**316,870**	448,249
Other comprehensive income, net of tax		**318,567**	(5,158)
Other comprehensive income attributable to holders of ordinary shares of the parent, net of tax		**98,954**	(137,657)
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods			
Change in net assets arising from the re-measurement of defined benefit plans		**15,572**	743
		15,572	743
Other comprehensive income that will be reclassified to profit and loss in subsequent periods			
Changes in the fair value of available-for-sale financial assets		**94,575**	58,780
Effective portion of hedging instruments		**(12,327)**	(57,047)
Exchange differences on translation of foreign operations		**1,134**	(140,133)
		83,382	(138,400)
Other comprehensive income attributable to non-controlling interests, net of tax	36	**219,613**	132,499
Total comprehensive income		**5,704,909**	(1,413,027)
Attributable to:			
Holders of ordinary shares of the parent		**4,667,126**	(2,495,075)
Holders of perpetual capital instruments		**501,300**	501,300
Non-controlling interests		**536,483**	580,748
Earnings per share (RMB/share)	53		
Basic		**RMB1.09**	RMB(0.57)
Diluted		**RMB1.08**	RMB(0.57)

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)

	2017								
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Sub-total	Including: perpetual capital instruments	Non-controlling interests	Total shareholders' equity
I. Current year's opening balance	4,184,628	10,734,300	(822,724)	2,022,709	10,282,238	26,401,151	9,321,327	5,162,612	40,885,090
II. Changes during the year									
(I) Total comprehensive income	–	–	98,954	–	4,568,172	4,667,126	501,300	536,483	5,704,909
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	8,044	122,942	–	–	–	130,986	–	715,803	846,789
2. Equity settled share expenses charged to equity	–	220,209	–	–	–	220,209	–	–	220,209
3. Capital reduction by shareholders	–	–	–	–	–	–	–	(1,357,208)	(1,357,208)
4. Acquisition of non-controlling interests	–	227,403	–	–	–	227,403	–	(312,525)	(85,122)
(III) Profit appropriation									
1. Provision of surplus reserve	–	–	–	182,727	(182,727)	–	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	(501,300)	(333,220)	(834,520)
III. Current year's closing balance	4,192,672	11,304,854	(723,770)	2,205,436	14,667,683	31,646,875	9,321,327	4,411,945	45,380,147

	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 non-controlling 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

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	2017	2016
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**115,579,157**	113,551,944
	Refunds of taxes		**7,969,630**	7,448,038
	Cash received relating to other operating activities	54	**3,516,155**	3,230,598
	Sub-total of cash inflows		**127,064,942**	124,230,580
	Cash paid for goods and services		**78,111,408**	84,325,441
	Cash paid to and on behalf of employees		**19,683,442**	17,651,948
	Cash paid for various types of taxes		**7,310,548**	7,906,466
	Cash paid relating to other operating activities	54	**14,739,570**	9,086,519
	Sub-total of cash outflows		**119,844,968**	118,970,374
	Net cash flows from operating activities	55	**7,219,974**	5,260,206
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**1,378,058**	2,324,577
	Cash received from return on investment		**619,745**	683,483
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		**128,716**	98,620
	Net cash received from the disposal of subsidiaries and other operating units	55	**—**	964,261
	Other cash received in relation to investing activities	54	**1,771,000**	—
	Sub-total of cash inflows		**3,897,519**	4,070,941
	Cash paid to acquisition of fixed asset, intangible assets and other long-term assets		**5,984,005**	4,002,460
	Cash paid for acquisition of investments		**2,200,283**	3,087,455
	Other cash paid in relation to investing activities	54	**647,838**	—
	Sub-total of cash outflows		**8,832,126**	7,089,915
	Net cash flows from investing activities		**(4,934,607)**	(3,018,974)

Consolidated Cash Flow Statement

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

		Note V	2017	2016
III.	**Cash flows from financing activities**			
	Cash received from capital injection		**102,439**	2,532,627
	Including: Capital injection into subsidiaries by minority shareholders		**14,200**	2,160,567
	Cash received from borrowings		**35,148,401**	30,425,813
	Sub-total of cash inflows		**35,250,840**	32,958,440
	Cash repayment of borrowings		**35,048,391**	28,929,382
	Cash payments for distribution of dividends, profits and for interest expenses		**1,962,060**	2,802,549
	Including: Distribution of dividends, profits by subsidiaries to minority shareholders		**337,596**	25,613
	Sub-total of cash outflows		**37,010,451**	31,731,931
	Net cash flows from financing activities		**(1,759,611)**	1,226,509
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**(466,278)**	(34,946)
V.	**Net increase in cash and cash equivalents**		**59,478**	3,432,795
	Add: cash and cash equivalents at beginning of year		**30,049,791**	26,616,996
VI.	**Net balance of cash and cash equivalents at the end of year**	55	**30,109,269**	30,049,791

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

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)

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

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	2017	2016
Operating revenue	6	**95,881,635**	90,890,478
Less: Operating costs	6	**80,382,612**	76,053,148
Taxes and surcharges		**362,104**	202,391
Selling and distribution costs		**7,481,793**	7,536,103
Administrative expenses		**2,054,502**	1,597,395
Research and development costs		**3,638,235**	3,375,265
Finance costs		**1,287,020**	(89,762)
Impairment losses		**1,863,009**	1,787,003
Add: (Losses)/gains from changes in fair values		**(34,354)**	21,494
Investment income	7	**6,878,277**	496,266
Including: Share of (losses)/profits of associates and joint ventures	7	**(210,835)**	52,082
(Losses)/gains from asset disposal		**(31,275)**	—
Other gains		**611,603**	—
Operating profit		**6,236,611**	946,695
Add: Non-operating income		**36,964**	976,275
Less: Non-operating expenses		**75,205**	6,190,693
Total profit/(loss)		**6,198,370**	(4,267,723)
Less: Income tax		**146,951**	(43,578)
Net profit/(loss)		**6,051,419**	(4,224,145)
Attributable to holders of ordinary shares		**5,550,119**	(4,725,445)
Attributable to holders of perpetual capital instruments		**501,300**	501,300
Other comprehensive income, net of tax			
Other comprehensive income that cannot be reclassified to profit and loss in subsequent periods			
Change in net assets arising from the re-measurement of defined benefit plans		**15,572**	743
Other comprehensive income will be reclassified to profit and loss in subsequent periods			
Effective portion of hedging instruments		**—**	(4,346)
Exchange differences on translation of foreign operations		**(981)**	646
Other comprehensive income, net of income tax effect on respective items		**14,591**	(2,957)
Total comprehensive income		**6,066,010**	(4,227,102)
Attributable to:			
Holders of ordinary shares		**5,564,710**	(4,728,402)
Holders of perpetual capital instruments		**501,300**	501,300

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)

	2017							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Total equity of holders of ordinary shares	Other equity instruments – Perpetual capital instruments	Total shareholders' equity
I. Closing balance of previous year	**4,184,628**	**8,723,945**	**691,947**	**1,360,953**	**(3,053,766)**	**11,907,707**	**9,321,327**	**21,229,034**
Others (Note VI.2)	–	–	–	–	1,274,955	1,274,955	–	1,274,955
Opening balance as adjusted	–	–	–	–	(1,778,811)	13,182,662	–	22,503,989
II. Changes during the year								
(I) Total comprehensive income	–	–	14,591	–	5,550,119	5,564,710	501,300	6,066,010
(II) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	8,044	122,942	–	–	–	130,986	–	130,986
2. Equity settled share expenses charged to equity	–	220,209	–	–	–	220,209	–	220,209
(III) Profit appropriation								
1. Provision of surplus reserve	–	–	–	182,727	(182,727)	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	(501,300)	(501,300)
III. Current year's closing balance	**4,192,672**	**9,067,096**	**706,538**	**1,543,680**	**3,588,581**	**19,098,567**	**9,321,327**	**28,419,894**

	2016							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Total equity of holders of ordinary shares	Other equity instruments – Perpetual capital instruments	Total shareholders' equity
I. Current year's opening balance	4,150,791	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

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)

		2017	2016
I.	**Cash flows from operating activities**		
	Cash received from sale of goods or rendering of services	105,486,277	99,705,900
	Refunds of taxes	5,686,842	4,669,152
	Cash received relating to other operating activities	2,805,440	2,641,022
	Sub-total of cash inflows	113,978,559	107,016,074
	Cash paid for goods and services	95,086,866	88,470,463
	Cash paid to and on behalf of employees	7,024,266	6,418,846
	Cash paid for various types of taxes	1,258,255	1,006,894
	Cash paid relating to other operating activities	11,224,343	6,573,185
	Sub-total of cash outflows	114,593,730	102,469,388
	Net cash flows from operating activities	(615,171)	4,546,686
II.	**Cash flows from investing activities**		
	Cash received from sale of investments	41,103	241,385
	Cash received from return on investments	7,077,570	28,098
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	253,248	19,317
	Net cash received from the disposal of subsidiaries	978,025	139,743
	Other cash paid in relation to investing activities	1,771,000	—
	Sub-total of cash inflows	10,120,946	428,543
	Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	4,059,462	1,387,509
	Cash paid for acquisition of investments	2,132,591	3,680,606
	Sub-total of cash outflows	6,192,053	5,068,115
	Net cash flows from investing activities	3,928,893	(4,639,572)
III.	**Cash flows from financing activities**		
	Cash received from capital injection	88,239	372,060
	Cash received from borrowings	16,652,012	15,986,007
	Sub-total of cash inflows	16,740,251	16,358,067
	Cash repayment of borrowings	17,359,739	15,558,652
	Cash payments for distribution of dividends and profits or for interest expenses	1,206,571	2,577,717
	Sub-total of cash outflows	18,566,310	18,136,369
	Net cash flows from financing activities	(1,826,059)	(1,778,302)
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	(233,661)	298,170
V.	**Net (decrease)/increase in cash and cash equivalents**	1,254,002	(1,573,018)
	Add: cash and cash equivalents at the beginning of the year	15,752,732	17,325,750
VI.	**Net balance of cash and cash equivalents at the end of the year**	17,006,734	15,752,732

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, Shaanxi Telecom Industrial Corporation, China Mobile No. 7 Research Institute, Jilin Posts and Telecommunications Equipment Company and Hebei Posts and Telecommunications Equipment Company and incorporated through a public offering of shares to the general public. On 6 October 1997, the Company issued ordinary shares to the general public within the network through the Shenzhen Stock Exchange and the shares were listed and traded on the Shenzhen Stock Exchange on 18 November 1997.

The Company and its subsidiaries (collectively the "Group") are mainly engaged in production of remote control switch systems, multimedia communications systems and communications transmission systems; provision of technical design, development, consultation and related services for the research and manufacture and production of mobile communications systems equipment, satellite communications, microwave communications equipment, beepers, computer hardware and software, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, fire alarm systems, new energy power generation and application systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, mass transit railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and 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 (subject to obtaining relevant certificate of qualification); lease of owned properties.

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 15 March 2018. In accordance with the Articles of Association of the Company, the financial statements will be tabled at the general meeting for consideration.

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

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements are prepared on a going concern basis.

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

Notes to Financial Statements

(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

The specific accounting policies and accounting estimation prepared by the Group based on actual production and operation characteristics mainly include provisions for trade receivables and bad debts, inventory pricing, government grants, revenue recognition and measurement, deferred development costs, depreciation of fixed assets, 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 2017 and the results of their operations and their cash flows for the year ended 31 December 2017.

2. Financial year

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

3. Reporting currency

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

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

4. Business combination

Business 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.

Business combinations involving entities under common control

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

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 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.

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 2017. 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. Consolidated financial statements (continued)

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.

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 nonmonetary 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

8. Foreign currency translation (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Recognition and derecognition of financial instruments (continued)

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 five categories at initial recognition: financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, available-for-sale financial assets and derivatives designated as effective hedging instruments. Financial assets is measured at fair value at initial recognition. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognized in profit or loss; for other financial assets, the relevant transaction costs are recognized in their initial recognition amount.

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

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss comprise mainly trading financial assets. 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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or those financial assets that are not classified in any of the above categories. Subsequent to initial recognition, these financial assets are measured at fair value. Discounts or premiums are amortised using the effective interest method and recognised as interest income or expense. Fair value changes in available-for-sale financial assets, except for impairment losses and foreign currency monetary items' translation differences which are 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 other comprehensive income to profit or loss. Dividends or interest income derived from available-for-sale financial assets is recognized in profit or loss.

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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.

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, which is based on revenue recognition.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations and interest rate swaps to hedging against interest rate risks. Such derivative financial instruments are initially 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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial assets

The Group assesses the carrying amount of financial assets at the balance sheet date. If there is any objective evidence that a financial asset is impaired, the Group provides for such impairment losses. The objective evidence, which indicates impairment of financial assets, represents events actually occurring after initial recognition of financial assets, having an impact on financial assets' estimated future cash flows, and such impact can be reliably measured. Objective evidences for impairment of financial assets include significant financial difficulties experienced by the issuer or debtor, default of contract terms (such as default or overdue of interest or principal payments) by the debtor, probable closure or other financial restructuring of the debtor and publicly available information indicating estimated future cash flow has decreased and such decrease being measurable.

Assets carried at amortised cost

If an impairment loss has been incurred, the financial asset's carrying amount is reduced to the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (namely the effective interest rate determined at initial recognition), taking into account the value of relevant collaterals. The reduced amount is charged to profit or loss. Interest income after impairment is 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.

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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

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Transfer of financial assets (continued)

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.

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; and (6) material adverse changes to the market, economic, legal or national environment in which the debtor is located which makes the recovery of the credit rights by the creditor unlikely.

An account receivable is considered individually significant if it amounts to 0.1% or above of the total original value of all accounts receivable.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Accounts Receivable (continued)

(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

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 stocktake 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 longterm equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. For long-term equity investments acquired through the business combination of entities not under common control, the initial investment cost shall be the cost of combination (for business combinations of entities not under common control achieved in stages through multiple transactions, the initial investment cost shall be the sum of the carrying value of the equity investment in the acquired party held at the date of acquisition and new investment cost incurred as at the date of acquisition). The cost of combination shall be the sum of assets contributed by the acquiring party, liabilities incurred or assumed by the acquiring party and the fair value of equity securities issued. Upon disposal of the investment, other comprehensive income recognised under the equity method held prior to the date of acquisition shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. The accumulated fair value change of equity investments held prior to the date of acquisition and included in the other comprehensive income as financial instruments shall be transferred in full to current profit and loss upon the change to cost method. The initial investment cost of long-term equity investments other than those acquired through business combination shall be 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. When the carrying amount of the investment is less than the Company's share of the fair value of the investment's identifiable net assets, the difference is recognized in profit or loss of the current period and debited to long-term equity investment.

Under the equity method, after the long-term equity investments are acquired, investment gains or losses and other comprehensive income are 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 other comprehensive income. After initial recognition, investment properties will be subsequently measured and presented in fair value. The difference between the fair value and the original 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%	1.90%-3.17%
Electronic equipment	5–10 years	5%	9.5%-19%
Machinery equipment	5–10 years	5%	9.5%-19%
Motor vehicles	5–10 years	5%	9.5%-19%
Other equipment	5 years	5%	19%

The Group reviews, at least at each year end, useful lives, estimated residual values and depreciation methods of fixed assets and makes adjustments if necessary.

15. Construction in progress

Construction-in-progress is measured at the actual construction expenditures, including necessary project work expenses incurred during the period while construction is in progress, borrowing costs subject to capitalisation before they can be put into use and other related fees.

Construction-in-progress is transferred into fixed assets when it is ready for its intended use.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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.

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 nonvesting condition is satisfied, provided that other performance condition and/or vesting conditions are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are 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 to make up for related costs or losses in future periods shall be recognised as deferred income, and shall be recognised in current profit or loss or written off against related costs of the period for which related costs are recognised. Government grants specifically applied for the reimbursement of incurred related costs and expenses shall be directly set off against related costs; government grants relating to day-to-day activities but not applied in specific reimbursement shall be recognised in "other income". Government grants not relating to day-to-day activities shall be recognised under non-operating income or expense.

Government grants relating to assets shall be written off against the book value of the asset concerned, and credited to profit or loss over the useful life of the asset concerned by reasonable and systematic instalments (provided that government grants measured at nominal value shall be directly recognized in current profit or loss). Where the asset concerned is disposed of, transferred, retired or damaged prior to the end of its useful life, the balance of the deferred income yet to be allocated shall be transferred to "asset disposal" under current profit or loss.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Income tax (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Income tax (continued)

Deferred tax assets and deferred tax liabilities are offset and presented as a net amount if all of the following conditions are met: the Group has the legal right to set off current tax assets current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities, provided that the taxable entity concerned intends either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

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 straightline 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Hedge accounting (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Impairment (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. Employee remuneration (continued)

Retirement benefit (defined benefit scheme) (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. Fair value measurement (continued)

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.

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:

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

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.

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; and

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Judgements (continued)

Revenue Recognition (continued)

Deferred tax liabilities relating to subsidiaries, associates and joint ventures

The Group is required to recognise deferred tax liabilities for taxable temporary differences relating to investments in certain subsidiaries, associates and joint ventures, unless two conditions are met as follows: the Group is able to control the timing of the reversal of the temporary difference and such temporary difference is not likely to be reversed in the foreseeable future, in which case the recognition of deferred tax liabilities is not required. The Group is of the view that it is able to fully control the timing of the reversal of the temporary difference arising from dividend distribution of the subsidiary and that the subsidiary will not make any profit distribution in the foreseeable future. Therefore, the Group is not required to recognise any deferred income tax liability. Whether the temporary difference related to investments in associates and joint ventures will be reversed in the foreseeable future is dependent on the expected method of recouping the investment, and the Group is required to exercise significant judgement in respect of the method of recouping the investment.

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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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Impairment of trade receivables

The Group determines whether trade receivables are impaired by estimating the future cash flow from the trade receivables. 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 trade receivable's original effective interest rate, taking into account the value of the related collateral. Where the actual future cash flows and less than expected, an impairment loss may arise.

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost. The carrying value of investment property as at 31 December 2017 was RMB2,023,809,000 (31 December 2016: RMB2,016,470,000).

30. Changes in accounting policies

Change in the presentation of gain/loss arising from the disposal of assets

In accordance with the "Notice of the Ministry of Finance on the Amendment and Publication of General Format for Corporate Financial Statement" (Cai Kuai [2017] No. 30) (《財政部關於修訂印發一般企業財務報表格式的通知》(財會[2017]30號)), "Gains from asset disposal" shall be separately presented under "Operating profit" on the income statement of the Group. Some types of the gain or loss from the disposal of non-current assets previously accounted for under "Non-operating income" and "Non-operating expenses" shall be transferred to "Gains from asset disposal". Accordingly, the Group has restated its comparative income statement retrospectively. Such change in accounting policy has had no impact on the consolidated and company net profit and shareholders' equity.

Change in the presentation of government grants

In accordance with the "Notice on the Publication of the Revised 'ASBE No. 16 — Government grants'" (Cai Kuai [2017] No. 15), "Other gains" shall be separately presented under "Operating profit" on the income statement of the Group. Government grants relating to day-to-day operations shall be accounted for under "Other gains" or set off against related costs and expenses according to the nature of the business activity. Government grants which had been specifically applied to reimburse incurred related costs and expenses or losses of the Company were directly set off against related costs and expenses. Government grants not applied in specific reimbursement were recognised in other gains. Government grants not relating to day-to-day activities were recognized under non-operating income or expense. Under the original accounting standard, government grants relating to income and applied in the reimbursement of related costs or losses incurred by the enterprise shall be recognised under "Non-operating income". Government grants of the Group subsisting prior to 1 January 2017 shall be dealt with on a prospective basis. New government grants received during the period from 1 January 2017 to the date on which the revised standard became shall be adjusted according to the revised standard. Such change in accounting policy has had no impact on the consolidated and company net profit and shareholder's equity for the same period last year.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Changes in accounting policies (continued)

Accounting standards issued and effective in 2018

Financial instruments

On 31 March 2017, MOF announced the revised editions of 3 accounting standards relating to financial instruments: "ASBE No. 22 — Recognition and Measurement of Financial Instruments" (Cai Kuai [2017] No. 7), "ASBE No. 23 — Transfer of Financial Assets" (Cai Kuai [2017] No. 8) and "ASBE No. 24 — Hedge Accounting" (Cai Kuai [2017] No. 9). On 2 May 2017, MOF announced the revised edition of "ASBE No. 37 — Presentation of Financial Instruments" (Cai Kuai [2017] No. 14) (collectively the "New Financial Instrument Standards") and required enterprises listed in both domestic and overseas markets and enterprises listed overseas adopting IFRSs or ASBEs in the preparation of their financial statements to adopt the New Financial Instrument Standards with effect from 1 January 2018. The New Financial Instrument Standards contains new provisions for classification and measurement, impairment and hedge accounting. The Group has adopted the New Financial Instrument Standards with effect from 1 January 2018. The Group will not restate the comparative financial statements of previous periods, but will instead make converging adjustments to retained profit or other comprehensive income as at 1 January 2018. In 2017, the Group performed an assessment on the impact of adopting the New Financial Instrument Standards. The expected impact on classification and measurement and impairment requirements is summarised as follows.

(1) Classification and measurement

Upon the adoption of the New Financial Instrument Standards, the classification and measurement of financial assets shall be dependent on the assessment of two factors: the contracted cash flow characteristics of the financial assets and the Group's business model for the management of financial assets. Based on the assessment of the Group, the Group does not expect the adoption of the New Financial Instrument Standards to have a material impact on the classification and measurement of other financial assets, except that financial assets currently classified by the Group as available-for-sale financial assets will be reclassified as financial assets at fair value through current profit or loss or financial assets at fair value through other comprehensive income. The Group is currently in the process of electing whether to reclassify such financial assets as financial assets at fair value through current profit or loss or financial assets at fair value through other comprehensive income. In the event that the Group elects to reclassify such financial assets as financial assets at fair value through other comprehensive income, gains or losses from fair value changes recognised in other comprehensive income shall not be reclassified to current profit or loss. The Group is in the process of assessing the impact of the fair value of such investments and the aforesaid changes in the consolidated financial statement.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Changes in accounting policies (continued)

Accounting standards issued and effective in 2018 (continued)

Financial instruments (continued)

(2) Impairment

The New Financial Instrument Standards requires financial assets classified at amortised cost, debt instruments measured at fair value through other comprehensive income and contract assets defined under "ASBE No. 14 — Revenue" shall be recognised based on expected credit losses either on a 12-month basis or a lifetime basis. Based on the assessment of the Group, the adoption of the New Financial Instrument Standards will not have any material impact on the bad debt provisions for the Group's trade receivables, bills receivable and other debt instrument investments.

Revenue

On 5 July 2017, MOF announced the revised "ASBE No. 14 — Revenue" (the "New Revenue Standard") in replacement of "ASBE No. 14 — Revenue" and "ASBE No. 15 — Construction Contracts" announced on 15 February 2006 and the "'ASBE No. 14 — Revenue' Application Guide" announced on 30 October 2006 and required enterprises listed in both domestic and overseas markets and enterprises listed overseas adopting IFRSs or ASBEs in the preparation of their financial statements to adopt the New Revenue Standard with effect from 1 January 2018.

Under the New Revenue Standard, the core principle for the recognition of revenue is that revenue shall be recognised when "the enterprise have fulfilled its contractual obligations, namely, the customer have obtained control of the related goods or services". Based on such principle, the recognition of revenue under the New Revenue Standard consists of 5 steps: 1) identification of customer contracts; 2) identification of individual obligations contained in the contract; 3) determination of the transaction price; 4) allocation of the transaction price to the individual obligations; and 5) recognition of revenue based on the individual obligations. The New Revenue Standard have also made specific provisions for certain matters or transactions, for example: contract costs, pledge money, distinction between principal and agent, sales with return provisions, options for further purchases, intellectual property licenses, repurchase arrangements, advanced receipts, non-refundable initial costs, etc.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Changes in accounting policies (continued)

Accounting standards issued and effective in 2018 (continued)

Revenue (continued)

In accordance with relevant provisions under the convergence requirement of the New Revenue Standard, the cumulative amount reflecting the impact of the New Revenue Standard shall be adjusted against the opening balances of retained profit and other related items on the financial statements, while information of the comparative period shall not be adjusted, but shall be disclosed in the notes. In the event that the amount of impact on the current financial statements under the New Revenue Standard is material compared to that under original accounting standards relating to revenue, the reasons for such material impact should be disclosed. The Group plans to adjust the opening balances of retained profit and other related items on the financial statements as at 1 January 2018 in accordance with the convergence requirement under the New Revenue Standard in respect of outstanding contracts not completed as at 1 January 2018, but will not adjust information of the comparative period. Moreover, the Group expects that the transitional adjustments as at 1 January 2018 will not have a material impact on the opening balance of net assets. However, the anticipated changes in accounting policies detailed in the following will have a material impact on the Group's financial statements from 2018 onwards. 2017, the Group performed a detailed assessment on the impact of adopting the New Revenue Standard.

The Group's principal operations comprise mainly telecommunications system contracts and sales of goods and services. The anticipated impact of the New Revenue Standard on the Group is summarised as follows:

a) Telecommunications system contracts

In accordance with "ASBE No. 15 — Construction Contracts" announced by MOF on 15 February 2006, revenue and costs of telecommunications system contracts as construction contracts are recognised using the percentage of completion method. Such percentage of completion is determined on the basis of actual contract costs incurred to date relative to the estimated total contract costs. Upon the adoption of the New Revenue Standard, individual performance obligations in the contracts will be identified and revenue will be recognised by allocating the transaction price to the relevant performance obligation, when an individual performance obligation is satisfied, namely, when the customer obtains control of the related good or service.

b) Presentation and disclosure

Under the New Revenue Standard, contract assets or contract liabilities shall be presented on the balance sheet based on the correlation between the performance of obligations and customer payments. The New Revenue Standard has also provided for additional specific requirements for the disclosure of information relating to revenue, such as relevant accounting policies, significant judgements (measurement of variable consideration, the method for allocating transaction prices to individual obligations, assumptions adopted in the estimation of individual prices of individual obligations), information relating to customer contracts (recognition of current revenue, contract balance and performance obligations, etc), and asset information relating to contract costs.

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IV. TAXATION

1. Principal tax items and tax rates

Value-added tax ("VAT")	—	Output tax payable on income generated from domestic sales of products and equipment repair services at a tax rate 17% (being the tax rate for general taxpayers); regarding service income for which the charge of business tax has been changed to the charge of VAT, output tax is calculated at tax rates of 5%, 6% and 11%, and VAT is payable on the difference after deduction of tax credit available for offsetting for the current period.
City maintenance and construction tax	—	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Education surcharge	—	In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Individual income tax	—	In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	—	In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income.

2. Tax concession

The Company is subject to an enterprise income tax rate of 15% for the years from 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Shenzhen Zhongxing Telecom Technology & Service Company Limited is subject to an enterprise income tax rate of 15% for the years from 2016 to 2018 as a national-grade hi-tech enterprise.

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% as a national-grade key software enterprise for 2017.

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2017 as a national-grade key software enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 10% for 2017 as an IC design enterprise designated by national planning.

Notes to Financial Statements

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IV. TAXATION (continued)

2. Tax concession (continued)

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2017 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2017 as a national-grade key software enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited has applied for the status of and been confirmed as an enterprise engaged in State-endorsed industries in the current year and is subject to an enterprise income tax rate of 15% for 2017.

Shenzhen ZTE ICT Company Limited is subject to an enterprise income tax rate of 15% for years 2016 to 2018 as a national-grade hi-tech enterprise.

深圳市興意達通訊技術有限公司 is subject to an enterprise income tax rate of 15% for the years from 2016 to 2018 as a national-grade hi-tech enterprise.

中興國通通訊裝備技術(北京)有限公司 is subject to an enterprise income tax rate of 15% for the years from 2016 to 2018 as a national-grade hi-tech enterprise.

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash

	2017	2016
Cash	**12,065**	25,287
Bank Deposit	**30,329,615**	31,110,707
Other cash	**3,066,199**	1,213,920
	33,407,879	32,349,914

As at 31 December 2017, the Group's time deposit of RMB16,450,000 (31 December 2016: RMB24,620,000) was pledged to secure bank borrowings for a term of 1 year.

As at 31 December 2017, the Group's overseas currency deposits amounted to RMB6,601,643,000 (31 December 2016: RMB6,534,605,000). Funds placed overseas and subject to remittance restrictions amounted to RMB26,012,000 (31 December 2016: RMB40,511,000).

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 RMB232,411,000 (31 December 2016: RMB1,086,203,000) were not included in cash and cash equivalents.

Notes to Financial Statements

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

2. Derivative financial assets

	2017	2016
Net investment hedging instruments for overseas operations	**–**	862
Derivative financial assets at fair value through current profit and loss	**116,794**	53,995
	116,794	54,857

For details of net investment hedging instruments for overseas operations, please refer to Note V.58.

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 RMB50,962,000 (2016: gain of RMB23,904,000) was dealt with in current profit or loss.

3. Bills receivable

	2017	2016
Commercial acceptance bills	**1,457,144**	1,152,175
Bank acceptance bills	**595,801**	832,318
	2,052,945	1,984,493

Endorsed or discounted bills receivable outstanding on the balance sheet date are analysed as follows:

	2017		2016	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Commercial acceptance bills (Note 1)	**263,861**	**–**	–	–
Bank acceptance bills	**215,071**	**–**	325,915	–
	478,932	**–**	325,915	–

Note 1: In accordance with bank agreements signed, discounted commercial acceptance bills shall not have recourse.

As at 31 December 2017, there was no bill which had been transferred to trade receivables as a result of the issuers' default (31 December 2016: Nil).

As at 31 December 2017, no bills were pledged for obtaining short-term borrowing (31 December 2016: Nil).

As at 31 December 2017, there were no outstanding bills receivable endorsed on behalf of third parties (31 December 2016: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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:

	2017	2016
Within 1 year	**23,443,645**	23,936,294
1 to 2 years	**3,556,881**	3,875,526
2 to 3 years	**2,346,647**	2,253,823
Over 3 years	**4,141,160**	3,635,481
	33,488,333	33,701,124
Less: bad debt provision for trade receivables	**9,143,050**	7,702,936
	24,345,283	25,998,188

Please refer to Note V.19 for details of movements in bad debt provision for trade receivables for the year.

	2017				2016			
	Book balance		**Bad debt provision**		Book balance		Bad debt provision	
		Percentage		**Percentage**		Percentage		Percentage
	Amount	**(%)**	**Amount**	**(%)**	Amount	(%)	Amount	(%)
Individually significant and for which bad debt provision has been separately made	**2,135,018**	**6**	**1,764,122**	**83**	550,842	2	550,842	100
For which bad debt provision has been collectively made based on credit risks								
0–6 months	**19,543,481**	**59**	**–**	**–**	19,580,197	58	–	–
7–12 months	**2,440,198**	**7**	**282,186**	**12**	4,356,097	13	483,535	11
13–18 months	**2,055,647**	**6**	**885,360**	**43**	2,156,353	6	700,367	32
19–24 months	**1,435,643**	**4**	**889,138**	**62**	1,719,173	5	886,925	52
2–3 years	**2,258,706**	**7**	**1,702,604**	**75**	2,253,823	7	1,996,628	89
Over 3 years	**3,619,640**	**11**	**3,619,640**	**100**	3,084,639	9	3,084,639	100
	31,353,315	**94**	**7,378,928**	**24**	33,150,282	98	7,152,094	22
	33,488,333	**100**	**9,143,050**		33,701,124	100	7,702,936	

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4. Trade receivables (continued)

As at 31 December 2017, bad debt provisions for trade receivables which were individually significant and individually tested were as follows:

	Book balance	Bad debt provision	Percentage of charge
Overseas carriers 1*	306,000	306,000	100%
Overseas carriers 2*	106,645	106,645	100%
Overseas carriers 3*	73,024	73,024	100%
Overseas carriers 4*	69,696	69,696	100%
Overseas carriers 5*	46,312	46,312	100%
Overseas carriers 6*	43,489	43,489	100%
Others (Customer 7 to Customer 33)*	1,489,852	1,118,956	75%
	2,135,018	1,764,122	

* The provision was made in view of significant financial difficulty experienced by the debtor.

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
Overseas carriers 1*	182,198	182,198	100%
Overseas carriers 2*	114,606	114,606	100%
Overseas carriers 3*	81,926	81,926	100%
Overseas carriers 4*	73,948	73,948	100%
Overseas carriers 5*	56,042	56,042	100%
Others*	42,122	42,122	100%
	550,842	550,842	

* The provision was made in view of significant financial difficulty experienced by the debtor.

For 2017, there was write-back of bad-debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately amounting to RMB12,553,000 (2016: Nil) and write-off amounting to RMB396,272,000 (2016: RMB164,226,000).

Top 5 accounts of trade receivables as at 31 December 2017 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	2,741,261	8.18%	12,880
Customer 2	2,128,765	6.36%	52,040
Customer 3	882,867	2.64%	17,122
Customer 4	653,186	1.95%	—
Customer 5	597,951	1.78%	582,401
	7,004,030	20.91%	664,443

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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 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

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:

	2017	2016
Within 1 year	**2,551,582**	3,170,036
1 to 2 years	**834,303**	998,763
2 to 3 years	**172,727**	186,771
Over 3 years	**71,321**	74,502
	3,629,933	4,430,072

Other receivables analysed by nature as follows:

	2017	2016
Staff loans	**336,963**	465,830
Transactions with third parties	**2,208,110**	2,839,668
Loans and advances	**383,963**	519,626
Others	**700,897**	604,948
	3,629,933	4,430,072

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Other receivables

Top 5 accounts of other receivables as at 31 December 2017 were as follows:

Due from	Closing balance at year-end	As a percentage of the total amount of other receivables	Nature
Third-party entity 1	**928,102**	**25.57%**	**Transactions with third parties**
Third-party entity 2	**700,000**	**19.28%**	**Others**
Third-party entity 3	**200,000**	**5.51%**	**Release of loans and advances**
Third-party entity 4	**70,304**	**1.94%**	**Transactions with third parties**
Third-party entity 5	**60,000**	**1.65%**	**Release of loans and advances**
	1,958,406	**53.95%**	

Top 5 accounts of other receivables as at 31 December 2016 were as follows:

Due from	Closing balance at year-end	As a percentage of the total amount of other receivables	Nature
Third-party entity 1	963,489	21.75%	Transactions with third parties
Third-party entity 2	694,789	15.68%	Transactions with third parties
Third-party entity 3	600,000	13.54%	Others
Third-party entity 4	191,295	4.32%	Release of loans and advances
Third-party entity 5	164,641	3.72%	Release of loans and advances
	2,614,214	59.01%	

The above other receivables from top five accounts represent amounts receivable from third parties of the Group and were aged within 36 months.

6. Prepayments

Aging analysis of prepayments was as follows:

	2017		2016	
	Book balance	**Percentage (%)**	Book balance	Percentage (%)
Within 1 year	**591,664**	**100%**	1,739,691	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 2017 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	**22,405**	**3.79%**
Supplier 2	**21,924**	**3.71%**
Supplier 3	**20,697**	**3.50%**
Supplier 4	**16,809**	**2.84%**
Supplier 5	**8,428**	**1.42%**
Total	**90,263**	**15.26%**

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%

7. Inventories

	2017			2016		
	Book balance	**Provision For impairment**	**Carrying value**	Book balance	Provision For impairment	Carrying value
Raw materials	**5,569,928**	**521,828**	**5,048,100**	5,280,233	506,476	4,773,757
Materials under subcontract processing	**11,214**	**460**	**10,754**	515,392	31,218	484,174
Work-in-progress	**1,189,452**	**34,721**	**1,154,731**	1,438,920	37,026	1,401,894
Goods in stock	**4,151,274**	**564,391**	**3,586,883**	4,066,426	447,167	3,619,259
Dispatch of goods and others	**17,801,819**	**1,368,148**	**16,433,671**	18,631,494	2,100,010	16,531,484
	28,723,687	**2,489,548**	**26,234,139**	29,932,465	3,121,897	26,810,568

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

	2017	2016
Amount due from customers for contract works	**9,012,909**	9,345,123
Amount due to customers for contract works	**(8,050,655)**	(5,876,790)
	962,254	3,468,333
Contract costs incurred plus recognized profits to date	**152,136,153**	95,921,927
Less: estimated loss	**581,244**	1,044,198
Progress billings	**150,592,655**	91,409,396
	962,254	3,468,333

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

	2017			2016		
	Book value	**Impairment provision**	**Book value**	Book value	Impairment provision	Book value
Available-for-sale equity instruments						
At fair value	**1,711,846**	**–**	**1,711,846**	1,315,085	–	1,315,085
At cost	**1,567,735**	**97,913**	**1,469,822**	1,344,582	–	1,344,582
	3,279,581	**97,913**	**3,181,668**	2,659,667	–	2,659,667

Available-for-sale financial assets at fair value:

	2017 Available-for-sale equity instruments	2016 Available-for-sale equity instruments
Equity instrument cost	**189,922**	139,167
Fair value	**1,711,846**	1,315,085
Accumulated fair value change included in other comprehensive income	**1,521,924**	1,175,918

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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:

2017

	Book balance				Impairment provision					
	Opening Balance	Increase during the year	Decrease during the year	Closing balance	Opening Balance	Increase during the year	Decrease during the year	Closing balance	Shareholding percentage	Cash dividend for the year
航天科技投資控股有限公司	201,734	–	–	201,734	–	–	–	–	2.6936%	17,276
中國教育出版傳媒股份有限公司	196,000	–	–	196,000	–	–	–	–	0.9850%	–
Others	946,848	343,589	(218,349)	1,072,088	–	97,913	–	97,913		15,042
	1,344,582	343,589	(218,349)	1,469,822	–	97,913	–	97,913		32,318

2016

	Book balance				Impairment provision					
	Opening Balance	Increase during the year	Decrease during the year	Opening Balance	Opening Balance	Increase during the year	Decrease during the year	Closing balance	Shareholding percentage	Cash dividend for the year
航天科技投資控股有限公司	201,734	–	–	201,734	–	–	–	–	2.6936%	15,000
中國教育出版傳媒股份有限公司	196,000	–	–	196,000	–	–	–	–	0.9850%	–
Others	890,732	345,892	(289,776)	946,848	–	–	–	–		14,991
	1,288,466	345,892	(289,776)	1,344,582	–	–	–	–		29,991

10. Long-term receivables

	2017	2016
Installment payments for the provision of system construction projects telecommunication	1,277,055	1,460,520
Less: Bad debt provision for long-term receivables	32,295	83,957
	1,244,760	1,376,563

The discount rates adopted for long-term receivables ranged from 3.57% – 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

		2017	2016
Equity method			
Jointly-controlled entities	(1)	**92,344**	64,322
Associates	(2)	**3,873,017**	606,318
Less: provision for impairment in long-term equity investments		**4,764**	4,764
		3,960,597	665,876

2017

(1) Jointly-venture entities

	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 dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
Bestel Communications Ltd.	2,255	–	–	–	–	–	–	–	2,255	–
Puxing Mobile Tech Company Limited	54,520	–	–	2,167	–	–	–	–	56,687	–
重慶前沿大數據管理有限公司	6,982	–	–	(3,539)	–	–	–	–	3,443	–
Pengzhong Xingsheng	565	–	–	–	–	(1)	–	–	564	–
德特賽維技術有限公司	–	29,400	–	(5)	–	–	–	–	29,395	–
	64,322	29,400	–	(1,377)	–	(1)	–	–	92,344	–

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments (continued)

2017 (continued)

(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 dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
思卓中興(杭州)科技有限公司	21,864	–	–	(616)	–	–	–	–	21,248	–
ZTE Energy Limited	396,345	–	–	25,165	–	–	–	–	421,510	–
ZTE Software Technology (Nanchang) Company Limited	4,424	–	–	(625)	–	–	–	–	3,799	–
Nanjing Piaoxun Network Technology Company Limited	23	–	–	–	–	–	–	–	23	–
Telecom Innovations	11,480	–	–	–	(782)	–	–	–	10,698	–
Shenzhen Zhongxing Hetai Hotel Management Company Limited	3,788	–	–	(633)	–	–	–	–	3,155	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	(4,764)
寧波中興興通供應鏈有限公司*	11,205	–	(12,402)	1,197	–	–	–	–	–	–
寧波中興雲祥科技有限公司*	–	–	–	–	–	–	–	–	–	
江蘇中興微通信息科技有限公司*	–	–	–	–	–	–	–	–	–	–
上海中興思秸通訊有限公司	8,055	–	–	(3,876)	–	–	–	–	4,179	–
中興耀維科技江蘇有限公司	4,220	–	–	(386)	–	–	–	–	3,834	–
石家莊市善理通益科技有限公司*	692	–	(1,500)	808	–	–	–	–	–	–
中興智慧成都有限公司	11,181	–	–	(1,504)	–	–	–	–	9,677	–
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	7,189	–	–	–	(413)	–	–	–	6,776	–
廈門智慧小區網絡科技有限公司	5,844	–	–	(853)	–	–	–	–	4,991	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited*	2,645	–	(2,645)	–	–	–	–	–	–	–
中山優順置業有限公司	2,000	–	–	–	–	–	–	–	2,000	–
鐵建聯和(北京)科技有限公司	2,446	–	–	(610)	–	–	–	–	1,836	–
西安城投智慧充電股份有限公司	6,989	–	–	301	–	–	–	–	7,290	–
紹興市智慧城市集團有限公司	4,570	–	–	(905)	–	–	–	–	3,665	–
廣東福能大數據產業園建設有限公司	3,000	10,500	–	(357)	–	–	–	–	13,143	–
廣東中興城智信息技術有限公司	3,510	–	–	882	–	–	–	–	4,392	–
前海融資租賃股份有限公司	64,127	–	–	6,739	(4,634)	–	–	–	66,232	–
上海博色信息科技有限公司	20,499	–	–	410	–	–	–	–	20,909	–
New Idea Investment Pte. Ltd	–	14,042	–	–	(828)	–	–	–	13,214	–
中興智能科技產業有限公司	–	38,000	–	(752)	–	–	–	–	37,248	–
南京寧網科技有限公司	2,981	–	–	479	–	–	–	–	3,460	–
Hengyang ICT Real Estate Co., Ltd.	–	56,442	–	(359)	–	–	–	–	56,083	–
貴州中安雲網科技有限公司	–	2,850	–	(187)	–	–	–	–	2,663	–
陝西高能裝備與智能製造產業研究院有限公司	–	2,000	–	2	–	–	–	–	2,002	–
Laxense, Inc.	–	15,331	–	(594)	(306)	–	–	–	14,431	–
中教雲通(北京)科技有限公司	–	2,800	–	–	–	–	–	–	2,800	–
Kron Telekomunikasyon Hizmetleri A.S.	–	9,408	–	2,161	(155)	–	–	–	11,414	–
山東興濟置業有限公司	–	1,186	–	(117)	–	–	–	–	1,069	–
ZTE 9 (Wuxi) Co., Ltd	–	18,000	–	(2,056)	–	–	–	–	15,944	–
Nubia Technology Limited	–	3,233,519	–	(150,019)	–	–	–	–	3,083,500	–
Huanggang Education Valley Investment Holdings Co., Ltd.	–	13,110	–	(519)	–	–	–	–	12,591	–
	601,554	3,417,188	(16,547)	(126,824)	(7,118)	–	–	–	3,868,253	(4,764)

* 寧波中興興通供應鏈有限公司, 寧波中興雲祥科技有限公司, 江蘇中興微通資訊科技有限公司, 石家莊市善理通益科技有限公司 and Shenzhen Weipin Zhiyuan Information Technology Company Limited 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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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Long-term equity investments (continued)

2016

(1) Jointly-venture 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	–

(2) Associates

	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		
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 Limited	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 Investment 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)	–	–	–	–	–	–	–
寧波中興興通供應鏈有限公司	11,752	–	–	(547)	–	–	–	–	11,205	–
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	–
西安城投智能充電股份有限公司	–	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)

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Investment Properties

Fair value measurement:

2017

	Buildings
Opening balance	**2,016,470**
Fair value change (Note V.44)	**7,339**
Closing balance	**2,023,809**

2016

	Buildings
Opening balance	2,010,396
Fair value change (Note V.44)	6,074
Closing balance	2,016,470

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 2017, investment properties with a carrying value of RMB1,432,307,000 (31 December 2016: RMB1,428,829,000) 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

2017

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	5,809,786	49,560	4,375,740	3,132,567	316,818	418,442	14,102,913
Acquisitions	78,488	–	1,129,328	578,634	32,403	35,661	1,854,514
Transfer from construction in-progress	882,802	–	–	38,929	–	152,003	1,073,734
Business combination not under common control	–	–	–	26,319	20	41,330	67,669
Disposal or retirement	(345,186)	–	(569,142)	(323,271)	(39,608)	(78,877)	(1,356,084)
Exchange rate adjustments	(13,960)	(3,462)	(19,708)	2,159	(4,613)	(4,725)	(44,309)
Closing balance	6,411,930	46,098	4,916,218	3,455,337	305,020	563,834	15,698,437
Accumulated depreciation							
Opening balance	1,356,668	–	3,138,058	1,657,634	169,640	214,215	6,536,215
Provision	229,460	–	536,135	292,152	29,770	111,531	1,199,048
Disposed or retirement	(84,302)	–	(422,776)	(200,774)	(31,258)	(21,431)	(760,541)
Exchange rate adjustments	(5,420)	–	(18,850)	(1,448)	(1,676)	(3,747)	(31,141)
Closing balance	1,496,406	–	3,232,567	1,747,564	166,476	300,568	6,943,581
Provision for impairment							
Opening balance	21,378	–	24,318	2,329	–	2,432	50,457
Provision	–	–	77	12,309	4,094	27	16,507
Disposal or retirement	–	–	(2,814)	(2,139)	–	(7)	(4,960)
Exchange rate adjustments	(108)	–	(1,236)	(130)	–	(130)	(1,604)
Closing balance	21,270	–	20,345	12,369	4,094	2,322	60,400
Net book value							
At the end of the year	4,894,254	46,098	1,663,306	1,695,404	134,450	260,944	8,694,456
At the beginning of the year	4,431,740	49,560	1,213,364	1,472,604	147,178	201,795	7,516,241

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed Assets (continued)

2016

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	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

As at 31 December 2017, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing and Heyuan in China with a net book value of approximately RMB2,977,326,000 (31 December 2016: RMB2,617,157,000).

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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 2017 as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Other reductions	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Staff quarters	1,017,932	443,373	320,298	–	–	763,671	Internal funds	75.02%	In progress
Sanya R&D Base Project	119,100	82,473	22,895	–	–	105,368	Internal funds	88.47%	In progress
Heyuan R&D training Center Phase I	1,030,000	649,276	304,692	882,802	–	71,166	Internal funds	92.62%	In progress
Nanjing project	978,070	55,708	77,638	–	–	133,346	Internal funds	13.63%	In progress
IDC data centre engine room	85,000	17,450	21,479	38,929	–	–	Internal funds	100.00%	Completed
Nanjing Internet of Things office	175,000	126,094	20,155	–	146,249*	–	Internal funds	83.57%	In progress
Changsha production R&D Base Phase I	230,020	139,566	21,301	–	–	160,867	Internal funds	69.94%	In progress
New energy commercial vehicle production base	892,530	–	90,412	–	–	90,412	Internal funds	10.13%	In progress
Others		215,510	84,649	152,003	–	148,156	Internal funds		In progress
		1,729,450	963,519	1,073,734	146,249	1,472,986			

* The project in progress was located at Nubia Technology Limited ("Nubia"), which had ceased to be included in the consolidated statements as from 17 August 2017.

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 fund	60.68%	
Others		107,866	111,811	4,167	–	215,510	Internal funds		In progress
		643,789	1,147,822	62,161	–	1,729,450			

As at 31 December 2017, there was no capitalized interest in the balance of the construction in progress (31 December 2016: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Intangible assets

2017

	Software	Technology know-how	Land use right	Franchise	Development expenses	Total
Cost						
Opening balance	452,728	177,606	1,425,581	523,599	6,765,449	9,344,963
Acquisition	207,032	95,512	79,684	140,932	–	523,160
In-house R&D	–	–	–	–	1,079,364	1,079,364
Business combination not under common control	65,796	92,228	–	297,769	–	455,793
Disposal or retirement	(104,450)	(178,715)	(43,207)	(11,485)	–	(337,857)
Closing balance	621,106	186,631	1,462,058	950,815	7,844,813	11,065,423
Accumulated amortization						
Opening balance	152,733	39,018	153,700	392,683	4,246,411	4,984,545
Provision	96,646	50,060	27,993	82,850	1,146,542	1,404,091
Disposal or retirement	(55,125)	(15,380)	(6,607)	(6,048)	–	(83,160)
Closing balance	194,254	73,698	175,086	469,485	5,392,953	6,305,476
Provision for impairment						
Opening balance	–	–	6,322	–	–	6,322
Provision	12,010	–	–	–	–	12,010
Closing balance	12,010	–	6,322	–	–	18,332
Book value						
At the end of the year	414,842	112,933	1,280,650	481,330	2,451,860	4,741,615
At the beginning of the year	299,995	138,588	1,265,559	130,916	2,519,038	4,354,096

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)

As at 31 December 2017, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Nanjing and Wuzhou in the PRC, with a net carrying value of approximately RMB284,638,000 (31 December 2016: RMB340,485,000).

As at 31 December 2017, intangible assets formed through internal research and development accounted for 52% of the book value of intangible assets as at the end of the year (31 December 2016: 58%).

16. Development expenses

2017

		Increase during the year	Decrease during the year		
	Opening balance	Internal development	Intangible assets recognized	Charged to current profit or loss	Closing balance
Handsets	**49,541**	**15,495**	**(26,859)**	**(8,695)**	**29,482**
System Products	**1,316,349**	**1,628,371**	**(1,052,505)**	**(19,620)**	**1,872,595**
	1,365,890	**1,643,866**	**(1,079,364)**	**(28,315)**	**1,902,077**

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

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

2017

	Opening balance	Consolidation of enterprise not under common control added during the year	Reduced/ disposed of during the year	Closing balance
Zhuhai Guangtong Bus Co., Ltd.	**186,206**	**–**	**–**	**186,206**
Suzhou Laxense Technology Co., Ltd.	**–**	**33,500**	**–**	**33,500**
NETAS TELEKOMUNIKASYON A.S.	**–**	**89,100**	**–**	**89,100**
Total	**186,206**	**122,600**	**–**	**308,806**

2016

	Opening balance	Consolidation of enterprise not under common control added during the year	Reduced/ disposed of durin the year	Closing balance
Zhuhai Guangtong Bus Co., Ltd.	–	186,206	–	186,206

The acquisition of Suzhou Laxense Technology Co., Ltd. by the Group in June 2017 and the acquisition of NETAS TELEKOMUNIKASYON A.S. by ZTE COOPERATIEF UA ("ZTE COOPERATIEF"), a wholly-owned subsidiary of ZTE, in July 2017 resulted in goodwill of RMB33,500,000 and RMB89,100,000, respectively. For details 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 rates applied to the cash flow projections for Zhuhai Guangtong Bus Co., Ltd. and Suzhou Laxense Technology Co., Ltd. are 14% and 17%, respectively. Cash flow figures 5 years from now for both companies are arrived at assuming a growth rate of 3%, which is lower than the long-term average growth rate of the industry.

As Netas was a listed company in Turkey, the Group conducted impairment test on the basis of its closing share price for the year.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Goodwill (continued)

2016 (continued)

Assumptions were used in the value in use calculation of related industrial products cash-generating units for 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

The values assigned to the key assumptions on market development of related industrial products industries and discount rates are consistent with external information sources.

18. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities, which are not offset:

	2017		2016	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealized profits arising on consolidation	**1,080,146**	**229,328**	1,146,827	243,430
Provision for impairment in inventory	**841,085**	**157,667**	711,115	129,003
Foreseeable contract losses	**458,712**	**68,807**	969,663	145,450
Amortization of deferred development costs	**2,061,240**	**233,972**	1,740,926	194,724
Provision for warranties and returned goods	**365,016**	**56,660**	681,945	109,834
Provision for retirement benefits	**142,707**	**22,358**	151,680	23,695
Deductible tax losses	**1,978,195**	**300,540**	123,958	25,689
Accruals	**2,958,511**	**414,825**	5,162,796	746,086
Overseas taxes pending deduction	**966,051**	**144,908**	1,045,418	156,813
Share option scheme expenses	**203,901**	**30,585**	25,393	3,809
	11,055,564	**1,659,650**	11,759,721	1,778,533

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Deferred tax assets/liabilities (continued)

	2017		2016	
	Taxable temporary differences	**Deferred tax liabilities**	Taxable temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	**1,081,607**	**162,662**	1,074,268	161,600
Available-for-sale financial assets	**689,671**	**135,763**	530,685	104,363
Adjustments to fair value of business combination not under common control	**391,265**	**78,253**	—	—
Adjustments to fair value of disposal of remaining equity interests of subsidiaries	**869,420**	**130,413**	—	—
Others	**176,269**	**26,440**	41,451	6,375
	3,208,232	**533,531**	1,646,404	272,338

The net amount of deferred tax assets and deferred tax liabilities after set-off:

	2017		2016	
	Amount of set-off	**Amount after set-off**	Amount of set-off	Amount after set-off
Deferred tax assets	**195,400**	**1,464,250**	173,958	1,604,575
Deferred tax liabilities	**195,400**	**338,131**	173,958	98,380

Deductible temporary differences and deductible tax losses of unrecognized deferred tax assets:

	2017	2016
Deductible tax losses	**3,634,930**	2,969,140
Deductible temporary difference	**474,283**	3,182,338
	4,109,213	6,151,478

Deductible tax losses of unrecognized deferred tax assets expiring in the following periods:

	2017	2016
2017	**—**	234,993
2018	**100,239**	149,209
2019	**145,954**	146,448
2020	**369,664**	268,647
2021	**640,071**	450,941
After 2022	**2,379,002**	1,718,902
	3,634,930	2,969,140

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Deferred tax assets/liabilities (continued)

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.

19. Provision for impairment of assets

2017

			Decrease during the year			
	Opening balance	**Provision for the year**	**Write-back**	**Write-off**	**Effect of exchange rate**	**Closing balance**
Bad debt provision	**7,786,893**	**2,572,475**	**(350,379)**	**(781,951)**	**(51,693)**	**9,175,345**
Including: Trade receivables	**7,702,936**	**2,569,898**	**(349,896)**	**(725,483)**	**(54,405)**	**9,143,050**
Long-term receivables	**83,957**	**2,577**	**(483)**	**(56,468)**	**2,712**	**32,295**
Provision for impairment of inventories	**3,121,897**	**328,972**	**(198,136)**	**(748,902)**	**(14,283)**	**2,489,548**
Provision for impairment of amount due from customers for contract works	**66,326**	**63,092**	**(8,846)**	**(1,421)**	**(140)**	**119,011**
Provision for impairment of fixed assets	**50,457**	**16,507**	**—**	**(4,960)**	**(1,604)**	**60,400**
Provision for impairment of intangible assets	**6,322**	**12,010**	**—**	**—**	**—**	**18,332**
Provision for impairment of long-term equity investments	**4,764**	**—**	**—**	**—**	**—**	**4,764**
Provision for impairment of available-for-sale financial assets	**—**	**97,913**	**—**	**—**	**—**	**97,913**
	11,036,659	**3,090,969**	**(557,361)**	**(1,537,234)**	**(67,720)**	**11,965,313**

2016

			Decrease during the year			
	Opening balance	Provision for the 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)

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.

20. Other current assets

	2017	2016
Credit tax available for set-off	**7,566,610**	7,585,904
Others	**191,984**	291,970
	7,758,594	7,877,874

Other non-current assets

	2017	2016
Prepayments for project, equipment and land	**2,325,831**	323,088
Risk compensation fund	**1,462,286**	3,258,533
Others	**305,496**	305,496
	4,093,613	3,887,117

21. Short-term loans

		2017		2016		
		Original currency	**RMB equivalent**	Original currency	RMB equivalent	
Credit loans	RMB	**4,368,200**	**4,368,200**	6,289,018	6,289,018	
	USD	**1,091,567**	**7,130,661**	958,023	6,640,055	
	EUR	**253,000**	**1,971,528**	238,000	1,742,874	
	TRY	**207,390**	**359,177**	—	—	
Pledged loans	USD	**2,000**	**13,065**	3,000	20,793	Note 1
Guaranteed loans	USD	**2,940**	**19,206**	—	—	Note 2
	EUR	**110,000**	**857,186**	60,000	439,380	Note 2
			14,719,023		15,132,120	

As at 31 December 2017, the annual interest rate of the above loans ranged from 1.00%-15.70% (31 December 2016: 1.20%-5.66%).

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21. Short-term loans (continued)

Note 1: Pledged loans were loans secured by time deposits with an amount of RMB16,450,000 (31 December 2016: RMB24,620,000).

Note 2: The loan represents a short-term loan guaranteed by way of a guarantee letter and a short-term loan extended to ZTE COOPERATIEF and guaranteed by ZTE.

There were no due and outstanding loans at 31 December 2017 (31 December 2016: Nil).

22. Derivative financial liabilities

	2017	2016
Financial liabilities at fair value through current profit and loss	**49,830**	36,104
Hedging instruments — current portion	**—**	4,044
	49,830	40,148

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.58.

23. Bills payable

	2017	2016
Bank acceptance bills	**4,518,323**	6,186,513
Commercial acceptance bills	**6,330,188**	5,503,444
	10,848,511	11,689,957

As at 31 December 2017, there was no due and outstanding bills payable (31 December 2016: Nil).

24. Trade payables

An aging analysis of the trade payables are as follows:

	2017	2016
0 to 6 months	**22,991,445**	24,543,951
7 to 12 months	**272,723**	207,469
1 to 2 years	**252,918**	375,429
2 to 3 years	**66,953**	90,453
Over 3 years	**30,517**	26,579
	23,614,556	25,243,881

Trade payables are interest-free and repayable normally within 6 months.

As at 31 December 2017, there were no material trade payables aged over 1 year (31 December 2016: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Advances from customers

	2017	2016
Advanced payments for system project work	**7,675,492**	6,512,111
Advanced payments for terminals	**1,026,859**	1,580,053
	8,702,351	8,092,164

26. Salary and welfare payables

Salaries payable to employees

2017

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Short-term remuneration	**5,007,924**	**21,110,475**	**(18,939,720)**	**7,178,679**
Retirement benefits (Defined contribution schemes)	**156,765**	**1,206,352**	**(1,162,479)**	**200,638**
Termination benefits	**4,362**	**270,162**	**(264,297)**	**10,227**
	5,169,051	**22,586,989**	**(20,366,496)**	**7,389,544**

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

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables (continued)

Salaries payable to employees (continued)

Short-term remuneration analysed as follows:

2017

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Salary, bonus and allowance	**3,889,284**	**19,236,815**	**(17,050,654)**	**6,075,445**
Staff welfare	**5,938**	**64,512**	**(58,384)**	**12,066**
Social insurance	**68,267**	**710,194**	**(689,716)**	**88,745**
Including: Medical	**60,861**	**646,716**	**(628,616)**	**78,961**
Work Injuries	**2,896**	**22,845**	**(22,003)**	**3,738**
Maternity	**4,510**	**40,633**	**(39,097)**	**6,046**
Housing funds	**21,931**	**557,350**	**(517,603)**	**61,678**
Labour union fund and employee education fund	**1,022,504**	**541,604**	**(623,363)**	**940,745**
	5,007,924	**21,110,475**	**(18,939,720)**	**7,178,679**

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	58,135	502,133	(499,407)	60,861
Work Injuries	2,781	17,363	(17,248)	2,896
Maternity	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

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables (continued)

Salaries payable to employees (continued)

Defined contribution plans are analysed as follows:

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension Insurance	**149,293**	**1,170,882**	**(1,128,358)**	**191,817**
Unemployment Insurance	**7,472**	**35,470**	**(34,121)**	**8,821**
	156,765	**1,206,352**	**(1,162,479)**	**200,638**

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

Long-term staff remuneration payable

	2017	2016
Net liabilities under defined benefit plan	**133,191**	146,106

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 韜睿惠悅管理諮詢(深圳)有限公司 using the expected benefit accrual unit approach at 31 December 2017.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables (continued)

Long-term staff remuneration payable (continued)

Major actuarial assumptions applied as at the balance sheet date are as follows:

	2017	2016
Discount rate %	**4.00%**	3.25%
Expected salary increase %	**5.50%**	5.50%

A quantitative sensitivity analysis of significant assumptions applied is set out as follows:

2017

	Increase	**Increase/ (decrease) in Obligations under defined benefit plan RMB'000**	**Decrease**	**Increase/ (decrease) in Obligations under defined benefit plan RMB'000**
Discount rate	**0.25%**	**(3,119)**	**0.25%**	**3,219**
Expected salary increase	**1.00%**	**13,319**	**1.00%**	**(11,987)**

2016

	Increase	Increase/ (decrease) in Obligations under defined benefit plan RMB'000	Decrease	Increase/ (decrease) in Obligations under defined benefit plan RMB'000
Discount rate	0.25%	(3,812)	0.25%	3,944
Expected salary increase	1.00%	18,994	1.00%	(16,072)

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)

26. Salary and welfare payables (continued)

Long-term staff remuneration payable (continued)

2016 (continued)

Relevant plans recognised in the income statement are as follows:

	2017 RMB'000	2016 RMB'000
Net interest	**4,673**	4,599
Charged to administrative expenses	**4,673**	4,599

Change in the present value of obligations under defined benefit plan:

	2017 RMB'000	2016 RMB'000
Opening balance	**146,106**	144,280
Charged to current profit or loss		
Service costs for the current period	**—**	—
Service costs for the previous period	**—**	—
Settlement gains	**—**	—
Interest expenses	**4,673**	4,599
Charged to other comprehensive income		
Actuary gains	**—**	—
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	**(2,016)**	(2,030)
Benefit costs recognized in other comprehensive income	**(15,572)**	(743)
Closing balance	**133,191**	146,106

Net liabilities under defined benefit plan

	2017	2016
Opening balance	**146,106**	144,280
Net interest	**4,673**	4,599
Charged to other comprehensive income		
Actuary loss	**(8,686)**	—
Experience-based adjustments	**(6,886)**	(743)
Other changes		
Benefit paid	**(2,016)**	(2,030)
Closing balance	**133,191**	146,106

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Tax payable

	2017	2016
Value-added tax	**314,818**	232,729
Income tax	**583,091**	524,762
Including: PRC tax	**499,345**	444,792
Overseas tax	**83,746**	79,970
Individual income tax	**172,682**	176,094
City maintenance and construction tax	**80,441**	26,542
Education surcharge	**63,717**	27,029
Other taxes	**48,974**	10,033
	1,263,723	997,189

28. Dividend payable

	2017	2016
Dividend payable to holders of restricted shares	**225**	225
Dividend payable to minority shareholders	**1,097**	50,092
	1,322	50,317

29. Other payables

	2017	2016
Accruals	**826,380**	891,034
Deferred income from staff housing due in 1 year	**39,651**	270,762
Payables to external parties	**5,356,366**	10,473,391
Payable to Relevant U.S. Authorities	**433,075**	6,182,452
Deposits	**27,887**	33,273
Factored interests payable	**28,460**	33,862
Others	**791,355**	1,958,096
	7,070,099	13,660,418

30. Provisions

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Outstanding litigation (Note 1)	**133,262**	**17,159**	**(44,128)**	**106,293**
Provision for returned handsets	**367,056**	**129,753**	**(320,781)**	**176,028**
Provision for warranties	**387,048**	**397,679**	**(533,922)**	**250,805**
	887,366	**544,591**	**(898,831)**	**533,126**

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

30. Provisions (continued)

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

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.

31. Non-current liabilities due within one year

	2017	2016
Long-term loans due within one year	**3,816,844**	1,932,025

32. Long-term loans

		2017		2016		
		Original currency		Original currency		
Credit loans	RMB	**751,123**	**751,123**	585,298	585,298	
	USD	**250,000**	**1,633,125**	—	—	
	TRY	**24,044**	**41,642**	—	—	
Guaranteed loans	RMB	**183,306**	**183,306**	90,444	90,444	Note 1
	USD	**60,000**	**391,950**	506,277	3,509,004	Note 1
	EUR	**—**	**—**	110,000	805,530	
Secured loans	RMB	**1,000**	**1,000**	28,000	28,000	Note 2
			3,002,146		5,018,276	

Note 1: The guaranteed loans comprised mainly guaranteed loans provided by ZTE Corporation for its subsidiaries ZTE (H.K.) Limited and ZTE (Heyuan) Company Limited and guaranteed loans provided by 中興新能源汽車有限公司 for 深圳市中興新能源汽車服務有限公司.

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 RMB26,393,000 and RMB53,294,000, respectively.

As at 31 December 2017, the annual interest rate for the aforesaid loans was 1.200%-16.750% (31 December 2016: 1.200%-5.225%).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33. Other non-current liabilities

	2017	2016
Factored interests payable	**98,187**	166,526
Deferred income relating to staff housing	**1,077,256**	1,104,242
Long-term payable	**394,226**	293,223
Amounts payable to third parties	**1,771,000**	—
	3,340,669	1,563,991

34. Share capital

2017

		Increase/decrease during the year				
	Opening balance	**Issue of new shares**	**Transfer from reserves**	**Others**	**Sub-total**	**Closing balance**
Restricted shares						
Senior management shares	**4,821**	**276**	**—**	**(1,912)**	**(1,636)**	**3,185**
Total number of restricted shares	**4,821**	**276**	**—**	**(1,912)**	**(1,636)**	**3,185**
Unrestricted shares						
RMB Ordinary shares	**3,424,305**	**7,768**	**—**	**1,912**	**9,680**	**3,433,985**
Overseas listed foreign shares	**755,502**	**—**	**—**	**—**	**—**	**755,502**
Total number of unrestricted shares	**4,179,807**	**7,768**	**—**	**1,912**	**9,680**	**4,189,487**
Total number of shares	**4,184,628**	**8,044**	**—**	**—**	**8,044**	**4,192,672**

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

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Capital reserves

2017

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Share premium (Note 1)	**10,628,906**	**350,345**	**—**	**10,979,251**
Share-based payment (Note 2)	**25,394**	**262,956**	**(42,747)**	**245,603**
Capital investment by government	**80,000**	**—**	**—**	**80,000**
	10,734,300	**613,301**	**(42,747)**	**11,304,854**

2016

	Opening balance	Increase/ (write-back) during the year	Decrease during the year	Closing balance
Share premium	10,165,614	463,292	—	10,628,906
Share-based payment	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

Note 1: The exercise of share options during the second exercise period under the share option scheme gave rise to share premium in capital reserve of RMB122,942,000, while the acquisition of minority interests in subsidiaries gave rise to share premium in capital reserve of RMB227,403,000.

Note 2: In July 2017, the Company issued new share options and recognised share-based payment expenses of RMB262,956,000. At the same time, as the second exercise period of share options granted in 2013 fell on 2017, RMB42,747,000 was credited to share premium in capital reserve 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)

36. Other comprehensive income

Accumulated balance of other comprehensive income on the balance sheet attributable to the parent company:

	1 January 2016	Increase/ decrease	31 December 2016	Increase/ decrease	**31 December 2017**
Changes in net liabilities arising from the re-measurement of defined benefit plans	(81,516)	743	(80,773)	15,572	**(65,201)**
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	284,780	58,780	343,560	94,575	**438,135**
Effective portion of hedging instruments	1,392	(57,047)	(55,655)	(12,327)	**(67,982)**
Differences arising from foreign currency translation	(1,726,842)	(140,133)	(1,866,975)	1,134	**(1,865,841)**
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**
	(685,067)	(137,657)	(822,724)	98,954	**(723,770)**

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Other comprehensive income (continued)

Other comprehensive income on the income statement incurred during the current period:

2017

	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	15,572	–	–	15,572	–
Other comprehensive income to be subsequently reclassified to profit or loss					
Change in fair value of available-for-sale financial assets	701,594	356,735	30,671	94,575	219,613
Effective portion of hedging instruments	(12,327)	–	–	(12,327)	–
Differences arising from foreign currency translation	1,134	–	–	1,134	–
	705,973	356,735	30,671	98,954	219,613

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. Surplus reserves

2017

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	2,022,709	182,727	—	2,205,436

2016

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	2,022,709	—	—	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.

38. Retained profits

	2017	2016
Retained profits at the beginning of the year	10,282,238	13,678,222
Net profit/(loss) attributable to shareholders of the parent	4,568,172	(2,357,418)
Less: Statutory surplus reserves	(182,727)	—
Distribution to shareholders	—	(1,038,566)
Retained profits at the end of the year	14,667,683	10,282,238

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)

39. 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.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Other equity instruments (continued)

(1) General information of Medium Term Notes outstanding as at the end of the period (continued)

The Company issued the 2015 Tranche 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.

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 RMB'000	Issue date	Volume (10,000)	Issue amount RMB'000	Opening balance RMB'000	Interest charged for the year RMB'000	Interest payment during the year RMB'000	Closing balance RMB'000
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

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Operating revenue and costs

	2017		2016	
	Revenue	**Cost**	Revenue	Cost
Principal business	**105,927,998**	**72,391,897**	96,278,106	66,058,560
Other business	**2,887,275**	**2,613,921**	4,955,076	4,042,098
	108,815,273	**75,005,818**	101,233,182	70,100,658

Operating revenue is analysed as follows:

	2017	2016
Telecommunications systems contracts	**71,172,810**	63,483,211
Sales of goods and rendering of services	**37,509,798**	37,619,825
Rental income	**132,665**	130,146
	108,815,273	101,233,182

41. Taxes and surcharges

	2017	2016
Business tax	**–**	103,567
City maintenance and construction tax	**335,001**	300,788
Education surcharge	**259,480**	237,171
Property tax	**64,583**	52,156
Land use tax	**21,369**	19,964
Vehicle and vessel tax	**403**	417
Stamp duty	**85,517**	64,432
Others	**175,766**	89,713
	942,119	868,208

42. Selling and distribution costs

	2017	2016
Wages, welfare and bonuses	**5,657,286**	4,991,180
Consulting and services charges	**1,124,688**	1,283,163
Travelling expenses	**1,135,059**	1,205,635
Transportation and fuel charges	**688,389**	574,042
Service fees	**594,904**	653,917
Office expense	**294,494**	339,375
Advertising and promotion expenses	**1,411,784**	2,190,750
Rental fees	**568,904**	506,699
Communication expenses	**106,244**	122,186
Others	**522,603**	591,205
	12,104,355	12,458,152

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43. Administrative expenses

	2017	2016
Wages, welfare and bonuses	**1,777,549**	1,381,394
Office expenses	**142,046**	118,748
Amortization and depreciation charges	**267,861**	267,223
Taxes	**—**	55,977
Rental fees	**123,261**	154,161
Travelling expenses	**105,673**	102,045
Others	**640,818**	408,370
	3,057,208	2,487,918

44. Profits/(losses) from changes in fair values

	2017	2016
Financial assets/liabilities at fair value through profit or loss	**50,962**	23,904
Including: Derivative financial instruments	**50,962**	23,904
Investment properties at fair value	**7,339**	6,074
	58,301	29,978

45. Investment income

	2017	2016
Investment (loss)/income from long-term equity investment under equity method	**(128,201)**	45,166
Investment income from available-for-sale financial assets during the period of holding	**32,318**	29,991
Investment loss arising from the disposal of financial assets at fair value through profit or loss	**(137,534)**	(139,152)
Investment income from the disposal of available-for-sale financial assets	**438,454**	553,228
Investment income from the disposal of long-term equity interests	**2,335,291**	1,151,046
	2,540,328	1,640,279

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

46. Financial expenses

	2017	2016
Interest expenses	1,157,659	1,156,134
Less: Interest income	908,082	740,988
Loss/(income) on foreign currency exchange	420,001	(618,972)
Cash discounts and interest subsidy	104,767	159,221
Bank charges	269,137	252,378
	1,043,482	207,773

For 2017, interest income from ZTE Group Finance Company Limited ("Finance Company") amounted to RMB411,891,000 (2016: RMB308,266,000).

47. Impairment Losses

	2017	2016
Bad debt provisions	2,222,096	2,110,620
Inventories provisions	130,836	636,161
Impairment losses on fixed assets	16,507	45,270
Impairment losses on intangible assets	12,010	—
Impairment losses on available-for-sale financial assets	97,913	—
Impairment losses on amount due from customers for contract works	54,246	61,076
	2,533,608	2,853,127

48. (Losses)/Gains from the disposal of assets

	2017	2016
(Losses)/Gains from the disposal of fixed assets	(31,275)	—
	(31,275)	—

49. Other income

Government grants relating to the ordinary course of business are set out as follows:

	2017	2016	Relating to asset/ income
Refund of VAT on software products (Note 1)	2,120,301	—	Relating to income
Others	898,837	—	Relating to income
	3,019,138	—	

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.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50. Non-operating income/non-operating expenses

Non-operating income

	2017	2016	Amount of extraordinary gain/loss recognised for 2017
Refund of VAT on software products (Note 1)	**—**	2,633,583	—
Others (Note 2)	**159,277**	1,727,965	131,194
	159,277	4,361,548	131,194

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" included contract penalty gains and other miscellaneous gains. In accordance with "ASBE No. 16 — Government Grants" implemented with effect from 12 June 2017, government grants relating to day-to-day activities which had been specifically applied to reimburse incurred related costs and expenses or losses of the Company should be set off against related costs and expenses according to the nature of the business activity. Government grants not applied in specific reimbursement shall be recognised in other gains. In accordance with this principle, operating costs of RMB523,199,000 and R&D expenditure of RMB1,684,499,000 were set off, and RMB3,019,138,000 was recognised in other gains in 2017. Government grants not relating to day-to-day activities were recognised as non-operating income. The Company has dealt with government grants subsisting as at 1 January 2017 on a prospective basis. The aforesaid change has had no impact on the non-operating income for the same period last year.

Non-operating expenses

	2017	2016	Amount of extraordinary gain/loss recognised for 2017
Compensation (Note 1)	**83,440**	6,202,434	83,440
Others	**109,843**	92,413	109,843
	193,283	6,294,847	193,283

Note 1: Compensation in 2016 comprised mainly indemnity paid under the U.S. export restriction investigation case.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

51. 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:

	2017	2016
Cost of goods and services	**73,735,995**	66,683,413
Staff remuneration (including share-based payment)	**19,357,511**	17,506,480
Depreciation and amortization	**2,603,222**	2,466,508
Rent	**692,165**	660,860
Others	**6,740,733**	10,491,522
	103,129,626	97,808,783

52. Income tax

	2017	2016
Current income tax	**1,062,159**	782,877
Deferred income tax	**270,423**	(142,759)
	1,332,582	640,118

Reconciliation between income tax and total profit was as follows:

	2017	2016
Total profit	**6,718,924**	(767,751)
Tax at statutory tax rate (Note 1)	**1,679,731**	(191,938)
Effect of different tax rates applicable to certain subsidiaries	**(721,458)**	377,279
Adjustment to current tax in previous periods	**22,612**	39,648
Profits and losses attributable to jointly-controlled entities and associates	**12,716**	(7,689)
Income not subject to tax	**(101,123)**	(378,418)
Expenses not deductible for tax	**242,954**	219,290
Unrecognised deductible temporary differences	**71,142**	477,350
Utilization of tax losses from previous years	**(30,517)**	(132,878)
Unrecognized tax losses	**156,525**	237,474
Tax charge at the Group's effective rate	**1,332,582**	640,118

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits and applicable tax rates arising in the PRC. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

53. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to holder of ordinary shares of the Company for the period by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the period is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognized as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current period, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

Calculations of basic and diluted earnings per shares were as follows:

	2017	2016
Earnings		
Net profit/(loss) attributable to ordinary shareholders of the Company for the year	**4,568,172**	(2,357,418)
Shares		
Weighted average number of ordinary shares of the Company (Note 1)	**4,189,228**	4,159,663
Diluting effect — weighted average number of ordinary shares Stock option (Note 2)	**30,243**	—
Adjusted weighted average number of ordinary shares of the Company	**4,219,471**	4,159,663

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. Commencing on 1 November 2016, 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 second exercise period. During 2017, 8,044,000 new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 4,600,000 after taking into account the duration of time for such shares had been issued and outstanding.

The calculation of the diluted earnings/(losses) 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 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.

Note 2: During the reporting period, the share options granted by the Company gave rise to 30,243,000 potentially dilutive ordinary shares.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Notes to major items in cash flow statement

	2017	2016
Cash received in connection with other operating activities:		
Interest income	**907,786**	736,638
Cash paid in connection with other operating activities:		
Selling and distribution costs	**5,766,678**	6,720,176
Administrative expenses and research and development costs	**2,498,157**	2,366,343
Cash received in connection with other investing activities		
Amounts relating to cooperation with Vanke received	**1,771,000**	—
Cash paid in connection with investing activities:		
Cash outflow from disposal of subsidiaries	**647,838**	—

55. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	2017	2016
Net profit/(loss)	**5,386,342**	(1,407,869)
Add: Provision for impairment of assets	**2,533,608**	2,853,127
Depreciation of fixed assets	**1,199,048**	1,249,219
Amortization of intangible assets and deferred development costs	**1,404,091**	1,181,148
Amortization of long-term deferred assets	**83**	36,141
Loss on disposal of fixed assets, intangible assets and other long-term assets	**80,492**	22,514
(Gain)/loss from changes in fair value	**(58,301)**	(29,978)
Financial expenses	**1,288,560**	1,981,488
Investment income	**(2,540,328)**	(1,640,279)
Decrease/(increase) in deferred tax assets	**118,883**	(170,432)
Increase in deferred tax liabilities	**151,540**	45,611
Decrease/(increase) in inventories	**445,592**	(7,500,775)
Decrease/(increase) in operating receivables	**3,909,420**	(2,209,864)
(Decrease)/increase in operating payables	**(7,759,772)**	11,582,559
Cost of share-based payment	**262,956**	(97,362)
Decrease/(increase) in cash not immediately available for payments	**797,760**	(635,042)
Net cash flow from operating activities	**7,219,974**	5,260,206

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

55. Supplemental information on cash flow statement (continued)

(2) Information on subsidiaries and other business units acquired or disposed of

Information on subsidiaries and other business units acquired

	2017
Prices at which subsidiaries and other business units were acquired	**728,135**
Cash and cash equivalents paid for the acquisition of subsidiaries and other business units	**728,135**
Less: Cash and cash equivalents held by subsidiaries and other business units acquired	**145,479**
Net cash received for the acquisition of subsidiaries and other business units	**582,656**

Information on subsidiaries and other business units disposed of

	2017
Prices at which subsidiaries and other business units were disposed of	**842,746**
Cash and cash equivalents received for the disposal of subsidiaries and other business units	**842,746**
Less: Cash and cash equivalents held by subsidiaries and other business units disposed of	**(1,490,584)**
Net cash received for the disposal of subsidiaries and other business units	**(647,838)**

(3) Change in cash and cash equivalents:

	2017	2016
Cash		
Including: Cash on hand	**12,065**	25,287
Bank deposit readily available	**30,097,204**	30,024,504
Cash and cash equivalents at end of year	**30,109,269**	30,049,791

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

56. Assets under restrictions on ownership or right of use

	2017	2016	
Cash	**3,066,199**	1,238,540	Note 1
Fixed assets	**53,294**	55,227	Note 2
Intangible assets	**26,393**	27,071	Note 3
	3,145,886	1,320,838	

Note 1: As at 31 December 2017, the Group's cash subject to ownership restriction amounted to RMB3,066,199,000 (31 December 2016: RMB1,238,540,000), including time deposits of RMB16,450,000 (31 December 2016: RMB24,620,000) pledged to secure bank borrowings, acceptance bill deposits of RMB48,155,000 (31 December 2016: RMB37,096,000), letter of credit deposits of RMB36,325,000 (31 December 2016: RMB143,972,000), deposit for guarantee letter of RMB389,398,000 (31 December 2016: RMB101,100,000), dues from the People's Bank of China of RMB852,644,000 (31 December 2016: RMB826,211,000), technology grants of RMB1,506,213,000 (31 December 2016: Nil) and risk compensation fund to be released within one year of RMB217,014,000 (31 December 2016: RMB105,541,000).

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 2017, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB1,679,300,000 (31 December 2016: RMB3,364,074,000). Risk compensation fund to be released within one year amounting to RMB217,014,000 (31 December 2016: RMB105,541,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB1,462,286,000 (31 December 2016: RMB3,258,533,000) was accounted for as other non-current assets.

Note 2: As at 31 December 2017, fixed assets with a carrying value of RMB53,294,000 (31 December 2016: 55,227,000) were pledged to secure bank borrowing.

Note 3: As at 31 December 2017, intangible assets with a carrying value of RMB26,393,000 (31 December 2016: RMB27,071,000) were pledged to secure bank borrowings.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

57. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		2017			2016		
		Original currency	**Exchange rate**	**RMB Equivalent**	Original currency	Exchange rate	RMB Equivalent
Cash	USD	**1,331**	**6.5325**	**8,697**	1,536	6.9310	10,646
	SAR	**10**	**1.7420**	**18**	84	1.8483	155
	DZD	**1,986**	**0.0569**	**113**	1,088	0.0625	68
	THB	**–**	**0.2000**	**–**	10	0.1935	2
	EGP	**90**	**0.3671**	**33**	423	0.3803	161
Bank deposit	USD	**791,868**	**6.5325**	**5,172,878**	833,555	6.9310	5,777,370
	HKD	**43,504**	**0.8347**	**36,313**	155,167	0.8957	138,983
	BRL	**39,642**	**1.9749**	**78,289**	39,964	2.1269	84,999
	PKR	**596,943**	**0.0592**	**35,339**	1,972,163	0.0661	130,360
	EGP	**41,425**	**0.3671**	**15,207**	10,823	0.3803	4,116
	IDR	**732,794,000**	**0.0005**	**366,397**	320,140,000	0.0005	160,070
	EUR	**197,780**	**7.7926**	**1,541,220**	111,425	7.3230	815,965
	DZD	**1,244,991**	**0.0569**	**70,840**	429,616	0.0625	26,851
	MYR	**56,845**	**1.6082**	**91,418**	108,757	1.5450	168,030
	ETB	**545,221**	**0.2402**	**130,962**	436,797	0.3094	135,145
	CAD	**17,441**	**5.2073**	**90,822**	9,928	5.1620	51,248
	GBP	**3,488**	**8.7665**	**30,575**	2,579	8.5326	22,006
	THB	**566,625**	**0.2000**	**113,325**	550,186	0.1935	106,461
	RUB	**269,436**	**0.1134**	**30,554**	1,124,821	0.1143	128,567
	JPY	**2,369,845**	**0.0579**	**137,214**	1,915,920	0.0598	114,572
	VEF	**11,735,000**	**0.0020**	**23,470**	178,447	0.0103	1,838
	COP	**4,282,273**	**0.0022**	**9,421**	10,942,174	0.0023	25,167
	NPR	**466,056**	**0.0639**	**29,781**	216,505	0.0638	13,813
	CLP	**1,015,566**	**0.0106**	**10,765**	2,504,757	0.0103	25,799
Other cash	USD	**46,629**	**6.5325**	**304,603**	21,041	6.9310	145,835
Trade receivables	USD	**1,242,466**	**6.5325**	**8,116,409**	1,240,600	6.9310	8,598,599
	EUR	**326,339**	**7.7926**	**2,543,029**	356,864	7.3230	2,613,315
	BRL	**55,389**	**1.9749**	**109,388**	155,690	2.1269	331,137
	THB	**1,106,740**	**0.2000**	**221,348**	462,956	0.1935	89,582
	INR	**17,758,358**	**0.1023**	**1,816,680**	28,014,824	0.1020	2,857,512

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.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

58. Hedging

	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
Forward exchange contracts	–	–	862	4,044
Current portion	–	–	862	4,044

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 RMB12,327,000 (2016: RMB60,682,000) was accounted for in other comprehensive income.

VI. CHANGES TO THE SCOPE OF CONSOLIDATION

1 Consolidation of enterprises not under common control

1.1 ZTE COOPERATIEF UA ("ZTE COOPERATIEF"), a subsidiary of the Group, acquired 48.04% equity interests in Netaş for a cash consideration of USD101,280,539 on 28 July 2017.

ZTE Cooperatief has completed a Mandatory Tender Offer in accordance with Turkish laws and regulations. Currently, ZTE Cooperatief paid a total of USD18,380 to acquire 5,781.71 B shares in Netaş, accounting for approximately 0.01% of the total number of shares in issue of Netaş. As at 18 October 2017, ZTE Cooperatief held 23,351,328 A shares and 7,817,023.34 B shares in Netaş, accounting in aggregate for 48.05% of the total number of shares in issue of Netaş.

The fair value of the identifiable assets and liabilities of Netas as at the date of acquisition (28 July 2017) was RMB1,186,989,000:

	28 July 2017 Fair value	**28 July 2017 Book value**
Current assets	**2,072,798**	**2,072,798**
Non-current assets	**740,377**	**469,996**
Current liabilities	**(1,495,480)**	**(1,495,480)**
Non-current liabilities	**(130,706)**	**(52,768)**
	1,186,989	**994,546**
Minority interests	**(616,760)**	**(516,766)**
	570,229	
Goodwill	**89,100**	
Consideration paid for acquisition	**659,329**	**Note**

Note: The amount represented a cash payment of RMB659,329,000 incurred by the Company in business combination.

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION (continued)

1 Consolidation of enterprises not under common control (continued)

1.1 (continued)

Operating results and cash flow of the company from the date of acquisition to the end of the year are set out as follows:

	28 July to 31 December 2017
Operating revenue	1,052,895
Net profit	127,985
Net cash flow	176,163

1.2 The Group acquired 100% equity interests in Suzhou Luohe Leixin Optoelectronic Co., Ltd by way of cash in June 2017. Suzhou Luohe Leixin Optoelectronic Co., Ltd has been included in the consolidated financial statements of the Group as from 30 June 2017.

1.3 The Group acquired 100% equity interests in Shenzhen Saijiaxun Investment Development Enterprise (Limited Partnership) by way of cash in October 2017. Shenzhen Saijiaxun Investment Development Enterprise (Limited Partnership) has been included in the consolidated financial statements of the Group as from 20 October 2017.

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
Nubia Technology Limited	Note 1	Shenzhen	Manufacturing of communication related equipment	60%	60%/100%	Disposed of
ZTE Supply Chain Co., Ltd	Note 2	Shenzhen	Supply chain management and related ancillary services	95%	95%/100%	Disposed of
Hengyang ICT Real Estate Co., Ltd.	Note 3	Hengyang	Real estate development	100%	100%/100%	Disposed of
Huanggang Education Valley Investment Holdings Co., Ltd.	Note 4	Huanggang	Education consultancy	70%	70%/100%	Disposed of
Beijing Zhongbao Net Shield Technology Co., Ltd.	Note 5	Beijing	Technology development and services	100%	100%/100%	Disposed of
Shenzhen Zhonghu Industrial Development Co., Ltd.	Note 6	Shenzhen	Industrial investment	100%	100%/100%	Disposed of

Note 1: The Company entered into a share transfer agreement with Nanchang Gaoxin New Industry Investment Co., Ltd. on 27 July 2017 to dispose of 10.1% equity interests in Nubia for RMB727.2 million. The date of disposal was 17 August 2017. The Company held 49.9% equity interests in Nubia following the disposal. Hence, the Group has ceased to include Nubia in its consolidated statements as from 17 August 2017. Share of net profit or loss (excluding cash dividend and profit distribution already paid out or declared) of the original investment on disposal of the investee as at the beginning of the investment period as a result of the adoption of the equity method following the partial disposal of equity interests shall be adjusted in retained profit. Relevant financial information of Nubia is set out as follows:

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(English translation for reference only)

VI. CHANGES TO THE SCOPE OF CONSOLIDATION (continued)

2 Disposal of subsidiaries (continued)

Note 1: (continued)

	17 August 2017 Book value	31 December 2016 Book value
Current assets	**4,993,892**	5,179,208
Non-current assets	**365,129**	310,277
Current liabilities	**(2,363,679)**	(2,226,712)
	2,995,342	3,262,773
Minority interests	**(1,198,137)**	(15,889)
Fair value of remaining equity interests	**(3,233,520)**	
Gain/loss arising from disposal	**2,163,515**	
Consideration for disposal	**727,200**	

	1 January to 17 August 2017
Operating revenue	**3,715,684**
Operating cost	**3,396,298**
Net profit	**(280,782)**

Note 2: The Company and 珠海市中新蔚藍投資諮詢合夥企業(有限合夥) completed the disposal of 85% equity interests in ZTE Supply Chain Co., Ltd. on 20 April 2017. ZTE Supply Chain Co., Ltd. has been excluded from the consolidated financial statements of the Group as from 20 April 2017.

Note 3: Hunan ZTE ICT Co., Ltd., a subsidiary of the Group and 衡陽市金六源房地產開發有限公司 completed the disposal of 70% equity interests in Hengyang ICT Real Estate on 31 March 2017. Hengyang ICT Real Estate has been excluded from the consolidated financial statements of the Group as from 31 March 2017.

Note 4: ZTE ICT Co., Ltd., a subsidiary of the Group and 深圳市華譽教育投資中興(有限合夥) together with 深圳市華星教育投資中興(有限合夥) completed the disposal of 45% equity interests in Huanggang Education Valley Investment Holdings Co., Ltd on 13 November 2017. Huanggang Education Valley Investment Holdings Co., Ltd has been excluded from the consolidated financial statements of the Group as from 13 November 2017.

Note 5: The Company and北京中保鼎盛信息技術中心(有限合夥) and natural person Chang Jinyun completed the disposal of 81% equity interests in Beijing Zhongbao Net Shield Technology Co., Ltd. on 29 June 2017. Beijing Zhongbao Net Shield Technology Co., Ltd. has been excluded from the consolidated financial statements of the Group as from 29 June 2017.

Note 6: ZTE ICT Co., Ltd., a subsidiary of the Group and 深圳市鵠至實業發展有限公司 completed the disposal of 100% equity interests in Shenzhen Zhonghu Industrial Development Co., Ltd on 25 December 2017. Shenzhen Zhonghu Industrial Development Co., Ltd has been excluded from the consolidated financial statements of the Group as from 25 December 2017.

3. Changes to the scope of consolidation for other reasons

New subsidiaries established during 2017 included: tier-one subsidiaries ZTE Kela Technology (Suzhou) Co., Ltd., Xi'an ZTE IOT Terminal Co., Ltd., ZTE (Xi'an) Co., Ltd., ZTE Wangkun Information Technology (Shanghai) Co., Ltd., Wuhan ZTE Smart City Research Institute Co., Ltd., ZTE (Kunming) ZTE Smart City Industry Research Institute Co., Ltd., ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd., ZTE (Nanjing) Co., Ltd.; tier-two subsidiaries Zhejiang ZTE ICT Co., Ltd., ZTE Xingyun Industrial Investment Management (Hangzhou) Co., Ltd., PT. NUBIA TECHNOLOGY INDONESIA, Nubia (Thailand) CO., LTD, Nubia USA, Inc., Shenzhen ZTE Zhiping Technology Co., Ltd., ZTE HK Telecommunication Jamaica Limited, Shenzhen ZTE Smart Net Technology Co., Ltd., ZTE Communication LLC (Oman), Shenzhen Zhonghu Industrial Development Co., Ltd., ZTE Smart (Guangzhou) Auto Sales Co., Ltd., ZTE ICT Suzhou Technology Co., Ltd., Yibin ZTE ICT Co., Ltd., ZTE (Fiji) PTE Limited, ZTE Smart (Wuhan) Auto Sales Co., Ltd, Zhongxing Trinidad and Tobago Limited; tier-three subsidiaries ZTE d.o.o. Beograd, ZTE NICARAGUA, S.A, Chongqing Zhongwan Wangsheng Technology Co., Ltd., ZTESoft Luxembourg SARL, Qingdao ZTE ICT Information Technology Co., Ltd., ZTE Luxembourg Sarl; and tier-four subsidiaries ZTE ITALIA SERVIZI S.R.L., NAS Netcare Administration Services GmbH, NCS Netcare Consulting and Engineering Services GmbH.

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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	Percentage of Shareholding % Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen ZTE Kangxun Telecom Company Limited	Shenzhen	Manufacturing	RMB1,755 million	100%	–
ZTE (H.K) Limited	Hong Kong	Information technology	HK995 million	100%	–
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB51.08 million	100%	–
西安中興通訊終端科技有限公司	Xi'an	Manufacturing	RMB300 million	100%	–
ZTE (USA) Inc.	U.S.A.	Communications	USD30 million	100%	–
Xi'an Zhongxing New Software Company Limited	Xi'an	Telecommunications and related equipment manufacturing	RMB600 million	100%	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB200 million	90%	10%

2. Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding% Direct	Indirect	Accounting method
Joint Ventures						
Bestel Communications Ltd.	Republic of Cyprus	Information technology	EUR446,915	50%	–	Equity method
Puxing Mobile Tech Company Limited	PRC	R&D, production and sales of communications equipment	RMB128,500,000	50%	–	Equity method
Pengzhong Xingsheng	Uzbekistan	Mobile terminals and smart phones	USD3,160,000	50%	–	Equity method
重慶前沿城市大數據管理有限公司*	PRC	R&D, production and sales of communications equipment	RMB200,000,000	51%	–	Equity method
德特賽維技術有限公司	PRC	Software development, information technology consultant and information systems integration	RMB60,000,000	49%	–	Equity method

* Although the Group had 51% shareholdings in 重慶前沿大數據管理有限公司, the company was not included in the Group's consolidated financial statements mainly owing to the fact that the articles of association of this company stipulates that its board of director shall comprise 5 members, 3 of which shall be nominated by ZTEsoft and 2 of which shall be nominated by 重慶有線電視網絡有限公司, and that board resolutions can only be passed with the approval of over two-thirds of the directors. Hence the Group does not exercise control over its production and operational decisions or its finances.

During the year, the Group had no subsidiaries that were subject to significant minority interest, nor key joint ventures and associates which had a significant impact on the Group.

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding%		Accounting method
				Direct	Indirect	
Associates						
KAZNURTEL Limited Liability Company	Kazakhstan	Manufacturing of computers and related equipment	USD3,000,000	49%	–	Equity method
思卓中興(杭州)科技有限公司	PRC	Sales and R&D of communications equipment	USD7,000,000	49%	–	Equity method
ZTE Energy Limited	PRC	Energy	RMB1,290,000,000	23.26%	–	Equity method
ZTE Software Technology (Nanchang) Company Limited	PRC	Computer application services	RMB15,000,000	30%	–	Equity method
Nanjing Piaoxun Network Technology Company Limited	PRC	Computer application services	RMB870,000	20%	–	Equity method
Telecom Innovations	Uzbekistan	Sales and production of communications equipment	USD1,653,294	33.91%	–	Equity method
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited*	PRC	Hotel management service	RMB30,000,000	18%	–	Equity method
北京億科三友科技發展有限公司	PRC	Computer application services	RMB34,221,649	20%	–	Equity method
ZTE 9 (Wuxi) Co., Ltd	PRC	Computer application services	RMB17,909,380	26.21%	–	Equity method
上海中興思秸通訊有限公司	PRC	R&D, sales and investments in communications and related equipment	RMB57,680,000	30%	–	Equity method
中興耀維科技江蘇有限公司	PRC	Energy	RMB20,000,000	23%	–	Equity method
中興智慧成都有限公司	PRC	R&D of smart city application service system; R&D, and manufacturing of communications equipment	RMB40,000,000	40%	–	Equity method
廈門智慧小區網絡科技有限公司	PRC	Engineering and technology research; Internet business	RMB50,000,000	35%	–	Equity method
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Zimbabwe	Colour ring and other telecommunications VAS	USD500	49%	–	Equity method
前海融資租賃股份有限公司	PRC	Finance leasing	RMB200,000,000	30%	–	Equity method
中山優順置業有限公司	PRC	Real estate	RMB10,000,000	20%	–	Equity method
鐵建聯合(北京)科技有限公司	PRC	Technology promotion and application services	RMB20,000,000	30%	–	Equity method
西安城投智慧充電股份有限公司	PRC	Technology promotion and application services	RMB50,000,000	24%	–	Equity method
紹興市智慧城市集團有限公司	PRC	Business services	RMB2,000,000,000	24.50%	–	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%		Accounting method
				Direct	Indirect	
廣東福能大數據產業園建設有限公司	PRC	Technology promotion and application services	RMB10,000,000	30%	–	Equity method
廣東中興城智信息技術有限公司	PRC	Software and IT services	RMB30,000,000	39%	–	Equity method
上海博色信息科技有限公司	PRC	Professional technical services	RMB71,379,000	29%	–	Equity method
南京寧網科技有限公司	PRC	Manufacturing of computers, communication and other electronic equipment	RMB25,487,370	21.26%	–	Equity method
New Idea Investment Pte. Ltd	Singapore	Investment company	USD10,200,000+ SGD1	20%	–	Equity method
中興智能科技產業有限公司*	PRC	Manufacturing of computers and related equipment	RMB200,000,000	19%	–	Equity method
Hengyang ICT Real Estate Co., Ltd	PRC	Real estate	RMB20,000,000	30%	–	Equity method
貴州中安雲網科技有限公司*	PRC	Technology and innovative IOT inter-network services	RMB30,000,000	19%	–	Equity method
陝西高端裝備與智能製造產業研究院有限公司*	PRC	High-end equipment and smart manufacturing, product research, consultation service and technology development	RMB16,000,000	12.5%	–	Equity method
Laxense, Inc.*	U.S.A.	Manufacturing of communication and other electronic equipment	USD2,460,318	18.7%	–	Equity method
中教雲通(北京)科技有限公司	PRC	Education	RMB15,000,000	28%	–	Equity method
Kron Telekomunikasyon Hizmetleri A.S.*	Turkey	Communication and Internet service	TRY14,268.513	10%	–	Equity method
山東興濟置業有限公司*	PRC	Real estate	RMB10,000,000	10%	–	Equity method
Nubia Technology Limited	PRC	Manufacturing of communication equipment and Internet information service	RMB118,748,300	49.9%	–	Equity method
Huanggang Education Valley Investment Holdings Co., Ltd	PRC	Education	RMB50,000,000	25%	–	Equity method

* The Group listed enterprises with shareholdings less than 20% as associates mainly owing to the fact that, pursuant to the articles of association of such enterprises, the Group has the right to appoint directors to sit on the board of the investee and the Group has the power to take part in decisions of the investee relating to finances and operating policies, thereby exercising significant influence over the investee.

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VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

The following table sets out the combined financial information of joint ventures and associates which are insignificant to the Group:

	2017	2016
Joint ventures		
Aggregate carrying value of investments	**92,344**	64,322
Aggregate amounts of the following attributable to shareholdings:		
Net loss	**(1,377)**	(4,984)
Other comprehensive income	**—**	—
Total comprehensive income	**(1,377)**	(4,984)
Associates		
Aggregate carrying value of investments	**3,868,253**	601,554
Aggregate amounts of the following attributable to shareholdings:		
Net profit	**(126,824)**	50,150
Other comprehensive income	**—**	—
Total comprehensive income	**(126,824)**	50,150

Unrecognised investment losses for the year in respect of the disposals of the entire equity interests in 北京中鼎盛安科技有限公司, 寧波中興雲祥科技有限公司 and 江蘇中興微通信息科技有限公司 and additional investment in ZTE 9 (Wuxi) Co., Ltd amounting to RMB1,961,000 (2016: Nil) was restored. The Group's unrecognised investment loss for the year was RMB Nil (2016: RMB1,110,000). Cumulative unrecognized investment loss was RMB Nil (2016: RMB1,961,000).

For 2017, there were no contingent liabilities associated with the investments in joint ventures and associates (2016: 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:

2017

Financial assets

	Financial assets at fair value through current profit and loss Trading	Loans and receivables	Available-for-sale financial assets	Total
Cash	–	33,407,879	–	33,407,879
Derivative financial assets	116,794	–	–	116,794
Available-for-sale financial assets	–	–	3,181,668	3,181,668
Bills receivable	–	2,052,945	–	2,052,945
Trade receivables and long-term receivables	–	25,590,043	–	25,590,043
Factored trade receivables and factored long-term receivables	–	3,688,455	–	3,688,455
Other receivables	–	2,701,831	–	2,701,831
Other non-current assets	–	1,767,782	–	1,767,782
	116,794	69,208,935	3,181,668	72,507,397

Financial liabilities

	Financial liabilities at fair value through current profit and loss Trading	Other financial liabilities	Total
Derivative financial liabilities	49,830	–	49,830
Bank loans	–	21,538,013	21,538,013
Bills payables	–	10,848,511	10,848,511
Trade payables	–	23,614,556	23,614,556
Bank advances on factored trade receivables and long-term trade receivables	–	4,028,478	4,028,478
Other payables (excluding accruals and staff housing fund contributions)	–	6,204,068	6,204,068
Other non-current liabilities	–	492,413	492,413
	49,830	66,726,039	66,775,869

Notes to Financial Statements

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

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)

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 retained substantially all risks and rewards were transferred upon discounting and hence did not qualify for derecognition of financial assets (31 December 2016: Nil).

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 31 December 2017, trade receivables that have been transferred but not settled by the debtors amounted to RMB334,872,000 (31 December 2016: RMB1,962,171,000).

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 2017 the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB27,821,824,000 (31 December 2016: RMB9,645,201,000). 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	
	2017	2016
Carrying value of assets under continuous involvement	**3,353,583**	1,690,855
Carrying value of liabilities under continuous involvement	**3,693,606**	1,692,589

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 2017, the amount of factored trade receivables was RMB3,688,455,000 (31 December 2016: RMB3,653,026,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 31 December 2017, the amount of bank advances on factored trade receivables was RMB4,028,478,000 (31 December 2016: RMB3,654,761,000).

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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 2017, under the above arrangement, trade receivable due from the customer amounted to RMB4,638,120,000 (31 December 2016: RMB5,814,705,000) among which RMB3,074,756,000 (31 December 2016: RMB4,518,810,000) has been derecognised from the consolidated and company balance sheets as these receivables have fulfilled the derecognition conditions as stipulated in ASBEs No. 23. An associated liability of RMB1,563,364,000 (31 December 2016: RMB1,295,895,000) has been recognised in the consolidated and company balance sheets 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 2017 amounted to RMB126,647,000 (31 December 2016: RMB200,388,000), comprising RMB28,460,000 (31 December 2016: RMB33,862,000) due within one year and classified as other payables (see Note V. 29) and RMB98,187,000 (31 December 2016: RMB166,526,000) due after one year and classified as other non-current liabilities (see Note V. 33).

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 RMB478,932,000 (31 December 2016: RMB325,915,000) 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 RMB6,341,000 (2016: RMB RMB4,326,000) 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.2.9.

Although the top five accounts accounted for 20.91% (2016: 19.82%) 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.

The maturity profile of trade receivables, long-term receivables and other receivables not subject to impairment as at 31 December is analyzed as follows:

2017

			Overdue for			
	Total	Not overdue/ not impaired	Less than 1 year	1–2 years	2–3 years	Over 3 years
Trade receivables	24,345,283	5,005,100	17,067,289	1,716,792	556,102	–
Long-term receivables	1,244,760	1,244,760	–	–	–	–
Other receivables	2,701,831	–	1,623,480	834,303	172,727	71,321

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Credit risk (continued)

2016

			Overdue for			
	Total	Not 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

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.

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarized as follows:

2017

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	18,100,280	1,442,418	2,369,581	96,682	22,008,961
Derivative financial liabilities	–	49,830	–	–	–	49,830
Bills payable	–	10,848,511	–	–	–	10,848,511
Trade payables	23,614,556	–	–	–	–	23,614,556
Bank advances on factored trade receivables and factored long-term trade receivable	–	1,113,708	470,923	765,887	1,858,955	4,209,473
Other payables (excluding accruals and staff housing fund contributions)	6,204,068	–	–	–	–	6,204,068
Other non-current liabilities	–	–	108,909	98,608	335,266	542,783
	29,818,624	30,112,329	2,022,250	3,234,076	2,290,903	67,478,182

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

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

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 2017, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR and Euribor. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 1.15% and 16.75%. In addition, the Group borrowed a USD1,200 million loan at floating interest rates. As at 31 December 2017, there were no outstanding interest rate swaps (31 December 2016: Nil). Approximately 47% (31 December 2016: 44%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD and EUR. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit or loss (through the impact on floating rate loans) and other comprehensive income (net of tax) assuming that other variables remain constant and taking into account the effect of interest rate swaps.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

	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
2017	**25**	**(23,945)**	**–**	**(23,945)**
	(25)	**23,945**	**–**	**23,945**
2016	25	(20,762)	–	(20,762)
	(25)	20,762	–	20,762

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
2017				
Weaker RMB against USD	**3%**	**281,142**	**–**	**281,142**
Stronger RMB against USD	**(3%)**	**(281,142)**	**–**	**(281,142)**
2016				
Weaker RMB against USD	3%	105,235	–	105,235
Stronger RMB against USD	(3%)	(105,235)	–	(105,235)

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk (continued)

	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
2017				
Weaker RMB against EUR	**5%**	**41,719**	**–**	**41,719**
Stronger RMB against EUR	**(5%)**	**(41,719)**	**–**	**(41,719)**
2016				
Weaker RMB against EUR	5%	58,493	–	58,493
Stronger RMB against EUR	(5%)	(58,493)	–	(58,493)

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 2017 and 2016.

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:

	2017	2016
Interest-bearing bank borrowings	**21,538,013**	22,082,421
Bank advances on factored receivables and long-term trade receivables	**4,028,478**	3,654,761
Total interest-bearing liabilities	**25,566,491**	25,737,182
Owners' equity	**45,380,147**	40,885,090
Total equity and interest-bearing liabilities	**70,946,638**	66,622,272
Gearing ratio	**36.0%**	38.6%

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IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

2017

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Continuous measurement of fair value				
Derivative financial assets	**–**	**116,794**	**–**	**116,794**
Available-for-sale financial assets				
Investment in equity instruments	**1,711,846**	**–**	**–**	**1,711,846**
Investment properties				
Leased buildings	**–**	**–**	**2,023,809**	**2,023,809**
	1,711,846	**116,794**	**2,023,809**	**3,852,449**
Derivative financial liabilities	**–**	**(49,830)**	**–**	**(49,830)**
	–	**(49,830)**	**–**	**(49,830)**

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)

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 2017, 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 2017, 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.

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IX. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value (continued)

Fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties at 31 December 2017 was RMB2,023,809,000 (2016: RMB2,016,470,000).

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

2017

	Fair value at year-end	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	**RMB 2,023,809,000**	**Discounted cash flow method**	**Estimated rental value (per sq. m. and per month)**	**RMB45.5-RMB594**
			Rent growth (p.a.)	**1%-3%**
			Long term vacancy rate	**5%**
			Discount rate	**6%－7%**

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%

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IX. DISCLOSURE OF FAIR VALUES (continued)

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorized within Level 3 of the fair value hierarchy:

2017

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Total profit or less for the period		Acquisition	Closing balance	Change in unrealized profit or less 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	**2,016,470**	**–**	**–**	**7,339**	**–**	**–**	**2,023,809**	**7,339**

2016

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Total profit or less for the period		Acquisition	Closing balance	Change in unrealized profit or less 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

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to non-financial assets is analyzed as follows:

	2017 **Relating to non-financial assets**	2016 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	**7,339**	6,074
Change in unrealized profit or loss for the period of assets held at year-end included in profit and loss	**7,339**	6,074

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IX. DISCLOSURE OF FAIR VALUES (continued)

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	30.34%	30.34%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Shenzhen Zhongxingxin Telecommunications Equipment Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note VI and Note VII.1.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties

	Relationship
Sindi Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	Subsidiary of the Company's controlling shareholder
ZTE Quantum Co., Ltd.	Subsidiary of the Company's controlling shareholder
中興儀器(深圳)有限公司*1	Subsidiary of the Company's controlling shareholder
深圳中興創新材料技術有限公司	Investee company 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
Pylon Technologies Co., Ltd.	Investee company of the Company's controlling shareholder
深圳市新宇騰躍電子有限公司	Investee company of 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
南京揚舟信息科技有限公司*2 (formerly known as 南京中興群力信息科技有限公司)	Subsidiary of a former associate of the Company
Zhongxing Energy (Shenzhen) Limited	Subsidiary of an associate of the Company
Zhongxing Energy (Tianjin) 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
中廣慧觀智慧系統無錫有限公司	Subsidiary of an associate of the Company
善理通益信息科技(深圳)有限公司*3	Subsidiary of a former associate of the Company
Shenzhen Gaodonghua Communication Technology Company Limited*4	Company for which a former supervisor of the controlling shareholder of the Company acted as chairman
Mobi Antenna Technologies (Shenzhen) Co., Ltd*4	Company for which a former supervisor of the controlling shareholder of the Company acted as director
上海共進新媒體技術有限公司*5	Company for which a former 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
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
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
鄭州中興通訊技術有限責任公司	Subsidiary of a 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
深圳中興節能環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
深圳中興科揚節能環保股份有限公司	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*6	Company for which a former connected natural person of the Company acted as chairman
深圳中興新源環保股份有限公司	Company for which a connected natural person of the Company acted as director
上海中興科源實業有限公司	Subsidiary of a company for which a connected natural person of the Company acted as chairman
鄭州中興綠色產業有限公司	Subsidiary of a company for which a connected natural person of the Company had acted as chairman
Shenzhen Zhongxing Information Company Limited	Company for which a connected natural person of the Company acted as chairman
Zhongxing Development Company Limited*7	Company for which a connected natural person of the Company had previously acted as director
Chongqing Zhongxing Development Company Limited*7	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
Huatong Technology Co., Ltd.*7	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*7	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*7	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*7	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
三河中興物業服務有限公司*7	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
杭州中興發展有限公司*7	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
杭州中興中投物業管理有限公司*7	Subsidiary of a company for which a connected natural person of the Company had previously acted as director
廈門市美亞柏科信息股份有限公司*8	Company for which a former connected natural person of the Company acted as independent director
Yunnan Baiyao Group Co., Ltd*8	Company for which a former connected natural person of the Company had previously acted as independent director
Tianma Microelectronics Co., Ltd.*9	Company for which a connected natural person of the Company had previously acted as independent director

*1 Such company has ceased to be a subsidiary of the Controlling Shareholder of the Company as from 14 December 2017, and such company will cease to be a connected person of the Company as from 14 December 2018.

*2 The Company completed disposal of the entire equity interests in 上海央洲信息科技有限公司 (formerly known as 上海中興群力信息科技有限公司) ("上海央洲"), in April 2016, and 上海央洲 has ceased to be an associate of the Company as from May 2016, and its subsidiary 南京中興群力信息科技有限公司 ("南京群力") has also ceased to be a connected party of the Company. 南京群力 was renamed 南京揚舟信息科技有限公司 on 3 May 2017.

*3 The Company completed disposal of the entire equity interests in 石家莊市善理通益科技有限公司 ("石家莊理通益") on 25 April 2017, and 石家莊善理通益 has ceased to be an associate of the Company as from 25 April 2017, and its subsidiary 善理通益信息科技(深圳)有限公司 has also ceased to be a connected party of the Company.

*4 The director of the company has ceased to be supervisor of the controlling shareholder of the Company as from 23 June 2016, and the company has ceased to be a connected person of the Company as from 23 June 2017.

*5 The connected natural person of the Company has ceased to be a director of such company as from 28 January 2016. Such company has ceased to be a connected party of the Company as from 28 January 2017.

*6 The chairman of such company has ceased to be a connected natural person of the company as from 30 March 2017. Such company has ceased to be a connected party of the Company as from 30 March 2017.

*7 The connected natural person of the Company has ceased to be director of Zhongxing Development Company Limited ("Zhongxing Development") as from 19 July 2017, and Zhongxing Development and its subsidiaries have ceased to be connected parties of the Company as from 19 July 2017.

*8 The connected natural 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.

*9 The connected natural person of the Company has ceased to be an independent director of such company as from 30 June 2016. Such company has ceased to be a connected party of the Company as from 30 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

	2017 Amount	2016 Amount
Shenzhen Zhongxing Information Company Limited	**—**	3,889
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**84**	1,528
Sindi Technologies Co., Ltd.	**—**	31
Mobi Antenna Technologies (Shenzhen) Company Limited	**430**	280
南京揚舟信息科技有限公司	**—**	32
Puxing Mobile Tech Company Limited	**205,167**	211,055
ZTE Quantum Co., Ltd.	**80**	108
Zhongxing Development Company Limited	**115**	61
上海共進新媒體技術有限公司	**—**	155
深圳市航天歐華科技發展有限責任公司	**143,592**	439,970
Telecom Innovations	**8,266**	4,382
興天通訊技術有限公司	**2,370**	2,791
ZTE 9 (Wuxi) Co., Ltd	**13,565**	—
深圳中興創新材料技術有限公司	**176**	622
中興軟體技術(瀋陽)有限公司	**11**	27
南京仄普托信息科技有限公司 (Formerly known as 江蘇中興微通信息科技有限公司)	**1**	23
上海中興思秸通訊有限公司	**5**	11
中興儀器(深圳)有限公司	**22,831**	2,424
深圳中興節能環保股份有限公司	**6,225**	9,229
中興智慧成都有限公司	**—**	10,650
Shenzhen Weipin Zhiyuan Information Technology Company Limited	**27**	238
深圳市新宇騰躍電子有限公司	**1,892**	2,492
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**514**	—
石家莊市善理通益科技有限公司	**—**	2,248
善理通益信息科技(深圳)有限公司	**—**	59
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	**528**	321
Yunnan Baiyao Group Co., Ltd	**—**	984
南京中興和泰酒店管理有限公司	**18**	3
三河中興發展有限公司	**6**	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
Huanggang Education Valley Investment Holdings Co., Ltd.	**1,317**	—
廣東中興城智信息技術有限公司	**1**	—
Nubia Technology Limited	**870,358**	—
ZTE Energy (Tianjin) Limited	**1**	—
ZTE Energy (Shenzhen) Limited	**4**	—
上海市和而泰酒店投資管理有限公司	**1,734**	—
	1,279,318	740,892

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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

	2017 Amount	2016 Amount
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**249,700**	255,070
Sindi Technologies Co., Ltd.	**47,242**	66,688
深圳市新宇騰躍電子有限公司	**78,692**	70,614
Mobi Antenna Technologies(Shenzhen) Co., Ltd.	**318,791**	822,431
Huatong Technology Company Limited	**29,250**	61,305
ZTE Software Technology (Nanchang) Company Limited	**38,494**	45,296
Shenzhen Zhongxing Hetai Hetai Investment and Management Company Limited	**2,167**	410
深圳市航天歐華科技發展有限責任公司	**5,146**	2,135
深圳市中興和泰酒店投資管理有限公司	**20,010**	25,861
南京中興和泰酒店管理有限公司	**5,198**	3,592
上海市和而泰酒店投資管理有限公司	**5,908**	7,176
西安中興和泰酒店管理有限公司	**3,227**	2,913
Zhongxing Energy (Shenzhen) Limited	**1,655**	1,632
Zhongxing Energy (Tianjin) Limited	**939**	982
Puxing Mobile Tech Company Limited	**7,890**	3,966
上海中興思秸通訊有限公司	**—**	1,241
興天通訊技術有限公司	**—**	2,151
北京中興協力科技有限公司	**1,359**	2,111
中興儀器(深圳)有限公司	**621**	15,132
深圳中興環保集團股份有限公司	**—**	14,329
廈門市美亞柏科信息股份有限公司	**—**	315
Pylon Technologies Co., Ltd.	**6,227**	1,454
Tianma Microelectronics Co., Ltd	**131,670**	118,360
ZTE 9(Wuxi) Co., Ltd	**—**	71
Chongqing Zhongxing Development Company Limited	**—**	11
Zhongxing Development Company Limited	**242**	495
南京揚舟信息科技有限公司	**—**	154
廣東歐科空調製冷有限公司	**1,195**	10,312
石家莊市善理通益科技有限公司	**1,505**	2,606
Shenzhen Weixin Zhiyuan Information Technology Company Limited	**5,485**	—
Nubia Technology Limited	**1,924,897**	—
Laxense,Inc.	**5,437**	—
Kron Telekomunikasyon Hizmetleri A.S.	**2,803**	—
	2,895,750	1,538,813

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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	2017 Lease income	2016 Lease income
Zhongxing Development Company Limited	Office	117	2,332
深圳中興科揚節能環保股份有限公司	Office	40	241
Puxing Mobile Tech Company Limited	Office	496	496
中興儀器(深圳)有限公司	Office	1,443	1,129
深圳中興環保集團股份有限公司	Office	40	487
南京揚舟信息科技有限公司	Office	–	92
Hengyang ICT Real Estate Co., Ltd.	Office	158	–
上海中興思秸通訊有限公司	Office	363	347
中興軟件技術(濟南)有限公司	Office	194	327
上海中興科源實業有限公司	Office	197	–
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	16,489	16,489
南京中興和泰酒店管理有限公司	Property and equipment and facilities	7,110	7,110
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	27,404	27,404
西安中興和泰酒店管理有限公司	Property and equipment and facilities	26,039	26,039
		80,090	82,493

As lessee

	Property leased	2017 Lease expense	2016 Lease expense
Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	Office	8,827	8,827
Zhongxing Development Company Limited	Office	27,132	47,528
Chongqing Zhongxing Development Company Limited	Office	4,886	8,910
三河中興發展有限公司	Office	5,536	8,749
三河中興物業服務有限公司	Office	1,828	2,452
杭州中興發展有限公司	Quarters and plants	601	2,925
杭州中興中投物業管理有限公司	Quarters and plants	145	858
鄭州中興綠色產業有限公司	Staff bus	543	–
		49,498	80,249

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(3) Guarantees for related parties

In 2017 and 2016, no guarantee was provided by/to related parties to/by the Group.

(4) Transfer of equity interests to related parties

In 2017 and 2016, the Group did not transfer any equity interests to related parties.

(5) Transfer of assets to related parties

In 2017 and 2016, the Group did not transfer any assets to related parties.

(6) Other major related transactions

	2017	2016
Remuneration of key management personnel	**50,152**	62,381

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 RMB80,090,000 (2016: RMB82,493,000) 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 RMB49,498,000 (2016: RMB80,249,000) 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 RMB50,152,000 (2016: RMB62,381,000). The corresponding cost for share-based payment was RMB7,724,000 (2016: Nil). 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 2018 is estimated at RMB1,000 million (before VAT).

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(2) 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 2018 is estimated at RMB45 million.

(3) 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 2018 are estimated at RMB1,100 million (before VAT), respectively.

(4) In July 2017, the Group entered into a property lease agreement for a term of 2 years 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 2018 and 2019 to be RMB373,000 and RMB186,000, respectively.

(5) 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 2018 to be RMB38,000.

(6) In October 2017, 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 2018 to be RMB38,000.

(7) In June 2017, the Group entered into a property lease agreement for a term of 1 year 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 2018 to be RMB695,000.

(8) In July 2016, the Group entered into a property and equipment lease agreement for a term of 2 years with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiary. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2018 to be RMB38,521,000.

(9) In January 2016, the Group entered into a property lease agreement for a term of 3 years with Hengyang ICT Real Estate Co., Ltd. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2018 and 2019 to be RMB211,000 and RMB6,000, respectively.

(10) In July 2017, the Group entered into a property lease agreement for a term of 2 years with 上海中興科源實業有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated the rental income for 2018 and 2019 to be RMB189,000 and RMB95,000, respectively.

(11) In April 2017, 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 2018 to 2019 to be RMB8,827,000 and RMB2,624,000.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties

Item	Name of related parties	2017 Amount	2016 Amount
Bills receivable	深圳市航天歐華科技發展有限責任公司	**200,800**	93,260
	中興儀器(深圳)有限公司	**2,440**	–
	Nubia Technology Limited	**1,311**	–
	Sindi Technologies Co., Ltd.	**–**	20
		204,551	93,280
Trade receivable	Puxing Mobile Tech Company Limited	**96,609**	108,480
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**–**	150
	Sindi Technologies Co., Ltd.	**–**	1
	Xi'an Microelectronics Technology Research Institute	**9**	9
	ZTE Quantum Co., Ltd.	**319**	320
	深圳市航天歐華科技發展有限責任公司	**20,072**	217,694
	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	**4,043**	2,259
	花園集團寧波新材料有限公司 (formerly known as 寧波中興雲祥科技有限公司)	**–**	57
	ZTE Software Technology (Nanchang) Company Limited	**3,074**	3,724
	中興儀器(深圳)有限公司	**12,233**	116
	Shenzhen Zhongxing Information Company Limited	**–**	190
	深圳市新宇騰躍電子有限公司	**–**	1,019
	中興智慧成都有限公司	**2,701**	8,968
	Mobi Antenna Technologies (Shenzhen) Company Limited	**–**	230
	深圳中興節能環保股份有限公司	**37**	275
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	**–**	1,970
	重慶前沿城市大數據管理有限公司	**18,954**	18,954
	廈門智慧小區網絡科技有限公司	**143**	111
	Huanggang Education Valley Investment Holdings Co., Ltd.	**96**	–
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**264**	–
	Hengyang ICT Real Estate Co., Ltd.	**59**	–
	Nubia Technology Limited	**315,619**	–
		474,233	364,528

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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	2017 Amount	2016 Amount
Prepayments	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	242	242
	Zhongxing Development Company Limited	–	83
	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
		242	1,247
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
	ZTE 9 (Wuxi) Co., Ltd	121	2,219
	Shenzhen Zhongxing Information Company Limited	14	14
	Zhongxing Development Company Limited	–	345
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	31,292	23,483
	Sindi Technologies Co., Ltd.	445	445
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	–	1,843
	深圳中興創新材料技術有限公司	–	526
	西安中興和泰酒店管理有限公司	226	–
	Nubia Technology Limited	17	–
	山東興濟置業有限公司	21,761	–
	北京中興協力科技有限公司	15	–
		53,893	28,900
Bills payable	深圳市新宇騰躍電子有限公司	521	8,913
	Tianma Microelectronics Co., Ltd.	–	9,142
		521	18,055

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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	2017 Amount	2016 Amount
Trade payables	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	41,437	50,126
	深圳市新宇騰躍電子有限公司	8,894	10,648
	Mobi Antenna Technologies (Shenzhen) Company Limited	–	78,402
	Sindi Technologies Co., Ltd.	5,996	327
	Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	183	183
	Shenzhen Zhongxing WXT Equipment Company Limited	327	327
	Shenzhen Zhongxing Information Company Limited	3,325	3,665
	Shenzhen Gaodonghua Communication Technology Company Limited	–	176
	Puxing Mobile Tech Company Limited	9,231	6,080
	深圳市航天歐華科技發展有限責任公司	1,987	1,987
	中興能源(天津)節能服務有限公司	–	537
	興天通訊技術有限公司	397	3,464
	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
	北京中興協力科技有限公司	3	142
	ZTE Software Technology (Nanchang) Company Limited	128	–
	深圳中興環保集團股份有限公司	–	15,230
	CASIC Shenzhen (Group) Limited	3	3
	Tianma Microelectronics Co., Ltd.	–	27,612
	中興儀器(深圳)有限公司	16,210	19,528
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	–	4
	ZTE 9 (Wuxi) Co., Ltd	83	83
	石家莊市善理通益科技有限公司	–	106
	Nubia Technology Limited	1,057,463	–
	Laxense, Inc.	799	–
	Kron Telekomunikasyon Hizmetleri A.S.	2,962	–
	廣東歐科空調製冷有限公司	863	–
	鄭州中興綠色產業有限公司	623	–
	Huanggang Education Valley Investment Holdings Co., Ltd.	8,040	–
		1,159,147	219,319

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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	2017 Amount	2016 Amount
Advanced receipts	ZTE Software Technology (Nanchang) Company Limited	**5,327**	5,327
	Puxing Mobile Tech Company Limited	**33,261**	30,912
	Xi'an Microelectronics Technology Research Institute	**1,628**	1,628
	北京中興協力科技有限公司	**155**	155
	深圳市航天歐華科技發展有限責任公司	**36,627**	43,187
	中興軟件技術(瀋陽)有限公司	**–**	13
	上海共進新媒體技術有限公司	**–**	61
	ZTE Energy Limited	**1**	1
	中興儀器(深圳)有限公司	**1,800**	7
	南京仄普托信息科技有限公司	**–**	8
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**1**	1
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	**–**	28
	深圳中興環保集團股份有限公司	**–**	497
	善理通益信息科技(深圳)有限公司	**–**	1,170
	中興智慧成都有限公司	**4,909**	2,517
	ZTE 9 (Wuxi) Co., Ltd	**1**	1
	ZTE Quantum Co., Ltd.	**–**	3
	石家莊市善理通益科技有限公司	**–**	439
		83,710	85,955
Other payables	深圳市新宇騰躍電子有限公司	**–**	31
	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Shenzhen Zhongxing Information Company Limited	**–**	48
	Zhongxing Development Company Limited	**–**	215
	Shenzhen Zhongxingxin Telecommunications Equipment Company Limited	**–**	308
	Huatong Technology Company Limited	**–**	128
	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
	寧波萬晨倉儲有限公司 (Formerly known as 寧波中興興通供應鏈有限公司)	**–**	8,000
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	**4,977**	5,020
	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**	2,000
	Shenzhen Weipin Zhiyuan Information Technology Company Limited	**–**	352
	Huanggang Education Valley Investment Holdings Co., Ltd.	**2,106**	–
	Hengyang ICT Real Estate Co., Ltd.	**434**	–
	Nubia Technology Limited	**2,439**	–
	山東興濟置業有限公司	**272**	–
		12,314	27,974

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.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) Customer deposits

	2017 Amount	2016 Amount
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	–	13,336
南京中興和泰酒店管理有限公司	–	4,833
上海市和而泰酒店投資管理有限公司	–	4,406
西安中興和泰酒店管理有限公司	–	6,456
Shenzhen Weipin Zhiyuan Information Technology Company Limited	–	3,394
前海融資租賃股份有限公司	4	4
南京仄普托信息科技有限公司(Formerly known as 江蘇中興微通信息科技有限公司)	–	21,956
Nubia Technology Limited	369	–
Huanggang Education Valley Investment Holdings Co.,Ltd.	2,161	–
	2,534	54,385

(2) Interest expenses

	2017 Amount	2016 Amount
南京中興和泰酒店管理有限公司	50	43
上海市和而泰酒店投資管理有限公司	64	58
西安中興和泰酒店管理有限公司	117	105
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	122	47
Shenzhen Weipin Zhiyuan Information Technology Company Limited	3	5
前海融資租賃股份有限公司	–	3
南京仄普托信息科技有限公司	50	25
Nubia Technology Limited	588	–
Huanggang Education Valley Investment Holdings Co., Ltd.	8	–
	1,002	286

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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)

(3) Loans and advances — bills discounting

	2017 Amount	2016 Amount
Pylon Technologies Co., Ltd.	3,098	–
	3,098	–

(4) Interest income from loans and bills discounting

	2017 Amount	2016 Amount
Pylon Technologies Co., Ltd.	2	–
中廣慧觀智慧系統無錫有限公司	16	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	–	217
前海融資租賃股份有限公司	–	4,005
	18	4,222

(5) Interest payable

	2017	2016
南京中興和泰酒店管理有限公司	–	2
上海市和而泰酒店投資管理有限公司	–	3
西安中興和泰酒店管理有限公司	–	4
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	–	2
南京仄普托信息科技有限公司	–	6
	–	17

(6) Income from consultation services

	2017	2016
前海融資租賃股份有限公司	–	1,033
	–	1,033

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XI. SHARE-BASED PAYMENT

1 Overview

Equity-settled share-based payments are as follows:

	2017	2016
Accumulated balance of equity-settled share-based payments credited to capital reserves*	**245,603**	25,394
Total costs of equity-settled share-based payments in the period	**262,956**	(97,362)

* Among which the cost of equity-settled share-based payment amounting to RMB42,747,000 arising from the exercise of share options was transferred to the share premium under capital reserve.

2 Share option incentive scheme

2.1 2013 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 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 spouse or blood relative.

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XI. SHARE-BASED PAYMENT (continued)

2 Share option incentive scheme (continued)

2.1 2013 Share Option Incentive Scheme (continued)

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, and the percentages of options exercisable iin the first, second and third exercise periods 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.

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.

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;

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XI. SHARE-BASED PAYMENT (continued)

2 Share option incentive scheme (continued)

2.1 2013 Share Option Incentive Scheme (continued)

(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

As the exercise conditions for the third exercise period had not been fulfilled, the Company had written back in full in 2016 the share option expenses for the third exercise period recognized during the period from 2013 to 2015.

Outstanding share options under the scheme are as follows:

	2017		2016	
	Weighted average exercise price* RMB/shares	**Number of share options ('000)**	Weighted average exercise price* RMB/shares	Number of share options ('000)
Opening balance	**10.97**	**8,080**	11.22	90,871
Lapsed	**10.97**	**(36)**	10.97	(48,954)
Exercised during the period	**10.97**	**(8,044)**	11.22	(3,471)
			10.97	(30,366)
Closing balance		**—**	10.97	8,080

The weighted average share price for share options exercised in 2017 as at the date of exercise was RMB10.97 (2016: RMB11.00).

(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XI. SHARE-BASED PAYMENT (continued)

2 Share option incentive scheme (continued)

2.1 2013 Share Option Incentive Scheme (continued)

As at the balance sheet date, the exercise prices for effective exercise periods for outstanding share options are as follows:

2017 Number of share options ('000)	**Exercise price* RMB/share**	**Effective exercise period**
–	**10.97**	2016.11.1 to 2017.10.31
–		

2016 Number of share options ('000)	Exercise price* RMB/share	Effective exercise period
8,080	10.97	2016.11.1 to 2017.10.31
8,080		

* 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 2017, the Company issued 8,043,671 ordinary shares as a result of the exercise of 8,043,671 share options. The share capital increased by RMB8,044,000, and the share premium amounted to RMB122,942,000. Please refer to Note V. 34 and 35.

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%

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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(Prepared in accordance with PRC ASBEs)
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XI. SHARE-BASED PAYMENT (continued)

2 Share option incentive scheme (continued)

2.2 2017 Share Option Incentive Scheme

Pursuant to the "Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, the date of grant was set for 6 July 2017. Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company's business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

(1) Rate of Return on Common Stockholders' Equity ("ROE");

(2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

For the purpose of calculating the aforesaid performance indicators under the Scheme, "net profit" shall refer to the net profit attributable to holders of ordinary shares of the listed company and "net assets" shall refer to the net assets attributable to holders of ordinary shares of the listed company.

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

XI. SHARE-BASED PAYMENT (continued)

2 Share option incentive scheme (continued)

2.2 2017 Share Option Incentive Scheme (continued)

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	1/3	From 7 July 2019 to 6 July 2020	ROE for 2017 shall be no less than 10% and Net Profit Growth for 2017 shall be no less than 10% on a base amount of RMB3,825 million
Second exercise period	1/3	From 7 July 2020 to 6 July 2021	ROE for 2018 shall be no less than 10% and Net Profit Growth for 2018 shall be no less than 20% on a base amount of RMB3,825 million
Third exercise period	1/3	From 7 July 2021 to 6 July 2022	ROE for 2019 shall be no less than 10% and Net Profit Growth for 2019 shall be no less than 30% on a base amount of RMB3,825 million

The fair value of the share options granted amounted to RMB1,477,496,000, among which the share options expense recognised by the Company in 2017 amounted to RMB262,956,000.

There were no ordinary shares issued pursuant to the exercise of options under the 2017 Scheme.

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		First	Second	Third
Estimated dividend payment (RMB)		0.18	0.18	0.18
Volatility (%)		43.35	42.2	42.9
Risk-free interest rate (%)		3.498	3.506	3.517
Demission rate	Directors & senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

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.

Notes to Financial Statements

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(All amounts in RMB'000 unless otherwise stated)
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XII. COMMITMENTS AND CONTINGENT EVENTS

1 Material commitments

	2017	2016
Contracted but not provided of		
Capital commitments	**2,854,506**	1,052,816
Investment commitments	**113,178**	137,702
	2,967,684	1,190,518

2 Contingent events

2.1. In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762,984,000 (equivalent to approximately RMB47,816,000). 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 RMB20,558,000) should 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.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated. Hence, no additional provision was made in respect of the litigation for the period.

2.2. 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.

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

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2 Contingent events (continued)

2.2. (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. China Construction Fifth Division had 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. On 11 December 2017, the Guangdong Higher Court gave a final verdict that upheld its second trial judgement.

In July 2014, China Construction Fifth Division instituted a lawsuit with 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 aforesaid case will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
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(English translation for reference only)

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2 Contingent events (continued)

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

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

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.4. 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 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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(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2 Contingent events (continued)

2.4. (continued)

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

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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

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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)

2.5. (continued)

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

2.6. 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 RMB64,520,000). 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 RMB64.25 million), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB64.25 million) 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 RMB64.25 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 RMB171 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2 Contingent events (continued)

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

On 10 August 2017, the Company submitted its written defences to LCIA and DIFC-LCIA, respectively, for the aforementioned arbitrations. In the meantime, the Company filed counter-arbitration petitions against the said Mauritanian subsidiary for an aggregate amount of approximately USD22.71 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 arbitration cannot be reliably estimated.

2.8. 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 agreed to plead guilty and pay a total of 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 on the condition of the Company's compliance with the requirements in the 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 DOJ agreement is a prerequisite for the issue of a settlement order by BIS. BIS would recommend the removal of the Company from the Entity List, conditioned on court approval of the DOJ agreement, entry of the plea, and the issuance of BIS Assistant Secretary's Order. On 22 March 2017 (United States time), the agreement between the Company and DOJ became effective upon approval by the Court. On 23 March 2017 (United States time), the BIS settlement order was issued, upon which the agreement with BIS came into effect. Upon the recommendation by BIS, the Company and Shenzhen ZTE Kangxun Telecommunications Ltd. were removed from the Entity List on 29 March 2017 (United States time).

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XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2 Contingent events (continued)

2.8. (continued)

The Agreements also covers the following key issues:

(1) A 3-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 7 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 7-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 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 that the USD300,000,000 penalty payment suspended by BIS would not be exempted as a result of any violation of the Agreements.

2.9. As at 31 December 2017, an amount of RMB8,419,135,000 (31 December 2016: RMB8,400,893,000) was outstanding under the bank guarantee letters issued by the Group.

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XIII. EVENTS AFTER THE REPORTING PERIOD

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

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

The Company has selected through competitive negotiations Shenzhen Vanke Real Estate Co., Ltd. (深圳市萬科房地產有限公司) ("Vanke") to provide development, construction, sales and operational services in respect of land site No. T208–0049 for the Company and entered into a Letter of Intent and a Supplemental Agreement on the Letter of Intent with Vanke on 25 December 2017 and 25 January 2018.

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

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

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XIV. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee:

According to the lease contract signed with lessor, total future minimum lease payments under non-cancellable operating leases falling due are as follows:

	2017	2016
Within one year (including first year)	556,766	307,719
In the first to second years (including second year)	250,781	109,021
In the second to third years (including third year)	71,896	40,928
After the third year	84,041	102,979
	963,484	560,647

As lessor:

The Group entered into operating property leasing contracts with terms ranging from 1 year to 15 years with certain lessees, as shown in Note V.12. The leased properties were accounted for as investment properties. According to the lease contract signed with the lessees, the group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017	2016
Within one year (including first year)	97,220	136,452
In the first to second years (including second year)	60,889	78,697
In the second to third years (including third year)	63,209	40,980
After the third year	430,941	379,639
	652,259	635,768

2. Segment reporting

Operating segments

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

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

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

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

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance costs, research and development costs, impairment losses, gain/(losses) from changes in fair values, investment income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude derivative financial instruments, deferred tax assets, cash, long-term equity investments, other receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds payables, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

2017

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
Revenue from external transactions	63,782,295	35,202,376	9,830,602	108,815,273
Sub-total	63,782,295	35,202,376	9,830,602	108,815,273
Segment results	17,894,165	1,172,382	1,696,434	20,762,981
Unallocated revenue				159,277
Unallocated cost				(15,176,916)
Finance costs				1,043,482
Gain from changes in fair values				58,301
Investment loss from associates and joint ventures				(128,201)
Total profit				6,718,924
Total assets				
Segment assets	41,211,138	18,963,182	6,404,171	66,578,491
Unallocated assets				77,383,724
Sub-total				143,962,215
Total liabilities				
Segment liabilities	14,148,392	4,452,436	2,180,656	20,781,484
Unallocated liabilities				77,800,584
Sub-total				98,582,068
Supplemental information				
Depreciation and amortization expenses	1,525,883	842,158	235,181	2,603,222
Capital expenditure	4,329,631	2,389,587	667,315	7,386,533
Asset impairment losses	1,485,079	819,637	228,892	2,533,608

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XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

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)

Group information

Geographic information

Revenue from external customers

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

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	2017	2016
The PRC	**15,940,669**	14,474,584
Asia (excluding the PRC)	**1,217,751**	1,019,306
Africa	**263,883**	360,132
Europe, America and Oceania	**1,447,623**	1,163,078
	18,869,926	17,017,100

Non-current assets are analysed by geographic locations where the assets (excluding long-term equity investments, financial assets, deferred tax assets, goodwill and other non-current assets) are located.

Information of major customers

Operating revenue of RMB23,151,019,000 was derived from carriers' network and handset terminal revenue from one major customer (2016: RMB18,166,199,000 from one major customer).

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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:

	2017	2016
Within 1 year	**18,664,476**	30,964,659
1–2 years	**5,441,076**	4,451,692
2–3 years	**2,288,341**	2,411,958
Over 3 years	**7,419,976**	7,487,791
	33,813,869	45,316,100
Less: bad debt provision for trade receivables	**6,630,794**	5,183,675
	27,183,075	40,132,425

	2017				2016			
	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	**2,061,404**	**6**	**1,690,508**	**82**	550,842	1	550,842	100
For which bad debt provision has been collectively made								
0–6 months	**12,663,815**	**37**	**–**	**–**	24,828,643	55	–	–
7–12 months	**4,255,139**	**13**	**155,322**	**4**	6,136,016	14	243,641	4
13–18 months	**3,280,812**	**10**	**647,590**	**20**	2,603,915	6	492,503	19
19–24 months	**2,097,208**	**6**	**718,032**	**34**	1,847,777	4	705,922	38
2–3 years	**2,200,400**	**7**	**1,297,505**	**59**	2,411,958	5	1,186,332	49
Over 3 years	**7,255,091**	**21**	**2,121,837**	**29**	6,936,949	15	2,004,435	29
	31,752,465	**94**	**4,940,286**	**16**	44,765,258	99	4,632,833	10
	33,813,869	**100**	**6,630,794**		45,316,100	100	5,183,675	

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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
2017	**5,183,675**	**1,962,374**	**–**	**(515,255)**	**6,630,794**
2016	4,018,645	1,329,311	–	(164,281)	5,183,675

For 2017, bad-debt provision in respect of trade receivables which were individually significant and for which bad-debt provision had been made separately with an amount of RMB349,650,000 was written off (2016: RMB164,281,000). There was no write back of bad-debt provision (2016: Nil).

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables".

2. Other receivables

The aging analysis of other receivables:

	2017	2016
Within 1 year	**19,070,826**	7,660,224
1–2 years	**3,376,106**	2,960,763
2–3 years	**594,274**	104,769
Over 3 years	**2,322,505**	2,432,167
	25,363,711	13,157,923

Other receivables are analysed as follows:

	2017	2016
Staff loans	**136,480**	231,900
Transactions with third parties	**25,227,231**	12,926,023
	25,363,711	13,157,923

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

3. Available-for-sale financial assets

	2017	2016
Available-for-sale equity instruments at cost	**461,091**	458,091

Available-for-sale financial assets at cost:

2017

	Book balance				**Shareholding percentage**	**Cash dividend for the period**
	Opening balance	**Increase during the period**	**Decrease during the period**	**Closing balance**	**(%)**	
航天科技投資控股有限公司	**201,734**	**–**	**–**	**201,734**	**2.6936%**	**17,276**
Others	**256,357**	**3,000**	**–**	**259,357**		**6,412**
	458,091	**3,000**	**–**	**461,091**		**23,688**

2016

	Book balance				Shareholding percentage	Cash dividend for the period
	Opening balance	Increase during the period	Decrease during the period	Closing balance	(%)	
航天科技投資控股有限公司	201,734	–	–	201,734	2.6936%	15,000
Others	164,990	95,943	(4,576)	256,357		4,671
	366,724	95,943	(4,576)	458,091		19,671

4. Long-term trade receivables

	2017	2016
Loans granted to subsidiaries (Note 1)	**5,642,311**	5,879,893
Installment payments for the provision of telecommunication system construction projects	**110,213**	331,896
Less: Bad debt provision for long-term receivables	**–**	56,952
	5,752,524	6,154,837

Note 1: Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term trade receivables (continued)

Movements in bad debt provision for long-term receivables during the period are as follows:

	Opening balance	Provision for the period	Write back	Write off	Closing balance
2017	**56,952**	**–**	**(483)**	**(56,469)**	**–**
2016	53,361	3,591	–	–	56,952

The interest rate of long-term trade receivables ranged from 3.57%-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

		2017	2016
Equity method			
Joint ventures	(1)	**86,082**	54,520
Associates	(2)	**1,894,245**	475,572
Less: Provision for impairment in long-term equity investments		**4,764**	4,764
		1,975,563	525,328
Cost method			
Subsidiaries	(3)	**11,771,004**	10,261,001
Less: Provision for impairment in long-term equity Investments	(4)	**61,192**	78,849
		11,709,812	10,182,152
		13,685,375	10,707,480

2017

(1) Joint ventures

	Movements during the year									
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	54,520	–	–	2,167	–	–	–	–	56,687	–
德特賽維技術有限公司	–	29,400	–	(5)	–	–	–	–	29,395	–
	54,520	29,400	–	2,162	–	–	–	–	86,082	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2017 (continued)

(2) Associates

		Movements during the year									
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Others	Closing book balance	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	–	2,477	–
ZTE Software Technology (Nanchang) Company Limited	4,424	–	–	(625)	–	–	–	–	–	3,799	–
ZTE Energy Limited	396,345	–	–	25,165	–	–	–	–	–	421,510	–
思卓中興(杭州)科技有限公司	21,864	–	–	(616)	–	–	–	–	–	21,248	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	3,788	–	–	(633)	–	–	–	–	–	3,155	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	8,055	–	–	(3,876)	–	–	–	–	–	4,179	–
中興江蘇耀維科技	4,220	–	–	(386)	–	–	–	–	–	3,834	–
Shenzhen Weipin Zhiyuan Information Technology Company Limited	2,645	–	(2,645)	–	–	–	–	–	–	–	–
廣東中興城智信息技術有限公司	3,510	–	–	882	–	–	–	–	–	4,392	–
上海博色信息科技有限公司	20,499	–	–	410	–	–	–	–	–	20,909	–
南京寧網科技有限公司	2,981	–	–	479	–	–	–	–	–	3,460	–
Nubia Technology Limited	–	–	–	(233,797)	–	–	–	–	1,634,315	1,400,518	–
	470,808	–	(2,645)	(212,997)	–	–	–	–	1,634,315	1,889,481	(4,764)

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2017 (continued)

(3) *Subsidiaries*

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	6,000,000
ZTEsoft Technology Company Limited	250,441	250,441	–	250,441	89.0%	89.0%	–
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90.0%	90.0%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100.0%	100.0%	–
ZTE Microelectronics Technology Company Limited	91,957	91,957	–	91,957	76.0%	76.0%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	–	179,767	90.0%	90.0%	–
Nubia Technology Limited	–	321,407	(321,407)	–	–	–	–
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80.0%	80.0%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100.0%	100.0%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	–	40,500	83.0%	83.0%	9,130
Guangdong ZTE Newstart Technology Co., Ltd.	13,110	13,110	–	13,110	90.0%	90.0%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100.0%	100.0%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100.0%	100.0%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100.0%	100.0%	250,000
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90.0%	90.0%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100.0%	100.0%	35,000
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	–	15,200	76.0%	76.0%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100.0%	100.0%	–
PT. ZTE Indonesia)	15,275	15,275	–	15,275	100.0%	100.0%	–
ZTE Wistron Telecom AB	2,137	2,137	–	2,137	100.0%	100.0%	–
ZTE Holdings (Thailand) Co., Ltd	10	10	–	10	100.0%	100.0%	–
ZTE (Thailand) Co., Ltd.	5,253	5,253	–	5,253	100.0%	100.0%	–
ZTE (USA) Inc.	190,133	190,133	–	190,133	100.0%	100.0%	–
ZTE Corporation Mexico S.DER.LDEC.V.	42	42	–	42	100.0%	100.0%	–
ZTE DoBrasil LTDA	18,573	18,573	–	18,573	100.0%	100.0%	–
ZTE Romania S.R.L	827	827	–	827	100.0%	100.0%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100.0%	100.0%	–
ZTE-Communication Technologies, Ltd. (Russia)	6,582	6,582	–	6,582	100.0%	100.0%	–
Zhongxing Telecom Pakistan (Private) Ltd	5,279	5,279	–	5,279	93.0%	93.0%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2017 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Closed Joint Stock Company TKMobile	16,871	16,871	–	16,871	51.0%	51.0%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100.0%	100.0%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55.0%	55.0%	10,450
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100.0%	100.0%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	–	–	–	–	31.0%	*	120,000
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100.0%	100.0%	–
ZTE Supply Chain Co., Ltd.	–	28,500	(28,500)	–	95.0%	95.0%	–
北京中興網捷科技有限公司	289,341	159,341	130,000	289,341	100.0%	100.0%	–
北京中興高達通信技術有限公司	47,500	47,500	–	47,500	100.0%	100.0%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100.0%	100.0%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95.0%	95.0%	–
中興新能源汽車有限責任公司	112,500	112,500	–	112,500	85.0%	85.0%	–
西安中興通訊終端科技有限公司	300,000	300,000	–	300,000	100.0%	100.0%	–
中興健康科技有限公司	15,000	15,000	–	15,000	50.0%	50.0%	–
深圳市中興智谷科技有限公司	15,000	15,000	–	15,000	100.0%	100.0%	–
Jiaxing Xinghe Equity Investment Partnership	92,800	92,800	–	92,800	30.0%	*	–
中興捷維通訊技術有限責任公司	46,530	46,530	–	46,530	100.0%	100.0%	–
深圳市興聯達科技有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
西安中興精誠科技有限公司	9,393	9,393	–	9,393	100.0%	100.0%	–
Beijing Zhongbao Net Shield Technology Co., Ltd.	–	20,000	(20,000)	–	100.0%	100.0%	–
河南中興光伏科技有限責任公司	3,000	3,000	–	3,000	100.0%	100.0%	–
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	–	19,500	65.0%	65.0%	–
長沙中興智慧技術有限公司	350,000	350,000	–	350,000	100.0%	100.0%	–
深圳市中興視通科技有限公司	35,400	35,400	–	35,400	100.0%	100.0%	–
中興(溫州)軌道通訊技術有限公司	25,500	25,500	–	25,500	51.0%	51.0%	–
Zhongxing (Shenyang) Financial Technology Company Limited	22,000	22,000	4,500	26,500	100.0%	100.0%	–
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	–	50,000	100.0%	100.0%	–
ZTE (Huai'an) Smart Industries Company Limited	31,620	31,620	–	31,620	51.0%	51.0%	–
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	–	2,000	100.0%	100.0%	–

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2017 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
中興飛流信息科技有限公司	48,960	20,000	28,960	48,960	51.0%	51.0%	–
ZTE Gaoneng Technology Company Limited	400,000	400,000	–	400,000	80.0%	80.0%	–
Jiyuan ZTE Smart Technology Industries Company Limited	2,550	2,550	–	2,550	51.0%	51.0%	–
Shenyang (ZTE) Big Data Research Company Limited	2,000	2,000	–	2,000	100.0%	100.0%	–
ZTE Smart Auto Company Limited	790,500	500,000	290,500	790,500	100.0%	100.0%	–
Zhuhai Guangtong Bus Service Company Limited	–	232,400	(232,400)	–	70.0%	70.0%	–
Shijiazhuang Smart City Research Institute Company Limited	2,000	2,000	–	2,000	80.0%	80.0%	–
ZTE Group Finance Holdings (Hangzhou) Limited	500,000	500,000	–	500,000	100.0%	100.0%	–
ZTE (Yiwu) Research Institute Company Limited	2,800	2,800	–	2,800	70.0%	70.0%	–
中興光電子技術有限公司	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	300,000	300,000	–	300,000	25.0%	*	–
深圳市中瑞檢測科技有限公司	10,000	–	10,000	10,000	100.0%	100.0%	–
ZTE Kela Technology (Suzhou) Co., Ltd.	44,100	–	44,100	44,100	90.0%	90.0%	–
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	–	49,000	49,000	100.0%	100.0%	–
ZTE (Xi'an) Co., Ltd.	500,000	–	500,000	500,000	100.0%	100.0%	–
ZTE Wangkun Information Technology (Shanghai) Co., Ltd.	36,000	–	36,000	36,000	75.0%	75.0%	–
Xi'an Zhongxing Softare Co., Ltd.	11,250	–	11,250	11,250	100.0%	100.0%	–
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	–	3,000	3,000	100.0%	100.0%	–
ZTE (Kunming) ZTE Smart City Industry Research Institute Co., Ltd.	–	–	–	–	100.0%	100.0%	–
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	5,000	–	5,000	5,000	100.0%	100.0%	–
ZTE (Nanjing) Co., Ltd.	1,000,000	–	1,000,000	1,000,000	100.0%	100.0%	–
		10,261,001	1,510,003	11,771,004			6,424,580

* This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Long-term equity investments (continued)

2017 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the period	Closing balance
ZTE (USA) Inc.	5,381	–	5,381
Shenzhen Guoxin Electronics Development Company Limited	23,767	–	23,767
Nubia Technology Limited	17,657	(17,657)	–
ZTE DoBrasil LTDA	10,059	–	10,059
ZTE Integration Telecom Limited	4,591	–	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	–	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	–	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	–	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	–	9,656
ZTE Holdings (Thailand) Co., Ltd	10	–	10
ZTE (Thailand) Co., Ltd.	205	–	205
ZTE Telecom India Private Ltd.	1,654	–	1,654
ZTE Romania S.R.L.	827	–	827
	78,849	(17,657)	61,192

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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 period								
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Closing book balance	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 period								
	Opening balance of the period	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	–	2,477	–
ZTE Software Technology (Nanchang) Company Limited	3,722	–	–	702	–	–	–	–	4,424	–
ZTE Energy Limited	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)	–	–	–	–	–	–
南京寧網科技有限公司	–	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 period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	–
ZTEsoft 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 ZTE Newstart Technology Co., Ltd.	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%	–
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%	–

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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 period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
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	–	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)	–	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	47,500	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	92,800	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%	–
Nanjing ZTE Investment Management Company Limited	–	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%	–
ZTE Gaoneng Technology Company Limited	400,000	–	400,000	400,000	80%	80%	–

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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 period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Jiyuan ZTE Smart Technology Industries Company Limited	2,550	–	2,550	2,550	51%	51%	–
Shenyang (ZTE) Big Data Research Company Limited	2,000	–	2,000	2,000	100%	100%	–
ZTE Smart Auto Company Limited	500,000	–	500,000	500,000	100%	100%	–
Zhuhai Guangtong Bus Service Company Limited	232,400	–	232,400	232,400	70%	70%	–
Shijiazhuang Smart City Research Institute Company Limited	2,000	–	2,000	2,000	80%	80%	–
ZTE Group Finance Holdings (Hangzhou) Limited	500,000	–	500,000	500,000	100%	100%	–
ZTE (Yiwu) Research Institute Company Limited	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

(4) Provision for long-term equity investments

	Opening balance	Increase/decrease during the period	Closing balance
ZTE (USA) Inc.	5,381	–	5,381
Shenzhen Guoxin Electronics Development Company Limited	23,767	–	23,767
Nubia Technology Limited	17,657	–	17,657
ZTE DoBrasil LTDA	10,059	–	10,059
ZTE Integration Telecom Limited	4,591	–	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	–	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	–	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	–	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	–	9,656
ZTE Holdings (Thailand) Co., Ltd	10	–	10
ZTE (Thailand) Co., Ltd.	205	–	205
ZTE Telecom India Private Ltd.	1,654	–	1,654
ZTE Romania S.R.L.	827	–	827
	78,849	–	78,849

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XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

6. Operating revenue and costs

	2017		2016	
	Revenue	**Cost**	Revenue	Cost
Principal operations	**81,637,978**	**80,158,150**	75,315,989	75,855,395
Other businesses	**14,243,657**	**224,462**	15,574,489	197,753
	95,881,635	**80,382,612**	90,890,478	76,053,148

7. Investment income

	2017	2016
Investment (loss)/gain from long-term equity investment under equity method	**(210,835)**	52,082
Investment income from long-term equity investment under cost method	**6,424,580**	297,149
Investment gain earned during the period of holding available-for-sale financial assets	**23,688**	19,671
Investment (loss) from financial assets at fair value through profit and loss for the period of holding	**(74,062)**	(36,806)
Investment income from the disposal of long-term equity investment	**714,906**	164,170
	6,878,277	496,266

Supplementary Information to Financial Statements

(Prepared in accordance with PRC ASBEs)
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1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	2017 Amount
Loss from the disposal of non-current assets	(80,492)
Investment gain from the disposal of long-term equity investments	2,335,291
Gain/loss from fair-value change in trading financial assets and trading financial liabilities, and investment gain from disposal of trading financial assets and trading financial liabilities, excluding effective value-protection hedges related to the ordinary business of the Company	(86,572)
Write back of impairment provision for receivables subject to individual impairment test	12,553
Gain/loss from change in fair value of investment properties	7,339
Net amount of other non-operating income and expenses and others	(6,366)
Other profit or loss items meeting the criteria for extraordinary profit or loss	2,173,237
	4,354,990
Effect of income tax	(653,249)
Effect of non-controlling interests (net of tax)	(36,964)
	3,664,777

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:

	2017 Amount	Reason
Refund of VAT on software products	2,665,815	In line with national policies and received on an ongoing basis
Return of tax refund fee	28,083	In line with national policies and received on an ongoing basis
Special financial subsidies	400,000	In line with national policies and received on an ongoing basis
Venture capital firm investment income	438,454	Within the scope of business

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(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

2017

	Weighted average return on net assets (%)	**Earnings per share Basic**	**Earnings per share Diluted**
Net profit attributable to ordinary shareholders of the Company	**15.74%**	**RMB1.09**	**RMB1.08**
Net profit after extraordinary items attributable to ordinary shareholders of the Company	**3.11%**	**RMB0.22**	**RMB0.21**

2016

	Weighted average return on net assets (%)	Earnings per share Basic	Earnings per share 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

3. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences in net profit and net assets attributable to shareholders of the parent company between financial statements prepared under PRC ASBEs and under HKFRSs for the period. Ernst & Young acted as the international auditors of the Company.

Independent Auditors' Report

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EY安永

To the shareholders of ZTE Corporation
(Established in the People's Republic of China with limited liability)

OPINION

We have audited the consolidated financial statements of ZTE Corporation (the "Company") and its subsidiaries (the "Group") set out on pages 330 to 443, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017, 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.

Independent Auditors' Report

KEY AUDIT MATTERS

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

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

Key audit matters	How our audit addressed the key audit matter
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.

KEY AUDIT MATTERS (continued)

Key audit matters	How our audit addressed the key audit matter
Impairment of trade and bills receivables (long-term trade receivables included)	
The carrying amount of trade and bills receivables (long-term trade receivables included) as at 31 December 2017 was approximately RMB27,642,988,000, represents 19% 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.

KEY AUDIT MATTERS (continued)

Key audit matters	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 2017, was approximately RMB26,234,139,000, represents 18% 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.

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.

- 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.

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

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 TJEN, Michael.

Certified Public Accountants
Hong Kong

15 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

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

	Notes	2017 RMB'000	2016 Restated RMB'000
REVENUE	5	**108,815,273**	101,233,182
Cost of sales		**(76,116,539)**	(71,312,492)
Gross profit		**32,698,734**	29,920,690
Other income and gains	5	**6,950,862**	6,115,994
Research and development costs		**(12,962,245)**	(11,689,180)
Selling and distribution expenses		**(12,259,965)**	(12,622,371)
Administrative expenses		**(3,237,737)**	(2,730,950)
Other expenses		**(3,184,865)**	(8,650,966)
Finance costs	7	**(1,157,659)**	(1,156,134)
Share of profits and losses of:			
Joint ventures		**(1,377)**	(4,984)
Associates		**(126,824)**	50,150
PROFIT/(LOSS) BEFORE TAX	6	**6,718,924**	(767,751)
Income tax expense	10	**(1,332,582)**	(640,118)
PROFIT/(LOSS) FOR THE YEAR		**5,386,342**	(1,407,869)
Attributable to:			
Ordinary equity holders of the parent		**4,568,172**	(2,357,418)
Perpetual capital instruments		**501,300**	501,300
Non-controlling interests		**316,870**	448,249
		5,386,342	(1,407,869)
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		**(12,327)**	(57,047)
Changes in fair value of available-for-sale investments, net of tax		**314,188**	187,275
Exchange differences on translation of foreign operations		**1,134**	(136,129)
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**302,995**	(5,901)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Actuarial gain on defined benefit plans	32	**15,572**	743
Net other comprehensive income not to be reclassified to profit or loss in subsequent periods		**15,572**	743
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**318,567**	(5,158)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**5,704,909**	(1,413,027)
Attributable to:			
Ordinary equity holders of the parent		**4,667,126**	(2,495,075)
Perpetual capital instruments	39	**501,300**	501,300
Non-controlling interests		**536,483**	580,748
		5,704,909	(1,413,027)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	12		
Basic		**RMB1.09**	RMB(0.57)
Diluted		**RMB1.08**	RMB(0.57)

Consolidated Statement of Financial Position

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

	Notes	**31 December 2017 RMB'000**	31 December 2016 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**10,202,425**	9,280,644
Investment properties	14	**2,023,809**	2,016,470
Prepaid land lease payments	15	**1,251,535**	1,237,174
Goodwill	16	**308,806**	186,206
Other intangible assets	17	**5,363,042**	4,454,427
Investments in joint ventures	19	**92,344**	64,322
Investments in associates	20	**3,868,253**	601,554
Available-for-sale investments	21	**3,181,668**	2,659,667
Long-term trade receivables	24	**1,244,760**	1,376,563
Factored long-term trade receivables	25	**2,608,006**	1,391,746
Deferred tax assets	35	**1,464,250**	1,604,575
Pledged deposits	28	**1,462,286**	3,258,533
Long-term prepayments, deposits and other receivables	18	**2,631,327**	628,584
Total non-current assets		**35,702,511**	28,760,465
CURRENT ASSETS			
Prepaid land lease payments	15	**29,115**	28,385
Inventories	22	**26,234,139**	26,810,568
Amount due from customers for contract works	23	**9,012,909**	9,345,123
Trade and bills receivables	24	**26,398,228**	27,982,681
Factored trade receivables	25	**1,080,449**	2,261,280
Prepayments, deposits and other receivables	26	**11,980,191**	13,814,908
Derivative financial instruments	27	**116,794**	54,857
Pledged deposits	28	**3,066,199**	1,213,920
Time deposits with original maturity of over three months	28	**232,411**	1,086,203
Cash and cash equivalents	28	**30,109,269**	30,049,791
Total current assets		**108,259,704**	112,647,716

Consolidated Statement of Financial Position

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

	Notes	**31 December 2017 RMB'000**	31 December 2016 RMB'000
CURRENT LIABILITIES			
Trade and bills payables	29	**34,463,067**	36,933,838
Amount due to customers for contract works	23	**8,050,655**	5,876,790
Other payables and accruals	30	**24,297,517**	27,873,988
Derivative financial instruments	27	**49,830**	40,148
Interest-bearing bank borrowings	31	**18,535,867**	17,064,145
Bank advances on factored trade receivables	25	**1,080,472**	2,263,015
Tax payable		**583,091**	524,762
Dividends payable		**1,322**	50,317
Provision	34	**533,126**	887,366
Total current liabilities		**87,594,947**	91,514,369
NET CURRENT ASSETS		**20,664,757**	21,133,347
TOTAL ASSETS LESS CURRENT LIABILITIES		**56,367,268**	49,893,812
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	31	**3,002,146**	5,018,276
Bank advances on factored long-term trade receivables	25	**2,948,006**	1,391,746
Deferred tax liabilities	35	**338,131**	98,380
Provision for retirement benefits	32	**133,191**	146,106
Other non-current liabilities	33	**4,565,647**	2,354,214
Total non-current liabilities		**10,987,121**	9,008,722
Net assets		**45,380,147**	40,885,090
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Issued capital	36	**4,192,672**	4,184,628
Reserves	38	**27,454,203**	22,216,523
		31,646,875	26,401,151
Perpetual capital instruments	39	**9,321,327**	9,321,327
Non-controlling interests		**4,411,945**	5,162,612
Total equity		**45,380,147**	40,885,090

Yin Yimin
Director

Zhao Xianming
Director

Consolidated Statement of Changes in Equity

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

		Attributable to ordinary equity holders of the parent										
	Note	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 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:	37											
– 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

Consolidated Statement of Changes in Equity

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

	Note	Attributable to ordinary equity holders of the parent										
		Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2017		4,184,628	11,808,812	(55,655)	25,394	2,022,709	(1,866,975)	10,282,238	26,401,151	9,321,327	5,162,612	40,885,090
Profit for the year		–	–	–	–	–	–	4,568,172	4,568,172	501,300	316,870	5,386,342
Other comprehensive income for the year:												
Hedges, net of tax		–	–	(12,327)	–	–	–	–	(12,327)	–	–	(12,327)
Actuarial gain on defined benefit plans		–	15,572	–	–	–	–	–	15,572	–	–	15,572
Changes in fair value of available-for-sale investments, net of tax		–	94,575	–	–	–	–	–	94,575	–	219,613	314,188
Exchange differences on translation of foreign operations		–	–	–	–	–	1,134	–	1,134	–	–	1,134
Total comprehensive income/(loss) for the year		–	110,147	(12,327)	–	–	1,134	4,568,172	4,667,126	501,300	536,483	5,704,909
Issue of shares		8,044	122,942	–	(42,747)	–	–	–	88,239	–	–	88,239
Capital contributions by non-controlling shareholders		–	–	–	–	–	–	–	–	–	715,803	715,803
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(333,220)	(333,220)
Acquisition of non-controlling shareholders		–	227,403	–	–	–	–	–	227,403	–	(312,525)	(85,122)
Disposal of subsidiary		–	–	–	–	–	–	–	–	–	(1,198,137)	(1,198,137)
Capital withdrawal by non-controlling shareholders		–	–	–	–	–	–	–	–	–	(159,071)	(159,071)
Final 2016 dividend declared		–	–	–	–	–	–	–	–	(501,300)	–	(501,300)
Share Incentive Scheme:	37											
– Equity-settled share option expense			–	–	262,956	–	–	–	262,956	–	–	262,956
Transfer from retained profits		–	–	–	–	182,727	–	(182,727)	–	–	–	–
At 31 December 2017		4,192,672	12,269,304*	(67,982)*	245,603*	2,205,436*	(1,865,841)*	14,667,683*	31,646,875	9,321,327	4,411,945	45,380,147

* These reserve accounts comprise the consolidated reserves of approximately RMB27,454,203,000 (2016: RMB22,216,523,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

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

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(loss) before tax		**6,718,924**	(767,751)
Adjustments for:			
Finance costs	7	**1,157,659**	1,156,134
Share of profits and losses of joint ventures		**1,377**	4,984
Share of profits and losses of associates		**126,824**	(50,150)
Bank and other interest income	5	**(908,082)**	(740,988)
Dividend income	5	**(32,318)**	(29,991)
Loss on disposal of items of property, plant and equipment	6	**80,492**	22,514
Gain on disposal of subsidiaries	6	**(2,335,291)**	(1,151,046)
Gain on disposal of associates		**(48,710)**	—
Gain on disposal of available-for-sale investments	6	**(438,454)**	(553,228)
Loss on disposal of derivative financial instruments	6	**137,534**	139,152
Fair value loss/(gain) on derivative instruments — transactions not qualifying as hedges	6	**50,962**	(23,094)
Depreciation	13	**1,199,131**	1,285,360
Recognition of prepaid land lease payments	15	**27,993**	32,064
Amortisation of intangible assets	17	**1,376,098**	1,149,084
Write-down of inventories to net realisable value	6	**130,836**	636,161
Impairment of trade receivables	6	**2,222,096**	2,110,620
Impairment of property, plant and equipment	6	**16,507**	45,270
Impairment of available-for-sale investments	6	**97,913**	—
Impairment of the amount due from customers for contract works	6	**54,246**	61,076
Impairment of intangible assets	6	**12,010**	—
Equity-settled share option expense	6	**262,956**	(97,362)
Changes in fair value of investment properties	6	**(7,339)**	(6,074)
		9,903,364	3,221,925
Increase in inventories		**(1,300,152)**	(7,500,775)
Decrease in the amount due from customers for contract works		**277,968**	4,522,247
Increase in trade and bills receivables		**(396,047)**	(1,321,088)
Decrease/(increase) in long-term trade receivables		**298,205**	(1,013,732)
Increase in factored trade receivables		**(35,429)**	(787,430)
Decrease/(increase) in prepayments, deposits and other receivables		**1,071,119**	(6,586,468)
(Decrease)/increase in trade and bills payables		**(994,118)**	3,829,967
Increase in the amount due to customers for contract works		**2,173,865**	1,453,687
(Decrease)/increase in other payables and accruals		**(4,308,703)**	10,348,214
Increase in provision for retirement benefits		**2,657**	2,569
Decrease/(increase) in other non-current assets		**21,832**	(305,495)
Cash generated from operations		**6,714,561**	5,863,621

Consolidated Statement of Cash Flows

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

	Notes	2017 RMB'000	2016 RMB'000
Cash generated from operations		**6,714,561**	5,863,621
Interest received		**907,786**	745,338
Interest and other finance costs paid		**(1,078,545)**	(1,099,910)
Hong Kong profits tax paid		**(155,823)**	(14,757)
PRC taxes paid		**(721,754)**	(429,676)
Overseas taxes paid		**(322,556)**	(269,278)
Dividends paid		**—**	(1,038,566)
Dividends paid to non-controlling shareholders		**(382,215)**	(162,773)
Interest paid to perpetual bondholders		**(501,300)**	(501,300)
Net cash flows from operating activities		**4,460,154**	3,092,699
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to prepaid land lease payments		**(1,814,084)**	(55,813)
Purchases of items of property, plant and equipment		**(2,340,339)**	(2,074,944)
Purchases of intangible assets		**(1,829,582)**	(1,871,703)
Proceeds from disposal of items of property, plant and equipment		**128,716**	98,620
Acquisition of joint ventures		**(29,399)**	(25,500)
Capital contribution to associates		**(64,568)**	(23,610)
Purchases of available-for-sale investments		**(337,161)**	(275,663)
Addition to other receivables		**476,907**	445,805
Disposal of subsidiaries	42	**(647,838)**	964,261
Disposal of associates		**52,852**	57,769
Increase of other non-current liabilities		**1,771,000**	—
Acquisition of subsidiaries		**(582,656)**	(216,892)
Dividend received from associates		**32,244**	13,677
Dividend received from available-for-sale investments		**32,318**	29,991
Proceeds from available-for-sale investments		**555,183**	639,815
Proceeds from settlement of derivative financial instruments		**(253,078)**	(724,787)
Decrease/(increase) in time deposits with original maturity of over three months		**853,792**	(881,174)
(Increase)/decrease in pledged bank deposits		**(56,032)**	246,132
Net cash flows used in investing activities		**(4,051,725)**	(3,654,016)

Consolidated Statement of Cash Flows

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

	Notes	2017 RMB'000	2016 RMB'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		**88,239**	372,060
Capital contribution by non-controlling shareholders		**14,200**	2,821,905
Return capital to non-controlling shareholders		**—**	(431,987)
Acquisition of non-controlling interests		**(85,122)**	(229,351)
New bank loans		**35,148,401**	30,425,813
Repayment of bank loans		**(35,422,108)**	(29,717,269)
Increase in bank advances on factored trade receivables		**373,717**	787,887
Net cash flows from financing activities		**117,327**	4,029,058
NET INCREASE IN CASH AND CASH EQUIVALENTS		**525,756**	3,467,741
Cash and cash equivalents at beginning of year		**30,049,791**	26,616,996
Effect of foreign exchange rate changes, net		**(466,278)**	(34,946)
CASH AND CASH EQUIVALENTS AT END OF YEAR	28	**30,109,269**	30,049,791
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	28	**23,261,237**	19,172,357
Time deposits with original maturity of less than three months	28	**6,848,032**	10,877,434
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**30,109,269**	30,049,791

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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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
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
Xi'an Zhongxing Terminal Technology Company Limited ("Xi'an Zhongxing Terminal Technology")# (i) (西安中興通訊終端科技有限公司)	The PRC/ Mainland China	RMB300,000,000	100%		Development, manufacture and sale of 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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
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
ZTE (USA) Inc. ("ZTE USA")	America	USD$30,000,000	100%	—	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.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

There are three limited partnership entities whose general partner is controlled by the Company, so the Company controls three limited partnership entities even though it holds less than half of the ownership percentage in them.

2.1 BASIS OF PREPARATION

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

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

(b) rights arising from other contractual arranges; and

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

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

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

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 51(b) to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is to be provided in note 51(b) to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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

To reflect more accurately the substance, enhance the comparability of financial information with the competitors, provide more relevant information to the users of its financial statements, and keep consistent with financial statements which are prepared under PRC Accounting Standards for Business Enterprises and have already adopted. The presentation of government grant as a deduction in reporting the related expense since 1 January 2017, the Group chose to present the government grant related to income as a deduction in reporting the related expense instead of recording in other income and gains since 1 January 2017.

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

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

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

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

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

3 No mandatory effective date yet determined but available for adoption

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

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group will adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

During 2017, the Group has performed a detailed assessment of the impact of adoption of HKFRS 9. The expected impacts relate to the classification and measurement and impairment requirements and are summarised as follows:

(a) Classification and measurement

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

(b) Impairment

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

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

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group plans to adopt the transitional provisions in HKFRS 15 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of retained earnings at 1 January 2018. In addition, the Group plans to apply the new requirements only to contracts that are not completed before 1 January 2018. The Group expects that the transitional adjustment to be made on 1 January 2018 upon initial adoption of HKFRS 15 will not be material as compared to the net assets of the Group. However, the expected changes in accounting policies, as further explained below, will have a material impact on the Group's financial statements from 2018 onwards. During 2017, the Group has performed a detailed assessment on the impact of adoption of HKFRS 15.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

a) **Telecommunications system contracts**

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

b) **Presentation and disclosure**

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

Notes to Financial Statements

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2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

b) Presentation and disclosure (continued)

HKFRS 16, issued in May 2016, replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 45(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately RMB963,484,000. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

b) Presentation and disclosure (continued)

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

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

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

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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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group; or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a);

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties (continued)

(b) (continued)

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and

(viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives used for this purpose are as follows:

Freehold land	Not depreciated
Buildings	30 to 50 years
Leasehold improvements	Over the shorter of the lease terms and 10 years
Machinery, computers and office equipment	5 to 10 years
Motor vehicles	5 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation (continued)

Construction in progress represents buildings, plant and machinery and other fixed assets under construction or installation, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction or installation during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in profit or loss in the year of the retirement or disposal.

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technology know-how

Purchased technology know-how is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over its estimated useful life of not more than 10 years.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Computer software

Purchased computer software is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over its estimated useful life of not more than 5 years.

Franchise

Franchise is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis for 3 to 10 years, being the period that the franchise granted to the Group.

Research and development costs

All research costs are charged to profit or loss as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Available-for-sale financial investments (continued)

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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

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.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

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.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

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.

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).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification (continued)

- 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 contracts 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

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.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as a deduction against the related expense, which it is intended to compensate. When the grant related to income does not compensate any expense item, it is recognised in other revenue and gains. Where the grant relates to an asset, including non-monetary grants at fair value, shall be presented in the statement of financial position by deducting the grant in arriving at the carrying amount of the asset.

Revenue recognition

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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

(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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Defined benefit pension scheme (continued)

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

Share-based payments

The Company operates a share incentive scheme (the "Share Incentive Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the operations of the Group. Employees (including directors) of the Group receive remuneration in the form of share-based payment transactions, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using an appropriate valuation method, further details of which are given in note 37 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.

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.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

Share-based payments (continued)

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of the outstanding subject shares is reflected as additional share dilution in the computation of earnings per share.

Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into Renminbi at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Renminbi at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Renminbi at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Renminbi at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

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, and whether delivery or performance of the undelivered item(s) is considered probable and is substantially in the Group's control.

The Group's determination of whether deliverables within a multiple element arrangement can be treated separately for revenue recognition purposes involves significant estimates and judgements, such as whether delivered elements have stand-alone value to the customer. Changes to the Group's assessment of the accounting units in an arrangement and/or its ability to establish fair values could significantly change the timing of revenue recognition.

Arrangement consideration shall be allocated at the inception of the arrangement to all deliverables on the basis of their relative selling price (the relative selling price method). When applying the relative selling price method, the selling price for each deliverable shall be determined using vendor-specific objective evidence ("VSOE") of selling price, if it exists; otherwise, third-party evidence of selling price. If neither vendor-specific objective evidence nor third-party evidence of selling price exists for a deliverable, the vendor shall use its best estimate of the selling price for that deliverable when applying the relative selling price method. In deciding whether the vendor can determine vendor-specific objective evidence or third-party evidence of selling price, the vendor shall not ignore information that is reasonably available without undue cost and effort.

For instance, the Group sells hardware and post-contract support services on a stand-alone basis and therefore it has evidence to establish VSOE for both the sale of goods and post-contract support.

The Group's assessment of which revenue recognition guidance is appropriate for accounting for a deliverable also involves significant judgement. For instance, the determination of whether post-contract support services 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.

3. 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 recognised under HKAS 11 *Construction Contracts*, generally using the percentage of completion method. In using the percentage of completion method, revenues are generally recorded based on a measure of the percentage of costs incurred to date on a contract relative to the estimated total expected contract costs. Profit estimates on long-term contracts are revised periodically based on changes in circumstances and any losses on contracts are recognised in the period that such losses become known. Generally, the terms of long-term contracts that provide for progress billings are based on completion of certain phases of work. Contract revenues recognised, based on costs incurred towards the completion of the project that are unbilled, are accumulated in the contracts in progress account included in the amount due from customers for contract works. Billings in excess of revenues recognised to date on long-term contracts are recorded as advance billings in excess of revenues recognised to date on contracts within the amount due to customers for contract works. Significant judgement is often required when estimating total contract costs and progress to completion on these arrangements, as well as whether a loss is expected to be incurred on the contracts. Management uses historical experience, project plans and an assessment of the risks and uncertainties inherent in the arrangements to establish these judgements. Uncertainties include implementation delays or performance issues that may or may not be within the control of the Group. Changes in these estimates could result in a material impact on revenues and net earnings.

Revenue for hardware that does not require significant customisation, and where any software is considered incidental, is recognised under HKAS 18 Revenue, where revenue is recognised provided that the entity has transferred to the buyer the significant risks and rewards of ownership of the goods; the entity retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold; the 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.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

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 2017 was approximately RMB10,202,425,000 (2016: RMB9,280,644,000). The carrying amount of intangible assets as at 31 December 2017 was RMB5,363,042,000 (2016: RMB4,454,427,000). 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)

Judgements (continued)

Impairment of trade receivables

The carrying amount of trade receivables as at 31 December 2017 was approximately RMB27,642,988,000 (2016: RMB29,359,244,000).

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 2017 was RMB300,540,000 (2016: RMB25,689,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2017 was RMB4,109,213,000 (2016: RMB6,151,478,000). Further details are contained in note 35 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 2017, the best estimate of the carrying amount of capitalised development costs was RMB4,353,937,000 (2016: RMB3,884,928,000).

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 2017, the carrying amount of inventories was RMB26,234,139,000 (2016: RMB26,810,568,000).

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (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 2017 was RMB2,023,809,000 (2016: RMB2,016,470,000).

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 2017 was RMB426,833,000 (2016: RMB754,104,000).

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 other related products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and joint ventures, fair value gains/losses from the Group's financial instruments as well as head office and corporate expenses are excluded from the measurement.

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4. OPERATING SEGMENT INFORMATION (continued)

Segment assets exclude derivative financial instruments, deferred tax assets, pledged deposits, cash and cash equivalents, investments in joint ventures and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, other payables, bonds payable, tax payable, deferred tax liabilities, provision for retirement benefits and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Year ended 31 December 2017	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total RMB'000
Segment revenue:				
Sales to external customers	63,782,295	35,202,376	9,830,602	108,815,273
	63,782,295	35,202,376	9,830,602	108,815,273
Segment results	17,894,165	1,172,382	1,696,434	20,762,981
Bank and other interest income				908,082
Dividend income and unallocated gains				6,042,780
Corporate and other unallocated expenses				(19,709,059)
Finance costs				(1,157,659)
Share of profits and losses of associates and joint ventures				(128,201)
Profit before tax				6,718,924
Segment assets	41,211,138	18,963,182	6,404,171	66,578,491
Investments in joint ventures				92,344
Investments in associates				3,868,253
Corporate and other unallocated assets				73,423,127
Total assets				143,962,215
Segment liabilities	14,148,392	4,452,436	2,180,656	20,781,484
Corporate and other unallocated liabilities				77,800,584
Total liabilities				98,582,068
Other segment information:				
Impairment losses recognised in profit or loss	1,485,079	819,637	228,892	2,533,608
Depreciation and amortisation	1,525,883	842,158	235,181	2,603,222
Capital expenditure*	4,329,631	2,389,587	667,315	7,386,533

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

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4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2016	Carriers' Networks RMB'000	Consumer Business RMB'000	Government & Corporate Business RMB'000	Total Restated RMB'000
Segment revenue:				
Sales to external customers	58,880,434	33,449,039	8,903,709	101,233,182
	58,880,434	33,449,039	8,903,709	101,233,182
Segment results	15,281,609	394,421	2,130,134	17,806,164
Bank and other interest income				740,988
Dividend income and unallocated gains				5,375,006
Corporate and other unallocated expenses				(23,578,941)
Finance costs				(1,156,134)
Share of profits and losses of associates and joint ventures				45,166
Loss before tax				(767,751)
Segment assets	42,979,978	19,688,690	6,499,293	69,167,961
Investments in joint ventures				64,322
Investments in associates				601,554
Corporate and other unallocated assets				71,574,344
Total assets				141,408,181
Segment liabilities	12,073,774	3,724,184	1,825,757	17,623,715
Corporate and other unallocated liabilities				82,899,376
Total liabilities				100,523,091
Other segment information:				
Impairment losses recognised in profit or loss	1,659,469	942,718	250,940	2,853,127
Depreciation and amortisation	1,434,600	814,973	216,935	2,466,508
Capital expenditure*	2,797,793	1,589,381	423,073	4,810,247

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4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

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

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

(b) Non-current assets

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

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

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 2017 in the amount of RMB23,151 million (2016: one single customer individually accounted for more than 10% of the Group's consolidated revenue for 2016 in the amount of RMB18,166 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:

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

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

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

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

Notes to Financial Statements

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6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	**2017** **RMB'000**	2016 Restated RMB'000
Cost of goods and services		**73,735,995**	66,686,236
Depreciation	13	**1,199,131**	1,285,360
Amortisation of land lease payments	15	**27,993**	32,064
Amortisation of intangible assets other than deferred development costs	17	**229,556**	163,102
Research and development costs:			
Deferred development costs amortised	17	**1,146,542**	985,982
Current year expenditure		**13,431,254**	12,150,545
Less: Deferred development costs		**(1,615,551)**	(1,447,347)
		12,962,245	11,689,180
Fair value (gains)/losses, net:			
Derivative instruments	27	**(50,962)**	(23,904)
Investment properties	14	**(7,339)**	(6,074)
Impairment of trade receivables*	24	**2,222,096**	2,110,620
Impairment of amount due from customers for contract works*	24	**54,246**	61,076
Provision for warranties**	34	**527,432**	1,052,162
Provision for legal obligation*	34	**17,159**	39,740
Costs related to the comprehensive settlement with United States authorities*		**—**	6,182,452
Write-down of inventories to net realisable value**		**130,836**	636,161
Impairment of available-for-sale investments*		**97,913**	—
Impairment of items of property, plant and equipment*	13	**16,507**	45,270
Impairment of intangible assets*	17	**12,010**	—
Minimum lease payments under operating leases on land and buildings		**692,165**	660,860
Contingent rental income in respect of operating leases	45(a)	**(23,424)**	(47,832)
Auditor's remuneration		**9,128**	8,291
Staff costs (including directors', chief executives' and supervisors' remuneration in note 8):			
Wages, salaries, bonuses, allowances and welfare		**17,919,000**	16,545,770
Equity-settled share option expense	37	**262,956**	(97,362)
Retirement benefit scheme contributions:			
Defined benefit pension scheme	32	**4,673**	4,599
Defined contribution pension schemes		**1,170,882**	1,053,473
		19,357,511	17,506,480
Foreign exchange (gain)/loss*		**420,001**	(618,972)
Loss on disposal of items of property, plant and equipment*		**80,492**	22,514
Gain on disposal of subsidiaries	5	**(2,335,291)**	(1,151,046)
Loss on disposal of derivative financial instruments*		**137,534**	139,152
Gain on disposal of available-for-sale investments	5	**(438,454)**	(553,228)

Notes to Financial Statements

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6. PROFIT/(LOSS) BEFORE TAX (continued)

* The impairment of trade receivables, impairment of amount due from customers for contract works, Impairment of available-for-sale investments, impairment of items of property, plant and equipment, impairment of intangible assets, provision for legal obligation, costs related to the comprehensive settlement with United States authorities, foreign exchange loss, loss on disposal of items of property, plant and equipment, and loss on disposal of derivative financial instruments are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

** Provision for warranties and write-down of inventories to net realisable value are included in "Cost of sales" on the face of the consolidated statement of profit or loss and other comprehensive income.

7. FINANCE COSTS

An analysis of finance costs is as follows:

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

8. 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:

	2017 RMB'000	2016 RMB'000
Other emoluments of directors, chief executives and supervisors:		
Salaries, bonuses, allowances and welfare	**7,496**	8,154
Performance-related bonuses*	**18,136**	12,248
Retirement benefit scheme contributions	**278**	128
	25,910	20,530

* Certain executive directors of the Company are entitled to bonus payments which are determined based on their work performance.

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(a) Independent non-executive directors

The salaries, bonuses, allowances and welfare paid to independent non-executive directors during the year were as follows:

	2017 RMB'000	2016 RMB'000
Tan Zhenhui	–	32
Zhang Xike	130	130
Chen Shaohua	130	130
Lv Hongbing	130	130
Teng Binsheng	130	130
Zhu Wuxiang	130	98
	650	650

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

(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
2017						
Executive directors:						
Yin Yimin	–	1,179	4,676	–	36	5,891
Zhao Xianming	–	1,164	4,252	1,407	36	6,859
	–	2,343	8,928	1,407	72	12,750
Non-executive directors:						
Zhang Jianheng	–	100	–	88	–	188
Luan Jubao	–	100	–	88	–	188
Wang Yawen	–	100	–	88	–	188
Tian Dongfang	–	100	–	88	–	188
Zhan Yichao	–	100	–	88	–	188
Wei Zaisheng	–	842	2,031	–	30	2,903
Zhai Weidong	–	53	–	–	–	53
Shi Lirong	–	269	–	–	6	275
	–	1,664	2,031	440	36	4,171
	–	4,007	10,959	1,847	108	16,921
Supervisors:						
Xie Daxiong	–	800	2,116	–	36	2,952
Xu Weiyan	–	735	3,039	–	36	3,810
Wang Junfeng	–	–	–	–	–	–
Xia Xiaoyue	–	386	826	–	36	1,248
Li Quancai	–	546	1,100	–	36	1,682
Zhou Huidong	–	371	96	–	26	493
	–	2,838	7,177	–	170	10,185

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8. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors (continued)

* On 6 July 2017, the "Resolution on Adjustments to the List of Participants and the Number of share options to be Granted under the 2017 Share Option Incentive Scheme of the Company" was considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors of the Company and the Seventeenth Meetings of Seventh Session of the Supervisory Committee of the Company. The date of grant was set for 6 July 2017. Pursuant to the Scheme, the Company proposed to grant 149,601,220 share options to 1,996 scheme participants. The fair value of the share options granted amounted to RMB1,477,496,000, and the share options expense recognised by the Company in 2017 amounted to RMB262,956,000, among which share options expense related to executive directors, non-executive directors, chief executives and supervisors amounted to approximately RMB1,846,000. There were no ordinary shares issued pursuant to the exercise of options under the 2017 Scheme.

	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

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 (2016: 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 (2016: five) highest paid employees who are neither a director nor chief executive or a supervisor of the Company are as follows:

	2017 RMB'000	2016 RMB'000
Salaries, bonuses, allowances and welfare	**9,554**	7,436
Performance-related bonuses	**31,191**	16,176
Share option incentive scheme	**4,423**	—
Retirement benefit scheme contributions	**292**	—
	45,460	23,612

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	
	2017	2016
RMB2,000,001 to RMB3,000,000	**—**	1
RMB3,000,001 to RMB4,000,000	**—**	1
RMB4,000,001 to RMB5,000,000	**—**	—
RMB5,000,001 to RMB6,000,000	**2**	2
RMB6,000,001 to RMB7,000,000	**—**	1
RMB7,000,001 to RMB8,000,000	**—**	—
RMB8,000,001 to RMB9,000,000	**—**	—
RMB9,000,001 to RMB10,000,000	**1**	—
RMB10,000,0001 to RMB11,000,000	**—**	—
RMB11,000,0001 to RMB12,000,000	**—**	—
RMB12,000,0001 to RMB13,000,000	**2**	—
	5	5

During the year, no director, chief executive or supervisor waived or agreed to waive any emolument, and no emoluments were paid by the Group to the directors, chief executives, supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

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10. INCOME TAX

	2017 RMB'000	2016 RMB'000
Current — Hong Kong	**9,703**	15,076
Current — Mainland China	**696,130**	438,610
Current — Overseas	**356,326**	329,191
Deferred (note 35)	**270,423**	(142,759)
Total tax charge for the year	**1,332,582**	640,118

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

The Company is subject to an enterprise income tax rate of 15% for the years 2017 to 2019 as a national-grade hi-tech enterprise incorporated in Shenzhen.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for the year 2017 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 High and New Technology Enterprise.

Shenzhen Zhongxing Software Company Limited was subject to an enterprise income tax rate of 10% for the year 2017 as a National Key Software Enterprise.

ZTE Microelectronics Technology Company Limited was subject to an enterprise income tax rate of 10% for the year 2017 as an Integrated Circuit Design Enterprise within nationally planned areas.

Shanghai Zhongxing Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% from 2017 to 2019 as a National High and New Technology Enterprise.

Shanghai Zhongxing Software Company Limited was subject to an enterprise income tax rate of 10% for the year 2017 as a National Key Software Enterprise.

Nanjing Zhongxing Software Company Limited was subject to an enterprise income tax rate of 10% for the year 2017 as a National Key Software Enterprise.

Zhongxing Guotong Telecom Equipment Technology Company Limited was subject to an enterprise income tax rate of 15% from 2016 to 2018 as a National High and New Technology Enterprise.

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10. INCOME TAX (continued)

Xi'an Zhongxing Jing Cheng Communication Company Limited was subject to an enterprise income tax rate of 15% in 2017 as an Enterprise listed in National encouraged industries.

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 High and New Technology Enterprise.

Shenzhen Xinyida Communication Technology Company Limited was subject to an enterprise income tax rate of 15% from 2016 to 2018 as a National High and New Technology Enterprise.

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:

	2017		2016	
	RMB'000	**%**	RMB'000	%
Profit/(loss) before tax	**6,718,924**		(767,751)	
Tax at the statutory tax rate	**1,679,731**	**25.0**	(191,938)	25.0
Lower tax rates for specific provinces or enacted by local authority	**(721,458)**	**(10.7)**	377,279	(49.1)
Adjustments in respect of current tax of previous periods	**22,612**	**0.3**	39,648	(5.2)
Profits and losses attributable to associates and joint ventures	**12,716**	**0.2**	(7,689)	1.0
Income not subject to tax	**(101,123)**	**(1.5)**	(378,418)	49.3
Expenses not deductible for tax	**242,954**	**3.6**	219,290	(28.6)
Unrecognised deductible temporary differences	**71,142**	**1.1**	477,350	(62.2)
Tax losses utilised from previous years	**(30,517)**	**(0.5)**	(132,878)	17.3
Tax losses of subsidiaries not recognised	**156,525**	**(2.3)**	237,474	(30.9)
Tax charge at the Group's effective rate	**1,332,582**	**19.8**	640,118	(83.4)

The share of tax attributable to associates amounting to RMB1,701,000 (2016: RMB13,182,000) 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.

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11. DIVIDEND

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

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

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 4,189,228,000 (2016: 4,159,663,000) in issue during the year.

The calculation of the diluted earnings/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings/(loss) per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

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

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

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

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. During the year 2017, 8,044,000 new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 4,600,000 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 2017						
At 31 December 2016 and at 1 January 2017:						
Cost	5,711,902	147,444	8,052,739	316,818	1,729,450	15,958,353
Accumulated depreciation and impairment	(1,279,080)	(98,966)	(5,130,023)	(169,640)	—	(6,677,709)
Net carrying amount	4,432,822	48,478	2,922,716	147,178	1,729,450	9,280,644
At 1 January 2017, net of accumulated depreciation and impairment	4,432,822	48,478	2,922,716	147,178	1,729,450	9,280,644
Additions	988	77,500	1,743,736	32,403	963,519	2,818,146
Acquisition of a subsidiary (Note 41)	—	—	67,649	20	—	67,669
Disposals	(239,940)	(20,944)	(321,349)	(8,350)	(146,249)	(736,832)
Depreciation provided during the year	(180,673)	(48,787)	(939,901)	(29,770)	—	(1,199,131)
Transfers	882,802	—	190,932	—	(1,073,734)	—
Exchange realignments	(11,508)	(386)	3,267	(2,937)	—	(11,564)
Impairment	—	—	(12,413)	(4,094)	—	(16,507)
At 31 December 2017, net of accumulated depreciation and impairment	4,884,491	55,861	3,654,637	134,450	1,472,986	10,202,425
At 31 December 2017:						
Cost	6,303,495	154,533	9,061,495	305,020	1,472,986	17,297,529
Accumulated depreciation and impairment	(1,419,004)	(98,672)	(5,406,858)	(170,570)	—	(7,095,104)
Net carrying amount	4,884,491	55,861	3,654,637	134,450	1,472,986	10,202,425

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(Prepared under Hong Kong Financial Reporting Standards)
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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 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

As at 31 December 2017, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen, Shanghai and Heyuan, the PRC, with net carrying values of approximately RMB619,401,000 (2016: RMB688,807,000), RMB1,318,545,000 (2016: RMB1,607,672,000), RMB171,493,000 (2016: RMB179,410,000) and RMB867,887,000 (2016: Nil), respectively.

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14. INVESTMENT PROPERTIES

	2017 RMB'000	2016 RMB'000
Fair value		
Carrying amount at 1 January	**2,016,470**	2,010,396
Net gain from a fair value adjustment (note 6)	**7,339**	6,074
Carrying amount at 31 December	**2,023,809**	2,016,470

The Group's investment properties consist of five commercial properties in Mainland China. The Group's investment properties were revalued on 31 December 2017 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 RMB2,023,809,000. Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to a related party, Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and third parties under operating leases, further summary details of which are included in note 45 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 2017 using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Recurring fair value measurement for:				
Commercial properties	**—**	**—**	**2,023,809**	**2,023,809**

	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

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14. INVESTMENT PROPERTIES (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 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
Carrying amount at 1 January 2017	**2,016,470**
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	**7,339**
Carrying amount at 31 December 2017	**2,023,809**

Below is a summary of the valuation technique used and the key inputs to the valuation of investment properties:

	Valuation technique	**Significant unobservable inputs**	**Range or weighted average** **2017**	2016
Commercial properties	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	**RMB45.5 to RMB594**	RMB45.5 to RMB477
		Rent growth (p.a.)	**1% to 3%**	1% to 5%
		Long-term vacancy rate	**5%**	5%
		Discount rate	**6% to 7%**	6% to 7%

Valuations were based on the capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The resultant figures are adjusted back to present values to reflect the existing state of the properties at the end of the reporting period.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash 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.

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14. INVESTMENT PROPERTIES (continued)

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.

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

	2017 **RMB'000**	2016 RMB'000
Carrying amount at 1 January	**1,265,559**	1,241,810
Additions during the year	**79,684**	329,855
Disposals	**(36,600)**	(50,619)
Transfer	**—**	(223,423)
Recognised during the year	**(27,993)**	(32,064)
Carrying amount at 31 December	**1,280,650**	1,265,559
Current portion	**(29,115)**	(28,385)
Non-current portion	**1,251,535**	1,237,174

As at 31 December 2017, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen, Changsha, Nanjing and Wuzhou in the PRC, with a net carrying value of approximately RMB284,638,000 (2016: RMB340,485,000).

As at 31 December 2017, a subsidiary of the Group pledged its land use right with a net carrying value of RMB26,393,000 (2016: RMB27,071,000) as security for a bank loan (note 31).

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16. GOODWILL

	RMB'000
Cost at 1 January 2017, net of accumulated impairment	186,206
Acquisition of subsidiaries	122,600
Cost and net carrying amount at 31 December 2017	308,806
At 31 December 2017:	
Cost	308,806
Accumulated impairment	—
Net carrying amount	308,806

The Group has acquired Suzhou Laxense Technology Co., Ltd. and Netas Telekomünikasyon Anonim Sirketi ("Netas") in June 2017 and July 2017, which resulted in goodwill of RMB33,500,000 and RMB89,100,000, respectively. More details are disclosed in note 41.

Impairment testing

The recoverable amounts of Zhuhai Guangtong Bus Co., Ltd. and Suzhou Laxense Technology Co., Ltd. have 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 rates applied to the cash flow projections are 14% and 17%, respectively, and the growth rates after five years are both 3%.

The recoverable amounts of Netas has been determined based on the quoted price as it is a listing company.

Assumptions were used in the value in use calculation of the bus and related industrial products cash-generating units for 31 December 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

Budgeted gross margins — The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements and expected market development.

Discount rates — The discount rates used are before tax and reflect specific risks relating to the relevant units.

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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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 2017					
Cost at 1 January 2017, net of accumulated amortisation and impairment	**138,588**	**299,995**	**130,916**	**3,884,928**	**4,454,427**
Additions	**95,512**	**207,032**	**140,932**	**1,643,866**	**2,087,342**
Acquisition of a subsidiary (Note 41)	**92,228**	**65,796**	**297,769**	**—**	**455,793**
Retirements and disposals	**(163,335)**	**(49,325)**	**(5,437)**	**(28,315)**	**(246,412)**
Amortisation provided during the year	**(50,060)**	**(96,646)**	**(82,850)**	**(1,146,542)**	**(1,376,098)**
Impairment during the year	**—**	**(12,010)**	**—**	**—**	**(12,010)**
At 31 December 2017	**112,933**	**414,842**	**481,330**	**4,353,937**	**5,363,042**
At 31 December 2017:					
Cost	**186,631**	**621,106**	**950,815**	**9,746,890**	**11,505,442**
Accumulated amortisation and impairment	**(73,698)**	**(206,264)**	**(469,485)**	**(5,392,953)**	**(6,142,400)**
Net carrying amount	**112,933**	**414,842**	**481,330**	**4,353,937**	**5,363,042**
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

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18. LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 RMB'000	2016 RMB'000
Prepayments for purchase of property, plant and equipment and prepaid land lease payments	**2,325,831**	323,088
Long-term deposits	**305,496**	305,496
	2,631,327	628,584

19. INVESTMENTS IN JOINT VENTURES

	2017 RMB'000	2016 RMB'000
Share of net assets	**65,752**	37,730
Goodwill on acquisition	**26,592**	26,592
	92,344	64,322

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:

	2017 RMB'000	2016 RMB'000
Share of the joint ventures' loss for the year	**(1,377)**	(4,984)
Share of the joint ventures' total comprehensive loss	**(1,377)**	(4,984)
Aggregate carrying amount of the Group's investments in the joint ventures	**92,344**	64,322

20. INVESTMENTS IN ASSOCIATES

	2017 RMB'000	2016 RMB'000
Share of net assets	**2,888,028**	606,318
Goodwill on acquisition	**984,989**	—
	3,873,017	606,318
Provision for impairment	**(4,764)**	(4,764)
	3,868,253	601,554

20. INVESTMENTS IN ASSOCIATES (continued)

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.

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2017 RMB'000	2016 RMB'000
Share of the associates' profit for the year	**(126,824)**	50,150
Share of the associates' total comprehensive income	**(126,824)**	50,150
Aggregate carrying amount of the Group's investments in the associates	**3,868,253**	601,554

21. AVAILABLE-FOR-SALE INVESTMENTS

	2017 RMB'000	2016 RMB'000
Listed equity investment, at market value	**1,711,846**	1,315,085
Unlisted equity investments, at cost	**1,469,822**	1,344,582
	3,181,668	2,659,667

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 2017, the above listed equity investment with a carrying amount of RMB1,711,846,000 (2016: RMB1,315,085,000) 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 RMB314,188,000 (2016: RMB187,275,000). Certain unlisted equity investments with a carrying amount of RMB1,469,822,000 (2016: RMB1,344,582,000) 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

	2017 RMB'000	2016 RMB'000
Raw materials	**5,058,854**	5,257,931
Work in progress	**1,154,731**	1,401,894
Finished goods	**3,586,883**	3,619,259
Contract works in progress and others	**16,433,671**	16,531,484
	26,234,139	26,810,568

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23. AMOUNT DUE FROM CUSTOMERS FOR CONTRACT WORKS

	2017 RMB'000	2016 RMB'000
Amount due from customers for contract works	**9,012,909**	9,345,123
Amount due to customers for contract works	**(8,050,655)**	(5,876,790)
	962,254	3,468,333
Contract costs incurred plus recognised profits	**152,136,153**	95,921,927
Less: Recognised losses to date	**581,244**	1,044,198
Less: Progress billings	**150,592,655**	91,409,396
	962,254	3,468,333

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

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

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days and is extendable up to one year depending on customers' creditworthiness except for certain overseas customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk.

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

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

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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:

	2017 **RMB'000**	2016 RMB'000
At 1 January	**7,786,893**	5,802,188
Impairment losses recognised (note 6)	**2,572,475**	2,261,577
Impairment losses reversed (note 6)	**(350,379)**	(150,957)
Amount written off as uncollectible	**(781,951)**	(232,680)
Fluctuation in exchange	**(51,693)**	106,765
At 31 December	**9,175,345**	7,786,893

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

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

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

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

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

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

	2017 **RMB'000**	2016 RMB'000
The controlling shareholder	**–**	150
Joint ventures	**115,563**	127,434
Associates	**323,267**	14,830
Other related companies	**239,954**	315,394
	678,784	457,808

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

The Group has neither pledged trade receivables nor pledged bills receivables to secure the bank borrowings (2016: nil (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 40.

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 2017, under the above arrangements, accounts receivable due from the customer amounted to RMB4,638,120,000 (2016: RMB5,814,705,000) among which RMB3,074,756,000 (2016 RMB4,518,810,000) 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 RMB1,563,364,000 (2016: RMB1,295,895,000) 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

	2017 RMB'000	2016 RMB'000
Prepayments	**591,664**	1,739,691
Deposits and other receivables	**11,003,667**	11,550,641
Interest receivable	**897**	4,950
Advances and loans	**383,963**	519,626
	11,980,191	13,814,908

The financial assets included in the above balances relate to receivables for which there was no recent history of default.

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

	2017 RMB'000	2016 RMB'000
The controlling shareholder	**242**	—
Associates	**53,191**	27,568
Other related companies	**702**	2,579
	54,135	30,147

The amounts due from the controlling shareholder, associates and other related companies are unsecured, non-interest-bearing and are repayable on demand.

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27. DERIVATIVE FINANCIAL INSTRUMENTS

	2017		2016	
	Assets RMB'000	**Liabilities RMB'000**	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	**116,794**	**(49,830)**	54,857	(40,148)
Current portion	**116,794**	**(49,830)**	54,857	(40,148)

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 RMB0 (2016: RMB862,000) and a net loss of RMB12,327,000 (2016: Net loss of RMB60,682,000) was included in the hedging reserve. The forward currency contracts which are not designated for hedge purposes amounting to RMB66,964,000 of net assets (2016: RMB17,891,000 of net assets) and are measured at fair value through profit or loss. Gains changes in the fair value amounted to RMB50,962,000 (2016: Gains of RMB23,904,000) were recognised in profit or loss during the year.

28. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2017 RMB'000	2016 RMB'000
Cash and bank balances	**34,870,165**	35,608,447
Less:		
Pledged deposits — non-current	**(1,462,286)**	(3,258,533)
Pledged deposits — current	**(3,066,199)**	(1,213,920)
Time deposits with original maturity of over three months	**(232,411)**	(1,086,203)
Cash and cash equivalents	**30,109,269**	30,049,791
Time deposits with original maturity of less than three months	**(6,848,032)**	(10,877,434)
Unrestricted bank balances and cash	**23,261,237**	19,172,357

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB23,246,171,000 (2016: RMB22,380,571,000). 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 2017 of RMB852,644,000 (2016: RMB826,211,000) with the People's Bank of China, at a statutory reserve rate of 7% (2016: 7%) for RMB on customer deposits held by ZTE Group Finance Company Limited.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Time deposits are made for varying periods of between seven days and over three months depending on the immediate cash requirements of the Group, and earn interest at the respective time deposit rates. Time deposits with original maturity of over three months are not included in cash and cash equivalents. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

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29. TRADE AND BILLS PAYABLES

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

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

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

	2017 RMB'000	2016 RMB'000
The controlling shareholder	**41,437**	50,126
Joint ventures	**9,231**	6,080
Associates	**1,069,476**	194
Other related companies	**39,524**	180,974
	1,159,668	237,374

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

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

30. OTHER PAYABLES AND ACCRUALS

	2017 RMB'000	2016 RMB'000
Receipts in advance	**8,702,351**	8,092,164
Other payables	**8,179,840**	8,486,456
Other payables to United States government departments	**433,075**	6,182,452
Factoring costs payable	**28,460**	33,862
Advance receipts for staff housing scheme	**39,651**	270,762
Accruals	**6,901,826**	4,780,318
Due to the controlling shareholder	**—**	308
Due to other related companies	**12,314**	27,666
	24,297,517	27,873,988

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.

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31. INTEREST-BEARING BANK BORROWINGS

	2017			2016		
	Effective interest rate (%)	Maturity	RMB'000	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	1.0–15.7	2018	8,883,181	1.2–5.0	2017	7,354,970
Bank loans – unsecured	3MLibor+0.7–1.7	2018	764,303	3MLibor+1.5–1.7	2017	1,656,509
Bank loans – unsecured	6MLibor+0.7–1.4	2018	2,613,000	6MLibor+0.7–3.6	2017	4,747,735
Bank loans – unsecured	3MEuribor+1.00–1.20	2018	1,387,083	3MEuribor+1.2–1.3	2017	1,157,034
Bank loans – unsecured	–	–	–	Libor+1.10	2017	27,724
Bank loans – unsecured	LPR+0.398–1.700	2018	256,000	LPR+0.05–1.36	2017	1,160,000
Bank loans – unsecured	–	–	–	3MLPR+0.05	2017	500,000
Bank loans – guaranteed	3MEuribor+1.10–1.90	2018	1,658,420	3MEuribor+1.25	2017	439,380
Bank loans – guaranteed	3MLibor+1.35	2018	19,206	–	–	–
Bank loans – guaranteed	Libor+2.25	2018	2,931,609	–	–	–
Bank loans – secured	–	–	–	libor+1.5000	2017	20,793
Bank loans – secured	2.78–4.75	2018	23,065	–	–	–
			18,535,867			17,064,145
Non-current						
Bank loans – secured	4.9000–5.1450	2021	1,000	4.9000–5.1450	2021	28,000
Bank loans – guaranteed	–	–	–	Libor+2.25	2018	3,093,144
Bank loans – guaranteed	4.75	2019	126,306	4.75	2019	30,443
Bank loans – guaranteed	–	–	–	3MEuribor+1.9	2018	292,920
Bank loans – guaranteed	3MLibor+2.2	2019	391,950	3MLibor+2.2	2019	415,860
Bank loans – guaranteed	–	–	–	3MEuribor+1.3	2018	512,610
Bank loans – unsecured	6MLibor+3.6	2020	1,633,125	–	–	–
Bank loans – unsecured	–	–	–	4.75	2018	78,000
Bank loans – unsecured	4.75–16.75	2019	695,765	4.7500–5.2250	2019	507,299
Bank loans – unsecured	5.25	2020	97,000	–	–	–
Bank loans – guaranteed	1.20	2027	57,000	1.20	2027	60,000
			3,002,146			5,018,276
			21,538,013			22,082,421

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31. INTEREST-BEARING BANK BORROWINGS (continued)

	2017 RMB'000	2016 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**18,535,867**	17,064,145
In the second year	**1,214,021**	3,976,674
In the third to fifth years, inclusive	**1,731,125**	981,602
Over five years	**57,000**	60,000
	21,538,013	22,082,421

Notes:

Except for bank loans of approximately RMB5,387,629,000 (2016: RMB7,018,760,000) 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 RMB10,139,317,000 (2016: RMB9,718,712,000), all borrowings of the Group bear interest at floating interest rates.

The Group's secured bank loans and banking facilities are secured by:

	2017 RMB'000	2016 RMB'000
Land use rights	**26,393**	27,071
Pledged bank deposits	**4,528,485**	4,472,453
Fixed assets	**53,294**	55,227
	4,608,172	4,554,751

Certain of the Group's bank loans are guaranteed by:

	2017 RMB'000	2016 RMB'000
Entities within the Group	**5,184,491**	4,844,358

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.

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31. INTEREST-BEARING BANK BORROWINGS (continued)

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 2017		31 December 2016	
					Foreign currency	RMB equivalent	Foreign currency	RMB equivalent
Bank of China	2014.8.13	2018.7.18	USD	Libor+2.25	**448,773**	**2,931,609**	446,277	3,093,144

32. PROVISION FOR RETIREMENT BENEFITS

The Group and the Company provide certain of the eligible staff with post-retirement benefits pursuant to a retirement benefit plan. The plan is funded solely by the Group on an actual payment basis.

The latest actuarial valuation of the plan was conducted as at 31 December 2017 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:

	2017	2016
Discount rate (%)	**4.00%**	3.25%
Expected rate of salary increases (%)	**5.50%**	5.50%

A quantitative sensitivity analysis for significant assumptions as at 31 December 2017 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%	(3,119)	0.25%	3,219
Future salary increase	1.00%	13,319	1.00%	(11,987)

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.

32. PROVISION FOR RETIREMENT BENEFITS (continued)

The total expenses recognised in profit or loss in respect of the plan are as follows:

	2017 RMB'000	2016 RMB'000
Interest cost	4,673	4,599
Net benefit expenses	4,673	4,599
Recognised in administrative expenses	4,673	4,599

The movements in the present value of the defined benefit obligations are as follows:

	2017 RMB'000	2016 RMB'000
At 1 January	146,106	144,280
Interest cost	4,673	4,599
Pension payments made	(2,016)	(2,030)
Benefit expenses recognised in other comprehensive income	(15,572)	(743)
At 31 December	133,191	146,106

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2017

	1 January 2017 RMB'000	Net interest RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	31 December 2017 RMB'000
Defined benefit obligations	146,106	4,673	4,673	(2,016)	(8,686)	(6,886)	(15,572)	133,191
Benefit liability	146,106	4,673	4,673	(2,016)	(8,686)	(6,886)	(15,572)	133,191

2016

	1 January 2016 RMB'000	Net interest RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	31 December 2016 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

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33. OTHER NON-CURRENT LIABILITIES

	2017 RMB'000	2016 RMB'000
Factoring costs payable	**98,187**	166,526
Deferred income for staff housing scheme	**1,077,256**	1,104,242
Government grants	**1,224,978**	790,223
Long-term payable	**394,226**	293,223
Other Payable	**1,771,000**	—
	4,565,647	2,354,214

34. PROVISION

	2017 RMB'000	2016 RMB'000
At 1 January	**887,366**	776,682
Additional provision	**544,591**	1,091,902
Amounts utilised during the year	**(898,831)**	(981,218)
At 31 December	**533,126**	887,366

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 by the Group and the progress of the case, the Group makes provisions for cases that can be reliably estimated.

35. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	2017 RMB'000	2016 RMB'000
Deferred tax assets and liabilities:		
At 1 January	**1,506,195**	1,381,374
Deferred tax credited to profit or loss during the year (note 10)	**(270,423)**	142,759
Deferred tax charged to other comprehensive income	**(31,400)**	(17,938)
Deferred tax charged to Goodwill	**(78,253)**	—
At 31 December	**1,126,119**	1,506,195

35. DEFERRED TAX (continued)

	2017 RMB'000	2016 RMB'000
Deferred tax assets:		
Unrealised profits arising on consolidation	**229,328**	243,430
Provision against inventories	**157,667**	129,003
Foreseeable contract losses	**68,807**	145,450
Amortisation of intangible assets	**233,972**	194,724
Provision for warranties	**56,660**	109,834
Provision for retirement benefits	**22,358**	23,695
Other payables and accruals	**414,825**	746,086
Equity-settled share options	**30,585**	3,809
Tax losses	**300,540**	25,689
Overseas tax	**144,908**	156,813
	1,659,650	1,778,533
Deferred tax liabilities:		
Revaluation gain on owner-occupied properties transferred to investment property	**(162,662)**	(161,600)
Changes in fair value of available-for-sale investments	**(135,763)**	(104,363)
Fair value adjustment of business combinations not under common control	**(78,253)**	—
Fair value adjustment on the remaining equity of disposal of subsidiaries	**(130,413)**	—
Other	**(26,440)**	(6,375)
	(533,531)	(272,338)
	1,126,119	1,506,195

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:

	2017 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**1,464,250**
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(338,131)**
	1,126,119

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35. DEFERRED TAX (continued)

Deferred tax assets have not been recognised in respect of the following item:

	2017 RMB'000	2016 RMB'000
Tax losses	**3,634,930**	2,969,140
Deductible temporary differences	**474,283**	3,182,338
	4,109,213	6,151,478

The tax losses and deductible temporary differences that have not been recognised as deferred tax assets will expire as follows:

	2017 RMB'000	2016 RMB'000
2017	**–**	234,993
2018	**100,239**	149,209
2019	**145,954**	146,448
2020	**369,664**	268,647
2021	**640,071**	450,941
After 2022, inclusive	**2,379,002**	1,718,902
	3,634,930	2,969,140

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.

36. ISSUED CAPITAL

	2017 RMB'000	2016 RMB'000
Restricted shares		
Senior management shares	**3,185**	4,821
	3,185	4,821
Unrestricted shares		
RMB ordinary shares	**3,433,985**	3,424,305
Overseas listed foreign shares	**755,502**	755,502
	4,189,487	4,179,807
	4,192,672	4,184,628

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37. 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 Listed Companies “Regulation Department I” of 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, 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 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) Weighted average rate 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).

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37. SHARE OPTION INCENTIVE SCHEME (continued)

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.

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

As the exercise conditions for the third exercise period had not been fulfilled, the Company had written back in full in 2016 the share option expense for the third exercise period recognized during the period from 2013 to 2015.

37. SHARE OPTION INCENTIVE SCHEME (continued)

The following share options were outstanding under the Scheme during the year:

	2017		2016	
	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	**10.97**	**8,080**	11.22	90,871
Forfeited during the year	**10.97**	**(36)**	10.97	(48,954)
Exercised during the year	**10.97**	**(8,044)**	11.22	(3,471)
			10.97	(30,366)
At 31 December		**—**	10.97	8,080

The weighted average share price at the date of exercise for share options exercised during the year was RMB10.97 (2016: RMB11.00) per share.

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2017 Number of options '000	**Exercise price* RMB per share**	**Exercise period**
—	10.97	From 1 November 2016 to 31 October 2017
—		

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		

* 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 2017, the Company issued 8,043,671 ordinary shares as a result of the exercise of 8,043,671 share options. The share capital increased by RMB8,044,000, and the share premium amounted to RMB122,942,000.

37. SHARE OPTION INCENTIVE SCHEME (continued)

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.

Pursuant to the "Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee, the date of grant was set for 6 July 2017. Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company's business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

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37. SHARE OPTION INCENTIVE SCHEME (continued)

The performance indicators for the exercise of the share options include:

(1) Weighted average rate of Return on Common Stockholders' Equity (ROE);

(2) The growth rate of net profit attributable the shareholders of the listed company (The growth rate of net profit).

For the purpose of calculating the aforesaid performance indicators under the Scheme, "net profit" shall refer to the net profit attributable to holders of ordinary shares of the listed company and "net assets" shall refer to the net assets attributable to holders of ordinary shares of the listed company.

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	1/3	From 7 July 2019 to 6 July 2020	ROE for 2017 shall be no less than 10% and Net Profit Growth for 2017 shall be no less than 10% on a base amount of RMB3,825 million
Second exercise period	1/3	From 7 July 2020 to 6 July 2021	ROE for 2018 shall be no less than 10% and Net Profit Growth for 2018 shall be no less than 20% on a base amount of RMB3,825 million
Third exercise period	1/3	From 7 July 2021 to 6 July 2022	ROE for 2019 shall be no less than 10% and Net Profit Growth for 2019 shall be no less than 30% on a base amount of RMB3,825 million

The fair value of the share options granted amounted to RMB1,477,496,000, among which the share options expense recognised by the Company in 2017 amounted to RMB262,956,000.

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37. SHARE OPTION INCENTIVE SCHEME (continued)

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period		First	Second	Third
Proposed dividend (RMB)		0.18	0.18	0.18
Volatility (%)		43.35	42.2	42.9
Risk-free interest rate (%)		3.498	3.506	3.517
Demission rate	Directors and senior management	5%	5%	5%
	Key staff of the Company	5%	5%	5%

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

38. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 333 and 334 of the financial statements.

The capital reserve of the Group includes the non-distributable reserves of the Company and its subsidiaries created in accordance with accounting and financial regulations in the PRC.

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.

39. PERPETUAL CAPITAL INSTRUMENTS

(a) General information of Medium Term Notes outstanding as at the end of the period

The Company issued the 2015 Tranche I Medium Term Notes with a total principal amount of RMB6,000,000,000 on 27 January 2015. The notes will remain valid indefinitely until they are redeemed by the issuer (the Company) pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 5th interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests. The coupon interest rate for the first 5 years for which interest is accruable is 5.81% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 6th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread (the difference between the coupon interest rate and the initial benchmark rate), the initial benchmark rate being the arithmetic average (rounding to the nearest 0.01%) of the yield rates of treasury bonds with a 5-year term in the interbank fixed rate treasury bond yield curve for China bonds announced on www.chinabond.com.cn or other websites approved by CHINA CENTRAL DEPOSITORY & CLEARING CO., LTD. 5 working days prior to the book building date. The coupon rate will thereafter remain unchanged from the 6th to the 10th interest accruing years. Thereafter, the coupon interest rate is reset every 5 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

The Company issued the 2015 Tranche II Medium Term Notes with a total principal amount of RMB1,500,000,000 on 6 February 2015. The notes will remain valid indefinitely until they are redeemed by the issuer pursuant to the terms of the issue and they will become due upon redemption by the issuer pursuant to the terms of the issue. On the 3rd interest payment date and each interest payment date thereafter, the issuer is entitled to redeem the Medium Term Notes at par plus interests payable (including all deferred interest payments and the compound interests. The coupon interest rate for the first 3 years for which interest is accruable is 5.69% per annum. If the issuer does not exercise redemption, the coupon interest rate is adjusted starting from the 4th year for which interest is accruable by adding 300 basis points to the current benchmark interest rate plus the initial interest spread, after which it will remain unchanged from the 4th to the 6th interest accruing years. Thereafter, the coupon interest rate is reset every 3 years by adding 300 basis points to the current benchmark interest rate plus the initial interest spread.

The Company 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.

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39. PERPETUAL CAPITAL INSTRUMENTS (continued)

(a) 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. Dividend distribution to holders of ordinary shares;

2. Reduction of registered capital.

(b) Movement of issued Medium Term Notes as at the end of the period

Face value	Issue date	Volume	Issue amount	Opening balance	Interest charged for the year	Interest Paid during the year	Closing balance
RMB'000			RMB'000	RMB'000	RMB'000	RMB'000	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

40. 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 2017, certain bills receivable were discounted by banks in the PRC (the "Discounted Bills") with a carrying amount of RMB478,932,000 (2016: RMB325,915,000). 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.

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40. TRANSFERS OF FINANCIAL ASSETS (continued)

Bills receivable (continued)

Financial assets that are derecognised in their entirety but for which the Company retains continuing involvement (continued)

Bills discount (continued)

During the year ended 31 December 2017, the Group has recognised loss of RMB6,341,063 on the date of transfer of the Discounted Bills (2016: Loss of RMB4,326,059). 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 2017 amounted to RMB334,872,000 (2016: RMB1,962,171,000).

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 2017 amounted to RMB27,821,824,000 (2016: RMB9,645,201,000). The continuing involvement and associated liabilities are summarised as follows:

	RMB’000
Carrying amount of assets that continue to be recognised	3,353,583
Carrying amount of liabilities that continue to be recognised	3,693,606

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41. BUSINESS COMBINATION

On 22 August 2017, the Group acquired a 48.04% interest in Netas from a third party Company. Netas is engaged in the manufacture of telecommunications equipment and related industrial products. The acquisition was made as part of the Group's strategy to expand sales in the Turkish ICT market. The purchase consideration for the acquisition was in the form of cash, with RMB659,329,000 paid before the acquisition date.

The Group has elected to measure the non-controlling interest in Netas at the non-controlling interest's proportionate share of Netas 's identifiable net assets.

The fair values of the identifiable assets and liabilities of Netas as at the date of acquisition were as follows:

	Fair value recognised on acquisition RMB'000
Current assets	2,072,798
Non-current assets	740,377
Current liabilities	(1,495,480)
Non-current liabilities	(130,706)
Total identifiable net assets at fair value	1,186,989
Non-controlling interests	(616,760)
Goodwill on acquisition	89,100
Satisfied by cash	659,329

The fair values of the trade receivables and other receivables as at the date of acquisition amounted to RMB1,263,516,000 and RMB1,621,000, respectively. The gross contractual amounts of trade receivables and other receivables were RMB1,319,893,000 and RMB1,621,000, respectively.

The Group incurred transaction costs of RMB4,635,000 for this acquisition. These transaction costs have been expensed and are included in other expenses in the consolidated statement of profit or loss and other comprehensive income.

An analysis of the cash flows in respect of the acquisition of a subsidiary is as follows:

	RMB'000
Cash consideration	659,329
Cash and cash equivalents paid	659,329
Cash and bank balances acquired	(147,128)
Net outflow of cash and cash equivalents included in cash flows from investing activities	512,201
Transaction costs of the acquisition included in cash flows from operating activities	(4,635)
	507,566

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41. BUSINESS COMBINATION (continued)

Since the acquisition, Netas contributed RMB1,052,895,000 to the Group's revenue and RMB127,985,000 to the consolidated profit for the year ended 31 December 2017.

Had the combination taken place at the beginning of the year, the revenue of the Gorup and the profit of the Group for the year would have been RMB109,772,448,000 and 5,355,401,000 respectively.

42. DISPOSAL OF SUBSIDIARIES

	Note	2017 RMB'000 Nubia Technology Co., Ltd.
Net assets disposed of:		
Current assets		4,993,892
Non-current assets		365,129
Current liabilities		(2,363,679)
Non-controlling interests		(1,198,137)
Fair value of the equity interests retained after the disposal		(3,233,520)
Gain on disposal of subsidiaries	5	2,163,515
Satisfied by:		
Cash		727,200

An analysis of the net cash flow in respect of the disposal of subsidiaries is as follows:

	2017 RMB'000 Nubia Technology Co., Ltd.
Cash consideration	727,200
Cash and bank balances disposed of	(922,361)
Net cash flow of cash and cash equivalents in respect of the disposal of subsidiary	(195,161)

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43. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2017 **RMB'000**	2016 RMB'000
Guarantees given to banks in respect of performance bonds	**8,419,135**	8,400,893
	8,419,135	8,400,893

(b) In August 2006, a customer instituted arbitration against the Company and demanded indemnity in the amount of PKR762,984,000 (equivalent to approximately RMB47,816,000). 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 RMB20,558,000) 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.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated. Hence, no additional provision was made in respect of the litigation for the 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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43. 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. On 11 December 2017, the Guangdong Higher Court gave a final verdict that upheld its second trial judgement.

In July 2014, China Construction Fifth Division instituted a lawsuit with 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 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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43. 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. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration ruling. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the district court of Dallas, Texas in respect of the aforesaid ruling.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

(e) 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.

43. 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 file an appeal to the United States Court of Appeals for the Federal Circuit based on the verdicts on the three patents involved in the litigation ruled by the Federal District Court of Delaware to have been subject to infringement.

In November 2017, United States Court of Appeals for the Federal Circuit ruled that the Company and ZTE USA had infringed upon two out of three patents involved in the aforesaid case. No ruling has yet been made in respect of the one remaining patent involved in the case. Currently, the Federal District Court of Delaware is scheduling a trial to determine compensation in respect of the infringement of the two patents as aforesaid.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

43. CONTINGENT LIABILITIES (continued)

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

(g) 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 RMB64,520,000). 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 RMB64.25 million), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB64.25 million) 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 RMB64.25 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.

43. CONTINGENT LIABILITIES (continued)

(g) (continued)

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB171 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

The Company, based on the advice from the Company's legal counsel and the progress of the case, believes that the ultimate outcome of this claim cannot be reliably estimated.

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

On 10 August 2017, the Company submitted its written defences to LCIA and DIFC-LCIA, respectively, for the aforementioned arbitrations. In the meantime, the Company filed counter-arbitration petitions against the said Mauritanian subsidiary for an aggregate amount of approximately USD22.71 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 arbitration cannot be reliably estimated.

(i) 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 agreed to plead guilty and pay a total of 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 on the condition of the Company's compliance with the requirements in the 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 DOJ agreement is a prerequisite for the issue of a settlement order by BIS. BIS would recommend the removal of the Company from the Entity List, conditioned on court approval of the DOJ agreement, entry of the plea, and the issuance of BIS Assistant Secretary's Order. On 22 March 2017 (United States time), the agreement between the Company and DOJ became effective upon approval by the Court. On 23 March 2017 (United States time), the BIS settlement order was issued, upon which the agreement with BIS came into effect. Upon the recommendation by BIS, the Company and Shenzhen ZTE Kangxun Telecommunications Ltd. were removed from the Entity List on 29 March 2017 (United States time).

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43. CONTINGENT LIABILITIES (continued)

(i) (continued)

The Agreements also covers the following key issues:

(1) A 3-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 7 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 7-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 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 that the USD300,000,000 penalty payment suspended by BIS would not be exempted as a result of any violation of the Agreements.

44. 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.

45. 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 2017. During the year, operating lease rental income of RMB23,424,000 (2016: RMB47,832,000) has been recognised under this arrangement.

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45. OPERATING LEASE ARRANGEMENTS (continued)

(a) As lessor (continued)

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 2017, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**97,220**	136,452
In the second to fifth years, inclusive	**240,920**	201,636
After five years	**314,119**	297,680
	652,259	635,768

(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 2017, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2017 RMB'000	2016 RMB'000
Within one year	**556,766**	307,719
In the second to fifth years, inclusive	**378,807**	174,340
After five years	**27,911**	78,588
	963,484	560,647

46. COMMITMENTS

	2017 RMB'000	2016 RMB'000
Contracted, but not provided for,		
Land and buildings	**2,854,506**	1,052,816
Investments in associates	**110,328**	128,351
	2,964,834	1,181,167

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47. RELATED PARTY TRANSACTIONS

(I) Transactions with related parties

In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material related party transactions during the year:

	Notes	2017 RMB'000	2016 RMB'000
The controlling shareholder:			
Purchases of raw materials	(a)	**249,700**	255,070
Sales of finished goods	(b)	**84**	1,528
Rental expense	(c)	**8,827**	8,827
Associates:			
Purchases of raw materials and other service	(a)	**1,998,631**	75,075
Sales of finished goods	(b)	**894,582**	17,873
Rental income	(e)	**17,010**	16,836
Interest expense	(f)	**771**	80
Interest income	(f)	**—**	4,222
Consulting service income	(g)	**—**	1,033
Joint ventures:			
Purchases of raw materials	(a)	**7,890**	3,966
Sales of finished goods	(b)	**205,167**	258,191
Rental income	(e)	**496**	496
Entities significantly influenced by key management personnel of the Group:			
Purchases of raw materials	(a)	**171,029**	195,454
Sales of finished goods	(b)	**143,724**	444,941
Rental expense	(d)	**40,671**	71,422
Rental income	(e)	**508**	2,659
Entities controlled by the controlling shareholder:			
Purchases of raw materials	(a)	**132,782**	153,888
Sales of finished goods	(b)	**24,979**	5,682
Rental income	(e)	**1,443**	1,129
Interest income	(f)	**2**	—

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

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47. 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 RMB34.5 to RMB157.5 per square metre.

(f) The interest rates for deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

(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	8,827	2,624	—

(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	1,000,000	—	—
Associates	45,000	—	—

47. 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	39,105	192	—
Joint ventures	76	—	—
The substantial shareholder of the controlling shareholder	695	—	—
An entity significantly influenced by key management personnel of the Group	189	95	—

(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
An entity significantly influenced by key management personnel of the Group	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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47. RELATED PARTY TRANSACTIONS (continued)

(IV) Compensation of key management personnel of the Group

	2017 RMB'000	2016 RMB'000
Short-term employee benefits	**41,963**	61,721
Post-employment benefits	**465**	660
Share option incentive scheme	**7,724**	—
Total compensation paid to key management personnel	**50,152**	62,381

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 RMB382 million (2016: RMB409 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.

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48. 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:

2017

Financial assets	Financial assets at fair value through profit or loss RMB'000	Loans and receivables RMB'000	Available-for-sale financial assets RMB'000	Derivatives designated as hedging instruments in effective hedges RMB'000	Total RMB'000
Available-for-sale investments	–	–	3,181,668	–	3,181,668
Trade and bills receivables/long-term trade receivables	–	27,642,988	–	–	27,642,988
Factored trade receivables/factored long-term trade receivables	–	3,688,455	–	–	3,688,455
Financial assets included in prepayments, deposits and other receivables	–	3,007,327	–	–	3,007,327
Pledged deposits	–	4,528,485	–	–	4,528,485
Time deposits with original maturity of over three months	–	232,411	–	–	232,411
Cash and cash equivalents	–	30,109,269	–	–	30,109,269
Derivative financial instruments	116,794	–	–	–	116,794
	116,794	69,208,935	3,181,668	–	72,507,397

2017

Financial liabilities	Financial liabilities at fair value through profit or loss RMB'000	Financial liabilities at amortised cost RMB'000	Derivatives designated as hedging instruments in effective hedges RMB'000	Other financial liabilities RMB'000	Total RMB'000
Trade and bills payables	–	34,463,067	–	–	34,463,067
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	–	4,028,478	–	–	4,028,478
Financial liabilities included in other payables and accruals	–	6,204,068	–	–	6,204,068
Interest-bearing bank borrowings	–	21,538,013	–	–	21,538,013
Factoring costs payable	–	98,187	–	–	98,187
Long-term payable	–	394,226	–	–	394,226
Derivative financial instruments	49,830	–	–	–	49,830
	49,830	66,726,039	–	–	66,775,869

48. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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

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

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49. 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:

The fair values of the non-current portion of pledged deposits, trade receivables, deposits and other receivables and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2017 was assessed to be insignificant.

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.

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49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Available-for-sale investments	**1,711,846**	**—**	**—**	**1,711,846**
Derivative financial instruments	**—**	**116,794**	**—**	**116,794**
	1,711,846	**116,794**	**—**	**1,828,640**

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

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2017

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Derivative financial instruments	**—**	**(49,830)**	**—**	**(49,830)**

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)

50. 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 2017, 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.

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50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk (continued)

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As the Group borrowed a USD1200 million floating interest rate loan, at 31 December 2017, there were no interest rate swaps (2016: Nil), and approximately 47% (2016: 44%) 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.

	Increase/ (decrease) in basis points	Increase/ (decrease) in profit/(loss) before tax RMB'000	Increase/ (decrease) in equity* RMB'000
2017	**25**	**(28,170)**	**—**
	(25)	**28,170**	**—**
2016	25	(24,426)	—
	(25)	24,426	—

* 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 and EUR. 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.

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate %	**Increase/ (decrease) in loss before tax RMB'000**
2017		
If RMB weakens against USD	**3%**	**330,755**
If RMB strengthens against USD	**(3%)**	**(330,755)**
If RMB weakens against EUR	**5%**	**49,081**
If RMB strengthens against EUR	**(5%)**	**(49,081)**

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit 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)

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 20.91% (2016: 19.82%) 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.

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50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g., trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank loans and other interest-bearing loans. In addition, banking facilities have been put in place for contingency purposes.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

2017

	On demand RMB'000	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	18,100,280	1,442,418	2,369,581	96,682	22,008,961
Trade and bills payables	23,614,556	10,848,511	—	—	—	34,463,067
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	1,113,708	470,923	765,887	1,858,955	4,209,473
Other payables	6,204,068	—	—	—	—	6,204,068
Factoring costs payable	—	—	54,143	41,071	53,344	148,558
Derivative financial instruments	—	49,830	—	—	—	49,830
Long-term payable	—	—	54,766	57,537	281,922	394,225
	29,818,624	30,112,329	2,022,250	3,234,076	2,290,903	67,478,182

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

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.

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50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management (continued)

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 2017 and 31 December 2016.

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:

	2017 **RMB'000**	2016 RMB'000
Interest-bearing borrowings	**21,538,013**	22,082,421
Bonds payable	**—**	—
Bank advances on factored trade receivables and long-term trade receivables	**4,028,478**	3,654,761
Total interest-bearing liabilities	**25,566,491**	25,737,182
Total equity	**45,380,147**	40,885,090
Total equity and interest-bearing liabilities	**70,946,638**	66,622,272
Gearing ratio	**36.0%**	38.6%

51. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

During the year, acquisition of property, plant and equipment of RMB469,876,000 (2016: RMB546,903,000) is by assuming directly related liabilities.

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings	**Bank advances on factored trade receivables**	**Derivative financial instruments**	**Bank advances on factored long-term trade receivables**
At 1 January 2017	**22,082,421**	**2,263,015**	**40,148**	**1,391,746**
Changes from financing cash flows	**(1,217,256)**	**(1,182,543)**	**12,327**	**1,556,260**
Fair value gain on derivative instruments	**—**	**—**	**(12,654)**	**—**
Settlement of derivative financial instruments	**—**	**—**	**10,009**	**—**
Increase arising from acquisition of subsidiaries	**672,848**	**—**	**—**	**—**
At 31 December 2017	**21,538,013**	**1,080,472**	**49,830**	**2,948,006**

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52. EVENTS AFTER THE REPORTING PERIOD

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

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

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

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

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

53. COMPARATIVE AMOUNTS

The Group has chosen to present the government grant related to income as a deduction in reporting the related expense since 1 January 2017. The Group has adopted this change in accounting policy retrospectively and the comparative figures have been restated.

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54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	31 December 2017 RMB'000	31 December 2016 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**5,828,042**	5,242,587
Prepaid land lease payments	**326,293**	347,352
Intangible assets	**1,304,900**	988,962
Investment properties	**1,615,458**	1,608,900
Investments in subsidiaries	**17,352,123**	16,062,044
Investments in joint ventures	**84,948**	55,548
Investments in associates	**549,505**	284,844
Available-for-sale investments	**461,091**	458,091
Long-term trade receivables	**110,214**	274,946
Factored long-term trade receivables	**2,491,751**	1,249,292
Deferred tax assets	**658,417**	788,372
Pledged deposits	**1,462,286**	3,258,533
Long-term prepayments, deposits and other receivables	**1,955,177**	323,088
Total non-current assets	**34,200,205**	30,942,559
CURRENT ASSETS		
Prepaid land lease payments	**8,703**	9,038
Inventories	**16,484,640**	17,993,566
Amount due from customers for contract works	**4,291,058**	4,904,060
Trade and bills receivables	**29,072,067**	41,333,032
Factored trade receivables	**704,593**	498,052
Prepayments, deposits and other receivables	**29,761,374**	22,089,383
Derivative financial instruments	**1,679**	15,457
Pledged deposits	**1,658,378**	142,012
Cash and cash equivalents	**17,006,734**	15,752,732
Total current assets	**98,989,226**	102,737,332

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
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54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2017 RMB'000	31 December 2016 RMB'000
CURRENT LIABILITIES		
Trade and bills payables	**52,386,859**	54,584,500
Amount due to customers for contract works	**5,584,395**	3,540,132
Other payables and accruals	**31,098,734**	38,524,339
Provision	**887,366**	776,682
Interest-bearing bank borrowings	**7,232,482**	11,639,725
Bank advances on factored trade receivables	**704,617**	499,386
Bonds payable	**—**	—
Derivative financial instruments	**30,078**	3,878
Tax payable	**74,033**	132,461
Dividends payable	**225**	225
Total current liabilities	**97,998,789**	109,701,328
NET CURRENT ASSETS/(LIABILITIES)	**990,437**	(6,963,996)
TOTAL ASSETS LESS CURRENT LIABILITIES	**35,190,642**	23,978,563
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**2,121,125**	480,000
Bank advances on factored long-term trade receivables	**2,831,751**	1,249,292
Financial guarantee contract	**—**	—
Provision for retirement benefits	**133,191**	146,106
Other long-term payables	**2,930,380**	1,055,711
Total non-current liabilities	**8,016,447**	2,931,109
Net assets	**27,174,195**	21,047,454
EQUITY		
Issued capital	**4,192,672**	4,184,628
Reserves (note)	**13,660,196**	7,541,499
Perpetual capital instruments	**9,321,327**	9,321,327
Total equity	**27,174,195**	21,047,454

Notes to Financial Statements

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54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of Company's reserves is as follows:

	Issued capital RMB'000	Capital reserve RMB'000	Share incentive scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Perpetual capital instruments RMB'000	Total RMB'000
At 31 December 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 and 1 January 2017	4,184,628	9,397,551	25,394	1,360,953	(16,823)	(3,225,576)	9,321,327	21,047,454
Final 2016 dividend declared	**–**	**–**	**–**	**–**	**–**	**–**	**(501,300)**	**(501,300)**
Total comprehensive income for the year	**–**	**15,572**	**–**	**–**	**(981)**	**5,760,955**	**501,300**	**6,276,846**
Share Incentive Scheme:								
– Equity-settled share option expense	**–**	**–**	**262,956**	**–**	**–**	**–**	**–**	**262,956**
– Issue of shares	**8,044**	**122,942**	**(42,747)**	**–**	**–**	**–**	**–**	**88,239**
Transfer from retained profits	**–**	**–**	**–**	**182,727**	**–**	**(182,727)**	**–**	**–**
At 31 December 2017	**4,192,672**	**9,536,065**	**245,603**	**1,543,680**	**(17,804)**	**2,352,652**	**9,321,327**	**27,174,195**

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

55. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 15 March 2018.

Documents Available for Inspection

(I) Text of the 2017 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 2017 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

16 March 2018

Leading 5G Innovations