ZTE 中兴通讯股份有限公司
ZTE CORPORATION

stock code : 000063.SZ 763.HK

ANNUAL REPORT 2019

Important

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

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

This report has been considered and approved at the Fifteenth Meeting of the Eighth Session of the Board of Directors of the Company.

The respective financial statements of the Group for the year ended 31 December 2019 were prepared in accordance with PRC Accounting Standards for Business Enterprises and with Hong Kong Financial Reporting Standards respectively, and had been audited by Ernst & Young Hua Ming LLP and Ernst & Young, and an unqualified auditors' report has been issued by each of them.

During the year, there was no significant deficiency in internal control in relation to financial reporting of the Company, nor was any significant deficiency in internal control in relation to non-financial reporting identified.

Mr. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in this report.

In view of the state of affairs of the Company, the proposal for profit distribution for 2019 is as follows: distribution of RMB2 in cash (before tax) for every 10 shares to all shareholders based on the total share capital (including A shares and H shares) as at the record date for profit distribution and dividend payment. In the event of changes in the Company's total share capital after the announcement of the Company's profit distribution proposal for 2019 but before its implementation, the total amount of distribution shall be readjusted in accordance with the law on the basis of the total share capital (including A shares and H shares) as at the record date for profit and dividend distribution for the purpose of the profit distribution proposal for 2019 according to the existing proportion for distribution. The aforesaid matter is subject to 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 are asked to beware of investment risks and their attention is drawn to the description of the potential risks inherent in the operations of the Company set out in the section headed "Report of the Board of Directors (VI) Business outlook of 2020 and risk exposures" in this report.

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

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

Contents

Definitions

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

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

Definitions

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	Dongguan Mentech Optical & Magnetic Co., Ltd
Lianchuang Electronic	Lianchuang Electronic Technology Co., Ltd.
Union Optech	Union Optech Co., Ltd.
Shijia Science & Technology	Suzhou Shijia Science & Technology Inc.
Beken	Beken Corporation
Anji Technology	Anji Microelectronics Technology (Shanghai) Co., Ltd.
Novoray	Novoray Corporation
Enablence Technologies	Enablence Technologies Inc.
ZTE Capital	Shenzhen ZTE Capital Management Company Limited
Zhonghe Chunsheng Fund I	Shenzhen Zhonghe Chunsheng Partnership Private Equity Fund I (Limited Partnership)
Jiaxing Fund	Jiaxing Xinghe Equity Investment Partnership (Limited Partnership)
Zhonghe Chunsheng Fund III	Suzhou Zhonghe Chunsheng Partnership Investment Fund III (Limited Partnership)
Medium Term Note(s) or perpetual capital instruments	Perpetual Medium Term Notes
Zhongxingxin	Zhongxingxin Telecom Company Limited
Zhongxing Hetai	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited
航天歐華	航天歐華信息技術有限公司 (formerly known as 深圳市航天歐華科技發展有限責任公司)
Xi'an Microelectronics	Xi'an Microelectronics Technology Research Institute
Aerospace Guangyu	Shenzhen Aerospace Guangyu Industrial Company Limited
Zhongxing WXT	Shenzhen Zhongxing WXT Equipment Company Limited

Definitions

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
2017 Share Option Incentive Scheme	the share option incentive scheme considered and approved at the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 of the Company
Latest practicable date	9 April 2020, being the latest practicable date prior to the printing of this report for the purpose of ascertaining the contents set out in this report

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 based on different destinations of optical connection, or GPON, EPON, 10G EPON and XG PON based on different standards.
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 Internet-based ICT communications network business with the database of users' social connections, leveraging carriers' strengths in network communications. By enabling manufacturers and corporations on the Internet to cooperate through integrated communication, RCS integrates existing VoIP and IM channels into an integrated communications network and accumulates assets relating to users' information, thereby adding value to data flow on the Mobile Internet.
SaaS	Software as a Service, an application model for the provision of Internet-based software services that offers commercial services to users at lower costs and eliminates problems in 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.
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.

Glossary

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

Company Profile

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

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

The Group is dedicated to the provision of ICT products and solutions that satisfy the needs of customers, integrating design, development, production, sales 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 the global telecommunications market with business presence in more than 160 countries and regions serving more than one quarter of the world's population. The Group has achieved a leading market position for its various telecommunications products in China with longstanding business ties with China's major telecommunications service providers, such as China Mobile, China Telecom and China Unicom. With respect to the global telecommunications market, the Group has provided innovative technology and product solutions to telecommunications service providers and government and corporate network clients in numerous countries and regions, making contributions to facilitating communications for users all over the world via multiple means, including voice, data, multi-media,wireless broadband and cable broadband.

Corporate Information

1	Legal name (in Chinese)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2	Legal representative	Li Zixue
3	Secretary to the Board of Directors/ Company Secretary	Ding Jianzhong
	Securities affairs representatives	Xu Yulong
	Correspondence address	No. 55, Keji Road South, Shenzhen, Guangdong Province, The People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	IR@zte.com.cn
4	Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China
	Postal code	518057
	Website	http://www.zte.com.cn
	E-mail	IR@zte.com.cn
	Principal place of business in Hong Kong	31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
5	Authorised representatives	Gu Junying Ding Jianzhong
6	Media designated for information disclosure by the Company	China Securities Journal, Securities Times, Shanghai Securities News
	Authorised websites on which this report is made available	http://www.cninfo.com.cn http://www.hkexnews.hk
	Place where this report is available for inspection	No. 55, Keji Road South, Shenzhen, Guangdong Province, The People's Republic of China
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

Corporate Information

8	Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
9	Legal advisers	
	As to Chinese law	Beijing Jun He Law Offices 20th Floor, China Resources Building, Beijing, The People's Republic of China
	As to Hong Kong law	Paul Hastings 21–22/F, Bank of China Tower, 1 Garden Road, Hong Kong
10	Auditors	
	PRC	Ernst & Young Hua Ming LLP Level 16, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Dongcheng District, Beijing, The People's Republic of China Signing Accountants: Liao Wenjia, Ma Jing
	Hong Kong	Ernst & Young 22/F, CITIC Tower, No. 1 Tim Mei Avenue, Central, Hong Kong
11	Information on change in registration Uniform social credit code	☐ Applicable √ N/A 9144030027939873X7

There has been no material change to the principal business and controlling shareholder of the company since its initial public offering of A shares and listing on the main board of the Shenzhen Stock Exchange.


101010101101010101010
BUSIN


www
www

Chairman's Statement

DEAR SHAREHOLDERS,

I hereby present the annual report of the Group for the year ended 31 December 2019, 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 2019, the Company reported operating revenue of RMB90.737 billion, representing a 6.11% growth as compared with the previous year. The Group's net profit attributable to holders of ordinary shares of the listed company for 2019 amounted to RMB5.148 billion, representing a 173.71% growth. Basic earnings per share was RMB1.22.

For 2019, the Group's operating revenue from the domestic market and the international market amounted to RMB58.217 billion and RMB32.520 billion, respectively.

BUSINESS DEVELOPMENT

The global telecommunications industry sustained growth amidst stable development in 2019 in terms of business revenue and investment, as investments remained focused on the construction of 4G networks. In the meantime, the construction of 5G networks was also kicking off across the globe. As the commercial application of 5G continued to gain pace, the global telecommunication industry is expected to embrace a new cycle of thriving development.

The Group's development in 2019 was underpinned by robust investments in technological R&D, large-scale commercial application of core 5G chip series, official commencement of operation of distributed database for the core business systems of large banks, broadened scope of application of its proprietary operating system, strategic cooperation in 5G with a number of industry leaders, and the implementation of innovative projects relating to 5G empowerment for various industries. As a result, the Group has fostered core competitive advantages in standard patents, key technologies and product solutions. In connection with the domestic market, the Group persisted in the implementation of a prudent business strategy while exploring new opportunities for growth in line with the business principle of consistently delivering value to customers and seeking mutual benefits through cooperation, as it continued to report revenue growth coupled with firm increase in market shares by actively participating in the 4G, 5G and optical network construction and technological evolution of carriers, with a view to seizing opportunities presented by the technological revolution on the back of its technological prowess and product competitiveness developed over the years. In connection with the international market, the Group persisted in the globalisation strategy with a consistent focus on the carriers of populous nations and leading multinational carriers, as it reported continuous growth in global market shares for major communication network equipment such as wireless access, wireline access, optical communication and core network. In the meantime, we seized the opportune timing for 5G development to complete the commercial deployment of 5G networks for overseas carriers in an ongoing effort to enhance customer satisfaction.

CORPORATE GOVERNANCE

In 2019, the Company enhanced its top-level design and system-based development in corporate governance and established a reasonable and effectively operating internal control regime to ensure business sustainability, with the aim of safeguarding operational compliance, bolstering internal control, preventing systemic risks and protecting asset security in accordance with provisions of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies, Basic Rules for Corporate Internal Control and other pertinent laws, regulations and regulatory documents.

SUSTAINABLE DEVELOPMENT

The Group constantly update itself with the latest ideas and standards in sustainable development and seek in-depth understanding of the demands of its stakeholders, so as to incorporate sustainable development into its corporate strategies and enhance its fulfilment of corporate social responsibility in a continuous manner. The Group fulfils its social responsibility and social value in light of its vision of "enabling communication and trust everywhere" and its mission of "connecting the world via its network and ushering in the future through innovation". The Group continued to solidify its work in the three major corporate infrastructures of "talent, compliance and internal control" and identified five strategic focuses for sustainable development: to achieve qualitative social and economic development by leveraging the innovative and commercial strengths afforded by R&D in infrastructure technologies and empowering the digital transformation of various industries through novel technologies; to protect customer privacy and information security by supplying quality products and address customers' concerns in a timely manner with premium services; to empower green development for various industries through its technologies and reduce the environmental impact of corporate operations by facilitating reasonable control over the consumption of resources and energy, optimisation of waste management and practice of the circular economy; to engage in strategic cooperation with suppliers and encourage more partners along the value chain to pursue sustainable development and enhance partners' ability through the influence of partner relationships; to be involved in the sustainability agenda of local communities across the globe, identifying key issues and making contributions to the global community through technology, financial funding and volunteer services. The Group's efforts in sustainable development and corporate social responsibility have been widely recognised by relevant parties. In 2019, the A shares and H shares of the Company were included as constituents of the Hang Seng (China A) Corporate Sustainability Index and FTSE4Good Index Series, respectively.

OUTLOOK

Looking to 2020, 5G is set to open the door to infinite possibilities. With the successive commencement of 5G commercial applications among leading global carriers, global 5G development is expected to roll out in full gear in the next 5 years, underpinned by a rapidly maturing 5G industry chain and vigorous supply of innovative 5G applications driving a new boom for the telecommunications industry. First of all, 5G will continue to benefit from the volume of mobile data, as new applications such as ultra-HD video and AR/VR are poised to provide supreme experience to users, while mobile data consumption is expected to sustain strong growth. Meanwhile, the integration of infrastructure for the intelligent Internet of Everything built on the back of 5G, in a development no less significant than the birth of the global Internet in the 1990s, is expected to come initially into shape in the next 5 years. The industrial applications of 5G, such as automated driving and intelligent manufacturing to name but a few, will give rise to new businesses, models and growth opportunities beyond imagination in the ICT sector.

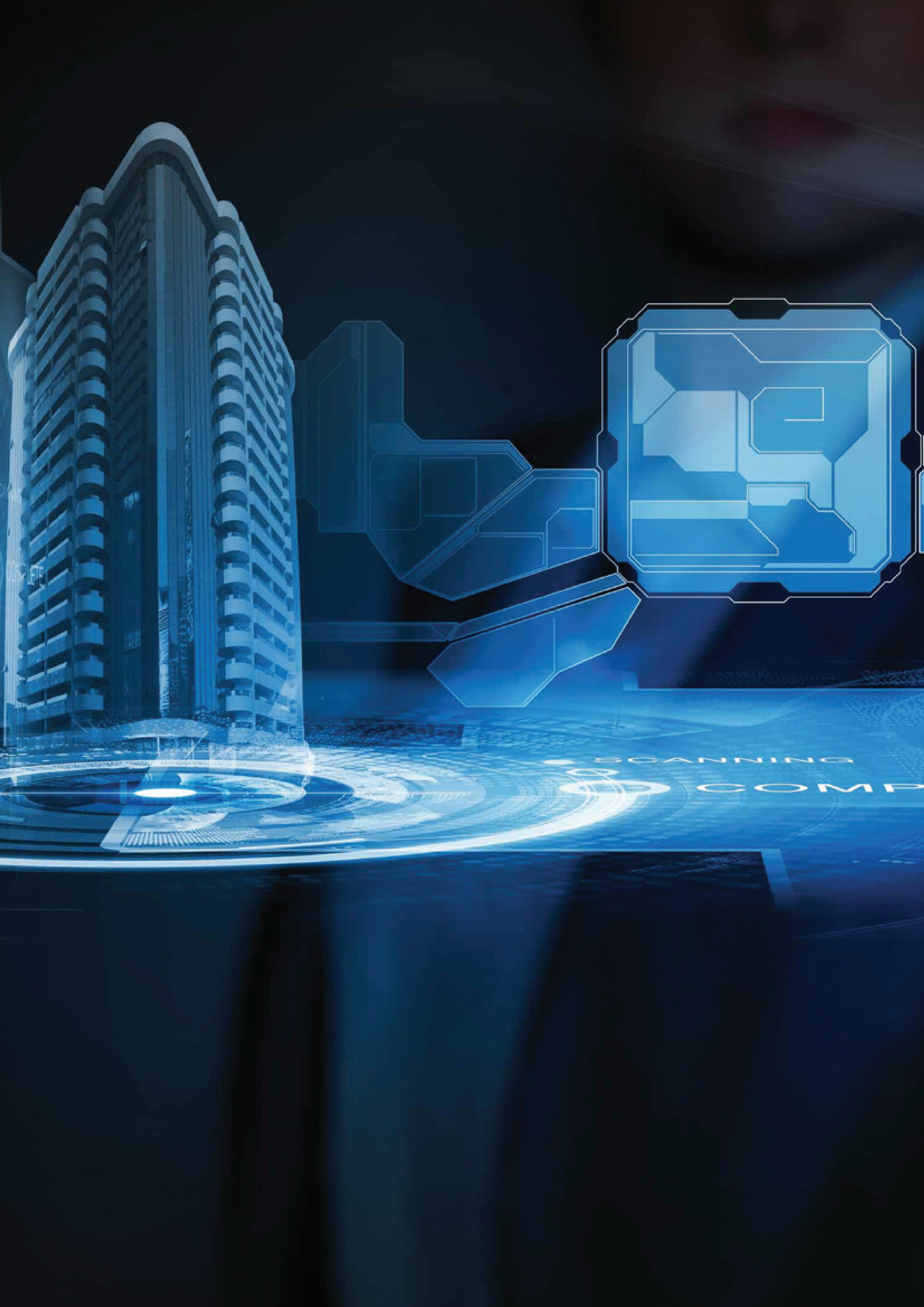
The Group will continue to drive technological innovation and market breakthrough in 2020, establishing further presence in the 5G markets at home and abroad while heralding business innovation by swiftly meeting the requirement for differentiated customisation on top of providing all-rounded, east-to-use products and solutions. In terms of corporate operations, we look to sustain revenue growth, sound profitability, ample liquidity and a reasonable gearing ratio to ensure the soundness of our operations. In terms of market landscape, we will persist in the globalisation strategy and focus on high-worth countries and markets, seeking to increase our market shares while actively seizing new opportunities in the government and corporate sector and in relation to 5G terminals. In terms of product R&D, we will endeavour to maintain our technological edge with a firm commitment to the investment in core products, such as 5G and bearer products, and chips to establish our leading position in key technologies and enhance product assurance for the benefit of business sustainability, while expediting digital transformation of the corporation to ensure ongoing progress in the incubation of innovative businesses. In terms of corporate governance, compliance control and operational regulation will be enhanced, so as to foster a positive image in the international market and win greater trust among domestic and overseas clients.

Chairman's Statement

The future will hold out bright prospects insofar as we take heed of lessons learned from the past. As we celebrate the 35th anniversary of ZTE in 2020, we must embrace the challenge of a complex business environment as well as unprecedented opportunities amidst the thriving development of revolutionary new technologies and industrial transformation. We have steered through stormy days in the past 35 years, undaunted even during the most difficult times as generations of ZTE faithful have strived to fulfil their vision and belief. With the strong support of its shareholders, ZTE is fully confident that it will accomplish the strategic goal of qualitative growth and add further value for its staff, customers, shareholders, the community and other stakeholders in celebration of the 35th birthday of ZTE.

Li Zixue
Chairman

Shenzhen, PRC
March 2020


SCANNING


SEARCH
ANALYSIS
-SHOW BUSINESS
-NETWORK
-MUSIC
-CINEMA
-BUSINESS/FINANCE
-WORLD NEWS

Major Events of the Group

2019

January	2019	ZTE receives the certificate for passing the third-phase 5G testing of China
February	2019	ZTE introduces EDGE AI with the presentation of the EDGE computing server
June	2019	5G commercial licenses issued by the Ministry of Industry and Information Technology as ZTE becomes fully prepared for commercial applications
June	2019	ZTE submits 1424 disclosures of 5G SEP (standard essential patents) to ETSI, ranking among the top three on a global basis
July	2019	ZTE commences the operation of the European Network Security Laboratory in Brussels in fulfilment of its pledge to continuously enhance security for the ICT industry
July	2019	ZTE announces the prices of its 5G flagship handsets and launches online pre-sale ahead of its peers
September	2019	ZTE is fully involved in the large-scale deployment of 5G networks in China, while obtaining 35 contracts for 5G commercial applications globally
October	2019	ZTE opens the industry's first 5G network slicing commercial city in Europe
October	2019	ZTE's multi-modal digital medium-frequency chip is awarded the title of "Outstanding Innovative Technology Product" in "China Chip 2019"
November	2019	ZTE completes the commercial 5G sharing and co-building verification ahead of its peers in association with China Telecom and China Unicom as it continues to lead in the new 5G era
November	2019	ZTE successfully commences 5G end-to-end network slicing + MEC service in joint venture with Guangdong Mobile and Tencent to step up with the implementation of new business models
December	2019	ZTE's GoldenDB is successfully commissioned for the core credit card business system of CITIC bank

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

On 7 December 2018, the MOF issued the revised “ASBE 21 — Leases” (“New ASBE on Leases”). Enterprises listed in both domestic and overseas markets were required to adopt the New ASBE on Leases with effect from 1 January 2019. The Group has modified its accounting policies in accordance with the provisions of the aforesaid accounting standard.

In accordance with relevant convergence provisions under the New ASBE on Leases, the Group has elected not to reassess whether contracts subsisting prior to 1 January 2019 are lease contracts or contracts containing leases. As a lessee, the Group has elected to adopt a modified convergence treatment of retrospective adjustment. The cumulative effect from the first implementation of the New ASBE on Leases has been recognised by adjusting the opening balance of “Rights of use assets” and “Lease liabilities” in the financial statements as at 1 January 2019, while other items in the balance sheet have not been affected. No retrospective adjustments have been made to the comparative statements for the same period last year.

For operating leases subsisting prior to 1 January 2019, the Group as lessee has measured lease liabilities on 1 January 2019 based on remaining lease payments discounted to present value using the incremental borrowing rate for the Group. Assets comprising rights of use have been recognised as the amount of lease liabilities adjusted for rental prepayments as necessary. The Group has adopted the simplified treatment of recognising leases ending within 12 months after 1 January 2019 as short-term leases. Based on detailed evaluation of the impact of the adoption of the New ASBE on Leases, assets comprising rights of use with an amount of RMB952,264,000 and lease liabilities amounting to RMB952,264,000 have been recognised for the Group, while assets comprising rights of use with an amount of RMB660,822,000 and lease liabilities amounting to RMB660,822,000 have been recognised for the Company as at 1 January 2019.

In April 2019, the MOF promulgated the “Notice on the Revision and Publication of the 2019 General Corporate Financial Reporting Format” (the “New Reporting Format”) and at the same time annulled the “Notice on the Revision and Publication of the 2018 General Corporate Financial Reporting Format” promulgated in June 2018. The Company has amended its financial reporting format in accordance with pertinent requirements. The previous “Bills receivable and trade receivables” shall be segregated into “Bills receivable” and “Trade receivables”; bills receivable and trade receivable at fair value through other comprehensive income shall be included under “Receivable financing”. The Company accounted for bills receivable at fair value through other comprehensive income previously accounted for under “Other current assets” under “Receivable financing”. The previous “Bills payable and trade payables” was segregated into “Bills payable” and “Trade payables”. The portion of “Deferred income” with an amortisation period of one year or less and expected to be amortised within a period of one year or less shall not be classified as current liabilities. “Deferred income” in current liabilities was consolidated with the “Deferred income” under non-current liabilities. Gain or loss arising from the derecognition of financial assets at amortised cost as a result of transfers is included under “Gain from derecognition of financial assets at amortised cost”. In accordance with “ASBE 30 — Presentation of Financial Statements”, the presentation of current financial statements should contain the comparative data of at least the previous comparable accounting period for all presented items. In the event of any change in the items presented in the financial statements, adjustments according to the current presentation requirements should be made at least to the data of the comparable period. The Group has made adjustments to the comparable data on “Bills receivable”, “Trade receivables”, “Receivable financing”, “Bills payable”, “Trade payables”, “Deferred income”, “Investment income”. “Finance costs”, “Cash payments for investment” and “Cash payments for dividend distribution or interest repayment”.

Highlights of Accounting Data and Financial Indicators

HKFRSs

In 2018, the Hong Kong Institute of Certified Public Accountants announced HKFRS 16 LEASES (the "New HKFRS on Leases") to be implemented as from 1 January 2019.

In accordance with the New HKFRS on Leases, the Group has revised the previous lease accounting policy. The details and impact are the same as described in the above in relation to PRC ASBEs. The Group has made adjustments to the presentation of financial statements prepared under HKFRSs.

The implementation of the aforesaid New ASBE on Leases and the New Reporting Format has had no material impact on the Group's consolidated financial reports.

(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 2019**	For the year ended 31 December 2018	Year-on-year change	For the year ended 31 December 2017 (Restated)
Operating revenue	**90,736.6**	85,513.2	6.11%	108,815.3
Operating profit	**7,552.2**	(612.0)	1,334.02%	6,781.0
Total profit	**7,161.7**	(7,350.2)	197.44%	6,718.9
Net profit attributable to holders of ordinary shares of the listed company	**5,147.9**	(6,983.7)	173.71%	4,568.2
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	**484.7**	(3,395.5)	114.27%	903.4
Net cash flows from operating activities	**7,446.6**	(9,215.4)	180.81%	7,220.0

Unit: RMB in millions

Item	**As at 31 December 2019**	As at 31 December 2018	Year-on-year change	As at 31 December 2017
Total assets	**141,202.1**	129,350.7	9.16%	143,962.2
Total liabilities	**103,247.8**	96,390.1	7.11%	98,582.1
Owners' equity attributable to holders of ordinary shares of the listed company	**28,826.9**	22,897.6	25.89%	31,646.9
Share capital (million shares) [Note]	**4,227.5**	4,192.7	0.83%	4,192.7

Note: The total share capital of the Company increased from 4,192,671,843 shares to 4,227,529,869 shares following the exercise of a total of 34,858,026 A share options by the participants under the Company's 2017 Share Option Incentive Scheme.

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 2019	Three months ended 30 June 2019	Three months ended 30 September 2019	Three months ended 31 December 2019
Operating revenue	**22,201.8**	**22,407.4**	**19,631.5**	**26,495.9**
Net profit attributable to holders of ordinary shares of the listed company	**862.6**	**608.1**	**2,657.2**	**1,020.0**
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	**132.9**	**479.2**	**98.0**	**(225.4)**
Net cash flows from operating activities	**1,260.0**	**6.6**	**1,638.6**	**4,541.4**

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

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

Item	For the year ended 31 December 2019	For the year ended 31 December 2018	Year-on-year change	For the year ended 31 December 2017
Basic earnings per share (RMB/share) Note 1	**1.22**	(1.67)	173.05%	1.09
Diluted earnings per share (RMB/share) Note 2	**1.22**	(1.67)	173.05%	1.08
Basic earnings per share after extraordinary items (RMB/share) Note 1	**0.12**	(0.81)	114.81%	0.22
Weighted average return on net assets (%)	**19.96%**	(26.10%)	Increased by 46.06 percentage points	15.74%
Weighted average return on net assets after extraordinary items (%)	**1.88%**	(12.69%)	Increased by 14.57 percentage points	3.11%
Net cash flows from operating activities per share (RMB/share) Note 3	**1.76**	(2.20)	180.00%	1.72

Item	As at 31 December 2019	As at 31 December 2018	Year-on-year change	As at 31 December 2017
Net asset per share attributable to holders of ordinary shares of the listed company (RMB/share) Note 3	**6.82**	5.46	24.91%	7.55
Gearing ratio	**73.12%**	74.52%	Decreased by 1.4 percentage points	68.48%

Note 1: Basic earnings per share and basic earnings per share after extraordinary items for 2019, 2018 and 2017 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 18,349,000, 0 and 30,243,000 potentially dilutive ordinary shares for 2019, 2018 and 2017, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor;

Highlights of Accounting Data and Financial Indicators

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 2019, 2018 and 2017 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 2019**	For the year ended 31 December 2018	For the year ended 31 December 2017
Non-operating income, other income and others	**3,359.7**	3,117.7	2,292.2
Gains/(Losses) from fair value change	**(120.1)**	51.8	58.3
Investment income	**170.9**	668.7	2,197.8
Less: Losses/(gains) on disposal of non-current assets	**(2,688.0)**	34.2	80.5
Less: Other non-operating expenses	**574.2**	6,851.3	112.8
Less: Asset impairment loss	**20.2**	1,161.4	—
Less: Effect of income tax	**825.6**	(631.3)	653.2
Less: Effect of non-controlling interests (after tax)	**15.3**	10.8	37.0
Total	**4,663.2**	(3,588.2)	3,664.8

Highlights of Accounting Data and Financial Indicators

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

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

Unit: RMB in millions

	Year ended 31 December				
Results	**2019**	2018 (Restated)	2017	2016 (Restated)	2015 (Restated)
Revenue	**90,736.6**	85,513.2	108,815.3	101,233.2	100,186.4
Cost of sales	**(58,878.0)**	(58,638.3)	(76,116.5)	(71,312.5)	(70,968.3)
Gross profit	**31,858.6**	26,874.9	32,698.8	29,920.7	29,218.1
Other income and gains	**6,816.1**	4,630.4	6,950.9	6,116.0	4,262.2
Research and development expenses	**(12,547.9)**	(10,905.6)	(12,962.2)	(11,689.2)	(11,168.2)
Selling and distribution expenses	**(7,868.7)**	(9,084.5)	(12,260.0)	(12,622.4)	(11,941.0)
Administrative expenses	**(5,289.1)**	(4,106.2)	(3,237.7)	(2,731.0)	(2,514.1)
Impairment losses on financial and contract assets, net	**(2,228.4)**	(3,654.9)	—	—	—
Loss on disposal of financial assets measured at amortised cost	**(209.4)**	(320.3)	—	—	—
Other expenses	**(975.7)**	(8,978.3)	(3,184.9)	(8,651.0)	(2,347.7)
Profit from operating activities	**9,555.5**	(5,544.5)	8,004.9	343.1	5,509.3
Finance costs	**(1,718.2)**	(1,008.4)	(1,157.8)	(1,156.1)	(1,269.1)
Share of profit and loss of jointly controlled entities and associates	**(675.6)**	(797.3)	(128.2)	45.2	63.3
Profit/(loss) before tax	**7,161.7**	(7,350.2)	6,718.9	(767.8)	4,303.5
Income tax expense	**(1,385.0)**	400.9	(1,332.6)	(640.1)	(563.2)
Profit/(loss) for the year	**5,776.7**	(6,949.3)	5,386.3	(1,407.9)	3,740.3
Attributable to: Non-controlling interests	**(280.2)**	382.6	(316.8)	(448.2)	(115.8)
Attributable to: Perpetual capital instruments	**(348.6)**	(417.0)	(501.3)	(501.3)	(416.6)
Attributable to: Holders of ordinary shares of the parent company	**5,147.9**	(6,983.7)	4,568.2	(2,357.4)	3,207.9

Highlights of Accounting Data and Financial Indicators

Unit: RMB in millions

	As at 31 December				
Assets and liabilities	**2019**	2018	2017	2016	2015
Total assets	**141,202.1**	129,350.7	143,962.2	141,408.2	124,588.0
Total liabilities	**103,247.8**	96,390.1	98,582.1	100,523.1	81,239.4
Non-controlling interests	**2,875.1**	3,810.6	4,411.9	5,162.6	4,367.2
Perpetual capital instruments	**6,252.4**	6,252.4	9,321.3	9,321.3	9,321.3
Equity attributable to holders of ordinary shares of the parent company	**28,826.9**	22,897.6	31,646.9	26,401.2	29,660.1

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

Item	**2019**	2018	2017	2016	2015
Basic earnings per share (RMB/share) Note 1	**1.22**	(1.67)	1.09	(0.57)	0.78
Net asset per share (RMB/share) Note 2	**6.82**	5.46	7.55	6.31	7.15
Fully diluted return on net assets (%)	**17.86%**	(30.50%)	14.43%	(8.93%)	10.82%

Note 1: Basic earnings per share for the aforesaid periods 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: Net assets per share for the aforesaid periods have been calculated on the basis of the total share capital as at the end of the respective periods.

(IV) THE AMOUNTS OF NET PROFIT AND NET ASSETS OF THE GROUP FOR THE YEAR ENDED AND AS AT 31 DECEMBER 2019 CALCULATED IN ACCORDANCE WITH PRC ASBEs ARE ENTIRELY CONSISTENT WITH THOSE CALCULATED UNDER HKFRSs.

Summary of the Company's Business

I. PRINCIPAL BUSINESSES

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

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

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

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

II. THE INDUSTRY IN WHICH WE OPERATE

The Company is a leading provider of integrated communication and information solutions in the world market, providing innovative technology and product solutions to customers in numerous countries and regions around the world.

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

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

III. MAJOR ASSETS

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

IV. TECHNOLOGICAL INNOVATION

The Group is equipped with the ability to provide a complete range of end-to-end 5G solutions and fully prepared for the commercialisation of wireless products, core networks, bearers, chips, terminals and industrial applications thanks to consistent investment in innovation over the years in line with its core 5G development strategy.

Summary of the Company's Business

In connection with wireless products, the Group has secured 46 5G commercial contracts around the world covering major 5G markets such as China, Europe, the Asia Pacific and the Middle East and commenced in-depth 5G cooperation with over 70 global carriers. Underpinning its strong ability in chip design and development, the Group's 7nm chips have been put to mass production and commercial application in large-scale 5G deployment around the globe. In the meantime, we are already preparing for the launch of our next-generation 5nm chip. Our complete range of high-performance wireless products based on the proprietary 7nm chip have helped carriers to build evolution-ready 5G networks with maximum cost efficiency and minimised TCO. FAST (time and frequency synchronisation), SuperDSS (super dynamic spectrum sharing), Massive MIMO performance optimisation and other solutions have generally enhanced the ratio of resource utilisation. Core networks based on SBA (Service-based Architecture) have formed a most powerful brain supporting the integrated access of 2/3/4/5G access, scalable functions on-demand and intelligent end-to-end slicing deployment. Our ubiquitous AI has contributed to energy conservation and efficiency enhancement for networks on all fronts and provided support to business innovation.

In the bearer segment, the large-scale commercial deployment of our 5G bearer end-to-end products has been achieved with the completion of commercial deployment and experiments on networks for more than 40 5G bearers in cooperation with global carriers. The proprietary chip for FlexE, network processor and switch triplet which supports ultra-low latency has yielded the best test indicators among peers, while the indicator for ultra-high precision time protocol synchronisation technology has attained perfect synchronisation under 3GPP. On the back of the Company's proprietary chips and exclusive Flex Shaping family of algorithms, our 5G optical network has set world records in 100G+ ultra-long distance transmission, reaching as far as 1,700 km in 200G commercial transmission and over 600 km in the 400G test for networks in operation. The continuous improvement in the Company's ability in proprietary chips has facilitated the ongoing upgrade of the Company's core router, which was admitted into national core nodes in 2019 for commercial application in 19 provinces nationwide. The debut of the industry-grade 10-million level vBRAS solution has been concluded with the completion of 14 commercial bureaus and pilot bureaus. In connection with the two-phase liquid cooling technology in which we claim leadership, a breakthrough has been made in relation to the limit of the cooling fan, while reducing noise by 80% and energy consumption by 30%.

In fixed-line access, TITAN, our flagship product in optical access which claims the largest capacity and highest level of integration among peers, has been put to large scale application in China, Brazil and Mexico. Our OLT (Optical Line Terminal) equipped with a built-in blade solution known as Light Cloud has enabled calculation and storage functions in telecommunication access equipment for the first time and facilitated the opening of the world's first Access CDN commercial bureau which has reduced the screen freezing rate by two orders of magnitude and uplink bandwidth by 60%. We held the world's largest market share in fixed-line terminals, having delivered 100 million sets of ONT (Optical Line Terminal) developed on the basis of proprietary chips. The Company owns the ONT terminal, the first of its kind among industry peers to receive EasyMesh certification. NetSphere, our Mesh Wi-Fi intelligent networking solution, has provided 1G home Wi-Fi coverage without blind spots and 10-ms zero sense roaming for users.

Our Big Video products have been employed by China Telecom, China Mobile and China Unicom for large scale application with a global system capacity of over 130 million. We have ranked first in the CDN segment with a commercial throughput of over 190T. Our innovative 5G smart pavilion solution was used at a number of sporting events, such as the Second All-China Youth Athletic Meet, the Fifteenth World Martial Art Champion and the 2020 CBA All Star Tournament.

Application in vertical business sectors is the key to delivering the commercial value of 5G. The Company provides highly reliable communication assurance with 5G-based end-to-end slicing and assists in the digital transformation of businesses in the vertical sectors with swift development of platform products and solutions by integrating the five intermediary enabling platforms of cloud video, industry IOT, robotic AI, integrated positioning and 3D security on the back of MEC's ability in business localisation. As of now, the Company has secured more than 300 partners across 15 sectors, such as industrial manufacturing, culture and tourism, education, medical care, media, port operation, environmental protection, energy, transportation and finance,

Summary of the Company's Business

among others, and explored 86 scenarios for 5G applications in joint effort with these partners. Globally, we have successfully implemented more than 60 implementation projects. We have received 22 awards in the second "Zhanfang Cup" National Contest hosted by the Ministry of Industry and Information Technology, including a Class I award for Smart Port and Class II awards for Smart Retail and Smart Pavilion. Smart Retail also received the GTI 2020 Mobile Business Application Innovation Award, while Smart Port, ZTE XRExplore and Smart Power Grid received the Class I, Class II and Class III awards, respectively at the first World 5G Convention.

The Group has grown into a Chinese enterprise with a global track record of success in the communication energy sector and an integrated network energy solution provider with global servicing capabilities. In the communication energy sector, we have ranked first in market share for domestic carriers' inventory for 11 years in a row, while making a breakthrough in the high-end market with Softbank of Japan. The Group has also been a mainstream supplier in green smart data centres in the data centre business. In 2019, we won key projects such as the T-Block of Tencent and the indirect evaporative cooling and air-conditioning project of Baidu. We have also been a leading supplier of charger modules. As at the end of 2019, the energy products of the Group served 386 carriers in over 160 countries and regions with the successful completion of more than 260 data centre cases.

In the cloud video business, ZTE pioneered in the proposition of ultra-video to usher in a new era of the video business featuring extreme speed, definition and intelligence to provide customers with a one-stop 5G + intelligent video "terminal — edge — cloud" solution, as it continued to lead in innovative applications of 5G and AI technologies. In video IOT, we have launched the 5G+4K ultra-HD network camera ahead of our peers and garnered the "Jinding Award" at the 2019 China Public Security Expo. In the AI sector, we have renewed the world records for the three major data sets with our ReID algorithm. In video conference, we have announced XT802, the world's first 5G+4K HD video conference terminal that provides ultra-HD experience in a 5G mobile environment in an ongoing enhancement of our product competitiveness. In the meantime, the Company has increased its investment in cloud computer products, such as uSmartView, which claims a distinct advantage over the traditional PC in terms of remote office, information security, intelligent maintenance, energy conservation and reduction in emission.

In GoldenDB (distributed database), our GoldenDB database product was officially commissioned for the core operation of CITIC bank credit card centre on 26 October 2019. The product passed the PoC verification tests of major state-owned banks following vigorous efforts and was officially commissioned for the administration system of Guangdong Rural Credit Union and the core service system of Guizhou Bank. Pilot core transaction services were also conducted at Ganzhou Bank and a number of other banks to expedite the verification and commissioning of GoldenDB for the core services of various financial institutions. With the support of the Company, further investments were made in GoldenDB to enhance its strategic position as part of the effort to develop an ecosphere of domestically made database and build the leading brand name for database products in China.

The Group is a major participant in and contributor to global 5G technology research and standard formulation. As at 31 December 2019, the Group had filed applications for over 74,000 patented assets globally, among which more than 34,000 patents had been licensed. We had filed patent applications for more than 3,900 chips covering numerous countries and regions such as Europe, the United States, Japan and Korea. According to the February 2020 report of IPlytics, the Company has submitted disclosures of 2,561 5G SEP (standard essential patents) to ETSI, ranking among the top three globally. The Company's technical experts Ms Gao Yin and Sergio Parolari were elected vice chairmen of 3GPP RAN3 and RAN2, respectively.

Report of the Board of Directors

BUSINESS OF THE GROUP

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

FINANCIAL RESULTS

Please refer to page 146 and page 329 of this report for the results of the Group for the year ended 31 December 2019 prepared in accordance with PRC ASBEs and HKFRSs, respectively.

FINANCIAL SUMMARY

Set out on pages 22–24 of this report are the results and financial position of the Group for the three financial years ended 31 December 2019 prepared in accordance with the PRC ASBEs.

Set out on page 25–26 of this report are the results and financial position of the Group for the five financial years ended 31 December 2019 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 2015, 2016, 2017, 2018 and 2019 prepared in accordance with HKFRSs.

(I) Business Review for 2019

1. Overview of the domestic telecommunications industry for 2019

The domestic telecommunication industry sustained stable development in 2019. According to the data published by the Ministry of Industry and Information Technology of the PRC, the domestic telecommunications sector reported revenue of RMB1,310 billion for 2019, representing year-on-year growth of 0.8%, while the total volume of telecommunication service increased by 18.5%, year-on-year, underpinned by exponential growth in data volume as the mobile internet business reported a 71.6% growth compared to the previous year.[Note] The building of 5G infrastructure was expedited, as 2019 marked the commencement of commercial 5G application in China with the official launch taking place in June 2019. By the end of 2019, 130,000 5G base stations had been built across the country, while a wide array of 5G terminal models had also been launched.

Note: Data derived from the "2019 Statistical Communique on the Telecom Industry" published by the Ministry of Industry and Information Technology of the PRC.

2. Overview of the global telecommunications industry for 2019

The global telecommunications industry sustained growth amidst stable development in terms of business revenue and investment, as investments remained focused on the construction of 4G networks. According to the statistics of GSA, there were 141 carriers building 4G networks globally in 2019. In the meantime, the construction of 5G networks was also kicking off across the globe. As at the end of 2019, over 60 carriers from more than 30 countries and regions had started their 5G network deployment, with Korea leading the way in global 5G development following ferocious growth as the first country to launch commercial-scale 5G services. As the commercial application of 5G continued to gain pace, the global telecommunication industry is expected to embrace a new cycle of investment in the end-to-end industry chain of "chip, component, network, terminal and B2S", which will usher in a new phase of thriving development for the sector.

Report of the Board of Directors

3. Operating results of the Group for 2019

(1) By market

The domestic market

For the year, the Group's operating revenue from the domestic market amounted to RMB58.217 billion, accounting for 64.16% of the Group's overall operating revenue. The Group persisted in the implementation of a prudent business strategy while exploring new opportunities for growth, as it continued to report revenue growth coupled with firm increase in market shares by actively participating in the 4G, 5G and optical network construction and technological evolution of carriers, with a view to seizing opportunities presented by the technological revolution on the back of its technological prowess and product competitiveness developed over the years.

The international market

For the year, the Group's operating revenue from the international market amounted to RMB32.520 billion, accounting for 35.84% of the Group's overall operating revenue. The Group persisted in the globalisation strategy with a consistent focus on the carriers of populous nations and leading multinational carriers, as it reported continuous growth in global market shares for major communication network equipment such as wireless access, wireline access, optical communication and core network. In the meantime, we seized the opportune timing for 5G development to complete the commercial deployment of 5G networks for overseas carriers in an ongoing effort to enhance customer satisfaction.

(2) By business segment

For the year, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB66.585 billion, RMB9.155 billion and RMB14.997 billion, respectively.

Carriers' network

In 2019, the Group's competitiveness in the major product categories of the carriers' network segment was further enhanced, as it reported notable breakthroughs in the international as well as domestic markets. According to the statistics of Global Data, a consulting agency, the Group is well within the leaders' quadrant in terms of products such as 5G RAN, core network and transmission.

In connection with wireless products, the Group continued to play a pivotal role in the innovation of 5G technologies and applications, as it embarked on 5G cooperation with more than 70 carriers and 300 corporate clients globally as a first-quadrant player in terms of 5G industrialisation and introduced the commercial application of 7nm core chip for 5G. In connection with wireline products, the marketing of our proprietary specialised core chip featuring high integration density, high performance and low power consumption has significantly enhanced our competitiveness in wireline products, contributing to a second-place global ranking in terms of the aggregate shipment volume for PON, FTTx and 100G optical transmission networks. In connection with video and energy products, the Group offered a full range of products, such as video conference, video IOT and cloud computer, on the back of its technologies in video encoding/decoding, access, transmission and storage, which will form a growth niche for the carriers' network business in the imminent 5G era.

Government and corporate business

The Group is well-trusted by clients in the government and corporate business, having been involved in the segment for over a decade with in-depth development of the four traditional key market sectors of energy, transportation, government affair and finance. The "Double Hundred and Double Thousand Programme" (referring to China's Top 100 cities in GDP and Top 1,000 highly-digitalised districts coupled with its Top 100 companies and Top 1,000 high-digitalised enterprises) announced in June 2019 to facilitate digital transformation for customers through the provision of customised industry solutions has delivered positive results. Core products developed by the Group, such as servers, video, digital communication, database and operating system, have also enjoyed extensive applications. Our distributed database for core businesses of large banks went online officially, as the scope of application for our proprietary operating system continued to expand.

Report of the Board of Directors

Consumer business

The Group's consumer business was focused on handset, data card, vehicle terminal, home information terminal and fixed network broadband terminal. The handset business was focused on the 5G terminal in an active effort to explore the domestic and international carrier and consumer markets. We have been a consistent global leader in home information terminal and fixed network broadband terminal businesses, thanks to our formidable strengths in R&D, customisation and delivery and longstanding intensive cooperation with upstream component manufacturers and downstream carriers along the industry chain.

For financial results of the year analysed by major financial indicators adopted by the Group, please refer to section (II) headed "Discussion and Analysis of Operations under PRC ASBEs" and section (III) headed "Management Discussion and Analysis under HKFRSs" in this chapter.

For details of the Group's environmental policy and performance of corporate social responsibilities, please refer to the section headed "Material Matters (XXV) Performance of corporate social responsibility by the Company" in this report.

(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	90,736.6	100%	57,008.4	37.17%	6.11%	(0.63%)	4.26
Total	**90,736.6**	**100%**	**57,008.4**	**37.17%**	**6.11%**	**(0.63%)**	**4.26**
II. By business segment							
Carriers' networks	66,584.4	73.38%	38,210.2	42.61%	16.66%	12.27%	2.24
Government and corporate business	9,154.8	10.09%	6,485.0	29.16%	(0.79%)	(0.68%)	(0.08)
Consumer business	14,997.4	16.53%	12,313.2	17.90%	(21.93%)	(26.72%)	5.37
Total	**90,736.6**	**100%**	**57,008.4**	**37.17%**	**6.11%**	**(0.63%)**	**4.26**
III. By region							
The PRC	58,217.0	64.16%	35,007.9	39.87%	6.93%	3.82%	1.81
Asia (excluding the PRC)	13,180.3	14.53%	8,141.8	38.23%	10.97%	(2.60%)	8.61
Africa	5,316.1	5.86%	2,969.7	44.14%	30.22%	38.69%	(3.41)
Europe, Americas and Oceania	14,023.2	15.45%	10,889.0	22.35%	(7.19%)	(17.17%)	9.36
Total	**90,736.6**	**100%**	**57,008.4**	**37.17%**	**6.11%**	**(0.63%)**	**4.26**

(1) Analysis of change in revenue

The Group reported RMB90,736.6 million in operating revenue for 2019, increasing by 6.11% as compared with the same period last year. Operating revenue generated from the domestic business amounted to RMB58,217.0 million, increasing by 6.93% as compared with the same period last year. Operating revenue generated from the international business increased by 4.67% to RMB32,519.6 million.

Report of the Board of Directors

Analysed by business segment, year-on-year growth in the Group's operating revenue for 2019 reflected mainly year-on-year growth in operating revenue from carriers' networks. The 16.66% year-on-year increase in operating revenue from the Group's carriers' networks for 2019 reflected mainly the year-on-year increase in operating revenue from FDD system equipment in the domestic and international markets and 5G system equipment in the domestic and international markets.

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

Unit: RMB in millions

2019			2018 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)
90,736.6	**57,008.4**	**37.17%**	84,628.1	56,720.0	32.98%	7.22%	0.51%	4.19

Note: Figures of operating revenue and operating costs for 2018 have excluded operating revenue and operating costs of subsidiaries deconsolidated in 2019.

Shijiazhuang Guochuang Smart City Research Institute Company Limited, Shenzhen Zhongliancheng Electronic Development Company Limited, ZTE (Kunming) Smart City Industry Research Institute Co., Ltd., ZTE Smart Terminal Company Limited, Shenzhen Xinglianda Technology Limited, ZTEJC NIGERIA LIMITED, Shandong Bobei Information Technology Company Limited, ZTE HONGKONG (LAO) SOLE COMPANY LIMITED, ZTE (Hangzhou) Co., Ltd., Shanghai Xingxin New Energy Automobile Company Limited, Jiyuan Zhongxing Intelligent Technology Industry Company Limited and ZTE Research and Development Center completed deregistration with industrial and commercial administration authorities on 4 January, 17 January, 21 January, 12 March, 21 March, 8 May, 2 September, 9 September, 18 October, 15 November, 19 November and 31 December 2019, respectively, and the aforesaid companies have been excluded from the consolidated financial statements of the Group as from the date on which such deregistration was completed.

NXT Netcare Services GmbH, a subsidiary of the Company, completed the disposal of 100% equity interests in NFS Netcare Field Services GmbH on 1 January 2019, NFS Netcare Field Services GmbH has been excluded from the consolidated financial statements of the Group as from 1 January 2019. ZTE ICT (Henan) Company Limited, a subsidiary of the Company, completed the disposal of 100% equity interests in Henan Xingyuan Intelligent Industry Development Company Limited on 29 March 2019. Henan Xingyuan Intelligent Industry Development Company Limited has been excluded from the consolidated financial statements of the Group as from 29 March 2019. The Company completed the disposal of 51% equity interests in ZTE (Huai'an) Smart Industries Company Limited in June 2019. ZTE (Huai'an) Smart Industries Company Limited has been excluded from the consolidated financial statements of the Group as from June 2019. Shenzhen Zhongxing ICT Company Limited, a subsidiary of the Company, completed the disposal of 90% equity interests in Shenzhen Green Pea Educational Technology Company Limited on 18 June 2019. Shenzhen Green Pea Educational Technology Company Limited has been excluded from the consolidated financial statements of the Group as from 18 June 2019. The Company completed the disposal of 12% equity interests in Zhongxing Feiliu Information Technology Company on 31 December 2019. Zhongxing Feiliu Information Technology Company has been excluded from the consolidated financial statements of the Group as from 31 December 2019.

Report of the Board of Directors

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

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

Unit: RMB in millions

		2019		2018		
Industry	**Item**	**Amount**	**As a percentage of operating costs**	Amount	As a percentage of operating costs	Year-on-year increase/ decrease
Manufacturing of communication equipment	Raw materials	**42,500.1**	**74.55%**	44,454.6	77.49%	(4.40%)
	Engineering costs	**12,121.8**	**21.26%**	11,142.0	19.42%	8.79%
	Total	**54,621.9**	**95.81%**	55,596.6	96.91%	(1.75%)

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

Unit: RMB in millions

Item	**2019**	2018 (Restated)	Year-on-year increase/ decrease
Selling and distribution expenses	**7,868.7**	9,084.5	(13.38%)
Administrative expenses	**4,772.8**	3,651.5	30.71% Note 1
Finance expenses	**966.0**	(39.6)	2,539.39% Note 2
Income tax	**1,385.0**	(400.9)	445.47% Note 3

Note 1: Attributable mainly to the increase in the Group's legal expenses for the period;

Note 2: Attributable mainly to the increase in interest expenses in line with increased financing incurred by the Group and the decrease in exchange gains for the period;

Note 3: Attributable mainly to the Company's recognition of deferred income tax deductible against losses for the same period last year.

4. Research and development expense of the Group

Item	**2019**	2018	Year-on-year increase/ decrease
Headcount of R&D personnel	**28,301**	25,969	8.98%
R&D personnel as a percentage of total headcount	**40.39%**	38.06%	Increased 2.33 percentage points
Amount of R&D expense (RMB in million)	**12,547.9**	10,905.6	15.06%
R&D expense as a percentage of operating revenue	**13.83%**	12.75%	Increased 1.08 percentage points
Amount of capitalised R&D expense (RMB in million)	**2,272.6**	2,011.9	12.96%
Capitalised R&D expense as a percentage of R&D expense	**18.11%**	18.45%	Decreased 0.34 percentage point

5. Breakdown of the Group's cash flow

Unit: RMB in millions

Item	2019	2018 (Restated)	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**105,339.3**	101,566.9	3.71%
Sub-total of cash outflows from operating activities	**97,892.7**	110,782.3	(11.64%)
Net cash flows from operating activities	**7,446.6**	(9,215.4)	180.81%[Note 1]
Sub-total of cash inflows from investing activities	**4,563.2**	6,322.2	(27.82%)
Sub-total of cash outflows from investing activities	**10,586.3**	7,608.2	39.14%
Net cash flows from investing activities	**(6,023.1)**	(1,286.0)	(368.36%)[Note 2]
Sub-total of cash inflows from financing activities	**45,937.9**	29,304.5	56.76%
Sub-total of cash outflows from financing activities	**40,216.2**	28,096.1	43.14%
Net cash flows from financing activities	**5,721.7**	1,208.4	373.49%[Note 3]
Net increase in cash and cash equivalents	**7,371.7**	(8,975.2)	182.13%

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

Note 2: Reflecting mainly the increase in other cash paid in connection with investing activities;

Note 3: Reflecting mainly the increase in cash received as loans.

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. 57 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 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 2019 amounted to RMB7,552.2 million, representing year-on-year increase of 1,334.02% which reflected mainly operating losses and loss provisions for the same period last year arising from the matter described in the "INSIDE INFORMATION ANNOUNCEMENT" published by the Company on 9 May 2018. Expenses for the period amounted to RMB26,155.4 million, increasing by 10.82%, year-on-year, and reflecting the increase in legal expenses and interest expenses; investment income amounted to RMB249.4 million, an increase by 1,067.03% as compared to the same period last year reflecting mainly the increase in investment income from the disposal of equities in listed companies during the period by the subsidiary fund partnerships under ZTE Capital; net non-operating income and expenses amounted to RMB-390.5 million, representing year-on-year increase of 94.20%, which was attributable mainly to the payment for the same period last year of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

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

The Group's gross profit margin for 2019 was 37.17%, improving by 4.26 percentage points compared to the same period last year. This was mainly attributable to the growth in revenue from carriers' network, which commanded a higher gross profit margin, as a percentage of our total revenue, as well as to the higher gross profit margin of carriers' networks.

Report of the Board of Directors

7. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in millions

Item	As at 31 December 2019		As at 31 December 2018		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	**141,202.1**	**100%**	129,350.7	100%	—
Cash	**33,309.3**	**23.59%**	24,289.8	18.78%	4.81
Trade receivables	**19,778.3**	**14.01%**	21,592.3	16.69%	(2.68)
Inventory	**27,688.5**	**19.61%**	25,011.4	19.34%	0.27
Investment properties	**1,957.2**	**1.39%**	2,012.0	1.56%	(0.17)
Long-term equity investments	**2,327.3**	**1.65%**	3,015.3	2.33%	(0.68)
Fixed assets	**9,383.5**	**6.65%**	8,898.1	6.88%	(0.23)
Construction in progress	**1,171.7**	**0.83%**	1,296.0	1.00%	(0.17)
Short-term loans	**26,646.0**	**18.87%**	23,739.6	18.35%	0.52
Long-term liability due within one year	**612.3**	**0.43%**	1,243.7	0.96%	(0.53)
Long-term loans	**10,045.1**	**7.11%**	2,366.6	1.83%	5.28

Report of the Board of Directors

(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	Other movements	Closing balance
Financial assets								
1. Financial assets at fair value through profit or loss (excluding derivative financial assets)	2,979,322	(59,085)	–	–	139,020	1,905,957	–	2,154,916
2. Derivative financial assets	228,117	(135,863)	13,811	–	–	–	–	106,065
3. Other debt investments	–	–	–	–	–	–	–	–
4. Other investments in equity instruments	–	–	–	–	–	–	–	–
Sub-total of financial assets	3,207,439	(194,948)	13,811	–	139,020	1,905,957	–	2,260,981
Investment properties	2,011,999	7,243	–	–	–	–	(62,000)	1,957,242
Productive living assets	–	–	–	–	–	–	–	–
Others	–	–	–	–	–	–	–	–
Total	**5,219,438**	**(187,705)**	**13,811**	**–**	**139,020**	**1,905,957**	**(62,000)**	**4,218,223**
Financial liabilities [Note]	101,332	(26,287)	1,396	–	–	–	–	126,223

Note: Financial liabilities included derivative financial liabilities.

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

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

(3) For details of assets of the Company subject to restrictions in ownership or use as at the end of the year, please refer to Note V. 58 "Assets subject to restrictions in ownership or use" to the financial reports prepared under PRC ASBEs.

Report of the Board of Directors

8. Major customers and suppliers

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

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

Sales by the Group in 2019 to its largest customer amounted to RMB26,285.65 million, accounting for 28.97% of the total sales of the Group for the year, while sales to its five largest customers amounted to RMB50,771.88 million, accounting for 55.96% of the total sales of the Group for the year. The five largest customers were not connected to the Company in any way. None of the Directors, Supervisors, senior management, key technical personnel, shareholders holding 5% or more of the shares, de facto controller and other connected parties of the Company had any direct or indirect interest in any of the aforesaid five largest customers. None of the Directors or Supervisors of the Company or their close associates or, to the knowledge of the Board of Directors, any of the shareholders holding 5% or more of the shares of the Company had any interest in any of the five largest customers of the Group. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs.)

Purchases by the Group from its largest supplier amounted to RMB2,575.96 million in 2019, accounting for 5.78% of the total purchases of the Group for the year, while the purchases made from its five largest suppliers amounted to RMB9,437.08 million, accounting for 21.18% of the total purchases of the Group for the year. The five largest suppliers were not connected to the Company in any way. None of the Directors, Supervisors, senior management, key technical personnel, shareholders holding 5% or more of the shares, de facto controller and other connected parties of the Company had any direct or indirect interest in any of the aforesaid five largest suppliers. (The above figures of the Group are consistent under PRC ASBEs and HKFRSs.)

9. Analysis of investment

(1) Overview

The Company's long-term equity investments as at the end of the year under review amounted to approximately RMB2,327,288,000, representing decrease of 22.82% compared to approximately RMB3,015,295,000 as at 31 December 2018. Other third-party investments amounted to approximately RMB2,154,916,000, representing decrease of 30.06% compared to approximately RMB3,081,200,000 as at 31 December 2018.

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

(3) Investment in financial assets

① Investment in securities

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

Unit: RMB in ten thousands

Type of securities	Stock code	Stock name	Initial investment	Accounting method	Book value at the beginning of the period	Gains/loss arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed during the period	Gains/loss for the reporting period	Book value at the end of the period	Accounting classification	Source of funds
Stock	300438	Great Power [Note 1]	121.41	Fair-value measurement	570.46	(449.06)	–	–	975.42	345.25	–	Trading financial assets	Issue fund
Stock	300502	Eoptolink [Note 1]	833.03	Fair-value measurement	9,259.67	(8,426.64)	–	–	11,272.00	1,297.73	–	Trading financial assets	Issue fund
Stock	603986	Giga Device [Note 1]	704.18	Fair-value measurement	21,515.36	(20,811.18)	–	–	36,675.51	13,264.15	–	Trading financial assets	Issue fund
Stock	603633	Laimu [Note 1]	1,616.00	Fair-value measurement	3,508.34	(1,892.34)	–	–	3,960.11	321.40	–	Trading financial assets	Issue fund
Stock	603920	Olympic Circuit Technology [Note 1]	2,562.00	Fair-value measurement	14,757.50	(12,195.50)	–	–	17,165.15	2,689.46	–	Trading financial assets	Issue fund
Stock	002902	Mentech [Note 1]	1,548.03	Fair-value measurement	11,382.83	(6,111.87)	–	–	11,998.27	4,357.98	4,102.22	Trading financial assets	Issue fund
Stock	002036	Lianchuang Electronic [Note 2]	2,921.74	Fair-value measurement	5,298.94	(2,377.20)	–	–	11,190.98	5,395.96	–	Trading financial assets	Issue fund
Stock	300691	Union Optech [Note 2]	3,498.71	Fair-value measurement	9,842.80	(2,878.40)	–	–	8,225.86	3,186.84	4,743.33	Trading financial assets	Issue fund
Stock	002796	Shijia Science & Technology [Note 2]	1,575.00	Fair-value measurement	3,552.42	9.52	–	–	2,258.35	1,433.07	2,776.63	Trading financial assets	Issue fund
Stock	603068	Beken [Note 3]	2,175.99	Fair-value measurement	2,175.99	6,921.12	–	–	–	6,943.57	9,097.11	Trading financial assets	Issue fund
Stock	688019	Anji Technology [Note 3]	4,350.00	Fair-value measurement	3,317.99	24,194.93	–	–	–	24,194.93	27,512.92	Trading financial assets	Issue fund
Stock	688300	Novoray [Note 3]	1,000.83	Fair-value measurement	1,800.00	2,290.50	–	–	–	2,314.50	4,090.50	Trading financial assets	Issue fund
Stock	ENA: TSV	Enablence Technologies [Note 4]	3,583.26	Fair-value measurement	1,707.99	(704.05)	–	–	–	(704.05)	1,003.94	Other non-current financial assets	Internal funds
Other securities investments held at the end of the period			–	–	–	–	–	–	–	–	–	–	–
Total			**26,490.18**	**–**	**88,690.29**	**(22,430.17)**	**–**	**–**	**103,721.65**	**65,040.79**	**53,326.65**	**–**	**–**

Note 1: The Company and ZTE Capital held in aggregate 31% equity interests in Zhonghe Chunsheng Fund I, a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Great Power, Eoptolink, Giga Device, Laimu, Olympic Circuit Technology and Mentech Optical are provided with Zhonghe Chunsheng Fund I as the accounting subject.

Note 2: The Company and ZTE Capital held in aggregate 31.79% equity interests in Jiaxing Fund, a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Lianchuang Electronic, Union Optech and Shijia Science & Technology are provided with Jiaxing Fund as the accounting subject.

Note 3: The Company and Changshu Changxing Capital Management Company Limited, a wholly-owned subsidiary of ZTE Capital, held in aggregate 25.83% equity interests in Zhonghe Chunsheng Fund III, a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Beken, Anji Technology and Novoray are provided with Zhonghe Chunsheng Fund III as the accounting subject.

Note 4: 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 HKD11,194,500, equivalent to approximately RMB10,039,400 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.89682) on 31 December 2019.

B. Details in investment in securities during the reporting period

a. Shareholdings in Great Power

During 2019, Zhonghe Chunsheng Fund I transferred 353,000 shares held in Great Power (a company listed on the GEM Board of the Shenzhen Stock Exchange). As at the end of the year, Zhonghe Chunsheng Fund I no longer held any shares in Great Power.

b. Shareholdings in Eoptolink

During 2019, Zhonghe Chunsheng Fund I transferred 4,712,300 shares held in Eoptolink (a company listed on the GEM Board of the Shenzhen Stock Exchange). As at the end of the year, Zhonghe Chunsheng Fund I no longer held any shares in Eoptolink.

c. Shareholdings in Giga Device

During 2019, Zhonghe Chunsheng Fund I transferred 3,452,400 shares held in Giga Device (a company listed on the Shanghai Stock Exchange). As at the end of the year, Zhonghe Chunsheng Fund I no longer held any shares in Giga Device.

d. Shareholdings in Laimu

During 2019, Zhonghe Chunsheng Fund I transferred 3,695,200 shares (following the implementation of its 2018 equity distribution plan) held in Laimu (a company listed on the Shanghai Stock Exchange). As at the end of the year, Zhonghe Chunsheng Fund I no longer held any shares in Laimu.

e. Shareholdings in Olympic Circuit Technology

During 2019, Zhonghe Chunsheng Fund I transferred 12,390,900 shares held in Olympic Circuit Technology (a company listed on the Shanghai Stock Exchange). As at the end of the year, Zhonghe Chunsheng Fund I no longer held any shares in Olympic Circuit Technology.

f. Shareholdings in Mentech

During 2019, Zhonghe Chunsheng Fund I transferred 4,332,200 shares held in Mentech (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange). As at the end of the year, Zhonghe Chunsheng Fund I held 1,768,200 shares in Mentech (following the implementation of its 2018 equity distribution plan), accounting for 0.84% of the total share capital of Mentech.

g. Shareholdings in Lianchuang Electronic

During 2019, Jiaxing Fund transferred 7,194,800 shares (following the implementation of its 2018 equity distribution plan) held in Lianchuang Electronic (a company listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange). As at the end of the year, Jiaxing Fund no longer held any shares in Lianchuang Electronic.

h. Shareholdings in Union Optech

During 2019, Jiaxing Fund transferred 4,443,300 shares held in Union Optech (a company listed on the GEM Board of the Shenzhen Stock Exchange). As at the end of the year, Jiaxing Fund held 2,583,500 shares in Union Optech (following the implementation of its 2018 equity distribution plan), accounting for 1.15% of the total share capital of Union Optech.

i. Shareholdings in Shijia Science & Technology

During 2019, Jiaxing Fund transferred 568,000 shares held in Shijia Science & Technology (a company listed on the GEM Board of the Shenzhen Stock Exchange). As at the end of the year, Jiaxing Fund held 771,300 shares in Shijia Science & Technology (following the implementation of its 2018 equity distribution plan), accounting for 0.46% of the total share capital of Shijia Science & Technology.

Report of the Board of Directors

j. **Shareholdings in Beken**

As at the end of the year, Zhonghe Chunsheng Fund III held 1,122,200 shares in Beken (a company listed on the Shanghai Stock Exchange), accounting for 0.81% of the total share capital of Beken.

k. **Shareholdings in Anji Technology**

Anji Technology in which Zhonghe Chunsheng Fund III had invested was listed on the STAR Market of the Shanghai Stock Exchange on 22 July 2019. As at the end of the year, Zhonghe Chunsheng Fund III held 2,314,509 shares in Anji, accounting for 4.36% of the total share capital of Anji Technology.

l. **Shareholdings in Novoray**

Novoray in which Zhonghe Chunsheng Fund III had invested was listed on the STAR Market of the Shanghai Stock Exchange on 15 November 2019. As at the end of the year, Zhonghe Chunsheng Fund III held 1,000,000 shares in Novoray, accounting for 1.16% of the total share capital of Novoray.

m. **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 investment 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 investment of CAD4.62 million. As at the end of the year, ZTE HK held 95 million shares in Enablence Technologies, accounting for 14.80% of its total share capital.

n. **Save as aforesaid, the Group did not invest in non-listed financial enterprises such as commercial banks, securities companies, insurance companies, trusts or 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 Note 2	Amount purchase during the period	Amount disposal during the period	Impairment provision (if any)	Closing balance of investment	Closing balance of investment amount as a percentage of net assets Note 3 of the Company at the end of the period (%)	Actual profit or loss for the reporting period
Financial institution	N/A	No	Foreign exchange forwards	–	2019/5/10	2020/11/27	407,971.97	371,195.42	508,975.13	–	270,192.26	9.37%	(2,296.35)
Financial institution	N/A	No	Foreign exchange forwards	–	2019/4/23	2020/10/28	70,649.30	237,437.67	103,663.18	–	204,423.79	7.09%	(1,737.39)
Financial institution	N/A	No	Foreign exchange forwards	–	2019/5/15	2020/12/4	324,528.43	247,627.28	375,927.03	–	196,228.68	6.81%	(1,667.74)
Other financial institutions	N/A	No	Foreign exchange forwards/interest rate swap	–	2019/3/7	2022/12/26	994,088.53	1,240,547.01	1,426,188.73	–	808,446.81	28.05%	(6,870.96)
Total				**–**	**–**	**–**	**1,797,238.23**	**2,096,807.38**	**2,414,754.07**	**–**	**1,479,291.54**	**51.32%**	**(12,572.44)**

Source of funds for derivative investment	Internal funds
Litigation (if applicable)	Not involved in any litigation

Report of the Board of Directors

Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)	"Overseas Regulatory Announcement Announcement Resolutions of the Twenty-eighth Meeting of the Seventh Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2018," both dated 15 March 2018, and "Announcement Resolutions of the Forty-sixth Meeting of the Seven Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Application for Derivative Investment Limits for 2019," both dated 27 March 2019.
Date of announcement of the general meeting in respect of the approval of derivative investments (if any)	"Announcement on Resolutions of the 2017 Annual General Meeting" dated 29 June 2018 and "Announcement on Resolutions of the 2018 Annual General Meeting" dated 30 May 2019.
Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period	Value-protection derivative investments were conducted by the Company during the first three quarters of 2019. The major risks and control measures are discussed as follows: 1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date; 2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company's budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company's actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company's current assets was insignificant; 3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks; 4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; obscure terms in the trade contract may result in legal risks; 5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.

Report of the Board of Directors

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 loss recognised for the reporting period amounted to RMB126 million, comprising loss from fair-value change of RMB162 million and recognised investment gains of RMB36 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.
Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period	There was no significant change in the Company's accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.
Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control	Independent Non-executive Directors' Opinion: The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. The derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and the internal review procedures performed have been in compliance with the provisions of relevant laws and regulations and of the Articles of Association.

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

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

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

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 financial products	Internal funds and issue fund	76,829	3,722	—
Total		**76,829**	**3,722**	**—**

Note 1: The amount incurred under entrusted fund management represents the maximum daily balance under entrusted fund management during the reporting period, namely, the maximum value of the daily outstanding aggregate balance under entrusted fund management during the reporting period.

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

☐ Applicable ✓ N/A

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

(5) Use of Issue Proceeds

☐ Applicable ✓ N/A

10. Material asset and equity disposal by the Group

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

11. Analysis of principal subsidiaries and investee companies

Unit: RMB in millions

Name of company	Corporate type	Principal operations	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Software development	RMB51.08 million	13,666.5	1,190.3	15,795.9	1,442.2	1,415.5
ZTE Capital	Subsidiary	Entrusted management and venture investment fund	RMB30 million	1,611.9	1,469.2	3.1	631.5	601.1
ZTE HK	Subsidiary	Sales and technical support in relation to communication products	HKD995 million	20,778.7	780.4	14,035.8	1,005.8	948.1
ZTE (Nanjing) Co., Ltd.	Subsidiary	Production of mobile communication system equipment	RMB1,000 million	8,697.8	1,697.8	15,560.0	839.5	628.5

For information of other subsidiaries and principal investee companies, please refer to Note XV.4 Long-term equity investments and Note VII to the financial report prepared in accordance with PRC ASBEs.

For the year, the operating results of 4 subsidiaries had a material impact on the consolidated operating results of the Company and 2 of them reported year-on-year change in operating results of more than 30%: ZTE Capital reported a 205.97% year-on-year growth in net profit, attributable mainly to the increase in investment income from the disposal of equities in listed companies by the subsidiary fund partnerships under ZTE Capital; ZTE HK reported a 141.47% year-on-year growth in net profit, attributable mainly to a higher gross profit margin.

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	2019	2018 (Restated)
Operating revenue:		
Carriers' networks	**66,584.4**	57,075.8
Government and corporate business	**9,154.8**	9,227.8
Consumer business	**14,997.4**	19,209.6
Total revenue	**90,736.6**	85,513.2
Cost of sales	**(58,878.0)**	(58,638.3)
Gross profit	**31,858.6**	26,874.9
Other income and gains	**6,816.1**	4,630.4
Research and development costs	**(12,547.9)**	(10,905.6)
Selling and distribution expenses	**(7,868.7)**	(9,084.5)
Administrative expenses	**(5,289.1)**	(4,106.2)
Impairment losses on financial and contract assets, net	**(2,228.4)**	(3,654.9)
Loss on disposal of financial assets measured at amortised cost	**(209.4)**	(320.3)
Other expenses	**(975.7)**	(8,978.3)
Profit from operating activities	**9,555.5**	(5,544.5)
Finance costs	**(1,718.2)**	(1,008.4)
Share of profits and losses of joint ventures and associates	**(675.6)**	(797.3)
Profit/(loss) before tax	**7,161.7**	(7,350.2)
Income tax expense	**(1,385.0)**	400.9
Profit/(loss) for the year	**5,776.7**	(6,949.3)
Attributable to:		
Non-controlling interests	**(280.2)**	382.6
Attributable to:		
Perpetual capital instruments	**(348.6)**	(417.0)
Attributable to:		
Ordinary shares of the parent company	**5,147.9**	(6,983.7)
Other comprehensive income	**49.4**	(905.3)
Comprehensive income	**5,826.1**	(7,854.6)
Dividend	**922.4**	—
Earnings per share — Basic	**RMB1.22**	RMB(1.67)
— Diluted	**RMB1.22**	RMB(1.67)

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

	2019		2018	
Business segment	**Revenue**	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
Carriers' networks	**66,584.4**	**73.4%**	57,075.8	66.8%
Government and corporate business	**9,154.8**	**10.1%**	9,227.8	10.8%
Consumer business	**14,997.4**	**16.5%**	19,209.6	22.4%
Total	**90,736.6**	**100.0%**	85,513.2	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

	2019		2018	
Region	**Revenue**	**As a percentage of operating revenue**	Revenue	As a percentage of operating revenue
The PRC	**58,217.0**	**64.2%**	54,444.2	63.7%
Asia (excluding the PRC)	**13,180.3**	**14.5%**	11,877.2	13.9%
Africa	**5,316.1**	**5.9%**	4,082.3	4.8%
Europe, the Americas and Oceania	**14,023.2**	**15.4%**	15,109.5	17.6%
Total	**90,736.6**	**100.0%**	85,513.2	100.0%

The Group reported RMB90,736.6 million in operating revenue for 2019, increasing by 6.1% as compared with the same period last year. Operating revenue generated from the domestic business amounted to RMB58,217.0 million, increasing by 6.9% as compared with the same period last year. Operating revenue generated from the international business increased by 4.7% to RMB32,519.6 million.

Analysed by business segment, year-on-year growth in the Group's operating revenue for 2019 reflected mainly year-on-year growth in operating revenue from carriers' networks. The 16.7% year-on-year increase in operating revenue from the Group's carriers' networks for 2019 reflected mainly the year-on-year increase in operating revenue from FDD system equipment in the domestic and international markets and 5G system equipment in the domestic and international markets.

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

	2019		2018	
Business segment	**Cost of sales**	**As a percentage of business segment revenue**	Cost of sales	As a percentage of business segment revenue
Carriers' networks	**39,701.5**	**59.6%**	34,933.8	61.2%
Government and corporate business	**6,636.1**	**72.5%**	6,687.0	72.5%
Consumer business	**12,540.4**	**83.6%**	17,017.5	88.6%
Total	**58,878.0**	**64.9%**	58,638.3	68.6%

Unit: RMB in millions

	2019		2018	
Business segment	**Gross profit**	**Gross profit margin**	Gross profit	Gross profit margin
Carriers' networks	**26,882.9**	**40.4%**	22,142.0	38.8%
Government and corporate business	**2,518.7**	**27.5%**	2,540.8	27.5%
Consumer business	**2,457.0**	**16.4%**	2,192.1	11.4%
Total	**31,858.6**	**35.1%**	26,874.9	31.4%

Cost of sales of the Group for 2019 increased by 0.4%, year-on-year, to RMB58,878.0 million. The Group's overall gross profit margin rose by 3.7 percentage points to 35.1% for 2019, reflecting the increase in operating revenue from the carriers' networks which commanded a higher gross profit margin as a percentage of total revenue and an improved gross profit margin for carriers' networks.

Cost of sales of the Group's carriers' networks for 2019 amounted to RMB39,701.5 million, a 13.6% increase compared to the same period last year. Gross profit margin was 40.4%, compared to 38.8% for the same period last year. The increase in gross profit margin for carriers' networks reflected mainly the increase in gross profit margin for FDD system equipment in the domestic and international markets.

Cost of sales of the Group's government and corporate business for 2019 amounted to RMB6,636.1 million, a 0.8% decrease compared to the same period last year. The relevant gross profit margin was 27.5%, unchanged from 27.5% for the same period last year.

Cost of sales of the Group's consumer business for 2019 amounted to RMB12,540.4 million, decreasing by 26.3% compared to the same period last year. The relevant gross profit margin was 16.4%, versus 11.4% for the same period last year. The increase in gross profit margin for the consumer business reflected mainly the increase in gross profit margin for home terminals in the domestic as well as international markets.

OTHER INCOME AND GAINS

Other income and gains of the Group for 2019 amounted to RMB6,816.1 million, representing a 47.2% increase compared to RMB4,630.4 million for 2018, attributable mainly to the recognition of relevant income by the Company as disclosed in "UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION" published on 11 July 2019.

RESEARCH AND DEVELOPMENT COSTS

The Group's research and development costs for 2019 increased by 15.1% to RMB12,547.9 million from RMB10,905.6 million for 2018, or by 1.0 percentage point from 12.8% for 2018 to 13.8% for 2019 as a percentage of operating revenue. The Group continued to invest in core technologies such as 5G wireless, core network, bearer, access and chips during the period.

SELLING AND DISTRIBUTION EXPENSES

The Group's selling and distribution expenses for 2019 decreased by 13.4% to RMB7,868.7 million from RMB9,084.5 million for 2018, attributable mainly to the reclassification of the Group's selling and distribution expenses relating to projects to cost of sales and strengthened control over selling expenses for the period. Selling and distribution expenses as a percentage of operating revenue decreased by 1.9 percentage points to 8.7%, compared to 10.6% for 2018.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group for 2019 increased by 28.8% to RMB5,289.1 million, as compared to RMB4,106.2 million for 2018. Such increase was attributable mainly to the increase in the Group's legal fees for the period. Administrative expenses as a percentage of operating revenue increased by 1.0 percentage point to 5.8% as compared to 4.8% for 2018.

IMPAIRMENT LOSSES ON FINANCIAL AND CONTRACT ASSETS, NET

The Group's impairment losses on financial and contract assets for 2019 amounted to RMB2,228.4 million, decreasing by 39.0% compared to RMB3,654.9 million for 2018. This was mainly attributable to the decrease in the Group's provision for bad debt and trade receivables for the period.

LOSS ON DISPOSAL OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

The Group recorded loss on disposal of financial assets measured at amortised cost for 2019 amounting to RMB209.4 million, decreasing by 34.6% compared to RMB320.3 million for 2018. The decrease reflected mainly the decrease in interests relating to the Group's international factoring without recourse for the period.

OTHER EXPENSES

Other expenses primarily include loss on impairment of assets, non-operating expenses and loss from fair-value change. Other expenses of the Group for 2019 was RMB975.7 million, representing a decrease of 89.1% from RMB8,978.3 million for 2018, which was attributable primarily to the payment by the Company during the same period last year of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018.

PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities for 2019 amounted to RMB9,555.5 million, as compared to RMB-5,544.5 million for 2018, while operating profit margin was 10.5%, attributable primarily to the payment by the Company during the same period last year of the USD1 billion penalty described in the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published on 12 June 2018 and operating losses and loss provisions arising from the matter described in the "INSIDE INFORMATION ANNOUNCEMENT" published by the Company on 9 May 2018.

FINANCE COSTS

Finance costs of the Group for 2019 amounted to RMB1,718.2 million, increasing by 70.4% compared to RMB1,008.4 million for 2018, reflecting mainly the increase in interest expenses in line with the increase in financing of the Group for the period.

INCOME TAX EXPENSE

The Group's income tax expense for 2019 was RMB1,385.0 million, increasing by 445.5% as compared to RMB-400.9 million for 2018, reflecting mainly the Company's recognition of deferred income tax deductible against loss for the same period last year.

PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

The Group's profit attributable to non-controlling interests for 2019 amounted to RMB280.2 million, representing an increase of RMB662.8 million compared to RMB-382.6 million for 2018, which was attributable mainly to profit reported by certain subsidiaries of the Group for the period.

OTHER COMPREHENSIVE INCOME

Other comprehensive income of the Group for 2019 amounted to RMB49.4 million, compared to RMB-905.3 million for 2018, which was attributable mainly gains for the period on translation of the Group's statements denominated in foreign currencies owing to exchange rate fluctuations versus losses for the same period last year.

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 2019 was 50.3%, increasing by 3.6 percentage points as compared to 46.7% for 2018, reflecting mainly the increase in the Group's interest-bearing liabilities for the period.

LIQUIDITY AND CAPITAL RESOURCES

In 2019, 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 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 2019 amounted to RMB28,505.8 million held mainly in RMB and to a smaller extent in USD, EUR, HKD and other currencies.

CASH FLOW DATA

Unit: RMB in millions

Item	2019	2018
Net cash inflow/(outflow) from operating activities	**4,903.4**	(9,913.0)
Net cash outflow from investing activities	**(6,120.2)**	(2,431.3)
Net cash inflow from financing activities	**8,362.0**	3,051.3
Net increase/(decrease) in cash and cash equivalents	**7,145.2**	(9,293.0)
Cash and cash equivalents at the end of the period	**28,505.8**	21,134.1

OPERATING ACTIVITIES

The Group reported net cash inflow from operating activities of RMB4,903.4 million for 2019, compared to net outflow of RMB9,913.0 million for 2018, reflecting mainly year-on-year increase in cash received from sales of goods and provision of services by RMB4,974.6 million, decrease in tax refund received by RMB1,921.4 million, increase in other cash receipts relating to operating activities by RMB719.1 million, decrease in cash paid for the purchase of goods and services by RMB1,689.7 million, decrease in cash payments to and on behalf of employees by RMB5,186.8 million, increase in payments of tax expenses by RMB1,680.8 million, and decrease in other cash payments relating to operating activities by RMB7,693.9 million.

INVESTING ACTIVITIES

The Group's net cash outflow from investing activities was RMB6,120.2 million for 2019, compared to RMB2,431.3 million for 2018, reflecting mainly the increase in cash payments for the Group's repayment of SIHC joint venture amounts and the purchase of fixed assets, intangible assets and other long-term assets for the period.

FINANCING ACTIVITIES

The Group's net cash inflow from financing activities for 2019 was RMB8,362.0 million, compared to RMB3,051.3 million for 2018, reflecting mainly the increase in cash received from the Group's drawdown of loans for the period.

CAPITAL EXPENDITURE

The Group's capital expenditure for 2019 amounted to RMB5,501.7 million, compared to RMB4,700.8 million for 2018, which was mainly applied in the new energy commercial vehicle production base, Shanghai R&D Centre Phase III, ZTE high-efficiency lithium battery project Phase I and purchase of machinery and equipment.

INDEBTEDNESS

Unit: RMB in millions

Item	31 December 2019	31 December 2018
Secured bank loans	**252.2**	1,155.8
Unsecured bank loans	**36,530.9**	26,194.1

Unit: RMB in millions

Item	31 December 2019	31 December 2018
Short-term bank loans	**26,738.0**	24,983.3
Long-term bank loans	**10,045.1**	2,366.6

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. The Group's RMB short-term and long-term bank loans subject to fixed interest rates amounted to RMB19,328.7 million and RMB3,341.5 million respectively. Other RMB loans were subject to floating interest rates. Loans in TRY, USD and EUR subject to fixed interest rates in aggregate amounted to the equivalent of approximately RMB2,039.7 million and the remaining TRY, 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 volatility of exchange rates, which might affect the operations of the Group. The Group is engaged in ongoing efforts to strengthen exposure management and seeks to mitigate foreign exchange risks through the use of measures such as business strategic guidance, internal settlement management, financing mix optimisation and value-protected derivative products on exchange rates. The Group also strengthens liquidity risk management in countries practicing exchange control and facilitates RMB pricing and settlement for overseas projects to lower its exchange risks in the long term.

The Group's bank loans in 2019 increased by RMB9,433.2 million as compared to 2018, which were mainly applied to replenish its working capital.

CONTRACTUAL OBLIGATIONS

Unit: RMB in millions

Item	Total	31 December 2019 Less than 1 year	2–5 years	More than 5 years
Bank loans	**36,783.1**	26,738.0	10,024.9	20.2

CONTINGENT LIABILITIES

Unit: RMB in millions

Item	31 December 2019	2018
Guarantees given to banks in connection with borrowings to customers	**—**	—
Guarantees given to banks in respect of performance bonds	**13,559.3**	10,726.2
Total	**13,559.3**	10,726.2

CAPITAL COMMITMENTS

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

Unit: RMB in millions

Item	31 December 2019	2018
Land and buildings:		
Contracted, but not provided for	**3,097.0**	3,414.1
Investment in associates:		
Contracted, but not provided for	**48.7**	65.3

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

Details of the subsidiaries of the Group as at 31 December 2019 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 2019 are set out in Notes 19 and 20 to the financial statements prepared in accordance with HKFRSs.

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

The Group was not engaged in any material acquisitions and disposals related to subsidiaries, associates and joint ventures in 2019. Details of other asset transactions 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 2019 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 2019 are set out in Note 35 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 2019 are set out in the sections headed "Report of the Board of Directors — (II) 9. Analysis of Investments" and "Material Matters — (V) Asset Transactions" in this report.

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

MARKET RISKS

For details of the Group's exposure to market risks, please refer to the section headed "Report of the Board of Directors — (VI) Business outlook for 2020 and risk exposures."

(IV) Compliance with laws and regulations

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

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

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

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

Report of the Board of Directors

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

✓ Applicable ☐ N/A

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
External meetings	January 2019	Hangzhou	Guosheng Securities investors' conference	Customers of Guosheng Securities	Day-to-day operations of the Company	Published announcements and regular reports
	January 2019	Beijing	Huatai Securities investors' conference	Customers of Huatai Securities		
	February 2019	Shenzhen	TF Securities investors' conference	Customers of TF Securities		
	April 2019	Hong Kong	Nomura Securities investors' conference	Customers of Nomura Securities		
	May 2019	Shenzhen	Credit Suisse investors' conference	Customers of Credit Suisse		
	May 2019	Shenzhen	Soochow Securities investors' conference	Customers of Soochow Securities		
	May 2019	Zhuhai	Guosheng Securities investors' conference	Customers of Guosheng Securities		
	May 2019	Shenzhen	CICC investors' conference	Customers of CICC		
	June 2019	Shenzhen	Guangfa Securities investors' conference	Customers of Guangfa Securities		
	September 2019	Shenzhen	HSBC Qianhai Securities investors' conference	Customers of HSBC Qianhai Securities		

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
Company visits by investors and analysts	January to December 2019	Company	Onsite visit	Shenzhen CM Jintai Capital Management Co., Ltd., Zhangjiagang Zhaogang Equity Investment Limited Partnership, China Mobile SDIC Fund, Shenzhen Jiayin Fund Management Co., Ltd., Midea Capital (Guangdong) Investment Management Co., Ltd., Shenzhen Co-Stone Asset Management Co., Ltd., Guangdong Hengjian Investment Holding Co., Ltd., Chengtong Fund Management Co., Ltd, Guoxin Central Enterprises Investment Fund.	Day-to-day operations of the Company	Published announcements and regular reports

(VI) Business outlook of 2020 and risk exposures

1. *Business outlook of 2020*

With the successive commencement of 5G commercial applications among leading global carriers in 2019, global 5G development is expected to roll out in full gear in the next 5 years, underpinned by a rapidly maturing 5G industry chain and vigorous supply of innovative 5G applications driving a new boom for the communications industry. First of all, 5G will continue to benefit from the volume of mobile data, as new applications such as ultra-HD video and AR/VR are poised to provide supreme experience to users, while mobile data consumption is expected to sustain strong growth. Meanwhile, the integration of infrastructure for the intelligent Internet of Everything built on the back of 5G, in a development no less significant than the birth of the global Internet in the 1990s, is expected to come initially into shape in the next 5 years. The industrial applications of 5G, such as automated driving and intelligent manufacturing to name but a few, will give rise to new businesses, models and growth opportunities beyond imagination in the ICT sector.

The development of 5G has been top on the agenda across major countries and regions in the world. According to GSA, as at January 2020, 356 carriers from 121 countries and regions were variously engaged in the planning, testing, deployment or commercial application of 5G services.

Report of the Board of Directors

In connection with carriers' networks, the Group will continue to play a pivotal role in the innovation of 5G technologies and applications as a first-quadrant 5G player. We will increase our investment in core technologies such as chip, algorithm and network architecture to maintain our technological edge and facilitate the provision of end-to-end solutions that would enable carriers to build highly competitive 5G networks in a speedy manner. Meanwhile, we will work with industry leaders of various sectors to develop innovative 5G applications as part of a mutually beneficial 5G business ecosphere built through cooperation.

In connection with the government and corporate business, the Group will focus on the four traditional key market sectors of energy, transportation, government affair and finance as it seizes new opportunities presented by changing core products and 5G network construction to incubate business channels and assist in further digital transformation in these sectors.

In connection with the consumer business, the Group will seize opportunities for development in the markets for 5G terminals and multi-format terminals. We will increase investment in brand building in relation to key country markets, while making efforts to unveil, innovate, consolidate, explore and broaden major pathways for the generation of commercial value through cooperation with upstream as well as downstream partners along the industry chain, with a view to building a full-scenario smart experience and value chain for consumers.

Year 2020 will mark the beginning of a period of strategic development for the Group aiming at the attainment of qualitative growth. In terms of corporate operations, we look to sustain revenue growth, sound profitability, ample liquidity and a reasonable gearing ratio to ensure the soundness of our operations. In terms of the optimisation of market landscape, we will focus on high-worth countries and markets and seek to increase our market shares therein. In terms of product R&D, we will remain committed to the investment in core products, such as 5G and bearer products, and chips to establish our leading position in key technologies and enhance product assurance for the benefit of business sustainability, while expediting digital transformation of the corporation to ensure ongoing progress in the incubation of innovative businesses. In terms of management processes, compliance control and regulation over operations will be enhanced, so as to foster a positive image in the international market and win greater trust among domestic and overseas clients. In terms of corporate value, we will strive for greater trust on the part of shareholders and actively seek to expand financing channels, so as to facilitate stable growth in corporate value through the implementation of strategic goals and value management.

2. Risk exposures

(1) Country risks

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

(2) Risk associated with intellectual property rights

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

(3) Exchange rate risks

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

(4) Interest rate risk

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

(5) Customer credit risk

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

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

1. Fixed assets

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

2. Bank loans and other borrowings

Details of bank loans and other borrowings of the Group as at 31 December 2019 are set out in Note 35 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 Notes 41 and 54, respectively, to the financial statements prepared in accordance with HKFRSs.

4. Pre-emptive rights

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

5. *Share capital*

Details of the share capital of the Company, together with movements in such share capital and the reasons therefor, are set out in Note 39 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 2019 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 Individual Income Tax Law of China and its implementation provisions, dividends in respect of shares issued in Hong Kong paid by non-foreign invested PRC companies to individual shareholders residing outside the PRC shall be subject to an individual income tax based on "interest, dividend and bonus" items deductible and payable by the party responsible for such deduction and payment on behalf of such shareholders in accordance with the law. The Company shall deduct and make payment of such tax amounts on behalf of the said shareholders in accordance with the Notice on Matters Concerning the Levy and Administration of Individual Income Tax After the Repeal of Guo Shui Fa [1993] No. 045 (Guo Shui Han [2011] No. 348) (《關於國稅發[1993]045號檔廢止後有關個人所得稅徵管問題的通知》(國稅函[2011] 348號)), State Administration of Taxation Announcement on Measures Governing Non-resident Taxpayers' Access to Tax Treaty Treatments (SAT Announcement [2019] No. 35) (《國家稅務總局關於發佈的公告》(國家稅務總局公告2019年第35號)) and provisions under pertinent laws and regulations. Shareholders are advised to consult their own tax advisors on the tax implications in the PRC, Hong Kong or otherwise of owning and disposing of the Company's H shares.

10. *Stakeholders*

The Company respects the rights of stakeholders, such as banks and other creditors, employees, consumers, suppliers and the community, and works actively with stakeholders to drive the Company's ongoing sound development.

11. *Subsequent events*

Details of the Company's events subsequent to the reporting period are set out in Note 52 to the financial statements prepared under HKFRSs.

Material Matters

(I) PROFIT DISTRIBUTION

1. Proposal for profit distribution of 2019

Audited net profit attributable to holders of ordinary shares of the Company for the year 2019 calculated in accordance with PRC ASBEs amounted to approximately RMB7,775,879,000. Together with undistributed profit of approximately RMB-3,114,829,000 carried forward at the beginning of the year and after provision for statutory surplus reserves of RMB452,214,000, profit available for distribution to shareholders amounted to approximately RMB4,208,836,000.

Audited net profit attributable to holders of ordinary shares of the Company for the year 2019 calculated in accordance with HKFRSs amounted to approximately RMB7,935,014,000. Together with undistributed profit of approximately RMB-4,167,396,000 carried forward at the beginning of the year and after provision of statutory surplus reserves of approximately RMB452,214,000, profit available for distribution to shareholders amounted to approximately RMB3,315,404,000.

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 RMB3,315,404,000. The Board of Directors of the Company has recommended:

The profit distribution proposal for 2019: distribution of RMB2 in cash (before tax) for every 10 shares to all shareholders based on the total share capital (including A shares and H shares) as at the record date for profit distribution and dividend payment. In the event of changes in the Company's total share capital after the announcement of the Company's profit distribution proposal for 2019 but before its implementation, the total amount of distribution shall be readjusted in accordance with the law on the basis of the total share capital (including A shares and H shares) as at the record date for profit and dividend distribution for the purpose of the profit distribution proposal for 2019 according to the existing proportion for distribution. The aforesaid matter is subject to consideration and approval at the General Meeting.

The Company expects to pay the dividend to shareholders on 12 August 2020.

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

The Company did not conduct any profit distribution for 2018. The aforesaid matter was considered and passed at the 2018 Annual General Meeting of the Company held on 30 May 2019. For details, please refer to the "Announcement of Resolutions of the 2018 Annual General Meeting" published by the Company on 30 May 2019.

Material Matters

The aggregate profit distribution of the Company in the form of cash in 2017–2019 accounted for 101.27% 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 "the aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years."

The Company did not make any adjustments or changes to its profit distribution policy during the year.

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

The "Proposal for Profit Distribution for 2017 of the Company" considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors of the Company was vetoed at the 2017 Annual General Meeting of the Company and no profit distribution for 2017 was made by the Company. The non-distribution of profit for 2018 by the Company was considered and passed at the 2018 Annual General Meeting of the Company. The profit distribution proposal for 2019 of the Company is as follows: RMB2 in cash (before tax) for every 10 shares, subject to consideration and approval at the general meeting.

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

Unit: RMB in ten thousands

Year	Cash distribution Amount (before tax)	Net profit attributable to holders of ordinary shares of the listed company in the consolidated statements for the year of dividend distribution	As a percentage of net profit attributable to holders of ordinary shares of the listed company in the consolidated statements
2019	92,240.13[Note 1]	514,787.70	17.92%
2018	—	(698,366.20)	—
2017	—	456,817.20	—

Note 1: The cash distribution amount (before tax) for 2019 shall be calculated based on the Company's total share capital of 4,612,006,291 shares as at 27 March 2020. The actual amount of profit distribution shall be adjusted on the basis of the total share capital (including A shares and H shares) as at the record date for profit and dividend distribution. The first exercise period under the 2017 A share option incentive scheme of the Company shall be from 16 July 2019 to 5 July 2020. As at 27 March 2020, there were 1,428,673 unexercised share options exercisable during the first exercise period under the 2017 A share option incentive scheme of the Company. Assuming all of the said unexercised share options are exercised prior to the record date for A share profit and dividend distribution, the Company will have 4,613,434,964 shares entitled to share dividend, and the total amount of dividend payment shall not be more than RMB923 million.

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. Details of progress during the year of immaterial litigation and arbitration proceedings incurred prior to the year and other litigation and arbitration proceedings occurring during the year are set out as follows:

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

   On 23 February 2012, the Company and ZTE USA applied to the court for the rejection of UTE's suit on the grounds that there was an arbitration clause under the confidential agreement. On 1 March 2012, the attorney representing UTE concurred with the Company's application to subject the case to the arbitration clause and executed with the Company an agreement which was then submitted to the court. On 1 May 2012, UTE filed an application for arbitration to the American Arbitration Association in respect of the case to demand compensation from the Company. UTE subsequently raised the amount of compensation claimed. On 19 September 2014, the arbitration court declared court trial of the case closed. On 17 February 2017, the arbitration court made a final rule to reject all compensation claims of UTE. On 21 February 2017, the Company submitted a request to the district court of Dallas, Texas for the ratification of the arbitration ruling. On 16 March 2017, UTE filed a motion to the district court of Dallas, Texas for the annulment of the arbitration award. On 19 June 2017, the district court of Dallas, Texas supported the request of UTE and ruled to annul the award of the arbitration court and ordered the case to be returned to the American Arbitration Association to reopen arbitration. On 7 July 2017, the Company filed an appeal with the court of appeal of Dallas, Texas in respect of the aforesaid ruling. On 19 November 2018, the court of appeal of Dallas, Texas ruled to overturn the ruling of the district court of Dallas, Texas of annulling the arbitration award and reinstated the arbitration award. On 4 December, UTE made an application to the court of appeal of Dallas, Texas for review. On 4 January 2019, UTE made an application to the court of appeal of Dallas, Texas for the case to be heard by the full court. On 14 February 2019, the court of appeal of Dallas, Texas ruled to reject the aforesaid application of UTE. On 1 April 2019, UTE made an application to the Supreme Court of Texas for Civil Matters for review. On 4 October 2019, the Supreme Court of Texas for Civil Matters rejected the application for review by UTE. On 2 January 2020, UTE submitted a petition to the U.S. Supreme Court for the review of the case. On 24 February 2020, the U.S. Supreme Court rejected petition of UTE, upon which all litigation procedures relating to the case was closed.

   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. 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. and referred to hereinafter as the "Three Companies") 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

Material Matters

to the plea for injunction order, although no specific amount of compensation was named. The litigation procedure at the District Court has been suspended. On 28 June 2013, ITC issued its preliminary judgment of the case, ruling that one of the patent relating to the case was invalid, while the Company and ZTE USA had not infringed upon the remaining patents relating to the case, and that Section 337 had not been violated. (Section 337 investigation commonly refers to the investigation of unfair acts and unfair measures in the importation of articles into or subsequent sales of articles in the United States). On 19 December 2013, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not violated Section 337. The three companies filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the final verdict. On 18 February 2015, the United States Court of Appeals for the Federal Circuit ruled to uphold the final verdict of ITC.

On 2 January 2013, the Three 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 Three Companies and InterDigital Holdings, Inc demanded the issue of a permanent exclusion and injunction order against certain of the Company's terminal products. In the case filed with the District Court, damages for losses and payments of legal fees were also demanded of the defendants in addition to the plea for injunction order, although no specific amount of compensation was named. On 13 June 2014, ITC issued its preliminary judgment of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 15 August 2014, ITC issued its final verdict on the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. The three companies aforesaid and InterDigital Holdings, Inc. filed an appeal with the United States Court of Appeals for the Federal Circuit in respect of the said final verdict. In June 2015, the three companies aforesaid and InterDigital Holdings, Inc. withdrew their appeal. On 28 October 2014, the Federal District Court of Delaware issued its verdict which ruled that the Company and ZTE USA had infringed upon three out of four patents involved. On 22 April 2015, the Federal District Court of Delaware announced its ruling on another patent involved in the case and ruled that the Company and ZTE USA had not infringed upon the patent. The Company and ZTE USA engaged a legal counsel to conduct active defense of the case and file an appeal to the United States Court of Appeals for the Federal Circuit against the ruling of the Federal District Court of Delaware that the three patents involved in the litigation have been subject to infringement. In November 2017, United States Court of Appeals for the Federal Circuit ruled that the Company and ZTE USA had infringed upon two out of three patents involved in the aforesaid case. No ruling has yet been made in respect of the one remaining patent involved in the case. In January 2020, the court approved the request of the Company and the aforesaid Three Companies and InterDigital Holdings, Inc. to withdraw the case, upon which all litigation procedures relating to the case was closed.

Based on 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. In July 2012, Technology Properties Limited LLC, a U.S. company, filed a claim with ITC and the Federal District Court of California, respectively, in the United States, alleging the Company and ZTE USA of infringement upon its patents in chips. Defendants in the case included other companies in the industry. In the ITC case, the said company demanded the issue of a permanent exclusion and injunction order against the Company's and ZTE USA's products that had allegedly infringed its patent rights. In the case filed with the Federal District Court of California, damages for losses and payments of legal fees were demanded of the Company and ZTE USA, although no specific amount of compensation was named. The litigation procedure at the Federal District Court of California has been suspended. On 6 September 2013, ITC issued its preliminary judgment of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case, and that Section 337 had not been violated. On 19 February 2014, ITC issued its final determination in respect of the case, ruling that the Company and ZTE USA had not infringed upon the patents relating to the case and had not violated Section 337. In August

Material Matters

2014, the Federal District Court of California re-opened the litigation procedures for the case. In November 2015, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. The said company filed an appeal with the United States Court of Appeals for the Federal Circuit against the verdict of the Federal District Court of California. In April 2017, the United States Court of Appeals for the Federal Circuit ruled to reject the case and return it to the Federal District Court of California for retrial by the Federal District Court of California. In December 2017, the Federal District Court of California ruled that the Company and ZTE USA had not violated the patents relating to the case. In January 2018, the said company filed an appeal with the United States Court of Appeals for the Federal Circuit again against the said verdict of the Federal District Court of California. Currently, the United States Court of Appeals for the Federal Circuit has yet to make a ruling. In February 2019, the United States Court of Appeals for the Federal Circuit ruled to uphold the judgement of the Federal District Court of California that the Company and ZTE USA had not infringed upon the patents under litigation. On 26 April 2019, the United States Court of Appeals for the Federal Circuit ruled to reject the said company's application for the case to be heard by the full court of the United States Court of Appeals for the Federal Circuit. On 6 September 2019, the company appealed the case to the U.S. Supreme Court. In November 2019, the U.S. Supreme Court rejected the application for appeal, upon which all litigation procedures relating to the case was closed.

Based on 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.

4. 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 RMB54,322,900). 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 RMB54,098,700) 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 RMB54,098,700) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional enforcement procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB54,098,700) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

   On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB144 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.

Material Matters

5. 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 (cases LCIA No. 173683 and LCIA No. 173696). On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by a Mauritanian subsidiary of the said Sudanese carrier (the "Mauritanian Subsidiary") (case DIFC-LCIA No. 17098). The Sudanese carrier and its Mauritanian Subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31.80 million in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

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

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

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

   In May 2019, the aforesaid Sudanese carrier withdrew its application for LCIA arbitration (Case No: LCIA No.173696).

   In February 2020, LCIA made a ruling on case LCIA No.173683 to reject the USD30,060,326 claim of the counterparty and order the payment of USD4,209,877 and GBP260,095.20 together with interests to the Company by the said Mauritanian Subsidiary.

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

6. On 31 October 2018, a natural person filed a litigation with the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") against the Company as defendant and ZTE Integration and Nubia Technology Limited as third parties without independent rights of claim, on the grounds that the Company had infringed upon his interests as a shareholder of ZTE Integration, demanding (1) a RMB200 million compensation payable to him by the Company; and (2) the assumption by the Company of all costs of the litigation (including but not limited to litigation costs and legal fees amounting to RMB200,000).

   On 9 April 2019, the Company received judiciary documents from the Guangdong Higher Court, including a notice of response to action, summons for exchange of evidence and a notice requiring the provision of evidence, among others. The Company has appointed an attorney for active response to the case.

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

Note: The exchange rates are based on the book exchange rates of the Company as at 31 December 2019 where BRL amounts are translated at the exchange rate of BRL1:RMB1.7326.

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

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

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

The "Statement of ZTE Corporation on Appropriation of Non-operating Funds and Other Fund Transactions with Connected Parties in 2019" issued by Ernst & Young Hua Ming LLP was set out in the announcement published by the Company on the website designated for information disclosure on 27 March 2020.

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

(V) ASSET TRANSACTIONS

1. Matters pertaining to the Shenzhen Bay Super Headquarters Base

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. For details, please refer to the "DISCLOSEABLE TRANSACTION ACQUISITION OF LAND USE RIGHTS IN SHENZHEN" published by the Company on 27 June 2017.

In connection with matters pertaining to the development, construction, sales and operational services in respect of land site No. T208–0049 (the "Project"), the Company and Shenzhen Vanke Real Estate Co., Ltd. (深圳市萬科房地產有限公司) (now renamed Shenzhen Vanke Development Co., Ltd. (深圳市萬科發展有限公司) ("Vanke") entered into a Letter of Intent on 25 December 2017 and the "Framework Agreement for Entrustment of Development, Construction, Sale and Operation", "Contract for Entrustment of Development, Construction and Sale" and "Contract for Entrustment of Operation" on 9 February 2018.

For details of the above, please refer to the "Overseas Regulatory Announcement Announcement on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd.", "Overseas Regulatory Announcement Announcement Updates on the Signing of Letter of Intent with Shenzhen Vanke Real Estate Co., Ltd." and "DISCLOSEABLE TRANSACTION FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION" published by the Company on 26 December 2017, 25 January 2018, and 9 February 2018, respectively.

On 11 July 2019, the Company and Vanke entered into the "Supplemental Agreement to the 'Framework Agreement for Entrustment of Development, Construction, Sale and Operation'" to amend and further define the two parties' rights and obligations and risks under the project. The aforesaid matter was considered and approved at the Sixth Meeting of the Eighth Session of the Board of Directors and the Second Extraordinary General Meeting of 2019 of the Company. For details, please refer to the "Announcement Resolutions of the Sixth Meeting of the Eighth Session of the Board of Directors" and "UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF

DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION" published on 11 July 2019 and the "Announcement on Resolutions of the Second Extraordinary General Meeting of 2019" published by the Company on 29 July 2019.

On 16 July 2019, Vanke completed the payment to the Company of RMB72.64 million as described in "UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION".

2. Execution of contracts including Framework Agreement for Cooperation with SIHC and matters pertaining to Third-party Guarantee

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

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

3. Subscription for Shaanxi Zhongxing Innovative Investment Fund by the Company

ZTE Zhongchuang (Xi'an) Investment Management Company Limited, a subsidiary of the Company, has established by way of promotion as general partner Shaanxi Zhongxing Innovative Investment Fund Partnership Enterprise (Limited Partnership) ("Zhongxing Innovative Investment Fund") and subscribe for Zhongxing Innovative Investment Fund with a capital contribution of RMB1 million. The Company has also subscribed for shares in Zhongxing Innovative Investment Fund as limited partner with a capital contribution of RMB39 million. The aforesaid matter has been considered and approved at the Eleventh Meeting of the Eighth Session of the Board of Directors. For details, please refer to the "Announcement on Resolutions of the Eleventh Meeting of the Eighth Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Subscription for Shaanxi Zhongxing Innovative Investment Fund" published by the Company on 19 November 2019 and 21 November 2019, respectively. Zhongxing Innovative Investment Fund has completed registration with the industrial and commercial administration as well as completed filing and registration with the Asset Management Association of China. For details, please refer to the "Overseas Regulatory Announcement Announcement on the completion of filing and registration of Shaanxi Zhongxing Innovative Investment Fund" published by the Company on 4 December 2019.

Material Matters

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

1. Summary of the 2017 Share Option Incentive Scheme

(1) Objective

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

(2) Scheme participants and adjustments thereto

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

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

Prior to the grant of share options under the 2017 Share Option Incentive Scheme of the Company, the Company revoked the qualification to participate in the share option incentive scheme of 17 participants and cancelled a total of 398,800 share options previously proposed to be granted in accordance with provisions of 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.

Pursuant to the "Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme", "Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme", "Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme" and "Resolution on the cancellation of certain share options" considered and passed at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company held on 1 July 2019, the adjustments to participants and volume granted under the 2017 Share Option Incentive Scheme, confirmation of the fulfillment of exercise conditions for the first exercise period, non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme and cancellation of share options previously granted to original participants who no longer fulfilled the conditions to be a participant or share options that did not meet the exercise conditions were approved. The number of participants under the 2017 Share Option Incentive Scheme was adjusted from 1,996 to 1,687, and the volume of share options granted was adjusted from 149,601,200 to 119,115,591. The number of participants for the first exercise period was adjusted from 1,996 to 1,684, and the volume of exercisable share options was adjusted from 49,866,471 to 39,664,153. A total of 70,210,561 share options, comprising share options previously granted to original participants who no longer qualified as participants, share options previously granted to participants who did not qualify for exercise in the first exercise period under the share option incentive scheme and share options not exercisable as a result of the non-fulfillment of exercise conditions for the second exercise period under the share option incentive scheme,

Material Matters

were cancelled. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Adjustment of Participants and Number of Share Options under the 2017 Share Option Incentive Scheme", "Overseas Regulatory Announcement Announcement on the Fulfillment of Exercise Conditions for the First Exercise Period under the 2017 Share Option Incentive Scheme" and "Overseas Regulatory Announcement Announcement Non-fulfillment of Exercise Conditions for the Second Exercise Period under the 2017 Share Option Incentive Scheme" and "Overseas Regulatory Announcement Announcement on the Cancellation of Certain Share Options" published by the Company on 1 July 2019.

On 5 July 2019, as verified and confirmed by the Shenzhen Branch of China Securities Depository and Clearing Corporation Limited, the Company completed the cancellation of the 70,210,561 granted share options. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Completion of Cancellation of Certain Share Options" published by the Company on 5 July 2019.

(3) 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 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.

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

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

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

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

Material Matters

Pursuant to the "Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme" and the "Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme" considered and passed at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company held on 1 July 2019, it was confirmed that the exercise conditions for the first exercise period had been fulfilled and the exercise conditions for the second exercise period had not been fulfilled under the 2017 Share Option Incentive Scheme. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Fulfillment of Exercise Conditions for the First Exercise Period under the 2017 Share Option Incentive Scheme" and "Overseas Regulatory Announcement Announcement Non-fulfillment of Exercise Conditions for the Second Exercise Period under the 2017 Share Option Incentive Scheme" published by the Company on 1 July 2019.

The first exercise period under the 2017 Share Option Incentive Scheme of the Company shall comprise the exercise dates within the period from 6 July 2019 to 5 July 2020. There were 1,684 participants entitled to exercise a total of 39,664,153 exercisable share options. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Commencement of the First Exercise Period under the 2017 Share Option Incentive Scheme" published by the Company on 14 July 2019.

(5) Exercise price and basis of determination

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

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

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

(6) Approval procedures fulfilled

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

Material Matters

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

The share options under the 2017 Share Option Incentive Scheme of the Company shall be exercised on a voluntary basis. During the year, a total of 34,858,026 share options were exercised at an exercise price of RMB17.06, while the closing price of our A shares as at the end of the year was RMB35.39. The number of the Company's A shares increased by 34,858,026 shares accordingly, and the proceeds received were placed in a dedicated account of the Company. As considered and approved at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company held on 1 July 2019, the Company cancelled a total of 70,210,561 share options, comprising share options previously granted to original participants who no longer qualified as participants, share options granted to participants who did not fulfil the exercise conditions for the first exercise period under the share option incentive scheme, and share options under the second exercise period that were not exercisable as a result of the non-fulfillment of exercise conditions.

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
Xu Ziyang	Director and President	252,000	0	84,000	42,000	84,000	0	126,000	33.90
Wang Xiyu	Executive Vice President	262,400	0	87,466	41,500	87,466	0	133,434	33.90
Li Ying	Executive Vice President and Chief Financial Officer	158,400	0	52,800	26,000	52,800	0	79,600	32.26
Xie Junshi	Executive Vice President	337,400	0	112,466	112,466	112,466	0	112,468	32.51
Ding Jianzhong	Secretary to the Board of Directors and Company Secretary	99,480	0	33,160	33,160	33,160	0	33,160	32.51
Other participants	–	148,491,520	0	39,294,261	34,602,900	69,840,669	0	44,047,951	32.21
Total	**–**	**149,601,200**	**0**	**39,664,153**	**34,858,026**	**70,210,561**	**0**	**44,532,613**	**32.21**

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

During the period from the end of the year under review to the date of publication of this report, a total of 3,377,454 A share options have been exercised by scheme participants under the 2017 Share Option Scheme of the Company. As at the date of publication of this report, there are 41,155,159 A share options unexercised and outstanding under the 2017 Share Option Scheme of the Company, accounting for 0.89% of the total share capital in issue of the Company and 1.07% of the Company's A shares in issue.

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 above, please refer to the section headed "(1) Summary of the 2017 Share Option Incentive Scheme" above.

Material Matters

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 3rd, 4th and 5th year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first, second and third exercise period being 43.35%, 42.20% and 42.90%, respectively.
Expected dividend (Note 1)	RMB0.18 per share
Risk-free interest rate (Note 2)	The risk-free interest rate for the first, second and third exercise period shall be 3.50%, 3.51% and 3.52%, respectively.
Value of share options per A share	RMB10.40

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

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

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

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

In accordance with "ASBEs No. 11 — Share-based Payment," services rendered by participants during the period may be charged to relevant costs or expenses and the capital reserve at the fair value on the date of grant based on the Company's best estimates of exercisable share options. Costs and expenses which have been recognised will not be adjusted during the exercise period of the share options. At each balance sheet date, exercised share options are recognised in the capital reserve. Specific accounting treatments of share options and the impact on the Company's financial conditions and operating results for the year and in future are set out in Note XI to the financial statements prepared under PRC ASBEs and Note 40 to the financial statements prepared under HKFRSs.

Material Matters

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

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

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

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

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

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

Material Matters

As stated in the "Overseas Regulatory Announcement Announcement in relation to Reply to Notification Letter on Preparation Works for Stock Issuance Examination and Verification Committee Meeting on Non-public Issuance of A Shares" published by the Company on 5 August 2019, the Company had conducted studies and deliberations in respect of issues raised in the Notification Letter in consultation with relevant intermediaries, and had furnished replies to the relevant questions. For such replies, please refer to the "Overseas Regulatory Announcement Reply to the 'Letter on Careful Preparation for the Application for the Stock Issuance Examination and Verification Committee Meeting on Non-public Issuance of Shares of ZTE Corporation'" published by the Company on 5 August 2019.

The Company has given an undertaking in accordance with pertinent requirements of the "Answers to Certain Questions on Refinancing Business" published by the CSRC. For details, please refer to the "Overseas Regulatory Announcement Announcement on Undertaking in respect of not Committing New Funds into the Quasi-financial Business" published by the Company on 7 August 2019.

On 22 August 2019, the CSRC Stock Issuance Examination and Verification Committee conducted verification in respect of the Company's application for non-public issuance of A shares. According to the outcome of verification, the Company's application for non-public issuance of A shares has been verified and approved. On 21 October 2019, the Company received the "Approval in Relation to the Non-public Issuance of Shares by ZTE Corporation" issued by CSRC. For details, please refer to the "ANNOUNCEMENT IN RELATION TO APPROVAL BY THE ISSUANCE EXAMINATION AND VERIFICATION COMMITTEE OF THE CSRC ON APPLICATION FOR NON-PUBLIC ISSUANCE OF A SHARES" and the "ANNOUNCEMENT IN RELATION TO THE RECEIPT OF APPROVAL FROM THE CHINA SECURITIES REGULATORY COMMISSION FOR THE NON-PUBLIC ISSUANCE OF A SHARES" published by the Company on 22 August 2019 and 21 October 2019, respectively.

On 15 January 2020, the Company entered into the Subscription Agreement with 10 subscribers. The issue price for the Company's non-public issuance of A shares was set at RMB30.21 per share and a total of 381,098,968 shares were issued, raising gross proceeds of RMB11,512,999,823.28. The new shares under the non-public issue of A shares by the Company were listed on the Shenzhen Stock Exchange on 4 February 2020. For details, please refer to the "DETERMINATION OF ISSUE PRICE FOR THE NON-PUBLIC ISSUANCE OF A SHARES AND ENTERING INTO OF SUBSCRIPTION AGREEMENT", "COMPLETION OF NON-PUBLIC ISSUANCE OF A SHARES" and "Announcement on the Adjustment to the Listing Date of Non-public Issuance of New A Shares" published by the Company on 16 January 2020, 23 January 2020 and 2 February 2020, respectively.

On 3 February 2020, the party responsible for the implementation of investment projects utilising issue proceeds of the non-public issue of A shares of the Company entered into the "Agreement for Tripartite Supervision of Issue Proceeds" with CSC Financial Co., Ltd., the sponsor, and various regulatory banks. For details, please refer to the "Announcement on the Agreement for Tripartite Supervision of Issue Proceeds" published by the Company on 4 February 2020.

On 14 February 2020, the Company applied issue proceeds raised from the non-public issue of A shares in replacement of internal funds previously invested in the projects for which the issue proceeds had been intended with a total fund replacement amount of RMB4,972 million. The application of unused issue proceeds amounting to not more than RMB2,500 million as interim working capital replenishment to be utilised over a term of not more than 12 months from the date of approval by the Board of Directors. The aforesaid matter has been considered and approved by the Fourteenth Meeting of the Eighth Session of the Board of Directors of the Company. For details, please refer to the "Announcement of the Resolutions of the Fourteenth Meeting of the Eighth Session of the Board of Directors", "Announcement on the Application of Issue Proceeds In Replacement of Internal Funds Previously Invested in Projects for which the Issue Proceeds are Intended" and "Announcement on the Partial Application of Unutilised Issue Proceeds to the Interim Replenishment of Working Capital" published by the Company on 14 February 2020.

Material Matters

(VIII) COMPLETION OF PAYMENT OF 2015 TRANCHE I MEDIUM TERM NOTES

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

On 27 January 2015, the Company completed the issue of 2015 Tranche I Medium Term Notes ("Medium Term Notes") with an amount of RMB6,000 million for a term of 5+N years (maturity upon redemption by the Company pursuant to the terms of the issue). The Medium Term Notes became due on 27 January 2020 (the due payment date coincided with statutory holidays and was rescheduled to 31 January 2020). The Company completed the payment of the principal and interests of the Medium Term Notes with a total amount of RMB6,348,600,000 on 31 January 2020.

(IX) APPROVAL FOR REGISTRATION OF THE COMPANY'S MEDIUM TERM NOTES AND SCPS

The "Resolution on the Proposed Registration and Issue of Perpetual Medium Term Notes" and the "Resolution on the Proposed Registration and Issue of Super and Short-term Commercial Paper ("SCP")" was considered and approved at the Twenty-second Meeting of the Seventh Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2017 of the Company. The Company's Tranche I Medium Term Notes with a registered amount of RMB2,000 million and SCP with a registered amount of RMB8,000 million have been registered and approved by the National Association of Financial Market Institutional Investors (中國銀行間市場交易商協會). For details, please refer to the "Overseas Regulatory Announcement Announcement on the Approval of Registration for the Medium Term Notes and Super and Short-term Commercial Paper" published by the Company on 10 October 2019.

On 26 March 2020, the Company completed the issue of the first tranche of SCP of 2020 with an issue amount of RMB2,000 million. For details, please refer to the "Overseas Regulatory Announcement Announcement of Results of the Issue of Tranche I Super and Short-term Commercial Paper of 2020" published by the Company on 26 March 2020.

Material Matters

(X) SIGNIFICANT CONNECTED TRANSACTIONS

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

(1) Connected transactions in the ordinary course of business

The connected transactions disclosed in the following table represent continuing connected transactions in 2019 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 companies in which it held equity interests of 30% or above	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials	The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components by the Company from the connected party	Purchase of raw materials by the Company and its subsidiaries from connected parties were conducted at prices determined through arm's length negotiations and on the basis of normal commercial terms. The prices of properties leased to connected parties by the Group were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	Cabinets and related accessories: RMB1-RMB300,000 per unit, cases and related accessories: RMB1-RMB15,000 per unit, depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000–50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200–2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3–30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5–50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01–5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5–100 per piece depending on measurement, level of process sophistication and materials used.	40,275.30	0.82%	No	Commercial acceptance bill	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Huatong Technology Company Limited ("Huatong")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Special-grade engineer at a price ranging from RMB970−1,350 per head/day; Supervisory engineer at a price ranging from RMB830−1,040 per head/day; Senior engineer at a price ranging from RMB520−935 per head/day; Common engineer at a price ranging from RMB440−570 per head/day; Assistant engineer at a price ranging from RMB230−450 per head/day; Technician at a price ranging from RMB280−400 per head/day.	5,676.80	0.12%	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
ZTE Software Technology (Nanchang) Company Limited ("Nanchang Software")	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of software outsourcing services	The purchase of personnel hiring and project outsourcing services by the Company from the connected party		Special-grade engineer at a price ranging from RMB970−1,350 per head/day; Supervisory engineer at a price ranging from RMB830−1,040 per head/day; Senior engineer at a price ranging from RMB520−935 per head/day; Common engineer at a price ranging from RMB440−570 per head/day; Assistant engineer at a price ranging from RMB230−450 per head/day; Technician at a price ranging from RMB280−400 per head/day.	2,428.79	0.05%	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Nanchang Software	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of engineering services	The purchase of personnel hiring services by the Company from the connected party		Work delivery personnel ranging from RMB398−1,322 per head/day; Ancillary product personnel ranging from RMB401−805 per head/day; Core network personnel ranging from RMB485−851 per head/day; Service product personnel ranging from RMB451−793 per head/day; Wireless product personnel ranging from RMB418−774 per head/day; Fixed-line product personnel ranging from RMB418−735 per head/day; Bearer product personnel ranging from RMB418−735 per head/day; Government and energy product personnel ranging from RMB433−1197 per head/day; Network optimisation personnel ranging from RMB491−958 per head/day.	–	–	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") or its subsidiaries	A company for which a connected natural person of the Company acted as director and its subsidiaries	Purchase of hotel services	The purchase of hotel services by the Company from the connected party		Purchase price not higher than prices at which Zhongxing Hetai sells products (or services) to other customers purchasing similar products (or services) in similar amounts, subject to the actual agreement signed by the two parties.	3,550.29	0.07%	No	Tele-transfer	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Zhongxing Hetai or its subsidiaries	A company for which a connected natural person of the Company acted as director and its subsidiaries	Lease of property and equipment and facilities	The lease of property and related equipment and facilities by the Company to the connected party		RMB78/sq.m./month for hotel properties in Dameisha in Shenzhen; RMB61/sq.m./month for hotel properties in Nanjing; RMB82/sq.m./month for hotel properties in Shanghai; RMB52/sq.m./month for hotel properties in Xi'an. The rental fee for related equipment and facilities required by the hotel operations in Shenzhen, Shanghai, Nanjing and Xi'an was 1,550,000/year.	7,202.87	19.17%	No	Tele-transfer	N/A	2019-01-01	Announcement No. 201903 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
深圳市航天歐華科技發展有限責任公司 ("航天歐華")	Subsidiary of a company for which a connected natural person of the Company acted as senior management	Sale of products	The sale of a full range of government and enterprise 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.	60,490.93	0.67%	No	Tele-transfer or bank acceptance bill	N/A	2018-12-25	Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange"
Total				–	–	**119,624.98**	**N/A**	–	–	–	–	–

Material Matters

Detailed information of substantial sales return	None
Necessity and continuity of connected transactions and reasons for choosing to conduct transactions with the connected party (rather than other parties in the market)	The aforesaid connected parties were able to manufacture products required by the Group on a regular basis and provide quality products, services and lease properties in sound conditions at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations.
Effect of the connected transaction on the independence of the listed company	The Company was not dependent on the connected parties and the connected transactions would not affect the independence of the Company.
The Company's dependence on the connected party and relevant solutions (if any)	The Company was not dependent on the connected parties.
Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)	At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries and companies in which it held equity interests of 30% or above by the Group in 2019 be capped at RMB700 million (before VAT); At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, in 2019 be capped at RMB70 million and RMB30 million (before VAT), respectively; At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of engineering services from Nanchang Software, both a connected party during the periods from 25 December 2018 to 31 October 2019 and from 1 November 2019 to 31 October 2020 be capped at RMB1 million and RMB1 million (before VAT), respectively; At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of hotel services from Zhongxing Hetai, a connected party, or its subsidiaries by the Group in 2019 be capped at RMB36 million (before VAT); At the Forty-third Meeting of the Seventh Session of the Board of Directors of the Company held on 29 December 2018, it was considered and approved that the estimated lease of properties and equipment and facilities to Zhongxing Hetai or its subsidiaries by the Group in 2019 be capped at RMB72.06 million (before VAT); At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated sales of products to 航天歐華, a connected party, by the Group in 2019 be capped at RMB800 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

Material Matters

Note: 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)".

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

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

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

(4) Creditors and debtors with connected parties

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

(5) Other material connected transactions

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

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

② The following connected transactions were considered and approved at the Thirteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020 (for details, please refer to the "Announcement of Resolutions of the Thirteenth Meeting of the Eighth Session of the Board of Directors" and "Overseas Regulatory Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" published by the Company on 17 January 2020:

a. The estimated aggregate transaction amounts (before VAT) for purchases of software outsourcing services from Huatong by the Group in 2020–2022 be capped at RMB86.19 million, RMB91.65 million and RMB98.38 million, respectively;

b. The estimated aggregate transaction amounts (before VAT) for purchases of software outsourcing services from Nanchang Software by the Group in 2020–2022 be capped at RMB52.30 million, RMB58.20 million and RMB66.00 million, respectively;

c. The estimated aggregate transaction amounts (before VAT) for the lease of properties and equipment and facilities to Zhongxing Hetai or its subsidiaries by the Group in 2020–2021 be capped at RMB73.40 million and RMB74.94 million, respectively;

Material Matters

d. The estimated aggregate transaction amounts (before VAT) for the sales of products to 航天歐華 by the Group in 2020 be capped at RMB800 million. Continuing connected transactions of sales of relevant products by the Company to 航天歐華 with amounts exceeding the scope of the approving authority of the Board of Directors shall be subject approval at the General Meeting.

2. Continuing connected transactions under the Hong Kong Listing Rules

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

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

The Group has entered into a new connected transaction framework agreement with Zhongxingxin, and has provided for estimated annual transaction caps based on the connected transactions under the new connected transaction framework agreement and fulfilled the statutory procedures of reporting and announcement in accordance with relevant clauses under Chapter 14A of the Hong Kong Listing Rules. For details, please refer to the "CONTINUING CONNECTED TRANSACTIONS PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN" published by the Company on the respective websites of Hong Kong Stock Exchange and the Company on 26 December 2018.

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

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

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

- Total transaction amount in 2019:

  Approximately RMB402,753,000

- Pricing and other terms:

  As considered and approved at the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, the effective period of the Zhongxingxin Purchase Framework Agreement between the Company and Zhongxingxin in respect of the purchase of raw materials by the Group from Zhongxingxin and its subsidiaries and investee companies (companies in which it directly or indirectly holds equity interests of 30% or above) dated 25 December 2018 shall be from 1 January 2019 to 31 December 2021 and the amount of purchase from Zhongxingxin, its subsidiaries and investee companies (companies in which it directly or indirectly holds equity interests of 30% or above) made by the Group for 2019–2021 shall be capped at RMB700 million, RMB800 million and RMB900 million (before VAT), respectively.

  Zhongxingxin, its subsidiaries and investee companies (companies each of which is held 30% or above by Zhongxingxin) must pass the Group's internally formulated qualification procedures for the assessment of on qualifications, competence, product quality and price in order to become an approved supplier of

Material Matters

the Group. Zhongxingxin and its subsidiaries and investee companies (companies in which it directly or indirectly holds equity interests of 30% 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 by the Company on the respective websites of Hong Kong Stock Exchange and the Company on 26 December 2018. The Directors confirm that the accreditation of qualifications, bidding procedures, pricing bases under the Zhongxingxin Purchase Framework Agreement and internal Group procedures will effectively ensure that the Group's purchases from Zhongxingxin and its subsidiaries and investee companies (companies in which it directly or indirectly holds equity interests of 30% or above) are made on an arm's length basis and on normal commercial terms without compromising the interests of the Company and its independent shareholders as a whole.

Pursuant to and subject to the terms of the Zhongxingxin Purchase Framework Agreement and tender results, the Group will enter into specific agreements with Zhongxingxin and its subsidiaries and investee companies (companies in which it directly or indirectly holds equity interests of 30% or above) by way of the issuance of purchase orders, specifying, among other things, product types, agreed quantities and prices, delivery schedules, locations and modes, payment methods, packaging, acceptance of delivery, default liability, quality specifications and after-sales services. Prices shall be determined in accordance with the pricing policy stipulated under the Zhongxingxin Purchase Framework Agreement. The annual cap for purchase in 2019 was estimated at RMB700 million (before VAT).

- Purpose of the transaction:

  Zhongxingxin and its subsidiaries and investee companies (companies in which it directly or indirectly holds equity interests of 30% or above) had been selected as long-term suppliers through the Group's qualification and bidding procedures as they had consistently been able to manufacture products that meet the Group's requirements and supply premium products and services at competitive price. The Group believes that reliable and cooperative suppliers are essential to the Company and can bring about significant benefits. The purchase of raw materials required for the Group's products from Zhongxingxin and its subsidiaries and investee companies (companies in which it directly or indirectly holds equity interests of 30% or above) ensures that the Group's acquisition of such components at such timing and in such quality as required.

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

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

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

Material Matters

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

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

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

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

On 31 October 2018, the Company entered into a loan agreement with Zhongxingxin (the controlling Shareholder), pursuant to which Zhongxingxin agreed to provide loans in an aggregate amount of up to RMB1,000 million to be applied by the Company as investment in product research and development. Zhongxingxin is the controlling shareholder of the Company and therefore a connected person of the Company under the Hong Kong Listing Rules. Therefore, the provision of financial assistance the Group by Zhongxingxin constituted a connected transaction of the Company. At the forty-first meeting of the seventh session of the Board held on 31 October 2018, the Board approved the entering into of the loan agreement and the transactions contemplated thereunder. For details, please refer to the "CONNECTED TRANSACTION PROVISION OF FINANCIAL ASSISTANCE BY CONTROLLING SHAREHOLDER" published by the Company on 31 October 2018. As at the end of the year, the Company had settled in full the RMB1,000 million loan and the corresponding security had been released accordingly.

(3) Connected transactions

During 2019, 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 ("Chengdu Software"), a subsidiary of the Company, leased a property from Zhongxingxin in 2019 for a rental amount of RMB9,809,000. Such transaction is exempted from compliance with connected transaction provisions under Rule 14A.76.

ZTE (Heyuan) Company Limited, a subsidiary of the Company, leased properties to Zhongxingxin and Shenzhen Zhongxing XinLi Jinmin Jidian Technologies Co., Ltd. (a subsidiary of Zhongxingxin) in 2019 for rental amounts of RMB19,000. Xi'an Zhongxingxin Software Company Limited, a subsidiary of the Company, leased properties to Shenzhen Zhongxingxin Cloud Service Company Limited (a subsidiary of Zhongxingxin) for rental amounts of RMB1,112,000. Such transactions are exempted from compliance with connected transaction provisions under Rule 14A.76.

During 2019, the Group sold wireless communication system equipment products, etc. with a total amount of RMB6,390,000 to Zhongxingxin and companies in which it held 30% shareholdings or above. Such transaction is exempted from compliance with provisions relating to connected transactions pursuant to Rule 14A.76.

Material Matters

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

(XI) MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

2. Third-party guarantees of the Group

Third-party guarantees provided by the Company and subsidiaries (excluding guarantees provided by the Company on behalf of subsidiaries and by subsidiaries on behalf of fellow subsidiaries)								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
Beijing Fuhua Yuqi Information Technology Co., Ltd. Note 1	1 December 2016 201678	RMB21,019,250	1 April 2017	RMB21,019,250	Joint liability assurance	From the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of obligations under the Technology Development (Entrustment) Contract.	No	No
Total amount of third-party guarantee approved during the reporting period (A1)		–		Total amount of third-party guarantee actually incurred during the reporting period (A2)		–		
Total amount of third-party guarantee approved as at the end of the reporting period (A3)		RMB21,019,300		Total amount of third-party guarantee actually incurred as at the end of the reporting period (A4)		RMB21,019,300		

Guarantees provided by the Company on behalf of subsidiaries								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
ZTE France SASU Note 2	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 3	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 3	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 4	27 March 2014 201413	Not more than USD600 million or RMB4,000 million	20 March 2015	USD60 million	Joint liability assurance	From 20 March 2015 to 20 March 2019	Yes	No
ZTE (Malaysia) Corporation SDN. BHD Note5	24 September 2014 201440 8 January 2016 201605	USD60 million	27 November 2014	USD2.33 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

Material Matters

Guarantees provided by the Company on behalf of subsidiaries								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
ZTE (Malaysia) Corporation SDN. BHD Note 5	24 September 2014 201440 8 January 2016 201605	USD2 million	4 January 2015	USD1.14 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 6	26 March 2015 201511	EUR200 million	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	Yes	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	Yes	No
ZTE (Heyuan) Company Limited Note 7	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)	Yes	No
ZTE (Wenzhou) Railway Communication Technology Limited Note 8	30 September 2017 201765	RMB3.30 million	28 December 2017	RMB3,152,500	Joint liability	Commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate	No	No
ZTE (H.K.) Limited Note 9	16 March 2018 201822	Not more than USD600 million	–	–	Joint liability assurance	Not more than 66 months (from the date on which an individual debt financing agreement comes into effect)	No	No
PT. ZTE Indonesia Note 10	15 October 2018 201890	USD40 million	25 October 2018	USD40 million	Joint liability	Commencing on the date of issuance of the guarantee letter of the parent company and ending on the date on which the parent company is fully released from its assurance obligations under the guarantee	No	No
PT. ZTE Indonesia Note 10	15 October 2018 201890	IDR300 billion	26 April 2019	IDR300 billion	Joint liability	Commencing on the date of issuance of the bank guarantee letter and ending upon the conclusion of an effective term of 3 years and 6 months or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed, whichever is later	No	No
ZTE Corporation Note 11	19 September 2018 201882	RMB2,287 million	–	–	Guarantee with security	2 years from the date on which the period for the fulfilment of primary debt by the debtor under the main contract (i.e., ZTE) is concluded or, 2 years from the date on which the period for the fulfilment of the last instalment of the primary debt is concluded, where fulfilment is by instalment.	N/A	No

Total amount of guarantee approved during the reporting period (B1)	RMB1,396,600,000 Note 12	Total amount of guarantee actually incurred during the reporting period (B2)	RMB150,701,400
Total amount of guarantee approved as at the end of the reporting period (B3)	RMB15,457,223,400 Note 12	Total amount of guarantee actually incurred as at the end of the reporting period (B4)	RMB841,469,900

Material Matters

Guarantees provided by subsidiaries on behalf of fellow subsidiaries								
Guaranteed party	Date and index of domestic announcement disclosing the guarantee amount	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Term of guarantee	Whether fully performed	Whether provided on behalf of connected parties
ZTE ICT Company Limited Note 13	N/A	RMB160 million	30 December 2014	RMB21,147,200	Joint liability	5 years (from the date of drawdown)	Yes	No
西安中興通訊終端科技有限公司Note 14	N/A	RMB60,005,000	13 March 2015	RMB60,005,000	Joint liability	5 years	No	No
深圳市中鑫新能源科技有限公司 Note 15 (formerly known as 深圳市中興新能源汽車服務有限公司)	N/A	RMB60 million	29 December 2015	–	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 under the contract are settled in full	No	No
西安克瑞斯半導體技術有限公司Note 16	N/A	USD30 million	26 January 2017	USD2.42 million	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
Netaş Bilişim Teknolojileri A.Ş. Note 17	N/A	USD2,153,300	14 November 2012	–	Joint liability	Commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which performance of the obligations of Netas Bilişim under the "Systems Integration Agreement" is completed	No	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. Note 17	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
ZTE ICT (Guangxi) Company Limited Note 18	19 March 2019 201914	RMB10 million	20 March 2019	RMB10 million	Joint liability assurance	Commencing on the date on which the "Maximum Guarantee Contract" comes into effect upon execution and ending on the date on which a period of 3 years has lapsed since the conclusion of the performance period for the primary creditor rights guaranteed	No	No
ZTE ICT Company Limited Note 19	27 May 2019 201937	RMB80 million	4 June 2019	RMB80 million	Guarantee with pledge	During the incurrence of the primary creditor rights	No	No

Total amount of guarantee for subsidiary approved during the reporting period (C1)	RMB90 million	Total amount of guarantee for subsidiary actually incurred during the reporting period (C2)	RMB106,899,200
Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3)	RMB678,702,600	Total amount of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4)	RMB251,075,200

Material Matters

Total amount guaranteed by the Company (sum of the three categories aforesaid)			
Total amount of guarantee approved during the reporting period (A1+B1+C1)	RMB1,486,600,000	Total amount of guarantee actually incurred during the reporting period (A2+B2+C2)	RMB257,600,600
Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3)	RMB16,156,945,300	Total amount of guarantee actually incurred as at the end of the reporting period (A4+B4+C4)	RMB1,113,564,400
Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company	3.86%		
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)	RMB838,317,400		
Amount of total guarantee exceeding 50% of net assets (F)	0		
Aggregate amount of the three guarantee amounts stated above (D+E+F)	RMB838,317,400		
Statement on liability incurred during the reporting period or potential joint liability for debt settlement (if any) in respect of outstanding guarantees	N/A		
Statement on provision of guarantee to third parties in violation of stipulated procedures (if any)	N/A		

Note 1: It was considered and approved at the Tenth Meeting of the Seventh Session of the Board of Directors of the Company that guarantee be provided by the Company by way of joint liability assurance for 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: It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors of the Company that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France SASU ("ZTE France"), a wholly-owned subsidiary of the Company under the 2010 SMS Execution Contract ("SMS Contract") and the PATES-NG Execution Contract ("PATES Contract"). As at the end of the reporting period, the PATES Contract was completed 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 3: It was considered and approved at the Ninth Meeting of the Sixth Session of the Board of Directors of the Company and the Third Extraordinary General Meeting of 2013 of the Company that a performance guarantee of USD40 million be provided by the Company for ZTE Indonesia, a wholly-owned subsidiary of the Company, and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD15 million. As at the end of the reporting period, the aforesaid guarantee was under normal performance.

Note 4: 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 as at the end of the reporting period (B3) represented the higher of USD600 million or RMB4,000 million. ZTE HK entered into a USD60 million loan agreement with DBS Bank in March 2015. At the same time, the Company entered into a guarantee agreement with DBS Bank to provide guarantee to DBS Bank for amounts of not more than USD60 million by way of joint liability assurance, to guarantee the due performance of obligations under the loan agreements by ZTE HK. ZTE HK completed a USD60 million loan repayment to DBS Bank in March 2019, and the corresponding guarantee agreement was terminated in March 2019.

Note 5: At the Twenty-first Meeting of the Sixth Session of the Board of Directors of the Company, 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

Material Matters

the reporting period, USD2.33 million of the USD60 million performance guarantee provided by the Company for ZTE Malaysia had come into effect, while USD11.4 million bank letter of guarantee issued by relevant banks and applied for by the Company on behalf of ZTE Malaysia remained in effect.

Note 6: 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 a EUR50 million loan agreement with Credit Agricole CIB ("Credit Agricole") in February 2016 and the Company entered into a guarantee agreement with Credit Agricole in September 2016 to provide guarantee to Credit Agricole for an amount of not more than EUR50 million by way of joint liability assurance to guarantee the due performance of obligations under the loan agreement by ZTE COOPERATIEF. ZTE COOPERATIEF completed a EUR50 million loan repayment to Credit Agricole in April 2019, and the corresponding guarantee agreement was terminated in April 2019. 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. The Company concurrently 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 agreement by ZTE COOPERATIEF. ZTE COOPERATIEF completed a EUR30 million loan repayment to Banco Bilbao HK in September 2019, and the corresponding guarantee agreement was terminated in September 2019.

Note 7: At the Eighth Meeting of the Seventh Session of the Board of Directors of the Company, 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. The Company concurrently 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. ZTE Heyuan completed the repayment of all loans under the loan agreements to BOC Shenzhen in September 2019, and the corresponding guarantee agreement was terminated in September 2019.

Note 8: As considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors of the Company, the provision by the Company of a guarantee by way of performance bond amounting to not more than RMB3.30 million in respect of the performance obligations of ZTE (Wenzhou) Railway Communication Technology Limited ("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 was approved. The Company has applied to the relevant bank for the issuance of a bank guarantee letter providing guarantee by way of performance bond with a cumulative maximum amount of RMB3,152,500 in respect of the performance obligations of ZTE Wenzhou under the "Wenzhou Public Security Communications Contract". As at the end of the reporting period, the performance bond had come into effect. ZTE Wenzhou had provided counter-guarantees in equivalent amounts to the Company in respect of the aforesaid guarantees.

Note 9: The Company sought medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee by way of joint liability assurance for an amount of not more than USD600 million. The aforesaid guarantee was considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors and the 2017 Annual General Meeting of the Company.

Note 10: As considered and passed at the Thirty-ninth Meeting of the Seventh Session of the Board of Directors of the Company, the provision of USD40 million performance guarantee and the application to the relevant bank for the issuance of an IDR300 billion bank letter of guarantee by the Company for ZTE Indonesia, a wholly-owned subsidiary, was approved. The aforesaid guarantee was within the limit of USD200 million for the guarantee of contract performance provided for Wholly-owned Overseas Subsidiaries as considered and passed at the 2017 Annual General Meeting. As at the end of the reporting period, the USD40 million performance guarantee agreement had been executed and the IDR300 billion bank letter of guarantee had been issued.

Note 11: As considered and passed at the Thirty-sixth Meeting of the Seventh Session of the Board of Directors of the Company and by way of resolution at the general meeting of Shenzhen Guoxin Electronics Development Company Limited ("Guoxin Electronics"), a subsidiary of the Company, it was approved that Guoxin Electronics would enter into the Mortgage Contract with SIHC to provide guarantee in respect of the Company's obligations under the project by the Company and SIHC secured by land blocks and buildings thereon in Buji Sub-district of Longgang District of Shenzhen held by Guoxin Electronics. The guarantee amount was approximately RMB2,287 million. The Mortgage Contract was executed on 19 September 2018, but the mortgage was not filed for registration. At the Forty-fifth Meeting of the Seventh Session of the Board of Directors of the Company held on 19 March 2019, the resolution on the "Memorandum of Understanding on the Termination of the 'Framework Agreement for Cooperation and Related Matters'" with SIHC was considered and approved. In respect of arrangements for the termination of the "Framework Agreement for Cooperation and Related Matters" and related matters, the Company and SIHC entered into the "Memorandum of Understanding on the Termination of the 'Framework Agreement for Cooperation and Related Matters'" on 19 March 2019, whereby the Mortgage Contract was terminated accordingly and the guarantee was not actually incurred.

Material Matters

Note 12: As considered and passed at the Forty-sixth Meeting of the Seventh Session of the Board of Directors of the Company and the 2018 Annual General Meeting, the Company would provide a guarantee amount for contract performance (including but not limited to the execution of guarantee agreements by the parent company and the provision of bank letters of guarantee) of not exceeding USD200 million in aggregate for 7 wholly-owned overseas subsidiaries. The aforesaid guarantee amount may be applied on a revolving basis during an effective period commencing on the date on which the limit of performance guarantee provided by the Company for wholly-owned overseas subsidiaries is considered and approved at the 2018 Annual General Meeting of the Company and ending on the date on which the Company's 2019 Annual General Meeting is convened. After the limit of performance guarantee provided by the Company for wholly-owned overseas subsidiaries has been considered and approved at the Company's 2018 Annual General Meeting, specific guarantees within the limit shall be approved by the Board of Directors of the Company, which shall be responsible for disclosing relevant information. 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 had not been applied.

Note 13: It was considered and approved at the board meeting and general meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide guarantee by way of joint liability assurance for an amount of RMB160 million in respect of the project financing of ZTE ICT, a subsidiary of the Company, for a term of 5 years (from the date of issuance of the loan). 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. As at the end of the reporting period, ZTE ICT had settled in full all loans under the project and the guarantee had been released.

Note 14: It was considered and approved at the board meeting of ZTE Group Finance, a wholly-owned subsidiary of the Company, that ZTE Group Finance would provide joint liability guarantee for an amount of not more than RMB60.005 million in respect of the performance of the "Smart Phone Manufacturing Equipment Lease Contract" by Xi'an ZTE Terminal Technology Limited, a wholly-owned subsidiary of the Company, for a term of 5 years. As at the end of the reporting period, the aforesaid guarantee was under normal operation.

Note 15: It was considered and approved at the board meeting and general meeting of 中興新能源汽車有限責任公司, a subsidiary of the Company, that 中興新能源汽車有限責任公司 would provide guarantee by way of joint liability assurance for an amount of not more than RMB60 million in respect of a project financing for 深圳市中興新能源汽車服務有限公司 (now renamed "深圳市中鑫新能源科技有限公司"), 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深圳市中鑫新能源科技有限公司 are settled in full. As at the end of the reporting period, the amounts payable by 深圳市中興新能源汽車服務有限公司 were settled in full and the relevant repurchase agreement had yet to be signed.

Note 16: 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 Xi'an Cris Semiconductor Technology Company Limited ("Cris"), 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 Cris 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 aforesaid guarantee was under normal operation and guarantee for an amount of USD2.42 million had come into effect.

Note 17: The Company completed the acquisition of Netaş, a listed Turkish company, on 28 July 2017. Prior to the acquisition of Netaş by the Company, Netaş had provided the following guarantee for its subsidiaries Probil Bilgi İşlem Destek ve Danışmanlık San.ve Tic. A.Ş. (renamed Netas Bilişim Teknolojileri A.Ş and hereinafter as "Netas Bilişim") and BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ("BDH"): (1) guarantee in respect of the performance obligations of Netas Bilişim under the "Systems Integration Agreement" for an amount of approximately USD2,153,300 for a term commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which the performance of the obligations of Netas Bilişim under the "Systems Integration Agreement " are completed. As at the end of the reporting period, Netas Bilişim had not placed any purchase orders under the "Systems Integration Agreement" and the actual amount of guarantee incurred was 0; (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 18: As considered and approved at the Forty-fifth Meeting of the Seventh Session of the Board of Directors of the Company and by the board of directors and general meeting of ZTE ICT, ZTE ICT would provide guarantee by way of assurance with an amount of RMB10 million in respect of the obligations of ZTE ICT (Guangxi) Company Limited ("Guangxi ICT"), under the "Working Capital Maximum Borrowing Contract" in favour of Guilin Bank, Wuzhou Branch, for a term commencing on the date on which the "Maximum Guarantee Contract" comes into effect and ending on the date on which a period of 3 years has lapsed since the conclusion of the performance period for the primary creditor rights guaranteed. On 20 March 2019, ZTE ICT entered into a "Maximum Guarantee Contract" with Guilin Bank, Wuzhou Branch and the aforesaid guarantee documents has come into effect.

Note 19: As considered and approved at the Third Meeting of the Eighth Session of the Board of Directors of the Company and by the board of directors and general meeting of Shenzhen Zhongxing Zhiping Technology Company Limited ("Zhongxing Zhiping"), Zhongxing Zhiping would provide an RMB80 million guarantee pledged by trade receivables in favour of China Minsheng Banking Corp., Ltd., Shenzhen Branch (“Minsheng Bank”) in respect of a loan extended to ZTE ICT by Minsheng Bank. On 4 June 2019, Zhongxing Zhiping entered into the Contract for Maximum Pledge Secured by Trade Receivables with Minsheng Bank. As at the end of the reporting period, registration procedures for the aforesaid pledge had been completed and the pledge had come into effect.

Note 20: The guaranteed amounts are translated at the following book exchange rates of the Company as at 31 December 2019: USD1: RMB6.983, EUR1: RMB7.8271, IDR1: RMB0.000502338.

3. For the special statement and independent opinion on the fund transfers between the Company and connected parties and third-party guarantees of the Company furnished by the Independent Non-Executive Directors of the Company, please refer to the “Independent Opinion of the Independent Non-Executive Directors on Matters pertaining to the Fifteenth Meeting of the Eighth Session of the Board of Directors” published by the Company on 27 March 2020.

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

☐ Applicable ✓ N/A

(XII) UNDERTAKING

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

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

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

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

Material Matters

c. On 7 August 2019, the Company gave an undertaking in respect of the Company's proposed non-public issue of A Shares in accordance with the pertinent requirements of set out in the "Answers to Certain Questions on Refinancing Business" published by the CSRC: If the non-public issuance of A shares is approved by the competent authorities, including the CSRC and is implemented, prior to the utilisation in full of proceeds from the non-public issuance of A shares or within 36 months from the date of receipt of the issue proceeds, the Company shall not commit new funds into the quasi-financial business (including fund commitments in various forms such as capital increase, loans and guarantees, among others).

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

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

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

The Directors and senior management of the Company provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the 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 otherwise 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 and Evaluation Committee of the Board of Directors with the implementation of the Company's measures relating to compensation for return; (5) that they will procure the linking of the exercise conditions under the Company's share option incentives to be announced with the implementation of the Company's measures relating to compensation for return; (6) that they will willingly assume the liability for compensating the Company or shareholders in accordance with the law in the event of losses incurred by the Company or shareholders as a result of their violation of or refusal to honour their undertaking.

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

☐ Applicable ✓ N/A

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

☐ Applicable ✓ N/A

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

✓ Applicable ☐ N/A

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

Material Matters

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

☐ Applicable ✓ N/A

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

New subsidiaries established during the period included: tier-one subsidiaries Shenzhen Yingbo Super Computer Technology Company Limited; tier-two subsidiaries Shenzhen Yingbo Smart Auto Technology Company Limited and ZTE Optoelectronics (Japan) Limited; and tier-four subsidiaries Netas Algeria SARL and ZTE SAN MARINO S.r.l.

Subsidiaries deregistered during the period included: tier-one subsidiaries Shijiazhuang Guochuang Smart City Research Institute Company Limited, Shenzhen Zhongliancheng Electronic Development Company Limited, ZTE (Kunming) Smart City Industry Research Institute Co., Ltd. and ZTE Smart Terminal Company Limited, ZTE (Hangzhou) Co., Ltd and Jiyuan Zhongxing Intelligent Technology Industry Company Limited; tier-two subsidiaries Shenzhen Xinglianda Technology Limited,Shandong Bobei Information Technology Company Limited, ZTE HONGKONG (LAO) SOLE COMPANY LIMITED, Shanghai Xingxin New Energy Automobile Company Limited and ZTE Research and Development Center; and a tier-three subsidiary ZTEJC NIGERIA LIMITED.

NXT Netcare Services GmbH, a subsidiary of the Company, completed the disposal of 100% equity interests in NFS Netcare Field Services GmbH on 1 January 2019, NFS Netcare Field Services GmbH has been excluded from the consolidated financial statements of the Group as from 1 January 2019. ZTE ICT (Henan) Company Limited, a subsidiary of the Company, completed the disposal of 100% equity interests in Xingyuan Intelligent Industry Development Company Limited on 29 March 2019. Xingyuan Intelligent Industry Development Company Limited has been excluded from the consolidated financial statements of the Group as from 29 March 2019. The Company completed the disposal of 51% equity interests in ZTE (Huai'an) Smart Industries Company Limited in June 2019. ZTE (Huai'an) Smart Industries Company Limited has been excluded from the consolidated financial statements of the Group as from June 2019. Shenzhen Zhongxing ICT Company Limited, a subsidiary of the Company, completed the disposal of 90% equity interests in Shenzhen Green Pea Educational Technology Company Limited on 18 June 2019. Shenzhen Green Pea Educational Technology Company Limited has been excluded from the consolidated financial statements of the Group as from 18 June 2019. The Company completed the disposal of 12% equity interests in Zhongxing Feiliu Information Technology Company Limited on 31 December 2019. Zhongxing Feiliu Information Technology Company Limited has been excluded from the consolidated financial statements of the Group as from 31 December 2019.

For details of changes to the scope of consolidated financial statement in comparison with the annual financial report for the previous year, please refer to Note VI to the financial report prepared under PRC ASBEs.

(XVII) APPOINTMENT OF AUDITORS BY THE COMPANY

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

Material Matters

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

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

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

☐ Applicable ✓ N/A

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

☐ Applicable ✓ N/A

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

(XXIII) OTHER SIGNIFICANT EVENTS

Save as aforesaid, no other significant events as specified under Rule 80 of the Securities Law and Article 30 of the Measures for the Administration of Information Disclosure by Listed Companies and events that were significant in the judgment of the Board of Directors of the Company occurred to the Company during the year.

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

Material Matters

(XXV) PERFORMANCE OF CORPORATE SOCIAL RESPONSIBILITY BY THE COMPANY

1. Performance of social responsibilities in defined poverty aid

In adherence to its fundamental objectives of "championing the spirit of community welfare, fulfilling corporate responsibility and promoting public welfare development", ZTE Charity Foundation is engaged in active development of community welfare and charity programmes. While continuing to roll out projects for poverty aid through education, poverty relief and medical assistance, ZTE Charity Foundation has also conducted further investigations into poverty aid through industrial development and projects for improving the rural living environment, with a view to gradually enhancing the quality of living of the unprivileged population and providing greater assurance for their development.

During the year under review, the Company implemented a number of community welfare projects in these areas: poverty aid through healthcare, poverty aid through education, relief for the underprivileged and poverty aid through industrial development, organising close to 100 welfare campaigns. More specifically: (1) in connection with poverty aid through healthcare, the Company continued to operate the "United Love Project" involving pilot initiatives to help child patients suffering from leukemia in Heyuan, Guangdong Province and in Qinghai Province, in an experimental initiative for integrated control of serious diseases, while its project strategy was adjusted with the formation of an in-house healthcare technology assessment team to assist in poverty aid through medical care; (2) in connection with poverty aid through education, the Company participated in the Xinghua Education Assistance Project, Dream Expedition Summer Camp, Shaanxi Charity 100 Education Assistance Action and Chongqing 1+1 sponsorship programme, among others, to provide financial assistance and schooling assurance to underprivileged students; (3) in connection with relief for the underprivileged, the Company organised visits to veteran soldiers and orphans and offered care in both materialistic and emotional terms through a variety of activities; (4) in connection with poverty aid through industrial development, the Company rolled out feature industrial projects in Tianlin in Guangxi province and Muli in Sichuan province, such as the plantation of Agaricus Blazei Murill, in an effort to help villagers earn more income and lift themselves from poverty. Moreover, the Company supported the development of affordable housing estates and infrastructure projects such as road and bridge construction and village facelifts in the counties of Luopu, Akto and Shule in Xinjiang province and Huanan Country in Heilongjiang province, in order to further improve the living environment in these regions.

Material Matters

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	1,039
2. Value of donation in kind	RMB in ten thousands	—
3. Number of people lifted from poverty among registered population of poverty	Person	—
II. Breakdown of contributions	—	—
1. Poverty aid through industrial development	—	—
Including: 1.1 Types of industrial poverty aid projects	—	Poverty aid through agricultural and forestry operations
1.2 Number of industrial poverty aid projects	Project	2
1.3 Amount contributed to the industrial poverty aid projects	RMB in ten thousands	408
1.4 Number of people lifted from poverty among registered population of poverty	Person	225
2. Poverty aid through education	—	—
Including: 2.1 Amount contributed to the aid of underprivileged students	RMB in ten thousands	340
2.2 Number of underprivileged students receiving financial aid	Person	919
3. Poverty aid through healthcare	—	—
Including 3.1 Amount contributed to healthcare resources for impoverished areas	RMB in ten thousands	51
4. Social poverty aid	—	—
Including: 4.1 Amount contributed to poverty aid welfare funds	RMB in ten thousands	101
5. Other projects	—	—
Including: 5.1. Number of projects	Project	9
5.2. Amount contributed	RMB in ten thousands	139
III. Awards (details and class)	—	"Defined Poverty Aid Award" by Xinhuanet

In 2020, the Company will continue to focus on the healthcare and education sectors in its poverty aid efforts and seek to make contributions to healthcare decisions by developing healthcare technology assessments and furnishing scientific assessment reports based on internationally advanced theories and practical experience. Through ongoing implementation of and improvements to the Xinghua Education Assistance Project, the Company will continue to provide financial assistance to underprivileged students and look to optimise the model for assisting needy university students, aiming to enhance their job competitiveness as well as improving their finances. The Company will also conduct in-depth research into the needs of impoverished regions, offering support for poverty aid through industrial development and infrastructure construction based on actual conditions.

Material Matters

2. Status in relation to environmental protection

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

✓ Applicable ☐N/A

Name of company or subsidiary	Name of main pollutants and typical pollutants	Means of discharge	Number of discharge outlets	Distribution of discharge outlets	Concentration of discharge	Pollutant discharge standards implemented	Total discharge volume in 2019	Approved total discharge volume	Excessive discharge
ZTE Corporation	Used batteries, tin slag, spent fluorescent tubes, etc	Transfer to professional hazard waste disposal agencies	1	55 Keji Road South, Nanshan District, Shenzhen	N/A	N/A	409 tonnes	N/A	N/A

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

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

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

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

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

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

Material Matters

(3) Emergency plans for contingent environmental incidents

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

(4) Environmental self-monitoring plan

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

For details of the social welfare activities (including donations) and performance of corporate social responsibility by the Company, please refer to the "2019 Sustainability Report" published by the Company on 27 March 2020.

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE YEAR

Unit: shares

	31 December 2018		Increase/decrease as a result of the change during the year (+, −)					31 December 2019	
	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	**3,600,968**	**0.09%**	**+82,125**	**–**	**–**	**−3,189,571**	**−3,107,446**	**493,522**	**0.01%**
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned corporate shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	–	–	–	–	–	–	–	–	–
Comprising: domestic non-state-owned corporate shares	–	–	–	–	–	–	–	–	–
Domestic natural person shares	–	–	–	–	–	–	–	–	–
4. Foreign shares	–	–	–	–	–	–	–	–	–
Comprising: Foreign corporate shares	–	–	–	–	–	–	–	–	–
Foreign natural person shares	–	–	–	–	–	–	–	–	–
5. Senior management shares	3,600,968	0.09%	+82,125	–	–	−3,189,571	−3,107,446	493,522	0.01%
II. Shares not subject to lock-up	**4,189,070,875**	**99.91%**	**+34,775,901**	**–**	**–**	**+3,189,571**	**+37,965,472**	**4,227,036,347**	**99.99%**
1. RMB ordinary shares	3,433,568,341	81.89%	+34,775,901	–	–	+3,189,571	+37,965,472	3,471,533,813	82.12%
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H shares)	755,502,534	18.02%	–	–	–	–	–	755,502,534	17.87%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**4,192,671,843**	**100.00%**	**+34,858,026**	**–**	**–**	**–**	**+34,858,026**	**4,227,529,869**	**100.00%**

Note 1: During the year, a total of 34,858,026 A share options were exercised by the participants under the Company's 2017 Share Option Incentive Scheme and the number of the Company's A shares increased by 34,858,026 shares accordingly;

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 2018	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	Xie Daxiong	371,852	–	–	371,852	Senior management shares	–
2	Xia Xiaoyue	38,195	–	–	38,195		–
3	Xu Ziyang	–	–	31,500	31,500		–
4	Wang Xiyu	–	–	31,125	31,125		–
5	Li Ying	1,350	–	19,500	20,850		–
6	Others	3,189,571	3,189,571	–	–		–
	Total	**3,600,968**	**3,189,571**	**82,125**	**493,522**	**–**	**–**

Changes in Shareholdings and Information of Shareholders

Note 1: The reduction in the number of shares subject to lock-up is attributable to the release of lock-up of shareholdings of departing Directors, Supervisors and senior management of the Company in accordance with relevant domestic regulations.

Note 2: The increase in the number of shares subject to lock-up is attributable to the exercise of 2017 A share options by the Directors and senior management of the Company during the year. In accordance with relevant domestic regulations, 75% of the new unrestricted shares granted to Directors, Supervisors and senior management are subject to lock-up by default.

(III) ISSUE AND LISTING OF SECURITIES DURING THE YEAR AND RECENT ISSUE AND LISTING OF SECURITIES

1. The Company granted 149,601,200 A share options to 1,996 participants on 6 July 2017. The registration of the grant of such A share options was completed on 20 July 2017. The code of the options is "037050" and the abbreviated name is "中兴JLC2". For details of the exercise and cancellation of the aforesaid share options, please refer to the section headed "Material Matters — (VI) Implementation and Impact of the Company's Share Option Incentive Scheme" in this report. During the year, a total of 34,858,026 share options were exercised, and the total share capital of the Company increased by 34,858,026 shares accordingly. Subsequent to the end of the year and up to the date of publication of this report, a total of 3,377,454 A share options were exercised by participants under the 2017 Share Option Incentive Scheme, and the total share capital of the Company increased by 3,377,454 shares accordingly.

2. On 15 January 2020, the Company entered into the Subscription Agreement with 10 subscribers. The issue price for the Company's non-public issuance of A shares was set at RMB30.21 per share and a total of 381,098,968 shares were issued, raising gross proceeds of RMB11,512,999,823.28. The new shares under the non-public issue of A shares by the Company were listed on the Shenzhen Stock Exchange on 4 February 2020.

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 2019	There were 313,979 shareholders (comprising 313,658 holders of A shares and 321 holders of H shares)
As at 29 February 2020, namely the last day of the preceding month of the date of publication of the Annual Report	There were 309,198 shareholders (comprising 308,883 holders of A shares and 315 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	Domestic general corporation	27.18%	1,148,849,600	−123,018,733	–	98,667,983
2. HKSCC Nominees Limited[Note 1]	Foreign shareholders	17.84%	754,349,386	+42,594	–	Unknown
3. Hong Kong Securities Clearing Company Limited[Note 2]	Foreign corporation	1.61%	67,868,306	+43,369,468	–	Nil
4. Central Huijin Asset Management Co. Ltd.	State-owned corporation	1.24%	52,519,600	–	–	Nil
5. China Life Insurance Company Limited – Dividend – Personal Dividend – 005L-FH002 Shen	Others	1.01%	42,746,736	+29,867,888	–	Nil
6. Hunan Nantian (Group) Co., Ltd	State-owned corporation	0.98%	41,516,065	–	–	Nil
7. Bank of China Limited – Huaxia Chinese Securities 5G Themed Traded Open-ended Index Securities Fund	Others	0.51%	21,464,702	+21,464,702	–	Nil
8. China Life Insurance (Group) Company – Traditional – General Insurance Products	Others	0.50%	21,189,368	+18,089,368	–	Nil
9. NSSF Portfolio #112	Others	0.47%	19,888,515	+1,004,115	–	Nil
10. China Mobile No. 7 Research Institute	State-owned corporation	0.45%	19,073,940	–	–	Nil

Changes in Shareholdings and Information of Shareholders

Shareholdings of top 10 holders of shares that were not subject to lock-up		
Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,146,811,600	A share
	2,038,000	H share
2. HKSCC Nominees Limited	754,349,386	H share
3. Hong Kong Securities Clearing Company Limited	67,868,306	A share
4. Central Huijin Asset Management Co. Ltd.	52,519,600	A share
5. China Life Insurance Company Limited — Dividend — Personal Dividend — 005L-FH002 Shen	42,746,736	A share
6. Hunan Nantian (Group) Co., Ltd	41,516,065	A share
7. Bank of China Limited — Huaxia Chinese Securities 5G Themed Traded Open-ended Index Securities Fund	21,464,702	A share
8. China Life Insurance (Group) Company — Traditional — General Insurance Products	21,189,368	A share
9. NSSF Portfolio #112	19,888,515	A share
10. China Mobile No. 7 Research Institute	19,073,940	A share
Descriptions of any connected party relationships or concerted party relationships among the above shareholders	1. Zhongxingxin was neither a connected party nor a concerted party of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.	
Description of involvement in financing and securities lending businesses of top 10 shareholders (if any)	N/A	

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

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

Note 3: During the year, no strategic investors or ordinary legal persons were required to hold shares for a designated period under the placing of new shares by the Company.

Note 4: Shareholders holding 5% or above of the Company's shares — As at the end of the reporting period, Zhongxingxin was the controlling shareholder of the Company holding 1,148,849,600 shares in the Company in aggregate, representing 27.18% of the total share capital of the Company. Changes in the shareholdings of the Zhongxingxin during the reporting period are as follows:

Name of shareholder	Increase/ decrease of number of shares held during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Class of shares held	Number of shares subject to lock-up held at the end of the reporting period (shares)	Number of shares not subject to lock-up held at the end of the reporting period (shares)	Number of shares pledged or frozen (shares)
Zhongxingxin	–123,018,733	1,146,811,600	A shares	0	1,146,811,600	98,667,983
	0	2,038,000	H shares	0	2,038,000	Nil

Note 1: Zhongxingxin conducted a sell-down of 81,092,033 A shares in the Company through block trading during the year and completed the subscription for units in the ICBCCS Shanghai-Shenzhen 300 Traded Open-ended Index Securities Investment Fund on 15 May 2019. The subscription consideration was 41,926,700 A shares in the Company held by Zhongxingxin.

Note 2: Zhongxingxin, the shareholder of the Company, pledged its holdings of 98,667,983 A shares in the Company for financing requirements on 20 December 2018. As a result of the expiry and renewal of the relevant financing agreement, Zhongxingxin has released the aforesaid pledge and created a new pledge, the details of which are set out in the "Overseas Regulatory Announcement Announcement on the release of pledge and creation of new pledge against shares held by the majority shareholder" published by the Company on 26 March 2020.

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:	R&D of machine vision systems integration, design and production of optical instruments, industrial cameras and instruments, and high-end mechanical equipment, computer systems integration, and R&D, technology development, technology transfer, technical services, technical consultation and import and export of technologies in relation to software and hardware, electronic components and raw materials of computer vision data processing systems; leasing of owned housing properties; industrial investment; import and export business. (Commencement of operation of enterprises requiring prerequisite administrative approvals shall be subject to the obtaining of documents for such prerequisite administrative approvals.)

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

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

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

Changes in Shareholdings and Information of Shareholders

Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large-scale state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tang Lei and its uniform social credit code is 12100000H0420141X7. It is the only specialised research institute in China which features the complementary integration of the research, development, commercial production and inspection/testing of semi-conductor integrated circuits, hybrid integrated circuits and computers.

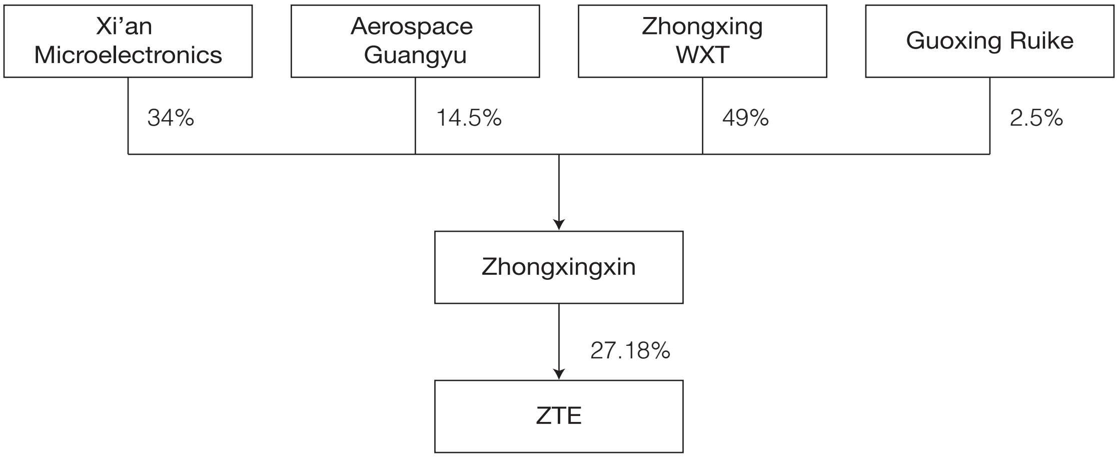
Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a wholly state-owned enterprise established on 17 August 1989 with a registered capital of RMB17,950,000. Its legal representative is Liu Hao and its uniform social credit code is 91440300192175031U. The scope of business includes 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; logistics information service (except in relation to hazardous items) and sales of construction materials (other than items prohibited under laws, administrative regulations or State Council decisions and subject to the obtaining of relevant permits for restricted items); cargo transportation and storage; wholesale of pre-packaged food; wholesale of agricultural by-products; sales of coal products; sales of pre-packaged food (including refrigerated food), sales of bulk food (including refrigerated food); sales of medical equipment; sales of Classes II and III X-ray devices; sales of light recycling oil (excluding hazardous chemical goods).

Zhongxing WXT is a private enterprise incorporated on 23 October 1992 with a registered capital of RMB10 million. Its legal representative is Hou Weigui and 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 (commencement of operations subject to approval by relevant authorities if so 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 2019.



4. **The Company had no other corporate shareholder which 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 2019, the following shareholders held interests or short positions in 5% or more in various classes of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	**Capacity**	**Number of shares held**	**Shareholding as an approximate percentage (%) of: Note**	
			Total share capital	**Class shares**
Zhongxingxin	Beneficial owner	1,146,811,600 A shares (L)	27.13% (L)	33.03% (L)
Zhongxing WXT	Interests of corporate controlled by you	1,146,811,600 A shares (L)	27.13% (L)	33.03% (L)
Xi'an Microelectronics	Interests of corporate controlled by you	1,146,811,600 A shares (L)	27.13% (L)	33.03% (L)
China Aerospace Electronics Technology Research Institute	Interests of corporate controlled by you	1,146,811,600 A shares (L)	27.13% (L)	33.03% (L)
China Aerospace Science and Technology Corporation	Interests of corporate controlled by you	1,146,811,600 A shares (L)	27.13% (L)	33.03% (L)
Schroders Plc	Investment manager	38,339,000 H shares (L)	0.91% (L)	5.07% (L)
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.91% (L)	5.08% (L)

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

Note: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital of 4,227,529,869 shares, comprising 3,472,027,335 A shares and 755,502,534 H shares, as at 31 December 2019.

Save as disclosed above, as at 31 December 2019, so far as the Directors, Supervisors and senior management of the Company are aware, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

Changes in Shareholdings and Information of Shareholders

7. Repurchase, sale and redemption of securities

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

8. Public float

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

Directors, Supervisors, Senior Management and Employees

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

1. Brief biographies of Directors

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

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

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

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

Directors, Supervisors, Senior Management and Employees

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

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

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

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

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

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

Mr. Ding Jianzhong, born in 1976, is Secretary to the Board of Directors and Company Secretary of the Company. Mr. Ding holds a master's degree in management and is a certified public accountant of the PRC and an Associate Member of China Certified Tax Agents Association. Mr. Ding joined the Company in 2003. From 2003 to March 2019, he had served successively as: financial officer-in-charge of the Business Department, Principal of the Cost and Strategy Office, financial officer-in-charge of the Engineering Service Operation Department, Deputy Head of the Engineering Business Department, Deputy Head of the Business Centre, Head of Financial Division II under the Financial Management Department, Head of Supply Chain Procurement Division III and Head of Work Outsourcing Division under the Engineering Service Operation Department. He has been Head of the Securities Department under the Finance Department of the Company since April 2019, Secretary to the Board of the Company since July 2019 and Company Secretary of the Company since November 2019. Mr. Ding has many years of operational and management experience in the financial and telecommunication sectors.

3. Brief biographies of Supervisors

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

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

Mr. Li Quancai, born in 1961, is a Supervisor of the Company. Mr. Li graduated from Xi'an Jiaotong University in 1989 with a bachelor's degree, majoring in industrial and corporate automation. Mr. Li worked at China Aerospace Factory No.691 from August 1981 to October 1989. From November 1989 to September 1993, he was under the employment of Shenzhen Zhongxing Semiconductor Co., Ltd. He joined Zhongxingxin, the controlling shareholder of the Company, in October 1993 and had since successively served as after-sales engineer, manager of sales department and regional general manager of marketing until October 1997. From

November 1997 to May 2018, Mr. Li had been working at the Company, having held the positions of Deputy General Manager of Marketing Division II, Deputy General Manager of Marketing of the Mobile Division, Deputy General Manager of Production of the Mobile Division, Head of the Xi'an Research Institute of the Mobile Division and Deputy Head of the Wireless Research Institute. He has been Supervisor of the Company since November 2017. He has been chairman of the Trade Union of the Company since May 2018. Mr. Li has extensive experience in management and operations.

Mr. Shang Xiaofeng, born in 1975, is a Supervisor of the Company. Mr. Shang graduated from Shanxi University of Finance and Economics in 2001 with a master's degree in management majoring in accounting and holds qualifications as a certified management accountant and the title of senior accountant. From July 2001 to September 2002, Mr. Shang was an accountant at the Agricultural Bank of China, Shenzhen Branch; from September 2002 to March 2011, he worked at the treasury department of Ping An Insurance (Group) Company of China, Ltd.; from March 2011 to May 2017, Mr. Shang had successively undertaken the positions of deputy treasury department manager of the finance centre, treasury department manager of the finance centre and head of the finance centre of CASIC Shenzhen (Group) Limited; he has successively served as head of the finance department and general manager of the international operations company of Shenzhen Aerospace Industrial Technology Research Institute Limited since May 2017. He has been Supervisor of the Company since March 2019. Mr. Shang has extensive experience in financial and operational management.

Ms. Zhang Sufang, born in 1974, is a Supervisor of the Company. Ms. Zhang graduated from Nankai University in June 2000 with a master's degree in management. From July 2000 to February 2009, Ms. Zhang had successively served at the promotion and reception department and as head of the finance department of Zhongxingxin; she has been secretary to the board of directors of Zhongxingxin since July 2006 and head of the general office of Zhongxingxin since February 2009. Since December 2011, Ms. Zhang has served as a member of the fourth and fifth sessions of CPPCC Shenzhen Luohu District Committee. She has been Supervisor of the Company since March 2019. She is also concurrently serving as director/supervisor/general manager at various subsidiaries of Zhongxingxin. Ms. Zhang has extensive experience in management and operations.

4. Brief biographies of Senior Management

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

Mr. Gu Junying, Executive Vice President of the Company. Please refer to the section headed "Brief biography of Directors" for his biography.

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

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

Directors, Supervisors, Senior Management and Employees

Mr. Xie Junshi, born in 1975, graduated from Tsinghua University in 1998 with a bachelor's degree in engineering majoring in engineering mechanics and further obtained a master's degree in engineering majoring in fluid mechanics in 2001, also from Tsinghua University. After joining the Company in 2001, Mr. Xie had been committed to the Company's international market development from 2001 to 2018. From 2001 to 2012, he had successively served as the Company's Technology Manager (International Markets), Business Technology Manager (Europe and South Asia) and Deputy General Manager (Europe and North America) in charge of MKT. He served as the Company's Deputy General Manager (Europe) in charge of terminals, corporate business and operations in 2013. From 2014 to July 2018, he was the Company's General Manager (Europe and America) for MKT and Solutions. He was Senior Vice President and Chief Operating Officer from July 2018 to September 2019 and Executive Vice President and Chief Operating Officer of the Company since September 2019. Mr. Xie has many years of experience in the telecommunication industry in both operational and management capacities.

Ding Jianzhong, 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 his 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 [Note 3]														
1	Li Zixue [Note 4]	Male	55	Chairman	Incumbent	3/2019	3/2022	–	–	–	–	–	581.3	No
				Acting Secretary to the Board of Directors	Resigned	7/2019	7/2019							
2	Xu Ziyang	Male	47	Director	Incumbent	3/2019	3/2022	–	42,000	–	42,000	Note 8	733.1	No
				President	Incumbent	4/2019	3/2022							
3	Li Buqing	Male	47	Director	Incumbent	3/2019	3/2022	–	–	–	–	–	10.0	Yes
4	Gu Junying	Male	52	Director	Incumbent	3/2019	3/2022	–	–	–	–	–	566.9	No
				Executive Vice President	Incumbent	4/2019	3/2022							
5	Zhu Weimin	Male	53	Director	Incumbent	3/2019	3/2022	–	–	–	–	–	10.0	Yes
6	Fang Rong	Female	55	Director	Incumbent	3/2019	3/2022	–	–	–	–	–	10.0	Yes
7	Cai Manli	Female	46	Independent Non-executive Director	Incumbent	3/2019	3/2022	–	–	–	–	–	25.0	Yes
8	Yuming Bao	Male	47	Independent Non-executive Director	Incumbent	3/2019	3/2022	–	–	–	–	–	25.0	Yes
9	Gordon Ng	Male	55	Independent Non-executive Director	Incumbent	3/2019	3/2022	–	–	–	–	–	25.0	Yes
Supervisors of the Company [Note 5]														
10	Xie Daxiong	Male	56	Chairman of Supervisory Committee	Incumbent	3/2019	3/2022	495,803	–	–	495,803	–	477.5	No
11	Xia Xiaoyue	Female	44	Supervisor	Incumbent	3/2019	3/2022	50,927	–	–	50,927	–	107.7	No
12	Li Quancai	Male	58	Supervisor	Incumbent	3/2019	3/2022	–	–	–	–	–	145.6	No
13	Shang Xiaofeng	Male	44	Supervisor	Incumbent	3/2019	3/2022	–	–	–	–	–	–	Yes
14	Zhang Sufang	Female	45	Supervisor	Incumbent	3/2019	3/2022	–	–	–	–	–	–	Yes
15	Wang Junfeng	Male	53	Supervisor	Resigned	3/2016	3/2019	–	–	–	–	–	–	Yes
Senior management of the Company														
16	Wang Xiyu [Note 6]	Male	45	Executive Vice President	Incumbent	4/2019	3/2022	–	41,500	–	41,500	Note 8	720.5	No
17	Li Ying [Note 4 and Note 6]	Female	41	Executive Vice President and Chief Financial Officer	Incumbent	4/2019	3/2022	1,800	26,000	–	27,800	Note 8	564.4	No
				Acting Secretary to the Board	Resigned	4/2019	6/2019							
18	Xie Junshi [Note 7]	Male	44	Executive Vice President	Incumbent	9/2019	3/2022	–	112,466	112,466	–	–	549.7	No
19	Ding Jianzhong [Note 4]	Male	43	Secretary to the Board	Incumbent	7/2019	3/2022	–	33,160	33,160	–	–	173.5	No
20	Cao Wei [Note 6]	Female	43	Secretary to the Board	Resigned	4/2016	3/2019	25,200	–	25,200	–	–	77.2	No
–	**Total**	–	–	–	–	–	–	**573,730**	**255,126**	**170,826**	**658,030**	–	**4,802.4**	–

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 Eighth Session of the Board of Directors, Supervisors of the Eighth Session of the Supervisory Committee and senior management of the Company appointed by the Eighth Session of the Board of Directors.

Note 2: Pursuant to Rule 10.1.3(III) of the Shenzhen Listing Rules, legal entities or other entities in which the Directors, Supervisors and senior management of a listed company act as directors and senior management (other than the said listed company and its subsidiaries) are deemed as connected parties of such listed company.

Directors, Supervisors, Senior Management and Employees

Note 3: The Seventh Session of the Board of Directors of the Company concluded on 29 March 2019. At the First Extraordinary General Meeting of 2019 of the Company held on 20 March 2019, Mr. Li Zixue, Mr. Xu Ziyang, Mr. Li Buqing, Mr. Gu Junying, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-independent Directors of the Eighth Session of the Board of Directors of the Company, and Ms. Cai Manli, Mr. Yuming Bao and Mr. Gordon Ng were elected as Independent Non-executive Directors of the Eighth Session of the Board of Directors of the Company. The term of the Eighth Session of the Board of Directors of the Company shall be from 30 March 2019 to 29 March 2022. At the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, Mr. Li Zixue was elected as Chairman of the Board of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-executive Directors of the Eighth Session of the Board of Directors of the Company, and Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying were elected as Executive Directors of the Eighth Session of the Board of Directors of the Company.

Note 4: A period of three months had lapsed since Ms. Li Ying undertook the duties of the Secretary to the Board of Directors on an acting basis, Mr. Li Zixue, Chairman of the Company, has undertaken the duties of the Secretary to the Board of Directors on an acting basis with effect from 1 July 2019. At the Seventh Meeting of the Eighth Session of the Board of Directors of the Company held on 29 July 2019, the appointment of Mr. Ding Jianzhong as Secretary to the Board of Directors was approved.

Note 5: The Seventh Session of the Supervisory Committee of the Company concluded on 29 March 2019. At the First Extraordinary General Meeting of 2019 of the Company held on 20 March 2019, Mr. Shang Xiaofeng and Ms. Zhang Sufang were elected Shareholders' Representative Supervisors of the Eighth Session of the Supervisory Committee of the Company. In addition, Mr. Xie Daxiong, Ms. Xia Xiaoyue and Mr. Li Quancai had been elected Staff Representative Supervisors of the Eighth Session of the Supervisory Committee of the Company through democratic election by the staff of the Company. The term of the Eighth Session of the Supervisory Committee of the Company commenced on 30 March 2019 and shall end on 29 March 2022. At the First Meeting of the Eighth Session of the Supervisory Committee of the Company held on 1 April 2019, Mr. Xie Daxiong was elected Chairman of the Eighth Session of the Supervisory Committee of the Company.

Note 6: The term of office of senior management personnel appointed by the Seventh Session of the Board of Directors of the Company concluded on 29 March 2019. At the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, it was approved that Mr. Xu Ziyang be re-appointed President of the Company, each of Mr. Wang Xiyu, Mr. Gu Junying and Ms. Li Ying be re-appointed Executive Vice President of the Company, and Ms. Li Ying be concurrently re-appointed Chief Financial Officer of the company. As the term of office of the previous Secretary to the Board of Directors had concluded, it was approved that Ms. Li Ying, Executive Vice President and Chief Financial Officer of the Company, would undertake the duties of the Secretary to the Board of Directors on an acting basis.

Note 7: At the Ninth Meeting of the Eighth Session of the Board of Directors of the Company held on 19 September 2019, it was approved that Mr. Xie Junshi be appointed Executive Vice President of the Company for a term from 19 September to 29 March 2022.

Note 8: Exercise of 2017 A share options by the Directors and senior management of the Company during the year.

Note 9: None of the Company's Directors, Supervisors, senior management in office as at the end of the year held any H shares in the issued share capital of the Company during the year.

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

(III) INFORMATION CONCERNING CURRENT 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 Note 1	Conclusion of term of office Note 1	Whether receiving remuneration from Zhongxingxin
Zhu Weimin	Zhongxingxin	Director	August 2018	August 2021	Yes
Shang Xiaofeng	Zhongxingxin	Supervisor	August 2018	August 2021	Yes
Zhang Sufang	Zhongxingxin	Secretary to the Board of Directors	August 2018	August 2021	Yes

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 ninth session of the board of directors, supervisors of the ninth session of the supervisory committee and senior management appointed by the ninth session of the board of directors of Zhongxingxin.

(IV) INFORMATION CONCERNING CURRENT 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
Xu Ziyang	ZTE Microelectronics	Chairman	No
Li Buqing	Shenzhen Aerospace Industrial Technology Research Institute Limited	Chief accountant	Yes
	CASIC Shenzhen (Group) Company Limited	Director and chief accountant	No
	Aerospace Guangyu	Director	No
	Shenzhen Aerospace Property Management Co., Ltd.	Director	No
	HT-Hysa Security Technology Engineering Co., Ltd.	Director	No
	Shenzhen Aerospace Liye Industry Development Co., Ltd.	Chairman	No
	Shenzhen Zhongxing Information Company Limited	Director	No
Zhu Weimin	Shenzhen ZTE International Investment Limited	Chairman	Yes
	Held positions in 7 subsidiaries of Shenzhen ZTE International Investment Limited including Beijing United ZTE International Investment Limited	Chairman/director	No
	Zhongxing WXT	Director	No
	Shenzhen Techaser Technologies Co., Ltd.	Director	No
	Shenzhen Xinyu Tengyue Electronics Co., Ltd	Director	No
Fang Rong[Note 1]	Zhongxing Development Company Limited	Director and executive vice president	Yes
	Shenzhen ZTE International Investment Limited	Director	No
	Held positions in 12 subsidiaries or investees of Zhongxing Development Company Limited including Beijing Holi Health Information Scientific and Technological Co., Ltd.	Director	No
	Beijing United ZTE International Investment Limited	Director	No
Cai Manli[Note 2]	HEYI Rising Assets Management Co., Ltd.	General manager	Yes
	King & Wood Mallesons	Senior consultant	No
	Sichuan Xinwang Bank Co., Ltd	External supervisor	Yes
	Shanghai Flyco Electrical Appliance Co., Ltd	Independent director	Yes
	SF Diamond Co., Ltd.	Independent director	Yes
	Hubei Broadcasting and Television Information Network Co., Ltd.	Independent director	Yes
	New Hope Liuhe Co., Ltd.	Independent director	Yes
Yuming Bao	Yantai Jereh Oilfield Services Group Co., Ltd.	Group vice president/ chief legal officer	Yes
	Southwest University of Political Science and Law	Adjunct research fellow	No
	China Behavioural Jurisprudence Institute	Visiting professor	No
Gordon Ng	Dentons Hong Kong LLP	Partner	Yes
	China Energine International (Holdings) Limited	Independent non-executive director	Yes
	Mainland Headwear Holdings Limited	Independent non-executive director	Yes

Directors, Supervisors, Senior Management and Employees

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Xie Daxiong	Held positions in 2 subsidiaries of the Company including Guangdong ZTE Newstart Technology Co., Ltd.	Chairman	No
Li Quancai[Note 3]	深圳市中興宜和投資發展有限公司	Chairman	No
	深圳市益和天成投資發展有限公司	Supervisor	No
Shang Xiaofeng[Note 4]	Shenzhen Aerospace Industrial Technology Research Institute Limited	General manager of international operations company	Yes
	廣東歐科空調製冷有限公司	Director	No
Zhang Sufang[Note 5]	Held positions in 18 subsidiaries or investee companies of Zhongxingxin including Sindi Technologies Co., Ltd.	Director/Chairman of the Supervisory Committee/ Supervisor/general manager	No
Wang Xiyu	Held positions in 16 subsidiaries including Guangdong ZTE Newstart Technology Co., Ltd.	Chairman/Director/ general manager	No
Li Ying	Held positions in 4 subsidiaries of the Company including ZTE Group Finance	Chairman/Director	No
Xie Junshi	Shenzhen Zhongrui Detection Technology Co., Ltd.	Chairman	No

Note 1: Ms. Fang Rong has ceased to be Director of Zhongxing Nonggu Hubei Company Limited as from January 2020.

Note 2: Ms. Cai Manli has ceased to be Independent Director of Beijing Yadii Media Co., Ltd. as from January 2020.

Note 3: Mr. Li Quancai has ceased to be Director of 深圳市小禾科技有限公司 as from January 2020.

Note 4: Mr. Shang Xiaofeng has ceased to be Chairman of 航天亮麗電氣有限責任公司 as from August 2019, Director of 深圳航天微電機有限公司 as from November 2019 and Director of Aerospace Yinshan Electric Co., Ltd. and 深圳航天科創實業有限公司, respectively, as from January 2020.

Note 5: Ms. Zhang Sufang has been supervisor of Xingkai (Zhoushan) Communication Equipment Limited as from August 2019.

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

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

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

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

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

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

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

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

At the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, Mr. Li Zixue was elected as Chairman of the Board of the Company, Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong were elected as Non-executive Directors of the Eighth Session of the Board of Directors of the Company, and Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying were elected as Executive Directors of the Eighth Session of the Board of Directors of the Company; Ms. Cai Manli, Mr. Li Buqing, Mr. Zhu Weimin, Mr. Yuming Bao and Mr. Gordon Ng were elected as members of Audit Committee of the Eighth Session of the Board of Directors of the Company with Ms. Cai Manli as convenor; Mr. Gordon Ng, Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli, and Mr. Yuming Bao were elected as members of Nomination Committee of the Eighth Session of the Board of Directors of the Company with Mr. Gordon Ng as convenor; Ms. Cai Manli, Mr. Gu Junying, Mr. Zhu Weimin, Mr. Yuming Bao and Mr. Gordon Ng were elected as members of Remuneration and Evaluation Committee of the Eighth Session of the Board of Directors of the Company with Ms. Cai Manli as convenor; Mr. Yuming Bao, Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Gordon Ng were elected as members of the Export Compliance Committee of the Eighth Session of the Board of Directors of the Company, with Mr. Yuming Bao as convenor. For details, please refer to the "Announcement of Resolutions of the First Meeting of the Eighth Session of the Board of Directors of the Company" published by the Company on 1 April 2019.

At the First Meeting of the Eighth Session of the Supervisory Committee of the Company held on 1 April 2019, Mr. Xie Daxiong was elected as Chairman of the Eighth Session of the Supervisory Committee of the Company. For details, please refer to the "Announcement of Resolutions of the First Meeting of the Eighth Session of the Supervisory Committee of the Company" published by the Company on 1 April 2019.

Pursuant to the "Resolution on Appointment of New Senior Management of the Company" considered and approved at the First Meeting of the Eighth Session of the Board of Directors of the Company held on 1 April 2019, it was approved that Mr. Xu Ziyang be re-appointed President of the Company and each of Mr. Wang Xiyu, Mr. Gu Junying and Ms. Li Ying be re-appointed Executive Vice President of the Company; that Ms. Li Ying be concurrently re-appointed Chief Financial Officer of the Company; and that the aforesaid newly appointed senior management shall be appointed for a term commencing on the date on which this resolution is considered and approved at the said meeting of the Board of Directors and ending upon the conclusion of the term of the Eighth Session of the Board of Directors of the Company (i.e., 29 March 2022). The term of the previous Secretary to the Board has concluded and it was approved that Ms. Li Ying, Executive Vice President and Chief Financial Officer of the Company, be appointed Secretary to the Board on an acting basis. For details, please refer to the "Announcement of Resolutions of the First Meeting of the Eighth Session of the Board of Directors of the Company" published by the Company on 1 April 2019.

Following the conclusion of a period of three months since Ms. Li Ying undertook the duties of the Secretary to the Board of Directors on an acting basis, Mr. Li Zixue, Chairman of the Company, has undertaken the duties of the Secretary to the Board of Directors on an acting basis with effect from 1 July 2019 until the formal appointment of a Secretary to the Board of Directors by the Company. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Chairman undertaking the duties of the Secretary to the Board of Directors on an acting basis" published by the Company on 1 July 2019.

At the Seventh Meeting of the Eighth Session of the Board of Directors of the Company held on 29 July 2019, it was approved that Mr. Ding Jianzhong be appointed Secretary to the Board of Directors for a term commencing on the date on which the resolution was considered and approved at the meeting of the Board of Directors of the Company and ending on the date on which the term of the Eighth Session of the Board of Directors concludes (namely, 29 March 2022). For details, please refer to the "Overseas Regulatory Announcement Announcement Resolutions of the Seventh Meeting of the Eighth Session of the Board of Directors" and "Overseas Regulatory Announcement Announcement on the Appointment of the Secretary to the Board of Directors of the Company" published by the Company on 29 July 2019.

At the Ninth Meeting of the Eighth Session of the Board of Directors of the Company held on 19 September 2019, it was approved that Mr. Xie Junshi be appointed Executive Vice President of the Company for a term commencing on the date on which the resolution was considered and approved at the meeting of the Board of Directors of the Company and ending on the date on which the term of the Eighth Session of the Board of Directors concludes (namely, 29 March 2022). For details, please refer to the "Announcement Resolutions of the Ninth Meeting of the Eighth Session of the Board of Directors" published by the Company on 19 September 2019.

(VII) INFORMATION ON GROUP EMPLOYEES

As at the end of the year, the Group had 70,066 employees (including 60,514 as employees of the parent company), with an average age of 33.41. There were 144 resigned/retired employees, including 93 resigned/retired employees in respect of which expenses were payable by the Company.

1. Classification by specialisation as follows:

Specialisation	Headcount	As an approximate percentage of total headcount
Research and development	28,301	40.4%
Marketing and sales	8,985	12.8%
Customer service	10,840	15.5%
Manufacturing	15,959	22.8%
Financial	1,098	1.5%
Administration	4,883	7.0%
Total	**70,066**	**100%**

2. Classification by academic qualifications as follows:

Academic qualifications	Headcount	As an approximate percentage of total headcount
Doctorate degree	374	0.5%
Master's degree	23,241	33.2%
Bachelor's degree	26,315	37.6%
Others	20,136	28.7%
Total	**70,066**	**100.0%**

Directors, Supervisors, Senior Management and Employees

3. Remuneration Package and Training for Employees

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

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

Corporate Governance Structure

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

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

I. Status of Corporate Governance

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

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

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

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

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

Corporate Governance Structure

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

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

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

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

(VIII) Rules and regulations established

No.	Title	Date of disclosure Note
1	Articles of Association	29 July 2019
2	Rules of Procedure of the General Meetings	29 July 2019
3	Rules of Procedure of the Board Meetings	29 July 2019
4	Rules of Procedure of the Supervisors' Meetings	29 July 2019
5	Working Rules for the Nomination Committee of the Board of Directors	29 June 2018
6	Working Rules for the Audit Committee of the Board of Directors	13 June 2019
7	Working Rules for the Remuneration and Evaluation Committee of the Board of Directors	29 June 2018
8	Working Rules for the Export Compliance Committee of the Board of Directors	27 July 2018
9	System of Derivative Investment Risk Control and Information Disclosure	26 October 2017
10	System for the Administration of External Information Users	9 April 2010
11	System of Accountability for Significant Errors in Information Disclosure of Annual Reports	9 April 2010
12	System of Registration of Owners of Inside Information	23 August 2012
13	Specific System for the Selection and Appointment of Accountants' Firms	20 August 2009
14	System of Annual Report Duties for Independent Directors	14 March 2008
15	Guidelines for Work of the Audit Committee of the Board of Directors relating to the Annual Report	14 March 2008
16	Independent Director System	26 June 2007
17	Administrative Measures for Guest Reception and Promotion	26 June 2007
18	Administrative Rules of the Company on Issue Proceeds	31 January 2018
19	Internal Control System	25 December 2018
20	Administrative Rules for Information Disclosure	26 June 2007
21	Implementation Rules for the Dealings in Company's Shares by Directors, Supervisors, Senior Management and Their Related Parties	26 June 2007
22	Regulations for the Administration of Information Disclosure pertaining to Debt Financing Instruments in the Inter-bank Bond Market	16 January 2015
23	Administrative Rules for Investments in Securities	26 March 2015

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

Corporate Governance Structure

II. Information on general meetings convened

The Company's First Extraordinary General Meeting of 2019 was held on 20 March 2019 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 2019" dated 20 March 2019.

The Company's 2018 Annual General Meeting was held on 30 May 2019 by way of a combination of on-site voting and online voting. For relevant details, please refer to the "Announcement on Resolutions of the 2018 Annual General Meeting" dated 30 May 2019.

The Company's Second Extraordinary General Meeting of 2019 was held on 29 July 2019 by way of a combination of on-site voting and online voting. For relevant details, please refer to the "Announcement on Resolutions of the Second Extraordinary General Meeting of 2019" dated 29 July 2019.

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 the non-public issue of A shares, third-party guarantees and matters pertaining to the 2017 Share Option Incentive Scheme), the Independent Non-executive Directors have diligently examined the matters concerned and have issued independent opinions in writing. By providing valuable and professional recommendations on major decisions by the Company, the Independent Non-executive Directors have improved the rationality and objectiveness of the Company's decisions.

The attendance records of Independent Non-executive Directors of the Company for Board meetings and general meetings during the year were set out as follows:

Independent Non-executive Directors	Number of Board meetings required to attend	Number of personal attendance (including video/ telephone conference)	Number of attendance via communications	Attendance by proxy	Absence	Failure to attend in person at two consecutive meetings	Number of general meetings required to attend	Attendance at general meetings
Cai Manli	15	10	5	0	0	No	3	2
Yuming Bao	15	10	5	0	0	No	3	2
Gordon Ng	15	9	5	1	0	No	3	2

The Company has adopted recommendations in respect of the Company proposed by the Independent Non-executive Directors. For details, please refer to the "2019 Report on the Performance of Duties by Independent Non-executive Directors" published on http://www.cninfo.com.cn on 27 March 2020.

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

During the year, the specialist committees under the Board of Directors of the Company convened meetings and performed their duties in strict accordance with the provisions and requirements of the Articles of Association, Rules of Procedure of the Board Meetings and their respective working rules, playing an important role in ensuring scientific decision making at the Board of Directors by furnishing advice 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, nomination of candidates for Directors and senior management, management of remuneration and performance of Directors and senior management and export compliance.

1. Performance of principal duties by the Audit Committee

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

Corporate Governance Structure

(1) Issue of three review opinions on the 2019 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: the unaudited financial statements for 2019 were basically in compliance with requirements of the ASBEs and their practice notes and currently no matters having a material impact on the fair reflection in all aspects of the Company's financial conditions as at the end of 2019 and the operating results and cash flow for 2019 have been identified. The passing of the unaudited financial statements to the PRC and Hong Kong auditors for auditing was approved.

Second, the Audit Committee conducted timely review of the preliminary opinion of the audit report and discussions with the PRC and Hong Kong auditors, and was of the view that the preliminary audit results of the 2019 financial report for review was in compliance with the ASBEs and their practice notes and the HKFRSs in material aspects such as assets, liabilities, income, cost and expenditure, among others.

Finally, the Audit Committee reviewed the audit opinion of the PRC and Hong Kong auditors and the audited financial report of the Company for 2019 and approved the submission of the report for consideration by the Board of Directors.

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

To ensure the conduct of auditing work in an orderly manner given the complex nature of the Company's business, the PRC and Hong Kong auditors of the Company had finalised the audit timetable for the year ahead of schedule. 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 procuring auditors in charge of the assignment to expedite their work in accordance with the original timetable.

(3) Summary report on the 2019 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 September 2019 to March 2020. During such period, the PRC and Hong Kong auditors of the Company and the Audit Committee held discussions on the annual audit plan, while issues identified in the audit process were also brought to the attention of the Audit Committee in a timely manner. The preliminary audit opinion was submitted to the Audit Committee for consideration. The PRC and Hong Kong auditors of the Company completed the full audit process and acquired sufficient and appropriate audit evidence after about 7 months of auditing work. The audit reports by PRC and Hong Kong auditors with unqualified opinion were then submitted to the Audit Committee.

The PRC auditors of the Company performed auditing on the internal control of the Company's financial reporting during the period from September 2019 to March 2020. During such period, the PRC auditors of the Company conducted enquiry, testing and evaluation in respect of our internal control in accordance with the annual audit plan. The PRC completed the full audit process and acquired sufficient and appropriate audit evidence. An internal control audit report with unqualified opinion were then submitted to the Audit Committee.

During the course of the annual audit, the Audit Committee held discussions and exchanged views with the PRC and Hong Kong auditors of the Company, and also examined the annual audit report furnished by the PRC and Hong Kong auditors. The Audit Committee was of the view that the PRC and Hong Kong auditors of the Company were capable of performing their tasks in strict accordance with audit regulations, focusing on knowledge of the Company and the environment in which it operated, understanding the building, improvement and implementation of the Company's internal control, demonstrating acute risk awareness and completing the audit work in accordance with the audit timetable in a timely manner. The auditors maintained their independence and their prudent approach in the course of audit and completed the audit of the Company's 2019 financial report and its internal control audit in a satisfactory manner.

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

Based on the audit work, servicing mindset, professional conduct and performance ability of Ernst & Young Hua Ming LLP and Ernst & Young displayed over the years, 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 2020, and to re-appoint Ernst & Young Hua Ming LLP as the internal control auditor of the Company for 2020.

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

The Audit Committee is highly concerned with the establishment of a department with appropriate staffing for the inspection and supervision of the Company's internal control. The Internal Control and Audit Department serves as the day-to-day executive arm of the Audit Committee to implement supervision and inspection of internal controls on behalf of the Audit Committee. The Audit Committee supports the performance of audit functions by the Internal Control and Audit Department in accordance with the law and assumes a supervisory role over the audit function. During the year, the Audit Committee received the report of the Internal Control and Audit Department on internal control and audit and furnished relevant opinion.

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, matters pertaining to the exercise of share options under the 2017 Share Option Incentive Scheme and authorisation for the purchase of liability insurance for the Directors, Supervisors and senior management and other important tasks.

3. Performance of principal duties by the Nomination Committee

During the year, the principal work of the Nomination Committee included the consideration of resolutions on the nomination of candidates for appointment as Directors of the Eighth Session of the Board of Directors, appointment of senior management personnel and election of convener of the Nomination Committee of the Eighth Session of the Board of Directors, and the review of the structure, size and composition of the Board.

4. Performance of principal duties by the Export Compliance Committee

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

V. Performance of duties by the Supervisory Committee

Having conducted diligent supervision and inspection in relation to matters such as proper operation, financial conditions and the exercise of share options under the 2017 Share Option Incentive Scheme of the Company during the year in accordance with the provisions of pertinent PRC laws and regulations and the Articles of Association, the Supervisory Committee of the Company has not expressed any dissent during the course of its supervision over these matters.

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

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

Corporate Governance Structure

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

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

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

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

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

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

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

VIII. Internal Control

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

1. Establishment of internal control departments

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

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

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

Corporate Governance Structure

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, organisation, personnel management, and information disclosure, etc. The Company has, taking into account its specific conditions, developed a comprehensive internal control system.

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

In 2019, the Company internal control efforts were focused on the following:

1. The Company continued to advance the development of its internal control regime with a strong focus on enhancing capabilities in key areas. In accordance with the provisions under the Basic Rules for Corporate Internal Control and its supplementary guide and the Company's systems and standards, revisions to our internal control system and the publication of the internal control white paper were completed.

2. Business audit was enhanced as the audit of various business segments was enhanced through an improved audit system, resulting in a more robust accountability management mechanism.

3. The Company's derivative and securities investments were examined. Support was provided to the internal audit process carried out by Ernst & Young Hua Ming LLP.

4. Control of significant and material risks was further enhanced with a stronger emphasis on the role of business specialists in the management of significant and material risks, while the identification and management of risks in operating activities was conducted as an ongoing process.

5. Key internal control tasks for crucial operational aspects such as compliance management, process management, seal management, business management and procurement management were developed, while the operating model for the internal control regime was optimised. The digitalisation of various business processes was facilitated, while the internal control assessment and management for specialised areas such as asset management and procurement management was also optimised. The administrative measures for rectifying internal control deficiencies were further improved, as the responsibilities of management units were clarified to enhance accountability.

6. Measures were adopted to strengthen the awareness of internal control and responsibilities on management officers, where were asked to sign the "internal control undertaking", as we endeavoured to foster an internal environment characterised by rigid compliance with rules and enforcement against violations. Internal control culture building activities, such as lectures, seminars, case sharing and quizzes on aspects of internal controls for all employees, were organised on a continuous basis.

3. The 2019 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 2019 (being the record date for the internal control assessment report) in accordance with the Basic Rules for Corporate Internal Control, its supplementary guidelines and other internal control regulatory requirements and taking into account its internal control system and assessment methods, based on general as well as specific supervision of internal control. Based on the work of identifying significant deficiencies in the Company's internal control in relation to financial reporting and non-financial reporting, as at the record date for the internal control assessment report, there was no significant deficiency in internal control in relation to financial reporting and the Company was not aware of any significant deficiency in internal control in relation to non-financial reporting.

Total assets of units being assessed accounted for more than 90.64% 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 97.66% of the total operating revenue recorded in the consolidated financial statements of the Company. For the principal units under assessment and standards for assessing deficiencies in financial reports and non-financial reports and other details of the Company's internal control, please refer to the "The 2019 Internal Control Assessment Report of ZTE Corporation" published by the Company on 27 March 2020.

4. Internal control audit report furnished by the audit firm

In accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the Practicing Guidelines for Chinese Certified Public Accountants, Ernst & Young Hua Ming LLP conducted an audit on the effectiveness of internal control in relation to the financial reporting of the Company for the year ended 31 December 2019, and is of the view that the Company has maintained effective internal control in financial reporting in all material aspects in accordance with the Basic Rules for Corporate Internal Control and pertinent provisions.

For the internal control audit report of the Company, please refer to the "The Internal Control Audit Report of ZTE Corporation" published by the Company on 27 March 2020.

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

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

The Company had fully complied with all the principles and code provisions of the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules throughout the year ended 31 December 2019.

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

(I) Shareholders' rights

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

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

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

Corporate Governance Structure

The circular and the notice of general meeting of the Company is in strict compliance with pertinent provisions of the Company Law, the Articles of Association and the Hong Kong Listing Rules in terms of dates, contents, delivery modes, announcement methods and shareholders' voting procedures, ensuring the smooth exercise of shareholders' right to participate in general meetings. Shareholders holding 10% of above of the shares of the Company alone or in aggregate shall be entitled to request the Board of Directors or Supervisory Committee to convene an extraordinary general meeting or to unilaterally convene such extraordinary general meeting. For details, please refer to Articles 74, 75 and 76 of the Articles of Association. Shareholders holding 3% of above of the shares of the Company alone or in aggregate shall be entitled to propose ex tempore motions 10 days prior to the convening of the general meeting and submit the same in writing to the convener of the general meeting. For details, please refer to Article 78 of the Articles of Association. In accordance with Article 100 of the Articles of Association, the Directors, Supervisors and senior management of the Company are obliged to give explanations in response to queries and suggestions of shareholders. In 2019, the Company convened 3 general meetings. For details, please refer to the section headed "II Information on general meetings convened" in Part I of this chapter.

During the year, the Company made amendments to Articles 14, 35, 36, 70, 143, 162, 179 and 195 of the Articles of Association based on the conditions of the Company and pertinent laws and regulations. The latest Articles of Association. The updated version of the Articles of Association is available for inspection on the respective websites of Hong Kong Stock Exchange and the Company.

(II) Investors' relations

The Company is committed to the development of investors' relations programmes and sound communications with investors are being maintained via our investors' relations hotline, e-mail and investor receptions. The Company regards the convening of its annual general meeting as one of the most important annual events for the Company. All Directors and key senior management members attend the meeting on a best effort basis and are engaged in direct dialogue with the shareholders during the arranged Q&A sessions. Details of the Company's reception of investors during 2019 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.

(III) Dividend Policy

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

II. Board of Directors

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

(I) Functions of the Board of Directors

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

The Directors confirm that it is their responsibility to prepare financial statements in respect of each financial year to give a true and fair report on the Group's conditions, as well as the results and cash flow accounts for the relevant periods. The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in preparing the financial statements for the year ended 31 December

Corporate Governance Structure

2019. After due enquiries, the Directors are of the opinion that the Group has sufficient resources to carry on operations in the foreseeable future, and as a result it is appropriate for the Group to prepare its financial statements on an ongoing concern basis.

(II) Composition of the Board of Directors

As at the end of the year under review, the Eighth Session of the Board of Directors of the Company comprised 9 Directors, including 1 Chairman and 3 Executive Directors (Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying), while the remaining members are all Non-executive Directors independent of the management, including 3 Independent Non-executive Directors, namely Ms. Cai Manli, Mr. Yuming Bao and Mr. Gordon Ng, who performed their duties in a proactive manner with the benefit of their professional qualifications and substantial experience as influential members respectively of the monetary, financial, legal and compliance sectors, and 3 Non-executive Directors, namely Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong, who had extensive business and management experience. Their presence has enabled stringent review and control of the management procedures and safeguards the interests of shareholders as a whole, including minority shareholders. The profiles 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. All current Directors of the Company serve a term commencing on 30 March 2019 and ending on 29 March 2022.

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

(IV) Board Meetings

1. The Articles of Association requires that the Board of Directors convene at least 4 meetings a year. In 2019, the Board of Directors of the Company convened 15 meetings. In 2019, the Company convened 3 general meetings.

Corporate Governance Structure

Attendance of Directors at the meetings of the Board of Directors and the general meetings during the year was set out in the following:

Number of meetings		Board meeting 15		General meeting 3	
Directors	Attendance in person	Attendance by proxy	Attendance Note	Attendance in person	Attendance Note
Chairman and Executive Director					
Li Zixue	15	0	15/15	3	3/3
Executive Director					
Xu Ziyang	15	0	15/15	3	3/3
Gu Junying	12	3	12/15	3	3/3
Non-executive Director					
Li Buqing	14	1	14/15	3	3/3
Zhu Weimin	13	2	13/15	2	2/3
Fang Rong	14	1	14/15	3	3/3
Independent Non-executive Director					
Cai Manli	15	0	15/15	2	2/3
Yuming Bao	15	0	15/15	2	2/3
Gordon Ng	14	1	14/15	2	2/3

Note: Attendance by proxy is not counted for the percentage of attendance

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

3. Minutes of each Board of Directors meetings should be signed by the attending Directors and minute-takers, and be kept for a period 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, a summary of which can be found in the section headed "II (I) Functions of the Board of Directors" under Part II of this chapter. The management should be responsible for the day-to-day operation and management and be accountable to the Board of Directors by furnishing sufficient information to the Board of Directors and the specialised committees in a timely manner to enable them to make informed decisions. All Directors are entitled to obtain further information from the management of the Company.

Corporate Governance Structure

(VI) Chairman and the Chief Executive Officer

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

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

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

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

2. According to records maintained by the Company, the current Directors of the Company received the following training focused on the roles, functions and duties of directors of listed companies in 2019:

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

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

4. In connection with potential legal risks arising from the performance of duties by the Directors, Supervisors and senior management, the "Resolution on Authorisation for the Purchase of Directors', Supervisors' and Senior Management's Liability Insurance" was considered and passed at the First Extraordinary General Meeting of 2019 held on 20 March 2019. With the mandate of the general meeting, the "Resolution on Renewal of Directors', Supervisors' and Senior Management's Liability Insurance was considered and passed at Ninth Meeting of the Eighth Session of the Board of Directors held on 19 September 2019.

Corporate Governance Structure

III. Specialised Committees under the Board of Directors

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

(I) The Remuneration and Evaluation Committee

1. Roles and functions of the Remuneration and Evaluation Committee

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

2. Members and Meetings of the Remuneration and Evaluation Committee

Pursuant to the "Resolution on the election of members of the specialist committees of the Eighth Session of the Board of Directors" considered and passed at the First Meeting of the Eighth Session of the Board of Directors held on 1 April 2019, the Remuneration and Evaluation Committee of the Eighth Session of the Board of Directors of the Company comprised 5 members, including 3 Independent Non-executive Directors, 1 Non-executive Directors and 1 Executive Director. The convenor of the Remuneration and Evaluation Committee of the Eighth Session of the Board of Directors was Ms. Cai Manli, Independent Non-executive Director. Members of the committee included Mr. Gu Junying, Mr. Zhu Weimin, Mr. Yuming Bao and Mr. Gordon Ng.

The Remuneration and Evaluation Committee held 6 meetings in 2019. Attendance at the meetings was as follows:

Members of the Remuneration and Evaluation Committee	Attendance in Person	Attendance by Proxy
Cai Manli	6/6	0/6
Gu Junying	6/6	0/6
Zhu Weimin	5/6	1/6
Yuming Bao	6/6	0/6
Gordon Ng	6/6	0/6

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

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

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

Corporate Governance Structure

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

The Remuneration and Evaluation Committee held 6 meetings in 2019 to consider and approve, among others, the performance of and annual bonus amount for senior management personnel for 2018, the 2019 Measures for the Administration of Senior Management's Performance, the renewal of "Directors', Supervisors' and senior management's liability insurance" and matters pertaining to the exercise of options under the 2017 Share Option Incentive Scheme.

(II) The Nomination Committee

1. Roles and functions of the Nomination Committee

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

2. Members and Meetings of the Nomination Committee

Pursuant to the "Resolution on the election of members of the specialist committees of the Eighth Session of the Board of Directors" considered and passed at the First Meeting of the Eighth Session of the Board of Directors held on 1 April 2019, the Nomination Committee of the Eighth Session of the Board of Directors of the Company comprises 5 members, including 3 Independent Non-executive Directors, 1 Non-executive Directors and 1 Executive Director. The convenor of the Nomination Committee of the Eighth Session of the Board of Directors was Mr. Gordon Ng, Independent Non-executive Director. Members of the committee included Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Yuming Bao.

The Nomination Committee held 4 meetings in 2019. Attendance at the meeting was as follows:

Members of the Nomination Committee	Attendance in Person	Attendance by Proxy
Gordon Ng	4/4	0/4
Li Zixue	4/4	0/4
Fang Rong	4/4	0/4
Cai Manli	4/4	0/4
Yuming Bao	4/4	0/4

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

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

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

Corporate Governance Structure

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

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

4. Work of the Nomination Committee during the year

The Nomination Committee held 4 meeting in 2019 to consider and approval of the appointment of senior management of the Company, and discuss the structure, size and composition of the Board.

(III) The Audit Committee

1. Roles and functions of the Audit Committee

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

2. Members and Meetings of the Audit Committee

Pursuant to the "Resolution on the election of members of the specialist committees of the Eighth Session of the Board of Directors" considered and passed at the First Meeting of the Eighth Session of the Board of Directors held on 1 April 2019, the Audit Committee of the Eighth Session of the Board of Directors of the Company comprised 5 members, including 3 Independent Non-executive Directors and 2 Non-executive Directors. The convenor of the Audit Committee of the Eighth Session of the Board of Directors was Ms. Cai Manli, Independent Non-executive Director. Members of the committee included Mr. Li Buqing, Mr. Zhu Weimin, Mr. Yuming Bao and Mr. Gordon Ng. The composition of the Audit Committee was in compliance with the provisions of Rule 3.21 of the Hong Kong Listing Rules.

The Audit Committee held 8 meetings during 2019. Attendance at the meetings was as follows:

Members of the Audit Committee	Attendance in person	Attendance by proxy
Cai Manli	8/8	0/8
Li Buqing	7/8	1/8
Zhu Weimin	7/8	1/8
Yuming Bao	8/8	0/8
Gordon Ng	7/8	1/8

3. Work of the Audit Committee during the year

In 2019, the Audit Committee held 8 meetings to consider and approve audit arrangements, regular financial reports, appointment of reporting accountants, investment in derivatives, investments in securities, the internal control audit report of the Company, and maintained close liaison with the auditors.

Corporate Governance Structure

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 2019, please refer to "Part II — IX. Risk Management and Internal Control" in this chapter.

(IV) Export Compliance Committee

1. Roles and functions of the Export Compliance Committee

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

2. Members and Meetings of the Export Compliance Committee

Pursuant to the "Resolution on the election of members of the specialist committees of the Eighth Session of the Board of Directors" considered and passed at the First Meeting of the Eighth Session of the Board of Directors held on 1 April 2019, the Export Compliance Committee of the Eighth Session of the Board of Directors of the Company comprises 5 members, including 3 Independent Non-executive Directors, 1 Non-executive Director and 1 Executive Director. The convenor of the Export Compliance Committee of the Eighth Session of the Board of Directors was Mr. Yuming Bao, Independent Non-executive Director, and its members included Mr. Li Zixue, Ms. Fang Rong, Ms. Cai Manli and Mr. Gordon Ng.

The Export Compliance Committee held 4 meetings in 2019. Attendance at the meetings was as follows:

Export Compliance Committee	Attendance in person	Attendance by proxy
Yuming Bao	4/4	0/4
Li Zixue	4/4	0/4
Fang Rong	4/4	0/4
Cai Manli	4/4	0/4
Gordon Ng	4/4	0/4

3. Work of the Export Compliance Committee during the year

In 2019, the Export Compliance Committee held 4 meetings to consider matters pertaining to the Company's export compliance

(V) Corporate governance functions

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

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

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

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

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

Corporate Governance Structure

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

(I) Remuneration

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

Further details of the remuneration of Directors and Supervisors for 2019 are set out in Note 9 to the financial statements prepared in accordance with HKFRSs.

(II) Interests

1. Service contracts and contractual interests of Directors and Supervisors

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

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

None of the Directors and Supervisors of the Company or entities which are connected to the Directors and Supervisors was or had been materially interested, either directly or indirectly, in any transactions, arrangements and contracts of significance to which the Group is a party subsisting during or at the end of 2019.

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 2019 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 2019, 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 2019, none of the Directors, Supervisors or the Chief Executive Officer of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

4. Securities transactions by Directors and Supervisors

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

V. Remuneration Package and Retirement Benefits for Employees

The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees are also entitled to accident insurance, business travel insurance, housing subsidies, retirement and other benefits. In accordance with relevant regulations of countries where the employees are located, the Group also participates in social insurance plans organised by the relevant government authorities, under which the Group makes contributions towards each employee's social insurance fund in an amount equivalent to a specified percentage of his/her monthly salaries. Further details of the remuneration of top 5 employees of the Company for 2019 are set out in Note 10 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 37 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 15 consecutive years since 2005. Ernst & Young has been appointed the Company's Hong Kong auditor for 16 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 8 years and the year under review was the fifth year for which she acted in the capacity of undersigning accountant. Ms. Ma Jing has been providing audit services to the Company for 7 years and the year under review was the fourth year for which she acted in the capacity of undersigning accountant.

Financial report audit fees payable to the PRC auditor and the Hong Kong auditor for 2019 were paid in a consolidated manner, whereby an aggregate audit fee of RMB8.10 million was paid to Ernst & Young Hua Ming and Ernst & Young.

Ernst & Young Hua Ming was appointed the Company's internal control auditor for 2019. The amount of 2019 internal control audit fee paid to Ernst & Young Hua Ming by the Company was RMB1.20 million.

In 2019, Ernst & Young provided audit services to ZTE HK for a fee of RMB546,000. Ernst & Young Hua Ming provided audit services to other subsidiaries of the Company for a fee of RMB566,500.

In 2019, Ernst & Young provided tax return and tax advisory services to the Company and ZTE HK for a fee of HKD317,800. EY Advisory provided 2019 conflict mineral management consulting service to the Company for a fee of RMB504,000. Save as the aforesaid, Ernst & Young, Ernst & Young Hua Ming and EY Advisory did not provide other significant non-audit services to the Group.

Item	Amount	Auditor
Audit fees 2019	RMB8.10 million	Ernst & Young Hua Ming (PRC) Ernst & Young (Hong Kong)
Internal control audit fees 2019	RMB1.20 million	Ernst & Young Hua Ming
Audit fees 2019 for ZTE HK	RMB546,000	Ernst & Young
Audit fees 2019 for other subsidiaries of the Group	RMB566,500	Ernst & Young Hua Ming
Fees for tax return and tax advisory services 2019	HKD317,800	Ernst & Young
Fees for 2019 conflict mineral management consulting service	RMB504,000	EY Advisory

VII. Company Secretary

The Company Secretary 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 2019, the Company Secretary received more than 15 hours of training to update his professional skills and expertise.

VIII. Accountability and Audit

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

Corporate Governance Structure

The Directors confirmed that they were not 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, in relation to which a clear disclosure and detailed discussion which must be provided 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 2019 is set out in the Independent Auditors' Report on page 319–328 of this report.

IX. Risk Management and Internal Control

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

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

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

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

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

The risk management and internal control systems of the Company have been designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks associated with the malfunctioning of operating systems or failure to attain the Company's objectives. The Board of Directors of the Company has reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries and is of the view that the risk management and internal control systems had been effective and adequate throughout the financial year ended 31 December 2019.

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 2019, please refer to the section headed "Part I. VIII — Internal Control" in this chapter.

Report of the PRC Auditors

Ernst & Young Hua Ming (2020) Shen Zi No. 60438556_H01
ZTE CORPORATION

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 2019, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2019 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 2019 and the consolidated and company results of operation and cash flows of ZTE Corporation for the year ended 31 December 2019.

II. BASIS FOR OPINION

We conducted our audit in accordance with the China Standards on Auditing ("CSAs"). 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.

Report of the PRC Auditors

Ernst & Young Hua Ming (2020) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (continued)

Key audit matter:	How our audit addressed the key audit matter:
Revenue recognition of telecommunication system construction contract	
Revenue generated from telecommunication system construction contract recognised amounted to RMB52,921,351,000 for 2019, representing 58% of the total revenue, in the consolidated financial statements and RMB53,419,426,000 for 2019, representing 67% of the total revenue, in the company financial statements. Such contracts consisted a number of performance obligations for goods and services including mainly sales of equipment,installation services and service commitments, among others. Significant judgements and estimates by the management are required for the revenue recognition of telecommunication system construction contracts I. Whether the promised goods or services represent separate performance obligations. In making such judgment, the management needs to assess whether the promised goods or services are distinct. II. Whether each distinct performance obligation is satisfied over time or at a point in time. The management needs to consider how the promised goods or services is being delivered to customers. III. To allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the distinct good or service underlying each performance obligation, the management adopts the expected cost plus a margin approach, which is primarily based on historic data, past experience, parts and configuration of the projects and the evaluation of risk and uncertainty inherent in the arrangement.	Our audit procedures mainly included: We evaluated the process of revenue recognition of telecommunication system construction contracts and the related internal controls, assessed the Group's accounting policies, and tested the effectiveness of the design and execution of key internal controls. We performed tests of details on the recognition of revenue from telecommunication system construction contract on a sampling basis: In respect of the judgement on whether a performance obligation is distinct and on the timing of the transfer of control, we have assessed the management's judgement, assumptions and methodology upon which it is based, as well as reviewed the key terms of the contract. In respect of the allocation of transaction price, we have assessed the expected cost plus a margin approach and compared the major parameters (e.g., cost, gross margin percentage, etc.) used in the model against historical data. In respect of contract modification, we have examined the supplemental agreements signed with customers and assessed the methods for allocating transaction prices between the delivered and undelivered performance obligations; for contract modification of which amount has yet to be confirmed, we have assessed the key assumptions on which the management's estimates are based.

Report of the PRC Auditors

Ernst & Young Hua Ming (2020) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (continued)

Key audit matter:	How our audit addressed the key audit matter:
Revenue recognition of telecommunication system construction contract (continued) IV. For contract modification, the management needs to judge whether this constitute new distinct goods and whether satisfied and unsatisfied performance obligation are distinct from each other on the date of modification, in order to allocate the modified transaction prices appropriately between the delivered and undelivered performance obligation. When changes in the corresponding transaction price are yet to be confirmed, the management needs to make estimations on the change in transaction price caused by contract modification. In view of the above, the revenue recognition of telecommunication system construction contracts is relatively complicated, we have identified the recognition of revenue from telecommunication system construction as a key audit matter. *For disclosure of our policy for the revenue recognition, please refer to Note III.24; for disclosure of judgements and estimates for revenue recognition, please refer to Note III.33; for disclosure of categories of revenue, please refer to Note V.40; for disclosure of contract assets, please refer to Note V.8; for disclosure of contract liabilities, please refer to V.25.*	

Report of the PRC Auditors

Ernst & Young Hua Ming (2020) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (continued)

Key audit matter:	How our audit addressed the key audit matter:
Expected credit loss of trade receivables and contract assets	
The carrying amount of trade receivables (long-term trade receivables included) and contract assets as at 31 December 2019 was approximately RMB32,135,736,000, representing 23% of total assets on the consolidated financial statements and RMB37,091,391,000, representing 27% of total assets on the company financial statements. In accordance with "ASBE No.22 — Recognition and measurement of financial instruments (Revised 2017)". Impairment losses of trade receivables and contact assets are accounted for using the expected credit loss ("ECL") approach. For trade receivables and contract assets that contain a significant financing component, ZTE Corporation elects to measure loss provision based on the ECL amount for the whole period, therefore the loss provision for all trade receivables and contract assets shall be measured on the basis of the ECL amount for the whole period. The Management assesses the ECL of individually significant trade receivables and contract assets individually and others by group. For trade receivables or contract assets that are individually significant with objective evidence that the credit risk are obviously different from others, ECL is measured as the shortfall between the present value of all contract cashflow receivable and the present value of all contract cashflow expected to be received under the individual contract.	Our audit procedure mainly included: We evaluated the processes relating to the ECL of trade receivables and contract assets and the related internal controls, tested the effectiveness of design and execution of key internal controls. For ECL of trade receivables and contract assets assessed on individual level, we have examined on a sampling basis the objective evidence relating to the impairment of trade receivables and contract assets and the key assumptions used in the estimate of the present value of all cash shortfalls. We have also reviewed whether amounts have been recovered after the end of reporting period. For other trade receivables and contract assets, we have assessed whether the provision matrix established by the management was in compliance with the ECL approach and assessed the key parameters used in the provision matrix including mainly: credit rating, historical rates of bad debts, migration rates and forward-looking information, etc. We have obtained debtors' credit information on a sampling basis to check whether the classification of debtors is in compliance with the Group's policy. We have tested the management's ageing analysis based on days past due by examining the original documents (such as bills and bank deposit advices). We have recalculated the ECL of each type of trade receivables and contract assets according to the provision matrix.

Report of the PRC Auditors

Ernst & Young Hua Ming (2020) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (continued)

Key audit matter:	How our audit addressed the key audit matter:
Expected credit loss of trade receivables and contract assets (continued) For other trade receivables and contract asset, ECLs are assessed by groups with past due information in response to shared credit risk characteristics of debtors. The management has established a provision matrix based on days past due for customers of different credit standing by reference to its historical credit loss experience, on the basis of which ECL is estimated. In assessing the ECL, the management takes into consideration of past events, current conditions and reasonable and well-founded information on future economic forecasts. The ECL of trade receivables and contract assets has a significant impact on the financial statements and is subject to significant management judgements and estimates. Accordingly, it was identified as a key audit matter. *For disclosure on estimations of trade receivable and contract asset impairment provision, please refer to Note III.9; for disclosure of significant accounting judgements and estimates for trade receivable and contract asset impairment, please refer to Note III.33; for disclosure of the amount of bad debt provision for trade receivables and long-term receivables, please refer to Note V.4 and 9; for disclosure of contract asset impairment provision, please refer to Note V.8.*	

Report of the PRC Auditors

Ernst & Young Hua Ming (2020) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (continued)

Key audit matter:	How our audit addressed the key audit matter:
Impairment provision for inventories	
As at 31 December 2019, the carrying amount of inventories was RMB27,688,508,000, representing 20% of total assets, on the consolidated financial statements and RMB19,692,914,000, representing 14% of total assets, on the company financial statements. The impairment provision of inventories was made based on their respective estimated net realisable value. The assessment of the estimated net realisable value was calculated based on the management's estimated selling prices, estimated costs to be incurred upon completion of production, costs to be incurred to make the sale and the relevant tax. With respect to the estimated selling price, the selling price of the inventories will be made reference to their contract price if they are held for particular contracts. For those without being earmarked to a particular contracts or held for contracts which were cancelled or modified, the management will base on their realisation method to estimate their respective realisable value. The amount of inventory impairment loss has a significant impact on the financial statements and is subject to significant judgements and estimates. Therefore, impairment provision for inventories was identified as a key audit matter. *For disclosure of the accounting policy on impairment provision please refer to Note III.10; For disclosure of significant judgement and estimates on impairment provision please refer to Note III.33; for disclosure of impairment provision for inventories, please refer to Note V.7.*	Our audit procedure mainly included: We evaluated processes of impairment provision of inventories and the related internal controls; performed testing on key controls to assess the design and execution effectiveness of key internal controls. We observed the stocktaking process to check whether the damaged, slow-moving and obsolete inventories were identified; We tested the aging analysis of inventories by checking the original documents; We evaluated the key assumptions, such as selling prices, cost to be incurred upon completion, selling expense and the relevant taxes, which were used by the management in calculating net realisable value; For inventories held for particular contracts, we checked the respective contract price on a sampling basis. For those without earmarked prices or was cancelled or modified, we inspected key assumptions used by management in estimating the recoverable amount and checked whether inventories were sold subsequent to the reporting period.

Ernst & Young Hua Ming (2020) Shen Zi No. 60438556_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (continued)

Key audit matter:	How our audit addressed the key audit matter:
Gain on the derecognition of land-use rights relating to the Shenzhen Bay Super Headquarters Base	
ZTE Corporation and Shenzhen Vanke Real Estate Co., Ltd. ("Vanke") entered into a series of agreements (collectively "the Agreements") to entrust Vanke with full powers to construct and develop the land site No. T208–0049 (the "Site") held by ZTE Corporation. Vanke will take all responsibilities and risks on development funding and construction of the Site, while earn all rewards accordingly. ZTE Corporation, in return, will receive the agreed amount of cash and housing properties as the considerations for the land-use right of the Site entrusted to Vanke. Though the legal title of the land-use right had not been transferred, the transaction is classified as finance lease as the period of Vanke's entitlement to the land-use right was equivalent to the whole term of the land-use right of the Site, besides, the considerations received by ZTE Corporation was equivalent to all of the fair value of the land-use right at the inception date. ZTE Corporation, as the lessor, derecognised the land-use right assets and recognised income of RMB2,662,740,000, which accounted for 37% of the Group's total profit for the year. As the amount had a significant impact on the financial statements and was subject to significant management judgement and estimates, we identified as a key audit matter. *For disclosure of the accounting policy on leases, please refer to Note III.29 and 30; for disclosure of significant judgement and estimates on leases, please refer to Note III.33; for disclosure of changes in the accounting policy and accounting estimates on leases, please refer to Note III.34; for disclosure of leases on the financial statements, please refer to Note XIV.1.*	Our audit procedures mainly included: Obtained and examined the series of agreements entered into with Vanke; Understood the background of the transaction, interviewed related personnel to discuss the arrangements for the transaction, inspecting resolutions of general meetings and board resolutions and relevant documents relating to the matter; Reviewed the fair value appraisal report furnished by the valuer engaged by the management and assessed the competence, professional capability and objectivity of the valuer engaged by the management; Involved an internal valuation expert to assist in reviewing the method, model and key parameters adopted for fair-value evaluation; Reviewed the management analysis of the accounting treatment of the method and examined the adequacy and completeness of the relevant disclosures in the financial statements; Reviewed the management calculations of revenue from the derecognition of land-use rights.

Report of the PRC Auditors

Ernst & Young Hua Ming (2020) Shen Zi No. 60438556_H01
ZTE CORPORATION

IV. OTHER INFORMATION

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

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

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

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

V. RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

Report of the PRC Auditors

Ernst & Young Hua Ming (2020) Shen Zi No. 60438556_H01
ZTE CORPORATION

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.

(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.

Report of the PRC Auditors

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

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	PRC certified public accountant: **Liao Wenjia (廖文佳)** (Partner in charge)
	PRC certified public accountant: **Ma Jing (馬婧)**
Beijing, PRC	27 March 2020

Consolidated Balance Sheet

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Assets	Note V	31 December 2019	31 December 2018 (Restated)
Current assets			
Cash	1	**33,309,347**	24,289,798
Trading financial assets	2	**560,662**	1,476,823
Derivative financial assets	3	**106,065**	228,117
Trade receivables	4A	**19,778,280**	21,592,325
Receivable financing	4B	**2,430,389**	2,730,351
Factored trade receivables	4A	**308,710**	587,869
Prepayments	5	**402,525**	615,489
Other receivables	6	**1,023,271**	2,004,870
Inventories	7	**27,688,508**	25,011,416
Contract assets	8	**9,537,850**	8,462,226
Other current assets	20	**7,421,567**	5,848,369
Total current assets		**102,567,174**	92,847,653
Non-current assets			
Long-term receivables	9	**2,819,606**	843,429
Factored long-term receivables	9	**200,671**	432,041
Long-term equity investments	10	**2,327,288**	3,015,295
Other non-current financial assets	11	**1,594,254**	1,502,499
Investment properties	12	**1,957,242**	2,011,999
Fixed assets	13	**9,383,488**	8,898,068
Construction in progress	14	**1,171,716**	1,296,044
Right-of-use assets	15	**1,063,781**	—
Intangible assets	16	**7,718,820**	8,558,488
Development costs	17	**1,876,409**	2,732,356
Goodwill	18	**186,206**	186,206
Deferred tax assets	19	**2,511,372**	2,787,790
Other non-current assets	20	**5,824,108**	4,238,881
Total non-current assets		**38,634,961**	36,503,096
TOTAL ASSETS		**141,202,135**	129,350,749

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

Consolidated Balance Sheet

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Liabilities	Note V	**31 December 2019**	31 December 2018 (Restated)
Current liabilities			
Short-term loans	22	**26,645,966**	23,739,614
Bank advances on factored trade receivables	4A	**310,024**	591,931
Derivative financial liabilities	23	**126,223**	101,332
Bills payable	24A	**9,372,940**	7,915,700
Trade payables	24B	**18,355,610**	19,527,404
Contract liabilities	25	**14,517,057**	14,479,355
Salary and welfare payables	26	**8,954,005**	6,259,639
Taxes payable	27	**888,848**	954,021
Other payables	28	**4,621,118**	11,135,030
Provisions	29	**1,966,464**	2,167,614
Non-current liabilities due within one year	30	**612,261**	1,243,709
Total current liabilities		**86,370,516**	88,115,349
Non-current liabilities			
Long-term loans	31	**10,045,093**	2,366,568
Bank advances on factored long-term trade receivables	9	**200,858**	434,137
Lease liabilities	32	**645,294**	—
Provision for retirement benefits	26	**144,505**	136,245
Deferred income		**2,656,024**	1,953,057
Deferred tax liabilities	19	**172,060**	155,041
Other non-current liabilities	33	**3,013,487**	3,229,677
Total non-current liabilities		**16,877,321**	8,274,725
Total liabilities		**103,247,837**	96,390,074

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

Consolidated Balance Sheet

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Shareholder's equity	Note V	**31 December 2019**	31 December 2018 (Restated)
Shareholder's equity			
Share capital	34	**4,227,530**	4,192,672
Capital reserves	35	**12,144,432**	11,444,456
Other comprehensive income	36	**(2,000,980)**	(2,047,561)
Surplus reserve	37	**2,775,521**	2,324,748
Retained profits	38	**11,680,365**	6,983,261
Total equity attributable to holders of ordinary shares of the parent		**28,826,868**	22,897,576
Other equity instruments			
Including: perpetual capital instruments	39	**6,252,364**	6,252,364
Non-controlling interests		**2,875,066**	3,810,735
Total shareholders' equity		**37,954,298**	32,960,675
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**141,202,135**	129,350,749

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

The financial statements set out on pages 143 to 318 have been signed by:

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

Consolidated Income Statement

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	2019	2018 (Restated)
Operating revenue	40	**90,736,582**	85,513,150
Less: Operating costs	40	**57,008,377**	57,367,578
Taxes and surcharges	41	**930,511**	637,725
Selling and distribution costs	42	**7,868,722**	9,084,489
Administration expenses	43	**4,772,823**	3,651,498
Research and development costs	44	**12,547,898**	10,905,584
Finance costs	45	**965,955**	(39,633)
Including: Interest expense		**1,718,187**	1,008,404
Interest income		**931,929**	748,810
Add: Other income	46	**1,695,878**	2,081,455
Investment income	47	**249,445**	(25,795)
Including: Share of losses of associates and joint ventures		**(675,616)**	(797,318)
Losses from derecognition of financial assets at amortised cost		**(209,387)**	(320,281)
Losses from changes in fair values	48	**(213,992)**	(861,259)
Credit impairment losses	49	**(2,228,411)**	(3,654,881)
Impairment losses	50	**(1,281,070)**	(2,076,863)
Gains from asset disposals	51	**2,688,036**	19,483
Operating profit/(loss)		**7,552,182**	(611,951)
Add: Non-operating income	52	**183,700**	142,651
Less: Non-operating expenses	52	**574,212**	6,880,903
Total profit/(loss)		**7,161,670**	(7,350,203)
Less: Income tax	54	**1,385,001**	(400,863)
Net profit/(loss)		**5,776,669**	(6,949,340)
Analysed by continuity of operations			
Net profit/(loss) from continuing operations		**5,776,669**	(6,949,340)
Analysed by ownership			
Holders of ordinary shares of the parent		**5,147,877**	(6,983,662)
Holders of perpetual capital instruments		**348,600**	417,037
Non-controlling interests		**280,192**	(382,715)

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

Consolidated Income Statement

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note V	2019	2018 (Restated)
Other comprehensive income, net of tax		**49,441**	(905,246)
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	36	**46,581**	(885,656)
Other comprehensive income that cannot be reclassified to profit or loss			
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss		**–**	–
Change in net assets arising from the re-measurement of defined benefit plans		**(7,599)**	(477)
		(7,599)	(477)
Other comprehensive income that will be reclassified to profit or loss			
Exchange differences on translation of foreign operations		**54,180**	(885,179)
		54,180	(885,179)
Other comprehensive income attributable to non-controlling interests, net of tax		**2,860**	(19,590)
Total comprehensive income/(loss)		**5,826,110**	(7,854,586)
Attributable to:			
Holders of ordinary shares of the parent		**5,194,458**	(7,869,318)
Holders of perpetual capital instruments		**348,600**	417,037
Non-controlling interests		**283,052**	(402,305)
Earnings/(loss) per share (RMB/share)			
Basic	55	**RMB1.22**	RMB(1.67)
Diluted	55	**RMB1.22**	RMB(1.67)

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

Consolidated Statement of Changes in Equity

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	2019								
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments	Non-controlling interests	Total shareholders' equity
I. Closing balance of previous year	**4,192,672**	**11,444,456**	**(2,047,561)**	**2,324,748**	**6,983,261**	**22,897,576**	**6,252,364**	**3,810,735**	**32,960,675**
Add: Others	**–**	**–**	**–**	**(1,441)**	**1,441**	**–**	**–**	**–**	**–**
Opening balance of the year as adjusted	**4,192,672**	**11,444,456**	**(2,047,561)**	**2,323,307**	**6,984,702**	**22,897,576**	**6,252,364**	**3,810,735**	**32,960,675**
II. Changes during the year									
(I) Total comprehensive income	**–**	**–**	**46,581**	**–**	**5,147,877**	**5,194,458**	**348,600**	**283,052**	**5,826,110**
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	**34,858**	**943,559**	**–**	**–**	**–**	**978,417**		**112,167**	**1,090,584**
2. Equity settled share expenses charged to equity	**–**	**(148,435)**	**–**	**–**	**–**	**(148,435)**		**–**	**(148,435)**
3. Capital reduction by shareholders	**–**		**–**	**–**	**–**	**–**	**–**	**(820,451)**	**(820,451)**
4. Acquisition of non-controlling interests		**(95,148)**				**(95,148)**		**(29,856)**	**(125,004)**
(III) Profit appropriation									
1. Surplus reserve	**–**	**–**	**–**	**452,214**	**(452,214)**	**–**	**–**	**–**	**–**
2. Distribution to shareholders	**–**	**–**	**–**	**–**	**–**	**–**	**(348,600)**	**(480,581)**	**(829,181)**
III. Closing balance of the year	**4,227,530**	**12,144,432**	**(2,000,980)**	**2,775,521**	**11,680,365**	**28,826,868**	**6,252,364**	**2,875,066**	**37,954,298**

	2018								
	Equity attributable to holders of ordinary shares of the parent						Other equity instruments		
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments	Non-controlling interests	Total shareholders' equity
I. Closing balance of previous year	4,192,672	11,304,854	(723,770)	2,205,436	14,667,683	31,646,875	9,321,327	4,411,945	45,380,147
Add: Change in accounting policies	–	–	(438,135)	(63,082)	(518,366)	(1,019,583)	–	27,565	(992,018)
Others	–	–	–	182,394	(182,394)	–	–	–	–
Opening balance of the year as adjusted	4,192,672	11,304,854	(1,161,905)	2,324,748	13,966,923	30,627,292	9,321,327	4,439,510	44,388,129
II. Changes during the year									
(I) Total comprehensive income	–	–	(885,656)	–	(6,983,662)	(7,869,318)	417,037	(402,305)	(7,854,586)
(II) Shareholder's capital injection and capital reduction									
1. Capital injection from shareholders	–	(6,680)	–	–	–	(6,680)	–	187,280	180,600
2. Equity settled share expenses charged to equity	–	193,188	–	–	–	193,188	–	–	193,188
3. Capital reduction by shareholders	–	–	–	–	–	–	–	(91,449)	(91,449)
4. Acquisition of non-controlling interests	–	(31,606)	–	–	–	(31,606)	–	15,866	(15,740)
5. Redemption of perpetual capital instruments	–	(15,300)	–	–	–	(15,300)	(2,984,700)	–	(3,000,000)
(III) Profit appropriation									
1. Distribution to shareholders	–	–	–	–	–	–	(501,300)	(338,167)	(839,467)
III. Closing balance of the year	4,192,672	11,444,456	(2,047,561)	2,324,748	6,983,261	22,897,576	6,252,364	3,810,735	32,960,675

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

Consolidated Cash Flow Statement

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

		Note V	2019	2018 (Restated)
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**95,558,437**	90,583,797
	Refunds of taxes		**4,408,771**	6,330,164
	Cash received relating to other operating activities	56	**5,372,061**	4,652,950
	Sub-total of cash inflows		**105,339,269**	101,566,911
	Cash paid for goods and services		**63,769,922**	65,459,632
	Cash paid to and on behalf of employees		**15,605,420**	20,792,247
	Cash paid for various types of taxes		**7,821,369**	6,140,537
	Cash paid relating to other operating activities	56	**10,696,004**	18,389,881
	Sub-total of cash outflows		**97,892,715**	110,782,297
	Net cash flows from operating activities	57	**7,446,554**	(9,215,386)
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**1,956,504**	2,717,092
	Cash received from return on investment		**210,091**	531,923
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		**1,883,702**	374,948
	Net cash received from the disposal of subsidiaries and other operating units		**447,907**	498,207
	Other cash received in relation to investing activities		**65,000**	2,200,000
	Sub-total of cash inflows		**4,563,204**	6,322,170
	Cash paid to acquisition of fixed asset, intangible assets and other long-term assets		**6,550,620**	4,881,872
	Cash paid for acquisition of investments		**1,835,699**	2,726,279
	Other cash paid in relation to investing activities	56	**2,200,000**	—
	Sub-total of cash outflows		**10,586,319**	7,608,151
	Net cash flows from investing activities		**(6,023,115)**	(1,285,981)

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

Consolidated Cash Flow Statement

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

		Note V	2019	2018 (Restated)
III.	**Cash flows from financing activities**			
	Cash received from capital injection		**590,720**	180,600
	Including: Capital injection into subsidiaries by minority shareholders		**4,570**	180,600
	Cash received from borrowings		**45,320,925**	29,123,900
	Other cash received in relation to financing activities		**26,280**	—
	Sub-total of cash inflows		**45,937,925**	29,304,500
	Cash repayment of borrowings		**36,301,498**	23,237,437
	Cash payments for perpetual capital instruments		**—**	3,000,000
	Cash payments for distribution of dividends, profits and for interest expenses		**2,640,253**	1,842,955
	Including: Distribution of dividends, profits by subsidiaries to minority shareholders		**480,581**	338,167
	Other cash paid relating to financing activities	56	**1,274,456**	15,740
	Sub-total of cash outflows		**40,216,207**	28,096,132
	Net cash flows from financing activities		**5,721,718**	1,208,368
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**226,532**	317,841
V.	**Net increase/(decrease) in cash and cash equivalents**		**7,371,689**	(8,975,158)
	Add: cash and cash equivalents at beginning of year		**21,134,111**	30,109,269
VI.	**Net balance of cash and cash equivalents at the end of year**	57	**28,505,800**	21,134,111

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

Balance Sheet

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Assets	Note XV	31 December 2019	31 December 2018 (Restated)
Current assets			
Cash		**13,001,412**	11,523,002
Derivative financial assets		**103,889**	72,450
Trade receivables	1	**24,893,537**	29,045,827
Receivable financing		**1,980,798**	2,030,426
Factored trade receivables	1	**230,035**	356,134
Prepayments		**7,559**	37,194
Other receivables	2	**32,126,268**	15,935,675
Inventories		**19,692,914**	15,343,153
Contract assets		**4,460,977**	3,911,263
Other current assets		**3,516,370**	3,218,932
Total current assets		**100,013,759**	81,474,056
Non-current assets			
Long-term trade receivables	3	**7,736,877**	5,542,886
Factored long-term trade receivables	3	**200,671**	270,063
Long-term equity investments	4	**12,270,582**	13,168,721
Other non-current financial assets		**725,125**	658,078
Investment properties		**1,562,380**	1,556,775
Fixed assets		**5,717,601**	5,319,213
Construction in progress		**154,636**	250,417
Right-of-use assets		**534,988**	—
Intangible assets		**3,064,383**	5,210,847
Development costs		**479,320**	379,318
Deferred tax assets		**1,063,838**	1,383,311
Other non-current assets		**4,749,554**	3,094,949
Total non-current assets		**38,259,955**	36,834,578
TOTAL ASSETS		**138,273,714**	118,308,634

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

Balance Sheet

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

Liabilities and shareholders' equity	Note XV	31 December 2019	31 December 2018 (Restated)
Current liabilities			
Short-term loans		**11,729,902**	13,072,700
Bank advances on factored trade receivables		**230,323**	360,196
Derivative financial liabilities		**115,811**	14,041
Bills payable		**19,363,815**	12,019,698
Trade payables		**29,734,983**	34,535,131
Contract liabilities		**9,347,162**	9,204,928
Salary and welfare payables		**5,223,312**	3,229,594
Taxes payable		**97,735**	219,325
Other payables		**21,362,474**	18,280,463
Provisions		**1,786,167**	1,757,603
Non-current liabilities due within one year		**309,489**	370,000
Total current liabilities		**99,301,173**	93,063,679
Non-current liabilities			
Long-term loans		**7,550,990**	2,115,290
Bank advances on factored long-term trade receivables		**200,858**	272,159
Lease liabilities		**337,764**	—
Provision for retirement benefits		**144,505**	136,245
Deferred income		**849,320**	1,067,445
Other non-current liabilities		**2,393,468**	2,697,982
Total non-current liabilities		**11,476,905**	6,289,121
Total liabilities		**110,778,078**	99,352,800
Shareholders' equity			
Share capital		**4,227,530**	4,192,672
Capital reserves		**9,996,674**	9,244,984
Other comprehensive income		**696,467**	704,686
Surplus reserve		**2,113,765**	1,662,992
Retained profits (losses)		**4,208,836**	(3,101,864)
Shareholders' equity attributable to holders of ordinary shares		**21,243,272**	12,703,470
Other equity instruments			
Including: perpetual capital instruments		**6,252,364**	6,252,364
Total shareholders' equity		**27,495,636**	18,955,834
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**138,273,714**	118,308,634

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

Income Statement

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	Note XV	2019	2018 (Restated)
Operating revenue	5	**80,177,614**	76,115,358
Less: Operating costs	5	**65,054,578**	63,960,941
Taxes and surcharges		**446,433**	177,864
Selling and distribution costs		**4,498,782**	4,861,777
Administrative expenses		**3,917,938**	2,387,226
Research and development costs		**3,267,566**	2,646,861
Finance costs		**476,385**	(475,538)
Including: Interest expense		**994,596**	503,792
Interest income		**482,275**	170,725
Add: Other income		**236,919**	247,569
Investment income	6	**7,751,031**	539,196
Including: Share of losses of associates and joint ventures	6	**(159,135)**	(535,543)
Losses from derecognition of financial assets at amortised cost		**(95,861)**	(238,855)
(Losses)/gains from changes in fair values		**(41,547)**	116,511
Credit impairment losses		**(2,707,320)**	(2,994,185)
Impairment losses		**(1,448,813)**	(516,838)
Gains from asset disposals		**2,662,740**	9,814
Operating profit/(loss)		**8,968,942**	(41,706)
Add: Non-operating income		**109,566**	51,088
Less: Non-operating expenses		**430,876**	6,723,153
Total profit/(loss)		**8,647,632**	(6,713,771)
Less: Income tax		**523,153**	(641,518)
Net profit/(loss)		**8,124,479**	(6,072,253)
Including: net profit/(loss) from continuing operations		**8,124,479**	(6,072,253)
Analysed by ownership			
Attributable to holders of ordinary shares		**7,775,879**	(6,489,290)
Attributable to holders of perpetual capital instruments		**348,600**	417,037
Other comprehensive income, net of tax		**(8,219)**	(1,852)
Other comprehensive income that cannot be reclassified to profit and loss			
Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss		**–**	–
Change in net assets arising from the re-measurement of defined benefit plans		**(7,599)**	(477)
Other comprehensive income that will be reclassified to profit and loss			
Exchange differences on translation of foreign operations		**(620)**	(1,375)
Total comprehensive income/(loss)		**8,116,260**	(6,074,105)
Attributable to:			
Holders of ordinary shares		**7,767,660**	(6,491,142)
Holders of perpetual capital instruments		**348,600**	417,037

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

Statement of Changes in Equity

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

	2019							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained (loss)/profit	Total equity of holders of ordinary shares	Other equity instruments – Perpetual capital instruments	Total shareholders' equity
I. Closing balance of previous year	4,192,672	9,244,984	704,686	1,662,992	(3,101,864)	12,703,470	6,252,364	18,955,834
Add: Others	–	–	–	(1,441)	(12,965)	(14,406)	–	(14,406)
Opening balance of the year as adjusted	4,192,672	9,244,984	704,686	1,661,551	(3,114,829)	12,689,064	6,252,364	18,941,428
II. Changes during the year								
(I) Total comprehensive income	–	–	(8,219)	–	7,775,879	7,767,660	348,600	8,116,260
(II) Shareholder's capital injection and capital reduction								
1. Shareholder's capital injection	34,858	900,125	–	–	–	934,983	–	934,983
2. Equity settled share expenses charged to equity	–	(148,435)	–	–	–	(148,435)	–	(148,435)
(III) Profit appropriation								
1. Surplus reserve	–	–	–	452,214	(452,214)	–	–	–
2. Distribution to shareholders	–	–	–	–	–	–	(348,600)	(348,600)
III. Current year's closing balance	4,227,530	9,996,674	696,467	2,113,765	4,208,836	21,243,272	6,252,364	27,495,636

	2018							
	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit/(loss)	Total equity of holders of ordinary shares	Other equity instruments – Perpetual capital instruments	Total shareholders' equity
I. Closing balance of previous year	4,192,672	9,067,096	706,538	1,543,680	3,588,581	19,098,567	9,321,327	28,419,894
Add: Change in accounting policies	–	–	–	(63,082)	(567,742)	(630,824)	–	(630,824)
Others	–	–	–	182,394	366,587	548,981	–	548,981
Opening balance as adjusted	4,192,672	9,067,096	706,538	1,662,992	3,387,426	19,016,724	9,321,327	28,338,051
II. Changes during the year								
(I) Total comprehensive income	–	–	(1,852)	–	(6,489,290)	(6,491,142)	417,037	(6,074,105)
(II) Shareholder's capital injection and capital reduction								
1. Redemption of perpetual capital instruments	–	(15,300)	–	–	–	(15,300)	(2,984,700)	(3,000,000)
2. Equity settled share expenses charged to equity	–	193,188	–	–	–	193,188	–	193,188
(III) Profit appropriation								
1. Distribution to shareholders	–	–	–	–	–	–	(501,300)	(501,300)
III. Current year's closing balance	4,192,672	9,244,984	704,686	1,662,992	(3,101,864)	12,703,470	6,252,364	18,955,834

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

Cash Flow Statement

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

		2019	2018 (Restated)
I.	**Cash flows from operating activities**		
	Cash received from sale of goods or rendering of services	**87,512,224**	79,827,650
	Refunds of taxes	**3,059,581**	4,226,984
	Cash received relating to other operating activities	**1,678,287**	2,198,338
	Sub-total of cash inflows	**92,250,092**	86,252,972
	Cash paid for goods and services	**80,621,791**	73,126,570
	Cash paid to and on behalf of employees	**4,587,041**	8,525,554
	Cash paid for various types of taxes	**2,690,912**	1,185,146
	Cash paid relating to other operating activities	**6,890,651**	14,070,117
	Sub-total of cash outflows	**94,790,395**	96,907,387
	Net cash flows from operating activities	**(2,540,303)**	(10,654,415)
II.	**Cash flows from investing activities**		
	Cash received from sale of investments	**750,421**	—
	Cash received from return on investments	**4,152,616**	429,068
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	**1,869,598**	216,950
	Net cash received from the disposal of subsidiaries	**—**	862,100
	Other cash paid in relation to investing activities	**65,000**	2,200,000
	Sub-total of cash inflows	**6,837,635**	3,708,118
	Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	**3,903,286**	1,802,116
	Cash paid for acquisition of investments	**1,390,605**	648,892
	Other cash paid in relation to investing activities	**2,200,000**	—
	Sub-total of cash outflows	**7,493,891**	2,451,008
	Net cash flows from investing activities	**(656,256)**	1,257,110
III.	**Cash flows from financing activities**		
	Cash received from capital injection	**586,150**	—
	Cash received from borrowings	**25,305,218**	17,594,488
	Sub-total of cash inflows from financing activities	**25,891,368**	17,594,488
	Cash repayment of borrowings	**21,438,566**	11,184,308
	Cash payment for perpetual capital instruments	**—**	3,000,000
	Cash payments for distribution of dividends and profits or for interest expenses	**1,329,965**	1,003,883
	Other cash paid in relation to financing activities	**243,716**	—
	Sub-total of cash outflows	**23,012,247**	15,188,191
	Net cash flows from financing activities	**2,879,121**	2,406,297
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	**202,184**	132,220
V.	**Net (decrease) in cash and cash equivalents**	**(115,254)**	(6,858,788)
	Add: cash and cash equivalents at the beginning of the year	**10,147,946**	17,006,734
VI.	**Net balance of cash and cash equivalents at the end of the year**	**10,032,692**	10,147,946

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

Notes to Financial Statements

31 December 2019
(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 Zhongxingxin Telecom Company Limited, China Precision Machinery Import & Export Shenzhen Company, Lishan Microelectronics Corporation, Shenzhen Zhaoke Investment Development Company Limited, Hunan Nantian (Group) Company Limited, Shaanxi Telecom Industrial Corporation, China Mobile No. 7 Research Institute, Jilin Posts and Telecommunications Equipment Company and Hebei Posts and Telecommunications Equipment Company and incorporated through a public offering of shares to the general public. On 6 October 1997, the Company issued ordinary shares to the general public within the network through the Shenzhen Stock Exchange and the shares were listed and traded on the Shenzhen Stock Exchange on 18 November 1997.

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

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

The financial statements were approved by the Board of Directors of the Company by way of resolution on 27 March 2020.

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

31 December 2019
(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, amortisation of intangible assets and measurement of investment properties.

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 31 December 2019 and the results of their operations and their cash flows for the year ended 31 December 2019.

2. Financial year

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

3. Reporting currency

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

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

4. Business combination

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

Business combinations involving entities under common control

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

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

Notes to Financial Statements

31 December 2019
(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 recognised at their fair values at the acquisition date.

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

5. Consolidated financial statements

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

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

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

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

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. Consolidated financial statements (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 recognised in consolidated financial statement from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

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

6. Classification of joint venture arrangements and joint operation

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

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

7. Cash and cash equivalents

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

8. Foreign currency translation

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

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

Notes to Financial Statements

31 December 2019
(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)

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 recognised on a pro-rata basis.

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

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

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

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

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

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

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

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets

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

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

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

Debt instruments at amortised cost

Financial assets fulfilling all of the following conditions are classified as financial assets at amortised cost: the objective of the Group's business management model in respect of Such type of financial assets is to generate contract cash flow; the contract terms of Such type of financial assets provide that cash flow generated on specific dates represents interest payment in relation to principal amounts based on outstanding principal amounts only. Interest income from Such type of financial assets are recognised using the effective interest rate method, and any profit or loss arising from derecognition, amendments or impairment shall be charged to current profit or loss.

Debt instrument at fair value through other comprehensive income

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

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

Financial assets at fair value through current profit or loss

Other than financial assets measured at amortised cost and financial assets at fair value through other comprehensive income as aforementioned, all financial assets are classified as financial assets at fair value through current profit or loss, which are subsequently measured at fair value, any changes of which are recognised in current profit or loss.

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

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

Classification and valuation of financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

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

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Impairment of financial instruments

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

For receivables, contract assets and bills receivable under other current assets that do not contain significant financing components, the Group adopts a simplified measurement method to measure provision for losses based on an amount equivalent to expected credit losses for the entire period.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial assets other than those measured with simplified valuation methods, the Group evaluates at each balance sheet date whether its credit risk has significantly increased since initial recognition. The period during which credit risk has not significantly increased since initial recognition is considered the first stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the next 12 months and shall compute interest income according to the book balance and effective interest rate; the period during which credit risk has significantly increased since initial recognition although no credit impairment has occurred is considered the second stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the entire valid period and shall compute interest income according to the book balance and effective interest rate; The period during which credit impairment has occurred after initial recognition is considered the third stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the entire period and shall compute interest income according to the amortised cost and effective interest rate. For financial instruments with relatively low credit risk at the balance sheet date, the Group assumes its credit risk has not significantly increase since initial recognition.

The Group estimates the expected credit loss of financial instruments individually and on a group basis. The Group considers the credit risk features of different customers and estimates the expected credit loss of amounts receivable, receivable financing and contract assets based on customers' credit rating portfolio and aging portfolio of overdue debts.

For the Group's criteria for judging whether credit risks have significantly increased, the definition of assets subjected to credit impairment, and assumptions underlying the measurement of expected credit losses, please refer to Note VIII.3.

When the Group no longer reasonably expects to be able to fully or partially recover the contract cash flow of financial assets, the Group directly writes down the book balance of such financial assets.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

Financial guarantee contracts

A financial guarantee contract is a contract under which the issuer shall indemnify the contract holder suffering losses with a specified amount in the event that the debtor fails to repay its debt in accordance with the terms of the debt instrument. Financial guarantee contracts are measured at fair value at initial recognition, other than financial guarantee contracts designated as financial liabilities at fair value through current profit or loss, other financial guarantee contracts shall be subsequently measured at the higher of the amount of provision for expected credit loss determined as at the balance sheet date after initial recognition and the amount at initial recognition less the cumulative amortised amount determined in accordance with revenue recognition principles.

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Other than to the extent related to hedge accounting, profit or loss arising from changes in the fair value of derivative instruments shall be directly recognised in current profit or loss.

Transfer of financial assets

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognised. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognised.

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

Assets formed by the continuing involvement by way of the provision of financial guarantee in respect of the transferred financial assets shall be recognised as the lower of the carrying value of the financial asset and the amount of financial guarantee. The amount of financial guarantee means the maximum amount among considerations received to be required for repayment.

Notes to Financial Statements

31 December 2019
(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)

10. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, product deliveries and cost of contract performance.

Inventories are initially recorded at costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognised using the weighted moving average method.

Inventories are valued using the perpetual inventories stock-take system.

Inventories at the end of the year are stated at the lower of cost or net realisable value. Provision for impairment of inventories is made and recognised in profit or loss when the net realisable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, as a result that the net realisable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognised in profit or loss.

Net realisable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts. Provision for impairment of inventories is made on the basis of individual categories.

Notes to Financial Statements

31 December 2019
(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)

11. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates.

Long-term equity investments were recorded at initial investment cost on acquisition. For long-term equity investments acquired through the business combination of entities under common control, the initial investment cost shall be the share of carrying value of the owners' equity of the merged party at the date of combination as stated in the consolidated financial statements of the ultimate controlling party. Any difference between the initial investment cost and the carrying value of the consideration for the combination shall be dealt with by adjusting the capital reserve (if the capital reserve is insufficient for setting off the difference, such difference shall be further set off against retained profits). Upon disposal of the investment, other comprehensive income prior to the date of combination shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. For long-term equity investments acquired through the business combination of entities not under common control, the initial investment cost shall be the cost of combination (for business combinations of entities not under common control achieved in stages through multiple transactions, the initial investment cost shall be the sum of the carrying value of the equity investment in the acquired party held at the date of acquisition and new investment cost incurred as at the date of acquisition). The cost of combination shall be the sum of assets contributed by the acquiring party, liabilities incurred or assumed by the acquiring party and the fair value of equity securities issued. Upon disposal of the investment, other comprehensive income recognised under the equity method held prior to the date of acquisition shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. The accumulated fair value change of equity investments held prior to the date of acquisition and included in the other comprehensive income as financial instruments shall be transferred in full to current profit and loss upon the change to cost method. The initial investment cost of long-term equity investments other than those acquired through business combination shall be recognised in accordance with the following: for those acquired by way of cash payments, the initial investment cost shall be the consideration actually paid plus expenses, tax amounts and other necessary outgoings directly related to the acquisition of the long-term equity investments. For long-term equity investments acquired by way of the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued. For long-term equity investments acquired by way of the swap of non-monetary assets, the initial investment cost shall be determined in accordance with "ASBE No. 7 — Swap of Non-monetary Assets." For long-term equity investments acquired by way of debt restructuring, the initial investment cost shall be determined in accordance with "ASBE No. 12 — Debt Restructuring."

In the financial statements of the Company, the cost method is used for long term equity investments in investees over which the Company exercises control. Control is defined as the power exercisable over the investee, the entitlement to variable return through involvement in the activities of the investee and the ability to influence the amount of return using the power over the investee.

Notes to Financial Statements

31 December 2019
(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)

11. Long-term equity investments (continued)

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. When additional investments are made or investments are recouped, the cost of 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 recognised in profit or loss of the current period and debited to long-term equity investment.

Under the equity method, after the long-term equity investments are acquired, investment gains or losses and other comprehensive income are recognised according to the entitled share of net profit or loss and other comprehensive income of the investee and the carrying amount of the long-term equity investment is adjusted accordingly. When recognising the Group's share of the net profit or loss of the invested entity, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date in accordance with the Group's accounting policy and accounting period to investee's net profits, eliminating pro-rata profit or loss from internal transactions with associates and joint ventures attributed to investor (except that loss from inter-group transactions deemed as asset impairment loss shall be fully recognised), provided that invested or sold assets constituting businesses shall be excluded. When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognising its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than the net-off of net profits or losses, other comprehensive income and profit allocation of the investee), and includes the corresponding adjustment in equity.

On disposal of the long-term equity investments, the difference between carrying value and market price is recognised in profit or loss for the current period. For long-term equity investments under equity method, when the use of the equity method is discontinued, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred in full to current profit and loss. If the equity method remains in use, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee and transferred to current profit and loss on a pro-rata basis. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss on a pro-rata basis.

Notes to Financial Statements

31 December 2019
(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)

12. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties of the Group included houses and buildings leased to other parties.

Investment properties are initially measured at cost. Subsequent expenses relating to the investment properties are charged to investment property costs if there is a probable inflow of economic benefits relating to the asset and its cost can be reliably measured; otherwise, those expenditure are recognised in profit or loss as incurred.

Investment properties of the Group represented owned properties reclassified to investment properties measured at fair value. The amount of fair value in excess of the carrying value as at the date of reclassification is included in the other comprehensive income. After initial recognition, investment properties will be subsequently measured and presented in fair value. The difference between the fair value and the original carrying value shall be included in current profit or loss. Fair values are assessed and determined by independent valuers based on open market prices of properties of the same or similar nature and other relevant information.

13. Fixed Assets

A fixed asset is recognised when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognised in the carrying amount of the fixed asset if the above recognition criteria are met, and the carrying value of the replaced part is derecognised; otherwise, those expenditures are recognised in profit or loss as incurred.

Fixed assets are initially recognised at cost taking into account the impact of expected future disposal expenditure. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working conditions for its intended use.

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rates are as follows:

	Useful life	Estimated residual value ratio	Annual depreciation rate
Freehold land	Indefinite	—	N/A
Buildings	30–50 years	5%	1.90%–3.17%
Electronic equipment	5–10 years	5%	9.5%–19%
Machinery equipment	5–10 years	5%	9.5%–19%
Motor vehicles	5–10 years	5%	9.5%–19%
Other equipment	5 years	5%	19%

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

Notes to Financial Statements

31 December 2019
(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)

14. 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.

15. Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowings of funds, which include borrowing interest, amortisation of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowings in foreign currencies.

Borrowing costs directly attributable to the acquisition or construction of assets qualified for capitalisation, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

Capitalisation of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

(3) Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

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

During capitalisation, interest of each accounting period is recognised using the following methods:

(1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings.

(2) Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool.

Except for expected suspension under normal situation of qualifying assets, capitalisation should be suspended during periods in which abnormal interruption has lasted for more than 3 months during the process of acquisition, construction or production. The borrowing cost incurred during interruption should be recognised as expenses and recorded in the income statement until the construction resumes.

Notes to Financial Statements

31 December 2019
(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)

16. Right-of-use assets (applicable from 1 January 2019)

The Group's right-of-use assets include mainly categories such as buildings and structures, transportation vehicles and other equipment.

At the inception of a lease term, the right to use lease assets during the lease term is recognised as right-of-use assets, including the initial measurement of the amount of lease liabilities; the amount of lease payment paid on or before the inception of the lease term, less lease incentive amounts (if any) granted; initial direct expenses incurred by the lessee; estimated cost to be incurred by the lessee for demolishing and removing the lease assets, restoring the site of the lease assets or restoring the lease assets to the state as agreed under the lease terms. Subsequent depreciation of the right-of-use assets is provided for using the averaging method over the lease term. Where it can be reasonably ascertained that the ownership over the lease assets can be obtained upon the conclusion of the lease term, depreciation is provided over the remaining useful life of the lease assets. Where the acquisition of the ownership over the lease assets upon the conclusion of the lease term cannot be reasonably ascertained, depreciation is provided over the lease term or the remaining useful life of the lease assets, whichever shorter.

The Group, according to Note III.20, re-measures the lease liabilities based on present value of the modified lease payment and adjusts the carrying value of the right-of-use assets accordingly. Where the lease liabilities requires further write-down when the carrying value of the right-of-use assets has already written down to zero, the remaining amount is charged to current profit or loss.

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 recognised as intangible assets at fair value.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

Useful life of respective intangible assets is as follows:

	Estimated useful life
Software	2–5 years
Technology know-how	2–10 years
Land use rights	30–70 years
Franchise	2–10 years
Development expenses	3–5 years

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and fixed assets, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be apportioned.

Notes to Financial Statements

31 December 2019
(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)

17. Intangible assets (continued)

Straight-line amortisation method is used during the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, useful lives and amortisation method for intangible assets with definite lives and makes adjustment when necessary.

The Group classifies the expenses for internal research and development as research costs and development costs. All research costs are charged to the current profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits (including demonstration that the product derived from the intangible asset or the intangible asset itself will be marketable or, in the case of internal use, the usefulness of the intangible asset as such), the availability of technical and financial resources to complete the project and procure the use or sale of the intangible asset, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Corresponding projects that meet the above conditions in the Group are formed after technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

18. Impairment

The Group assesses impairment of assets other than inventories, contract assets and assets relating to contract cost, investment properties measured at fair value, deferred tax assets and financial assets, using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed at least annually regardless of whether there are indications of impairment. Intangible assets which are not yet ready for use are also tested annually for impairment.

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised in the current period's profit or loss and provision for impairment is made accordingly.

In connection with impairment tests for goodwill, the carrying value of goodwill arising from business combination is allocated to relevant cash generating units ("CGU") from the date of acquisition on a reasonable basis. If it is difficult to allocate such goodwill to a relevant CGU, it should be allocated to a relevant CGU group. A relevant CGU or CGU group is defined as one which can benefit from the synergies of the business combination and is not larger than the reporting segments determined by the Group.

Notes to Financial Statements

31 December 2019
(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)

18. Impairment (continued)

In connection with impairment tests for CGUs or CGU groups that comprise goodwill, where indications of impairment exists in a CGU or CGU group related to goodwill, impairment tests should be performed first on CGUs or CGU groups that do not comprise goodwill and recognise impairment loss after estimating the recoverable amount. Then impairment tests on CGUs or CGU groups that comprise goodwill should be performed and the carrying value and recoverable amount should be compared. Where the recoverable amount is lower than the carrying value, the impairment loss should first be offset against the carrying value of the goodwill allocated to CGUs or CGU groups and then against assets in the CGUs or CGU groups other than goodwill in proportion to the weighting of these assets.

Previously recognised impairment losses are not reversed in subsequent periods.

19. Employee remuneration

Employee remuneration includes all kinds of rewards or compensation (other than share-based payments) incurred by the Group in exchange for service rendered by employees or in the termination of employment. Employee remuneration includes short-term remuneration, retirement benefits, termination benefits and other long-term employees' benefits. Benefits provided by the Group to the spouses, children and dependents of employees and families of deceased employees are also a part of employee remuneration.

Short-term remuneration

For accounting periods during which services are rendered by employees, short-term remuneration that will incur is recognised as liability and included in current profit and loss or related capital costs.

Retirement benefit (defined deposit scheme)

Employees of the Group participated in pension insurance and unemployment insurance schemes managed by the local government. The contribution costs are charged as asset cost or to current profit or loss when incurred.

Retirement benefit (defined benefit scheme)

The Group operates a defined benefit pension scheme. No funds have been injected into the scheme. The cost of benefits provided under the defined benefit scheme is calculated using the expected benefit accrual unit approach.

Remeasurement arising from defined benefit pension schemes, including actuarial gains or losses, changes in the asset cap effect (deducting amounts included in net interest) and return on scheme assets (deducting amounts included in net interest) are instantly recognised in the balance sheet and charged to shareholders' equity through other comprehensive income for the period during which it is incurred. It will not be reversed to profit and loss in subsequent periods.

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

Notes to Financial Statements

31 December 2019
(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)

19. Employee remuneration (continued)

Retirement benefit (defined benefit scheme) (continued)

Net interest is arrived at by multiplying net liabilities or net assets of defined benefits with a discount rate. Changes in net obligations of defined benefits are recognised as operating costs and administration expenses in the income statement. Service costs included current services costs, past service costs and settlement of profit or loss. Net interest included interest income from scheme assets, interest expenses for scheme obligations and interest of the asset cap effect.

Termination benefits

Where termination benefits are provided to employees, liabilities in employee remuneration are recognised and charged to current profit and loss when: the company is not in a position to withdraw termination benefits provided under termination plans or redundancy plans, or costs or expenses relating to the restructuring exercise which involves the payment of termination benefits are recognised, whichever earlier.

Other long-term employees' benefits

Other long-term employees' benefits provided to employees shall be recognised and measured as net liabilities or net assets where provisions regarding post-employment benefits are applicable, provided that changes shall be included in current profit and loss or related capital costs.

20. Lease liabilities (applicable from 1 January 2019)

At the inception of a lease term, outstanding lease payments are recognised as leased liabilities at their present value with the exception of short-term leases and low-value asset leases. In calculating the present value of lease payments, the Group adopts the interest rate implicit in the lease as the discount rate. Where the implicit interest rate cannot be ascertained, the incremental loan interest rate for the lessee is adopted. Interest expenses on lease liabilities over the respective periods of the lease term are computed based on fixed cyclical interest rates and charged to current profit or loss, except being charged to relevant asset costs as otherwise provided for. Variable lease payments not included in lease liabilities are charged to current profit or loss as and when incurred, except being charged to relevant asset costs as otherwise provided for.

Where there are changes in the substantial fixed payment amount after the inception of the lease term, changes in amounts payable expected of the remaining value of guarantees, changes in the index or ratio used to determine lease payment amounts, and changes in the assessment outcome relating to or actual exercise of the call option, renewal option and termination option, the Group re-measures the lease liabilities based on present value of the modified lease payment.

Notes to Financial Statements

31 December 2019
(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)

21. Provisions

Other than contingent consideration and assumed contingent liabilities in a business combination involving parties not under common control, the Group recognises as provision an obligation that is related to contingent matters when all of the following criteria are fulfilled:

(1) the obligation is a present obligation of the Group;

(2) the obligation would probably result in an outflow of economic benefits from the Group;

(3) the obligation could be reliably measured.

Provisions are initially valued according to the best estimate of expenses on fulfilling the current liabilities, in connection with the risk, uncertainty and timing value of the currency. The carrying value of the provisions would be reassessed on every balance sheet date. The carrying value will be adjusted to the best estimated value if there is certain evidence that the current carrying value is not the best estimate.

22. Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares or other equity instruments in consideration for receiving services.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognising services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each balance sheet date during the pending period based on subsequent information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc. The fair value of equity instruments is determined using the binomial option pricing model. For details see Note XI. Share-based payment.

The cost of equity-settled transactions is recognised, together with a corresponding increase in capital reserve, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest due to non-fulfillment of non-market conditions and/or vesting conditions. For the market or non-vesting condition under the share-based payments agreement, it should be treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that other performance condition and/or vesting conditions are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the instrument ranted, or is otherwise beneficial to the employee as measured at the date of modification.

Notes to Financial Statements

31 December 2019
(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)

22. Share-based payments (continued)

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they were a modification of the original award.

23. Other equity instrument

The perpetual capital instruments issued by the Group, the term of which can be extended by the Group for an unlimited number of times upon maturity, the coupon interest payment for which can be deferred by the Group and for which the Group has no contractual obligation to pay cash or other financial assets, are classified as equity instruments.

24. Revenue generated from contracts with customers

The Group recognises its revenue upon the fulfilment of contractual performance obligations under a contract, namely, when the customer obtains control over the relevant products or services. The acquisition control over relevant products or services shall mean the ability to direct the use of the products or the provision of the services and receive substantially all economic benefits derived therefrom.

Contract for the sales of products

The product sales contract between the Group and its customers typically includes contractual performance obligations for the transfer of products. The Group typically recognises its revenue at the time of delivery and acceptance upon inspection taking into account the following factors: the acquisition of the current right to receive payments for the products, the transfer of major risks and rewards of ownership, the transfer of the legal title of the products, the transfer of the physical assets of the products, and customers' acceptance of the products.

Contract for the rendering of services

The service contract between the Group and its customers includes contractual performance obligations for maintenance service, operational service and engineering service. As the customer is able to forthwith obtain and consume the economic benefits brought by the Group's contractual performance when the Group performs a contract, the Group considers such contractual performance obligations to be obligations performed over a period of time, and revenue shall be recognised according the progress of performance. For contracts with specific output indicators, such as contracts for maintenance service and operational service, the Group determines the progress of performance of the service according to the output method. For a small number of contracts which do not specify output indicators, the progress of performance is determined using the input method.

Notes to Financial Statements

31 December 2019
(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)

24. Revenue generated from contracts with customers (continued)

Telecommunication system construction contract

The Group's Telecommunication system construction contract typically includes a range of contractual performances, such as equipment sales and installation service and their combinations. Equipment sales and installation service that are distinctly separable are accounted for standalone contractual performances. Combinations of equipment sales and installation services that are not individually separable are accounted for as standalone contractual performances, as customer can benefit from the individual use of such combinations or their use together with other readily available resources and such combinations among themselves are distinctly separable from one another. As the control of such individually separable equipment sales and installation service and individually non-separable combination of equipment and installation service is transferred to the customer upon acceptance by the customer, revenue of each standalone contractual performance is recognised after the fulfillment of such standalone contractual obligation.

Variable consideration

Certain contracts between the Group and its customers contain cash discount and price guarantee clauses which will give rise to variable consideration. Where a contract contains variable consideration, the Group determines the best estimates on the variable consideration based on expected values or the most probable amount, provided that transaction prices including variable consideration shall not exceed the cumulative amount of recognised revenue upon the removal of relevant uncertainties in connection with which a significant reversal is highly unlikely.

Consideration payable to customers

Where consideration is payable by the Group to a customer, such consideration payable shall be deducted against the transaction price, and against current revenue upon the recognition of revenue or the payment of (or the commitment to pay) the consideration to the customer (whichever is later), save for consideration payable to the customer for the purpose of acquiring from the customer other clearly separable products or services.

Return clauses

In connection with sales with a return clause, revenue is recognised according to the amount of consideration it expects to be entitled to for the Transfer to a customer when the customer acquires control of the relevant. Amounts expected to be refunded for the return of sales are recognised as liabilities. At the same time, the balance of the carrying value of the product expected to be returned upon transfer less expected costs for the recall of such product (including impairment loss of the recalled product) shall be recognised as an asset (i.e. cost of return receivables), and the net amount of the carrying value of the transferred product upon the transfer less the aforesaid asset cost shall be transferred to cost. At each balance sheet date, the Group reassesses the future return of sales and re-measures the above assets and liabilities.

Notes to Financial Statements

31 December 2019
(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)

24. Revenue generated from contracts with customers (continued)

Significant financing component

Where a contract contains a significant financing component, the Group determines transaction prices based on amounts payable assumed to be settled in cash by customers immediately upon the acquisition of control over the products or services. The difference between such transaction price and contract consideration is amortised over the contract period using the effective interest rate method based on a ratio that discounts the nominal contractual consideration to the current selling price of the products or services.

The Group shall not give consideration to any significant financing component in a contract if the gap between the customer's acquisition of control over the products and payment of consideration is expected to be less than 1 year.

Warranty clauses

The Group provides quality assurance for products sold and assets built in accordance with contract terms and laws and regulations. The accounting treatment of quality assurance in the form of warranty assuring customers products sold are in compliance with required standards is set out in Note III.17. Where the Group provides a service warranty for a standalone service in addition to the assurance of compliance of products with required standards, such warranty is treated as a standalone contractual performance obligation, and a portion of the transaction price shall be allocated to the service warranty based on a percentage of the standalone price for the provision of product and service warranty. When assessing whether a warranty is rendering a standalone service in addition to providing guarantee to customers that all sold goods are in compliance with required standards, the Group will consider whether or not such warranty is a statutory requirement, the term of the warranty and the nature of the Group's undertaking to perform its obligations.

Contract changes

In the event of contract changes to the construction contracts between the Group and its customers:

(1) Where contract changes have added distinctly separable construction services and contract price clause that representing the standalone selling prices of newly added construction services, such contract changes are accounted for as a separate contract;

(2) Where contract changes do not fall under the description in (1) and construction services transferred are clearly separable from construction services not transferred as at the date on which contract changes occur, such changes should be deemed as the termination of the original contract, and the unfulfilled portion of the original contract and the changed portion of the contract shall be combined as a new contract for accounting treatment;

(3) Where contract changes do not fall under the description in (1) and construction services transferred are not clearly separable from construction services not transferred as at the date on which contract changes occur, the changed portion of the contract shall be accounted for as an integral part of the original contract, and the impact on recognised revenue shall be reflected by adjusting current revenue as at the date of contract changes.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Contract assets and contract liabilities

The Group presents contract assets or contract liabilities on the balance sheet according to the relationship between contractual performance obligations and customer payments. Contract assets and contract liabilities under the same contract are presented on a net basis after set-off.

Contract assets

The right to receive consideration following the transfer of products or services to customers which is dependent on factors other than the passage of time.

For details of the Group's determination and accounting treatment of expected credit losses from contract assets, please refer to Note III.9.

Contract liabilities

The obligation to pass products or services to customers in connection with customer consideration received or receivable is presented as contract liabilities, for example, amounts received prior to the transfer of the promised products or services.

26. Assets relating to contract cost

The Group's assets relating to contract costs include the contract acquisition costs and contract performance costs, presented respectively under inventories, other current assets and other non-current assets.

Where the Group expects the incremental costs for acquiring a contract to be recoverable, such contract acquisition costs are recognised as an asset (unless the amortisation period of the asset is not more than 1 year).

Costs incurred by the Group for the performance of a contract are recognised as an asset as contract performance costs if they do not fall under the scope of the relevant standards for inventories, fixed assets or intangible assets but meet all the following conditions:

(1) they are directly related to a current or anticipated contract, including direct labour, direct materials, manufacturing expenses (or similar expenses), to be borne by customers as specifically stipulated, and otherwise incurred solely in connection with the contract;

(2) they will increase the resources to be utilised in the Company's future performance of its contractual obligations;

(3) they are expected to be recoverable.

The Group amortises assets relating contract costs on the same basis as that for the recognition of revenue relating to such assets and recognises the amortised assets in current profit or loss.

Notes to Financial Statements

31 December 2019
(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)

26. Assets relating to contract cost (continued)

For assets relating to contract costs whose carrying value is higher than the difference between the following two items, the Group makes provision for impairment for the excess to be recognised as asset impairment losses:

(1) The remaining consideration expected to be obtained as a result of the transfer of goods relating to such assets;

(2) Estimated costs to be incurred in connection with the transfer of relevant goods.

In the event that the difference between (1) and (2) becomes higher than the carrying value of such assets as a result of changes in the factors of impairment for previous periods, previous provisions for asset impairment losses should be written back and included in current profit or loss, provided that the carrying asset value following the write-back shall not exceed the carrying value such assets would have on the date of write-back were there no provision for impairment.

27. Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value.

In accordance with the stipulations of the government instruments, government grants applied towards acquisition or the formation of long-term assets in other manners are asset-related government grants; the instruments unspecifically refer to the exercise of judgement based on the basic conditions for receiving the asset-related grant applied towards or the formation of long-term assets in other manners. All other grants are recognised as income-related government grants.

Government grants relating to income and applied to make up for related costs or losses in future periods shall be recognised as deferred income, and shall be recognised in current profit or loss or written off against related costs of the period for which related costs or loss are recognised. Government grants specifically applied for the reimbursement of incurred related costs and expenses shall be directly recognised in current profit or loss or set off against related costs.

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

Loans extended to the Group by borrowing banks at favourable interest rates mandated by government policies under which the borrowing banks receive interest rate subsidies from the financial authorities shall be recognised based on the actual amount of loans received, and borrowings costs shall be recognised based on the principal amount of the loan and the policy-mandated favourable interest rates.

Notes to Financial Statements

31 December 2019
(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)

28. Income tax

Income taxes include current and deferred tax. Income taxes are recognised in current period's profit or loss as income tax expense or income tax benefit, except for the adjustment made for goodwill in a business combination and income tax from transactions or items that directly related to equity.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them at the amount expected to be paid or recovered according to the relevant taxation regulations.

The Group recognises deferred tax assets and liabilities based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base on the balance sheet date. Temporary differences also include the differences between the carrying values and tax bases of items not recognised as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(1) where the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

(1) where the deductible temporary difference arises from transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(2) deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures are recognised when all following conditions are met: it is probable that the temporary differences will reverse in the foreseeable future, it is probable that taxable profit against the deductible temporary differences will be available.

Notes to Financial Statements

31 December 2019
(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)

28. Income tax (continued)

As at balance sheet date, deferred tax assets and liabilities are measured in accordance with relevant tax laws at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and reflects the tax consequences that would follow the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

29. Leases (applicable from 1 January 2019)

Identification of leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. If one party to the contract conveys a right to control the use of one or more identified assets for a period of time in exchange for consideration, such contract is, or contains, a lease. To determine whether a contract has conveyed the right to control the use of an identified asset for a period of time, the Group assesses whether the customer to the contract has both the right to obtain substantially all economic benefits from the use of the identified asset and the right to direct the use of the identified asset during the period of use.

Assessment of lease periods

The lease term is the period during which the Group owns a non-cancellable right to use the lease assets. Where the Group has an option for renewal to elect to renew the lease of the asset and it can be reasonably ascertained that such option will be exercised, the lease term shall also include the period covered by such option for renewal. Where the Group has an option for termination to terminate the lease of such asset but it can be reasonably ascertained that such option will not be exercised, the lease term shall include the period covered by such option for termination. In the case of a material event or change within the control of the Group affecting its reasonable decision on whether to exercise the option, the Group shall re-assess whether it can reasonably ascertain the exercise of the renewal option, call option or non-exercise the option for termination.

Notes to Financial Statements

31 December 2019
(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)

29. Leases (applicable from 1 January 2019) (continued)

As a lessee

The types of the Group's lease assets include mainly properties, vehicles and other equipment.

Initial measurement

At the inception of a lease term, the right to use lease assets during the lease term is recognised as right-of-use assets, and outstanding lease payments are recognised as leased liabilities at their present value, with the exception of short-term leases and low-value asset leases. In calculating the present value of lease payments, the Group adopts the incremental loan interest rate for the lessee as the discount rate.

The lease term is the period during which the Group owns a non-cancellable right to use the lease assets. Where the Group has an option for renewal to elect to renew the lease of the asset and it can be reasonably ascertained that such option will be exercised, the lease term shall also include the period covered by such option for renewal. Where the Group has an option for termination to terminate the lease of such asset but it can be reasonably ascertained that such option will not be exercised, the lease term shall include the period covered by such option for termination. In the case of a material event or change within the control of the Group affecting its reasonable decision on whether to exercise the option, the Group shall re-assess whether it can reasonably ascertain the exercise of the renewal option, call option or non-exercise the option for termination.

Subsequent measurement

Depreciation of the right-of-use assets is provided for using the averaging method over the lease term. Where it can be reasonably ascertained that the ownership over the lease assets can be obtained upon the conclusion of the lease term, depreciation is provided over the remaining useful life of the lease assets. Where the acquisition of the ownership over the lease assets upon the conclusion of the lease term cannot be reasonably ascertained, depreciation is provided over the lease term or the remaining useful life of the lease assets, whichever shorter.

Interest expenses on lease liabilities over the respective periods of the lease term are computed based on fixed cyclical interest rates and charged to current profit or loss.

Variable lease payments not included in lease liabilities are charged to current profit or loss as and when incurred.

Where there are changes in the substantial fixed payment amount, changes in amounts payable expected of the remaining value of guarantees, changes in the index or ratio used to determine lease payment amounts, and changes in the assessment outcome relating to or actual exercise of the call option, renewal option and termination option, the Group re-measures the lease liabilities based on present value of the modified lease payment and adjusts the carrying value of the right-of-use assets accordingly. Where the lease liabilities requires further write-down when the carrying value of the right-of-use assets has already written down to zero, the remaining amount is charged to current profit or loss.

Notes to Financial Statements

31 December 2019
(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)

29. Leases (applicable from 1 January 2019) (continued)

As a lessee (continued)

Modification of leases

Modification means the modification of the scope, consideration and duration of a lease on top of the original contract terms, including the increase or termination of the right to use one or more lease assets and the extension or shortening of the lease term stipulated in a contract, among others.

If the modification of a lease fulfills the following conditions, the Group will account for such modification as a separate lease:

(1) Such modification has enlarged the scope of the lease by increasing the right of use to one for one or more lease assets;

(2) The consideration for the increase approximates the standalone price for the extended portion of the lease after adjustments based on the status of the contract.

If the modification is not accounted for as a standalone lease, the Group re-determines the lease term on the date on which the modification comes into effect and adopts a revised discount rate to discount lease payments after the modification, so as to re-measure the lease liabilities. In calculating the present value of lease payments after the modification, the Group adopts the interest rate implicit in the lease over the remaining lease term as the discount rate; where the interest rate implicit in the lease over the remaining lease term cannot be ascertained, the Group's incremental loan interest rate at the effective date of the modification is adopted as the discount rate.

The impact of the aforesaid adjustments to lease liabilities is accounted for by distinguishing between the following:

(1 Where the modification results in the reduction of the scope of the lease or the shortening of the lease term, the Group writes down the carrying value of the right-of-use assets to reflect the partial or complete termination of the lease. Profit or loss relating to the partial or complete termination of the lease is charged to current profit or loss.

(2) For other modifications, the Group adjusts the carrying value of the right-of-use assets accordingly.

Short-term lease and low-value asset lease

A lease with a term of not more than 12 months at the inception of the lease term and without any call option is recognised as a short-term lease; lease comprising an individual lease asset worth not more than 30,000 in brand new conditions is recognised as a low-value asset lease. If the Group sub-leases or expects to sub-lease such lease assets, the original lease shall not be recognised as a low-value asset lease. For short-term leases and low-value asset leases, the Group elects not to recognise right-of-use assets and lease liabilities, which are instead charged to relevant asset cost or current profit or loss over the respective periods during the lease term on a straight-line basis, while contingent rental is charged to current profit or loss as and when incurred.

Notes to Financial Statements

31 December 2019
(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)

29. Leases (applicable from 1 January 2019) (continued)

As a lessor

Other than leases that transfer substantially all risk and reward relating to the ownership of lease assets at inception which are recognised as finance leases, all leases are recognised as operating leases. As a sub-leasing lessor, the Group classifies the sub-leases based on the right-of-use assets of the original leases.

As the lessor under a finance lease

At the inception of the lease term, finance lease receivables are recognised in respect of finance lease, while financing leases are derecognised. At initial measurement, the carrying value of finance lease receivables are recognised as the net amount of lease investment, which is in turn the sum of the unsecured residual value and the lease payments yet to be received at the commencement of the lease term discounted to their present value using the implicit interest rate of the lease.

Interest income over the respective periods of the lease term are computed and recognised based on fixed cyclical interest rates and charged to current profit or loss. Variable lease payments not included in the net amount of lease investment are charged to current profit or loss as and when incurred.

If the modification of a finance lease fulfills the following conditions, the Group will account for such modification as a separate lease:

(1) Such modification has enlarged the scope of the lease by increasing the right of use to one for one or more lease assets;

(2) The consideration for the increase approximates the standalone price for the extended portion of the lease after adjustments based on the status of the contract.

Modifications of a finance lease not accounted for as a standalone lease are accounted for as a modified finance lease by distinguishing between the following:

(1) Where the modification becomes effective on the commencement date of a lease classified as an operating lease, it is accounted for as a new lease from the date on which the modification becomes effective, and the carrying value of the lease assets is the net amount of lease investment prior to the date on which the modification becomes effective;

(2) Where the modification becomes effective on the commencement date of a lease classified as an finance lease, it is accounted for in accordance with the provisions under Note III.20 pertaining to the revision or renegotiation of a contract.

As the lessor under an operating lease

Rental income under an operating lease is recognised as current profit or loss over the respective periods of the lease term on a straight-line basis, while variable lease payments not included in lease receipts is charged to current profit or loss as and when incurred.

Modifications of an operating lease are accounted for as a new lease from the date on which the modifications become effective. Advanced receipts or lease payments receivable relating to the unmodified lease are treated as payments under the new lease.

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.

Notes to Financial Statements

31 December 2019
(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)

30. Leases (applicable to 2018)

As lessee of operating leases

Rental expenses under operating leases are recognised as relevant asset costs or in current profit or loss on the straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

As lessor of operating leases

Rental income under operating leases are recognised as profit/loss for the current period on a straight-line basis over the lease term. Contingent rental is charged to current profit or loss when incurred.

31. Profit distribution

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

32. Fair value measurement

At each balance sheet date, the Group measures the fair value of investment properties, derivative financial instruments, other debt investments and listed and unlisted equity instrument investments. Fair value means the price receivable from the disposal of an asset or required to be paid for the transfer of a liability in an orderly transaction incurred by market participants on the measurement date. The Group measures assets or liabilities at fair value with the assumption that the orderly transaction of asset disposal or the transfer of liabilities takes place in the major market for the relevant assets or liabilities. Where there is no major market, the Group assumes such transaction takes place in the most favourable market for the relevant assets or liabilities.

The major market (or most favourable market) is a trading market which the Group has access to on the measurement date. The Group adopts assumptions used by market participants when they price the asset or liability with the aim of maximising its economic benefits.

The measurement of non-financial assets measured at fair value should take into account the ability of market participants to utilise the asset in the best way for generating economic benefits, or the ability to dispose of such asset to other market participants who are able to utilise the asset in the best way for generating economic benefits.

The Group adopts valuation techniques that are appropriate in the current circumstances and supported by sufficient usable data and other information. Observable input will be used first and foremost. Unobservable input will only be used when it is not possible or practicable to obtain observable input.

The fair value hierarchy to which an asset or liability measured or disclosed in the financial statements at fair value will be determined on the basis of the lowest level of input which is significant for the fair value measurement as a whole. Input at the first level represents unadjusted quoted prices in an active market for the acquisition of the same asset or liability on the measurement date. Input at the second level represents directly or indirectly observable assets or liabilities apart from input at the first level. Input at the third level represents unobservable input for the asset or liability.

At each balance sheet date, the Group reassesses assets and liabilities measured at fair value on an ongoing basis recognised in the financial statements to determine whether the level of fair value measurement should be changed.

Notes to Financial Statements

31 December 2019
(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)

33. Significant accounting judgements and estimates

The preparation of financial statements requires judgement and estimation of the management. Such judgement and estimation will affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities as at the balance sheet date. However, the consequence arising from the uncertain nature of such estimation may result in significant adjustment to the carrying value of the asset or liability affected in the future.

Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

Determination of standalone contractual performance obligations under telecommunication system construction contracts

The Group's telecommunication system construction contract typically includes a range of pledged performance, such as equipment sales and installation service or a combination of both. The Group determines whether the equipment sales and installation service and their combination are distinctly separable. Where the customer can benefit from the individual use of such products or services or their use together with other readily available resources, the standalone equipment sales and installation service are accounted for as standalone contractual performances. Such standalone equipment sales and installation service are considered individual separable if: (1) the customer can receive the equipment pledged under the contract without the provision of significant installation service by the Group; (2) each of the equipment sales and the installation service do not constitute any modification or customisation to the other, nor will they modify or customise other equipment or installation service pledged under the contract; (3) such equipment sales and installation service are not significantly correlated to other equipment or installation pledged under the contract. Each of the aforesaid combinations of equipment sales and installation services that is not individually separable and not significantly correlated to other combinations and that enable the customer to benefit from its individual use or use together with other readily available resources is accounted for as a standalone contractual performances. The comprehensive application of the aforesaid judgement is significant for the determination of standalone contractual performance obligations under telecommunication system construction contracts.

Determination of progress of performance of service rendering contracts

The service contract between the Group and its customers typically include obligations such as maintenance service, operational service and engineering service and revenue is recognised according to the progress of performance of each contract. For contracts with specific output indicators, such as contracts for maintenance service and operational service, the Group determines the progress of performance of the service according to the output method. For a small number of contracts which do not specify output indicators, the progress of performance is determined using the input method.

Notes to Financial Statements

31 December 2019
(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)

33. Significant accounting judgements and estimates (continued)

Judgement (continued)

Performance of obligation at a point of time

For performance obligations of the Group in respect of separately sold communication system equipment and terminals, as well as obligations in respect of communication system equipment sold in a block together with project construction, as the customer is unable to obtain and consume the economic benefits brought by the Group's performance of obligation at the same time as such obligations are performed or control goods in progress during the course of the Group's performance, the Group is not entitled to collect progress billing according to work completed to date during the entire contract period. Hence, such performance is treated as performance at a point of time. Specifically, revenue corresponding to such standalone contractual performance is recognised upon acceptance by the customer after the performance of each standalone obligation.

Business model

The classification of financial assets at initial recognition is dependent on the Group's business model for managing the assets. Factors considered by the Group in judging the business model include enterprise valuation, the method of reporting the results of financial assets to key management members, risks affecting the results of financial assets and the method for managing such risks, as well as the form of remuneration received by the management personnel of the businesses concerned. In assessing whether the business model is aimed at receiving contract cash flow, the Group is required to analyse and exercise judgment in respect of the reasons, timing, frequency and values of any disposals prior to maturity.

Characteristics of contract cash flow

The classification of financial assets at initial recognition is dependent on the characteristics of the contract cash flow of such type of financial assets. Judgement is required to determine whether the contract cash flow represents interest payment in relation to principal amounts based on outstanding principal amounts only, including judgement of whether it is significantly different from the benchmark cash flow when assessing modifications to the time value of currencies, and judgement of whether the fair value of early repayment features is minimal where the financial assets include such early repayment features.

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.

Notes to Financial Statements

31 December 2019
(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)

33. Significant accounting judgements and estimates (continued)

Judgement (continued)

Derecognition of financial assets

Where the Group has transferred the right to receive cash flow arising from an asset but has not transferred or has retained substantially all risks and rewards associated with such asset, or has not transferred the controlling right in such asset, such asset shall be recognised and accounted for so long as the Group continues to be involved in such asset. If the Group has not transferred or has retained substantially all risks and rewards associated with the asset or transferred the controlling right in the asset, the exercise of significant judgment is often required, and estimations need to be made as to the extent of the Group's continued involvement in the asset.

Operating lease — as lessor

The Group enters into lease contracts in respect of investment properties. The Group is of the view that, under the terms of such lease contracts, the Group has retained substantially all risks and reward arising from the ownership of such real estate properties. Accordingly, such contracts are accounted for as operating leases.

Finance lease — as lessor

The Group has entered into a series of cooperation agreements with Vanke, pursuant to which the development and construction in respect of a land site held by the Group has been entrusted with full powers to Vanke, which will assume all funding, cost and risk of development and construction and be entitled to all income corresponding thereto. The Group will acquire certain housing properties and cash as the consideration for the land-use right of the site. Given that the duration of Vanke's entitlement to the land-use right was equivalent to the entire tenure of the site, and that the consideration received by the Group was equivalent to the fair value of the aforesaid land-use right based on the relevant arrangements under the cooperation agreement, the Group is of the view that the transaction qualified as a finance lease under the ASBEs, even though the legal title of the land-use right has not been transferred.

Whether a contract is or contains a lease

The Group entered into a lease agreement relating to an overseas warehouse and servicing vehicles. The Group is of the view that no identifiable assets exist under the lease agreement. The supplier of the assets owned the substantive right of replacement for such warehouse and vehicles. The agreement did not give the Group the right to modify the purpose and method of using such the warehouse and vehicles, nor did it give the Group right to operate, or instruct other parties to operate, such warehouse and vehicles in a manner determined by the Group. Therefore, such lease agreement did not contain a lease and was accounted for as services provided to the Group.

Notes to Financial Statements

31 December 2019
(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)

33. Significant accounting judgements and estimates (continued)

Judgement (continued)

Lease period — lease contracts comprising the option for renewal

The lease term is the period during which the Group owns a non-cancellable right to use the lease assets. Where the Group has an option for renewal and it can be reasonably ascertained that such option will be exercised, the lease term shall also include the period covered by such option for renewal. Some of the Group's lease contracts carry an option for renewal for 1- 5years. When the Group assesses whether it can reasonably ascertain that the renewal option will be exercised, it will take into account all matters and conditions pertaining to the economic benefits arising from the exercise of the renewal option, including the anticipated changes in facts and conditions during the period from the commencement date of the lease period to the date on which the option is exercised. The Group is of the view that, as the cost of terminating the lease is significant and it is more likely that the conditions for the exercise of the option will be fulfilled, the Group can reasonably ascertain that the renewal option will be exercised. Hence, the lease period includes the period covered by the renewal option.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent financial years, are discussed below.

Impairment of long-term equity investments, fixed assets, construction in progress and intangible assets

The Group assesses at each balance sheet date whether there is an indication that long-term equity investments, fixed assets, construction in progress and intangible assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. The recoverable amount is measured at the net amount of the fair value of the asset less disposal costs or the present value of the estimated future cash flow of the asset, whichever is higher. This requires an estimate of the expected future cash flows from the asset or the cash generating unit to which the asset was allocated and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is recognised when the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount. The carrying amount is written down to the recoverable amount and the write-down is charged to current profit or loss, while corresponding provision for asset impairment is also made.

Impairment of financial instruments and contract assets

The Group has adopted the expected credit loss model to evaluate the impairment of financial instruments and contract assets. The application of the expected credit loss model requires significant judgement and estimates and the consideration of all reasonable and soundly based information, including forward-looking information. In making such judgement and estimates, the Group estimates the projected movements of the debtor's credit risk according to past repayment records, economic policies, macro-economic indicators and industry risks. Different estimates may affect provisions for impairment, and the provision for impairment made may not be equal to the actual amount of future impairment loss.

Notes to Financial Statements

31 December 2019
(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)

33. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Depreciation and amortisation

The Group depreciates items of fixed assets and amortises items of intangible assets on the straight line basis over their estimated useful lives, and after taking into account their estimated residual value, commencing from the date the items of fixed assets are placed into productive use. It 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.

Development costs

In determining the amount of capitalisation, the management must make assumptions concerning the expected future cash flow, applicable discount rate and expected beneficial period.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilise these unused tax losses. Significant judgments are needed from management to estimate the timing and amount of taxable profit in the future, with tax planning strategies, to determine the amount of the deferred tax assets that should be recognised.

Estimated standalone selling price

The standalone selling price refers to the price at which the Group may independently sell pledged goods or service. Observable prices for goods or services sold to similar customers under similar circumstance on a standalone basis is the best evidence for standalone selling prices. An estimation of standalone selling prices is required if such prices cannot be directly obtained. The Group has adopted cost plus pricing according the characteristics of the goods or services and its related price and cost and the level of difficulty in obtaining it. Cost plus pricing is a method for determining standalone selling prices by adding a reasonable profit margin to the estimated cost of a product. This method is mainly concerned with internal factors and requires adjustments to profit according to different products, customers and differences in other variables. It is a more appropriate method when the direct cost for performance of obligation can be ascertained.

Provision for inventory impairment

The impairment of inventory to its net realisable value is based on the marketability and net realisable value of the inventory. The determination of the impairment value requires the acquisition of conclusive evidence by the management, who should also take into account factors such as the purpose of stocking the inventory and the impact of post-balance sheet date events before making judgments and estimates. The difference between the actual outcome and the original estimates shall affect the carrying value of the inventory and charge or reversal of impairment provision for the period during which the estimates were revised.

Warranty

The Group makes reasonable estimates on warranty fee rates in respect of contract groups with similar characteristics based on the historic data and current conditions of warranty, taking into consideration all relevant information such as product improvements and market changes, among others. Estimated warranty fee rates may not be equal to actual warranty fee rates in the future. The Group reassesses the warranty fee rates at least annually at each balance sheet date and determines its estimated liabilities based on the reassessed warranty fee rates.

Notes to Financial Statements

31 December 2019
(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)

33. 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 2019 was RMB1,957,242,000 (31 December 2018: RMB2,011,999,000).

Fair value of non-listed equity investment

Fair value of non-listed equity investment at fair value through profit or loss is estimated using the market-based method. The assumptions on which it is based are unobservable input. The estimation requires the management to determine comparable public companies (peers) based on industry, scale, gearing and strategy and compute appropriate price multiples in respect of each identified comparable company, such as enterprise value to EBIT ("EV/EBIT"), price to book ("P/B") or price to earnings ("P/E"), etc. Such multiples are measured and arrived at based on the relevant data of the comparable companies and discounted by a percentage for the lack of liquidity. The discounted multiple shall be used for the measurement of the profit or asset of the non-listed equity investment to arrive at its fair value. The management believes that the estimated fair value (as recorded in the balance sheet) and changes in fair value (as recorded in profit or loss and other comprehensive income) arrived at using the aforesaid valuation method were reasonable and represented the most appropriate value as the end of the reporting period. For details, please refer to Note IX.3.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic production) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Notes to Financial Statements

31 December 2019
(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)

33. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Incremental loan interest rate for the lessee

Where the interest rate implicit in the lease over the remaining lease term cannot be ascertained, the Group's incremental loan interest rate at the effective date of the modification is adopted as the discount rate. When ascertaining the incremental loan interest rate, the Group determine the incremental loan interest rate by reference to observable interest rates according to the prevailing economic conditions. On that basis, an appropriate incremental loan interest rate is arrived at by adjusting the benchmark interest rate based on the Group's internal conditions and details relating to the lease, such as the conditions, lease term and amount of lease liabilities of the subject assets.

34. Changes in accounting policies and accounting estimates

Changes in accounting policies

New ABSE on Leases

In 2018, the MOF announced the amended "ASBE 21 — Leases" (the "New ASBE on Leases"). The New ASBE on Leases adopts a singular model similar to that currently adopted under finance lease accounting, requiring the lessee to recognise right-of-use assets and lease liabilities in respect of all leases, with the exception of short-term leases and low-value asset leases, and to recognize depreciation costs and interest expenses. The Group has adopted the amended ASBE on leases with effect from 1 January 2019, and has elected not re-assess whether contracts subsisting prior to the first date of implementation are or contain leases. In accordance with the convergence provisions, adjustments to information for the comparative period are not required. Retained earnings at the beginning of the reporting period is adjusted on a retrospective basis to reflect the difference on the first date of implementation between reporting under the New ASBE on Leases and reporting under the current ASBE on leases:

(1) For finance leases subsisting prior to the first date of implementation, right-of-use assets and lease liabilities are measured at the original carrying value of the finance lease assets and the finance lease amounts payable, respectively;

(2) For operating leases subsisting prior to the first date of implementation, lease liabilities are measured based on the remaining lease payment amounts discounted to their present value using the incremental loan interest rate at the first date of implementation, while right-of-use assets are measured for each lease as an amount equivalent to the lease liabilities, adjusted as necessary based on rental prepayments. Assuming the New ASBE on Leases has been adopted since the commencement of the lease period, lease liabilities are recognised and right-of-use assets are measured at book value discounted using the incremental loan interest rate on the first date of implementation applicable to the Group as the lessee.

(3) The Group conducts impairment testing on right-of-use assets in accordance with Note III.18 and applies relevant accounting treatment accordingly.

Notes to Financial Statements

31 December 2019
(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)

34. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New ABSE on Leases (continued)

The Group adopts a simplified approach for operating leases to be completed within 12 months prior to the first date of implementation and no right-of-use assets and lease liabilities are recognized. Moreover, the Group has also adopted a simplified approach as follows in respect of operating leases subsisting prior to the first date of implementation:

(1) In measuring lease liabilities, the same discount rate may be applied to leases with similar characteristics, and initial direct costs may be omitted from the measurement of right-of-use assets;

(2) Where an option for renewal or option for termination is provided, the Group determines the lease period based on the actual exercise of such options prior to the first date of implementation and other latest developments;

(3) Modification of leases prior to the first date of implementation is accounted for based on the finalised arrangements of such modification.

The outstanding minimum lease payments under material operating leases disclosed in the 2018 financial statements discounted to their present value using the incremental loan interest rate at 1 January 2019 applicable to the Group as lessee are adjusted for lease liabilities included the balance sheet at 1 January 2019 as follows:

Minimum lease payments under material operating leases at 31 December 2018	1,025,375
Less: Minimum lease payments under simplified approach	146,023
Including: short-term leases	146,023
Add: Increase in minimum lease payments arising from renewal option not recognised as at 31 December 2018 but the future exercise of which is reasonably ascertained	164,962
Minimum lease payments under the New ASBE on Leases at 1 January 2019	1,044,314
Weighted average incremental loan interest rate at 1 January 2019	5.66%
Lease liabilities at 1 January 2019	952,264

The effect of the implementation of the New ASBE on Leases on the consolidated balance sheet at 1 January 2019 is represented by the recognition of right-of-use assets amounting to RMB952,264,000 and lease liabilities amounting to RMB952,264,000; the effect on the Company balance sheet at 1 January 2019 is represented by the recognition of right-of-use assets amounting to RMB660,822,000 and lease liabilities amounting to RMB660,822,000.

Notes to Financial Statements

31 December 2019
(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)

34. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New ABSE on Leases (continued)

The impact of the implementation of the New ABSE on Leases on the financial statements for the 12 months ended 31 December 2019 is set out as follows:

Consolidated balance sheet

	On the face of statement	Hypothetically per previous ASBE	Effect
Assets			
Right-of-use assets	1,063,781	—	1,063,781
Fixed assets	9,383,488	9,404,655	(21,167)
Intangible assets	7,718,820	7,718,827	(7)
Deferred tax assets	2,511,372	2,501,653	9,719
Liabilities			
Other payables	4,621,118	4,656,205	(35,087)
Non-current liabilities due within one year	612,261	92,053	520,208
Lease liabilities	645,294	—	645,294
Other non-current liabilities	3,013,487	3,036,503	(23,016)
Shareholders' equity			
Retained profit	11,680,365	11,735,438	(55,073)

Consolidated income statement

	On the face of statement	Hypothetically per previous ASBE	Effect
Operating costs	57,008,377	57,013,915	(5,538)
Selling and distribution costs	7,868,722	7,875,429	(6,707)
Administrative expenses	4,772,823	4,777,047	(4,224)
Finance costs	965,955	884,694	81,261
Income tax	1,385,001	1,394,720	(9,719)
	72,000,878	71,945,805	55,073

Notes to Financial Statements

31 December 2019
(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)

34. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

New ABSE on Leases (continued)

Company balance sheet

	On the face of statement	Hypothetically per previous ASBE	Effect
Assets			
Right-of-use assets	534,988	–	534,988
Deferred tax assets	1,063,838	1,059,748	4,090
Liabilities			
Non-current liabilities due within one year	309,489	85,000	224,489
Lease liabilities	337,764	–	337,764
Shareholders' equity			
Retained profit	4,208,836	4,232,011	(23,175)

Company income statement

	On the face of statement	Hypothetically per previous ASBE	Effect
Operating costs	65,082,808	65,085,950	(3,142)
Selling and distribution costs	4,499,974	4,505,472	(5,498)
Administrative expenses	3,917,938	3,918,207	(269)
Finance costs	463,837	427,663	36,174
Income tax	503,842	507,932	(4,090)
	74,468,399	74,445,224	23,175

Notes to Financial Statements

31 December 2019
(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)

34. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

Change in the reporting format of the financial statements

In accordance with the requirements of the "Notice on the Revision and Publication of the 2019 General Corporate Financial Reporting Format" (Cai Kuai [2019] No. 6), "Bills receivable and trade receivables" in the balance sheet was segregated into "Bills receivable" and "Trade receivables", and "Bills payable and trade payables" was segregated into "Bills payable" and "Trade payables". An item known as "Receivable financing" was added to reflect bills receivable and trade receivables at fair value through other comprehensive income at the date of the balance sheet. The portion of "Deferred income" with an amortisation period of one year or less and expected to be amortised within a period of one year or less shall not be classified as current liabilities and shall continue to be presented under the said item. In the income statement, a new breakdown item "Gain from derecognition of financial assets at amortised cost" was added under investment income to reflect gain or loss arising from the derecognition of financial assets at amortised cost as a result of transfers. The Group made retrospective adjustments to the comparative data accordingly. The said change in accounting policy has had no impact on the net profit and owners' equity on the consolidated and company statements.

The main effect of the retrospective adjustments to the financial statements resulting from the aforesaid change in the reporting format of the financial statements is set out as follows:

Group consolidated balance sheet

	Carrying value under previous ASBE 31 December 2018	Other effect of the change in the reporting format of the financial statements	**Carrying value under new ASBE 1 January 2019**
Trade receivables and bills receivable	21,592,325	(21,592,325)	**—**
Other current assets	8,578,720	(2,730,351)	**5,848,369**
Trade receivables	—	21,592,325	**21,592,325**
Receiving financing	—	2,730,351	**2,730,351**
Trade payables and bills payable	27,443,104	(27,443,104)	**—**
Bills payable	—	19,527,404	**19,527,404**
Trade payables	—	7,915,700	**7,915,700**

Notes to Financial Statements

31 December 2019
(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)

34. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

Change in the reporting format of the financial statements (continued)

Group consolidated income statement

	Carrying value under previous ASBE 12 months ended 31 December 2018	Other effect of the change in the reporting format of the financial statements	**Carrying value under new ASBE 12 months ended 1 January 2019**
Finance costs	280,648	(320,281)	**(39,633)**
Including: interest expenses	1,328,685	(320,281)	**1,008,404**
Investment income	294,486	(320,281)	**(25,795)**
Including: Loss from derecognition of financial assets at amortised cost	—	(320,281)	**(320,281)**

Company balance sheet

	Carrying value under previous ASBE 31 December 2018	Other effect of the change in the reporting format of the financial statements	**Carrying value under new ASBE 1 January 2019**
Trade receivables and bills receivable	29,045,827	(29,045,827)	**—**
Other current assets	5,249,358	(2,030,426)	**3,218,932**
Trade receivables	—	29,045,827	**29,045,827**
Receiving financing	—	2,030,426	**2,030,426**
Trade payables and bills payable	46,554,829	(46,554,829)	**—**
Bills payable	—	12,019,698	**12,019,698**
Trade payables	—	34,535,131	**34,535,131**

Notes to Financial Statements

31 December 2019
(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)

34. Changes in accounting policies and accounting estimates (continued)

Changes in accounting policies (continued)

Change in the reporting format of the financial statements (continued)

Company income statement

	Carrying value under previous ASBE 12 months ended 31 December 2018	Other effect of the change in the reporting format of the financial statements	**Carrying value under new ASBE 12 months ended 1 January 2019**
Finance costs	(236,683)	(238,855)	**(475,538)**
Including: interest expenses	742,647	(238,855)	**503,792**
Investment income	778,051	(238,855)	**539,196**
Including: Loss from derecognition of financial assets at amortised cost	—	(238,855)	**(238,855)**

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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 16% before 1 April 2019 and 13% since 1 April 2019 (being the tax rate for general taxpayers); regarding service income, output tax is calculated at tax rates of 5%, 6% and 10% before 1 April 2019 and 5%, 6% and 9% since 1 April 2019 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.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV. TAXATION (continued)

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 Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Shenzhen Zhongxing Telecom Technology & Service Company Limited is subject to an enterprise income tax rate of 15% for the years from 2019 to 2022 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Xi'an ZTE Terminal Technology Limited is subject to an enterprise income tax rate of 15% for 2019 as an approved enterprise engaged in nationally encouraged industries under the West China preferential policy.

Nanjing Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Xi'an Cris Semiconductor Technology Company Limited is subject to an enterprise income tax rate of 12.5% for 2019 in the fourth year of its entitlement to the preferential treatment of exemption for two years and 50% reduction for three years as a legally incorporated and qualified IC design enterprise.

ZTE Smart Auto Company Limited is subject to an enterprise income tax rate of 15% from 2018 to 2020 as a national-grade hi-tech enterprise

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Wuhan Zhongxing Software Company Limited is subject to an enterprise income tax rate of 12.5% for 2019 in the third year of its entitlement to the preferential treatment for software companies of exemption for two years and 50% reduction for three years.

Beijing Zhongxing Gaoda Communication Technology Limited is subject to an enterprise income tax rate of 15% from 2019 to 2022 as a national-grade hi-tech enterprise.

Chongqing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2019 as a national-grade key software enterprise.

Sanya Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2019 as a national-grade key software enterprise.

Shanghai Zhongxing Yilian 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.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IV. TAXATION (continued)

2. Tax concession (continued)

Shenzhen Zhongxing SI Technology Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Guangdong ZTE Newstart Technology Co., Ltd. is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% in 2019 as an approved enterprise engaged in nationally encouraged industries.

Nanjing Yilian Technology and Software Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and Bank Balances

	31 December 2019	31 December 2018
Cash	**2,269**	1,597
Bank Deposit	**29,963,567**	21,230,742
Other cash	**3,343,511**	3,057,459
	33,309,347	24,289,798

As at 31 December 2019, the Group's overseas currency deposits amounted to RMB3,902,219,000 (31 December 2018: RMB4,531,760,000). Funds placed overseas and subject to remittance restrictions amounted to RMB20,962,000 (31 December 2018: RMB59,035,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for short-term time deposits varies from 7 days to 3 months. The short-term time deposits, subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB1,460,036,000 (31 December 2018: RMB98,228,000) were not included in cash and cash equivalents.

2. Trading financial assets

	31 December 2019	31 December 2018
Financial assets at fair value through current profit and loss		
Investment in equity instrument	**523,227**	810,411
Other investment	**37,435**	666,412
	560,662	1,476,823

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3. Derivative financial assets

	31 December 2019	31 December 2018
Derivative financial assets at fair value through current profit or loss	106,065	228,117

Trading in derivative financial assets at fair value through current profit or loss mainly comprised transactions in forward exchange contracts with reputable banks in the PRC mainland and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, they were dealt with at fair value through current profit or loss. For the reporting period, loss arising from fair value changes of non-hedging derivative financial instruments amounting to RMB162,150,000 (2018: gain of RMB55,901,000) was dealt with in current profit or loss.

4A. Trade receivables

Trade receivables are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables normally ranges from 0 to 90 days, and may be extended to a maximum of 1 year depending on the credit standing of the customer. Trade receivables are interest-free.

Aging analysis of trade receivables was as follows:

	31 December 2019	31 December 2018
Within 1 year	20,889,919	22,993,716
1 to 2 years	4,353,567	3,820,353
2 to 3 years	1,956,298	1,603,985
Over 3 years	5,678,746	5,556,254
	32,878,530	33,974,308
Less: bad debt provision for trade receivables	13,100,250	12,381,983
	19,778,280	21,592,325

Please refer to Note V.21 for details of movements in bad debt provision for trade receivables and bad debt provision for factored trade receivables for the year.

	31 December 2019				31 December 2018			
	Book balance		Bad debt provision		Book balance		Bad debt provision	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Standalone bad debt provision	7,001,590	21	7,001,590	100	5,100,451	15	5,100,451	100
For which provision for bad debt is recognised by group with credit risk characteristics	25,876,940	79	6,098,660	24	28,873,857	85	7,281,532	25
	32,878,530	100	13,100,250	40	33,974,308	100	12,381,983	36

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4A. Trade receivables (continued)

As at 31 December 2019, bad debt provisions for trade receivables which were individually made were as follows:

	Book balance	Bad debt provision	Expected credit loss rate
Overseas carriers 1*	**597,986**	**597,986**	**100%**
Overseas carriers 2*	**578,775**	**578,775**	**100%**
Overseas carriers 3*	**563,352**	**563,352**	**100%**
Overseas carriers 4*	**428,987**	**428,987**	**100%**
Overseas carriers 5*	**426,086**	**426,086**	**100%**
Overseas carriers 6*	**299,436**	**299,436**	**100%**
Overseas carriers 7*	**285,746**	**285,746**	**100%**
Overseas carriers 8*	**280,176**	**280,176**	**100%**
Overseas carriers 9*	**226,802**	**226,802**	**100%**
Overseas carriers 10*	**155,666**	**155,666**	**100%**
Overseas carriers 11*	**140,761**	**140,761**	**100%**
Overseas carriers 12*	**121,161**	**121,161**	**100%**
Others (Customer 13 to Customer 48)*	**2,896,656**	**2,896,656**	**100%**
	7,001,590	**7,001,590**	**100%**

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

As at 31 December 2018, bad debt provisions for trade receivables which were individually made were as follows:

	Book balance	Bad debt provision	Expected credit loss rate
Overseas carriers 1*	835,770	835,770	100%
Overseas carriers 2*	573,370	573,370	100%
Overseas carriers 3*	513,577	513,577	100%
Overseas carriers 4*	237,836	237,836	100%
Overseas carriers 5*	137,240	137,240	100%
Overseas carriers 6*	102,918	102,918	100%
Overseas carriers 7*	101,364	101,364	100%
Others (Customer 8 to Customer 34)*	2,598,376	2,598,376	100%
	5,100,451	5,100,451	100%

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

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4A. Trade receivables (continued)

In 2019, there was reversal of RMB67,171,000 (2018: nil) and write-off of RMB1,113,515,000 (2018: nil) in bad debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately.

	31 December 2019			31 December 2018		
	Carrying amount estimated to be in default	**Expected credit loss rate (%)**	**Expected credit loss during the entire subsistence**	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire subsistence
0–6 months	**16,601,910**	**4**	**582,539**	18,941,685	4	726,570
6–12 months	**2,581,096**	**10**	**249,165**	2,354,877	10	237,027
1–2 years	**1,637,217**	**36**	**581,713**	1,849,365	39	723,234
2–3 years	**1,653,697**	**78**	**1,282,223**	1,491,167	91	1,357,938
Over 3 years	**3,403,020**	**100**	**3,403,020**	4,236,763	100	4,236,763
	25,876,940		**6,098,660**	28,873,857		7,281,532

Top 5 accounts of trade receivables as at 31 December 2019 were as follows:

Customer	**Amount**	**As a percentage of total trade receivables**	**Closing balance of bad debt provision**
Customer 1	**2,690,494**	**8.18%**	**45,795**
Customer 2	**2,128,766**	**6.47%**	**37,671**
Customer 3	**1,885,589**	**5.74%**	**497,930**
Customer 4	**1,158,592**	**3.52%**	**28,178**
Customer 5	**727,206**	**2.21%**	**29,397**
	8,590,647	**26.12%**	**638,971**

Top 5 accounts of trade receivables as at 31 December 2018 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	2,246,883	6.61%	6,487
Customer 2	2,232,538	6.57%	11,010
Customer 3	1,997,586	5.88%	275,286
Customer 4	1,096,848	3.23%	22,311
Customer 5	676,670	1.99%	10,611
	8,250,525	24.28%	325,705

The Group factored trade receivables measured at amortised cost on a non-recourse basis to financial institutions. The carrying amount of trade receivables derecognised as at the end of the year was RMB7,501,234,000 (2018: RMB7,766,408,000) and loss of RMB209,387,000 (2018: loss of RMB320,281,000) was recognised in investment income for the year.

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.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4B. Receivable financing

	31 December 2019	31 December 2018
Commercial acceptance bills	**1,749,294**	2,043,565
Bank acceptance bills	**681,095**	686,786
	2,430,389	2,730,351

If the endorsing or discounting of bills receivable and the disposal of trade receivables only take place occasionally or their value, whether individual or aggregated, is minimal, and the objective of their business model remains the collection of contract cash flow, they are measured at amortised cost; if the enterprise's business model for bills receivable and trade receivables is aimed at both the collection of contract cash flow and disposal, they are classified as financial assets at fair value through other comprehensive income and reported as receivable financing.

Bills receivable which were discounted but not due as at the balance sheet date were as follows:

	31 December 2019		31 December 2018	
	Derecognised	**Not derecognised**	Derecognised	Not derecognised
Commercial acceptance bills	**1,125,088**	**16,986**	—	229,468
Bank acceptance bills	**884,550**	**62,830**	167,820	423,189
	2,009,638	**79,816**	167,820	652,657

Movements in bad debt provision for receivable financing were set out as follows:

	Opening balance	Provision for the year	Reversal for the year	Write-off for the year	Closing balance
31 December 2019	**2,455**	**—**	**(519)**	**—**	**1,936**
31 December 2018	—	2,455	—	—	2,455

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Prepayments

Aging analysis of prepayments was as follows:

	31 December 2019		31 December 2018	
	Book balance	**Percentage**	Book balance	Percentage
Within 1 year	**402,525**	**100%**	615,489	100%

Top 5 accounts of prepayments as at 31 December 2019 were as follows:

Supplier	**Amount**	**As a percentage of total amounts of prepayments**
Supplier 1	**25,526**	**6.34%**
Supplier 2	**23,147**	**5.75%**
Supplier 3	**13,966**	**3.47%**
Supplier 4	**13,439**	**3.34%**
Supplier 5	**12,433**	**3.09%**
	88,511	**21.99%**

Top 5 accounts of prepayments as at 31 December 2018 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	44,447	7.22%
Supplier 2	41,507	6.74%
Supplier 3	30,725	4.99%
Supplier 4	29,172	4.74%
Supplier 5	18,687	3.04%
	164,538	26.73%

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables

	31 December 2019	31 December 2018
Interests receivables	890	2,189
Dividends receivables	3,081	5,400
Other receivables	1,019,300	1,997,281
	1,023,271	2,004,870

Interests receivables

	31 December 2019	31 December 2018
Time deposits	890	2,189

Dividends receivables

	31 December 2019	31 December 2018
前海融資租賃股份有限公司	3,081	5,400

Other receivables

Aging analysis of other receivables was as follows:

	31 December 2019	31 December 2018
Within 1 year	664,605	1,243,767
1 year to 2 years	417,771	482,350
2 years to 3 years	72,726	279,495
Over 3 years	104,335	122,439
	1,259,437	2,128,051
Bad debt provision	(240,137)	(130,770)
	1,019,300	1,997,281

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

Other receivables (continued)

Other receivables analysed by nature were as follows:

	31 December 2019	31 December 2018
Staff loans	**192,992**	345,287
Transactions with third parties	**826,308**	1,651,994
	1,019,300	1,997,281

Top 5 accounts of other receivables as at 31 December 2019 were as follows:

Due from	**Closing balance**	**As a percentage of the total amount of other receivables**	**Bad debt provision**	**Expected credit loss**	**Nature**
Third-party entity 1	**110,910**	**8.81%**	**(110,910)**	**100%**	**Transactions with third parties**
Third-party entity 2	**56,834**	**4.51%**	**(56,834)**	**100%**	**Release of loans and advances**
Third-party entity 3	**45,638**	**3.62%**	**(45,638)**	**100%**	**Transactions with third parties**
Third-party entity 4	**33,715**	**2.68%**	**–**	**–**	**Transactions with third parties**
Third-party entity 5	**25,768**	**2.05%**	**–**	**–**	**Transactions with third parties**
Total	**272,865**	**21.67%**	**(213,382)**		

Top 5 accounts of other receivables as at 31 December 2018 were as follows:

Due from	Closing balance	As a percentage of the total amount of other receivables	Bad debt provision	Expected credit loss	Nature
Third-party entity 1	361,200	16.97%	–	–	Equity disposal
Third-party entity 2	215,473	10.13%	–	–	Transactions with third parties
Third-party entity 3	120,000	5.64%	–	–	Transactions with third parties
Third-party entity 4	56,834	2.67%	(56,834)	100%	Loans and advances
Third-party entity 5	44,848	2.11%	(44,848)	100%	Transactions with third parties
Total	798,355	37.52%	(101,682)		

The above top five accounts of other receivables represent amounts receivable from third parties of the Group and were aged within 0–36 months.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

Other receivables (continued)

Financial assets included in other receivables were RMB1,066,445,000. For financial assets included in other receivables based on expected credit losses in the next 12 months and expected credit losses during the entire life, the change of provisions for bad debt was as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Expected credit losses during the entire life (Standalone assessment)	Stage 3 Financial assets with credit impairment occurred (during the entire life)	Total
Opening balance	1,446	—	129,324	130,770
Provision for the year	—	—	121,762	121,762
Reversed during the year	(619)	—	—	(619)
Write-back during the year	—	—	(11,868)	(11,868)
Exchange rate effect	—	—	92	92
Balance at 31 December 2019	**827**	**—**	**239,310**	**240,137**

7. Inventories

	31 December 2019			31 December 2018		
	Book balance	**Provision for depreciation/ Provision for impairment**	**Carrying value**	Book balance	Provision for depreciation/ Provision for impairment	Carrying value
Raw materials	**6,092,323**	**805,258**	**5,287,065**	5,324,703	1,151,577	4,173,126
Materials under subcontract processing	**13,479**	**131**	**13,348**	5,612	131	5,481
Work in progress	**1,201,247**	**13,012**	**1,188,235**	1,490,805	31,703	1,459,102
Finished goods	**3,101,870**	**529,099**	**2,572,771**	4,049,168	767,829	3,281,339
Dispatch of goods and others	**12,600,255**	**1,878,026**	**10,722,229**	10,035,872	739,800	9,296,072
Contract costs	**8,943,882**	**1,039,022**	**7,904,860**	7,304,528	508,232	6,796,296
	31,953,056	**4,264,548**	**27,688,508**	28,210,688	3,199,272	25,011,416

Please refer to Note V.21 for details of movements in the provision for impairment of inventory during the year.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Contract assets

	31 December 2019			31 December 2018		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Contract assets	9,987,937	(450,087)	9,537,850	8,614,711	(152,485)	8,462,226

Contract assets refer to rights to receive consideration from customers for delivered goods. Contract assets arise when the performance of contract obligations is ahead of the payment schedule agreed under the contract.

The change of provision for impairment of contract assets was as follows:

	Opening balance	Provisions for the year	Reversal for the year	Write-off for the year	Exchange rate changes	Closing balance
2019	152,485	294,632	–	–	2,970	450,087

Contract assets for which impairment loss provision is made based on standalone bad debt provision and customer credit rating analysis were analysed as follows:

	31 December 2019			31 December 2018		
	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire subsistence	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire subsistence
Standalone bad debt provision	320,832	100.00%	320,832	41,311	100.00%	41,311
For which provision for bad debt is recognised by group with credit risk characteristics	9,667,105	1.34%	129,255	8,573,400	1.30%	111,174
	9,987,937	4.51%	450,087	8,614,711	1.77%	152,485

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Long-term receivables

	31 December 2019	31 December 2018
Installment payments for the provision of telecommunication system construction projects	**2,887,559**	873,726
Less: Bad debt provision for long-term receivables	**67,953**	30,297
	2,819,606	843,429

The discount rates adopted for long-term receivables ranged from 4.50%–7.81%.

Long-term trade receivables was provided based on expected credit loss during the entire life. All long-term trade receivables had not expired during the year. The rate of expected credit loss was 2.35%.

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.21 for details of movements in bad debt provision for long-term receivables and factored long-term trade receivables during the year.

10. Long-term equity investments

		31 December 2019	31 December 2018
Equity method			
Joint ventures	(1)	**122,904**	99,905
Associates	(2)	**3,231,288**	3,922,089
Less: provision for impairment of long-term equity investments		**1,026,904**	1,006,699
		2,327,288	3,015,295

31 December 2019

(1) Joint Ventures

		Movement during the year								
	Opening balance	Increase in investment	Decrease in investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision as at the end of the year
Bestel Communications Ltd.	–	–	–	–	–	–	–	–	–	(2,255)
Puxing Mobile Tech Company Limited	57,234	–	–	(11,528)	–	–	–	–	45,706	–
PengzhongXingsheng	6,138	–	–	(4)	–	–	–	(6,134)	–	(6,134)
德特賽維技術有限公司	27,278	–	–	(5,469)	–	–	–	–	21,809	–
重慶百德行置業有限公司	7,000	–	–	–	–	–	–	–	7,000	–
Shaanxi Zhongxing Innovative Investment Fund Limited Partnership Enterprise (Limited Partnership)	–	40,000	–	–	–	–	–	–	40,000	–
	97,650	40,000	–	(17,001)	–	–	–	(6,134)	114,515	(8,389)

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Long-term equity investments (continued)

31 December 2019 (continued)

(2) Associates

	Opening balance	Movement during the year: Increase in investment	Decrease in investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision as at the end of the year
KAZNURTEL Limited Liability Company	–	–	–	–	–	–	–	–	–	(2,477)
ZTE Energy Limited	426,995	–	–	(226)	–	–	–	–	426,769	–
ZTE Software Technology (Nanchang) Company Limited	3,947	–	–	(183)	–	–	–	–	3,764	–
Telecom Innovations	–	–	–	–	–	–	–	–	–	(11,216)
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	1,790	–	–	(466)	–	–	–	–	1,324	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	4,360	–	–	(2,179)	–	–	–	–	2,181	–
中興耀維科技江蘇有限公司	2,927	–	–	(65)	–	–	–	–	2,862	–
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	–	–	–	–	–	–	–	–	–	(7,117)
廈門智慧小區網絡科技有限公司	3,856	–	–	(2,578)	–	–	–	(181)	1,097	(181)
中山優順置業有限公司	2,000	–	–	–	–	–	–	–	2,000	–
鐵建聯和(北京)科技有限公司	1,314	–	–	(572)	–	–	–	–	742	–
西安城投智能充電股份有限公司*	7,290	–	(7,290)	–	–	–	–	–	–	–
廣東福能大數據產業園建設有限公司	13,902	–	–	(1,710)	–	–	–	–	12,192	–
廣東中興城智信息技術有限公司	4,634	–	–	228	–	–	–	–	4,862	–
前海融資租賃股份有限公司**	73,579	–	(66,054)	(7,907)	382	–	–	–	–	–
上海博色信息科技有限公司	26,134	–	–	648	–	–	–	–	26,782	–
New Idea Investment Pte. Ltd	6,930	–	–	(53)	748	–	–	(462)	7,163	(7,386)
中興智能科技產業有限公司	–	–	–	–	–	–	–	–	–	(37,248)
南京寧網科技有限公司	3,876	–	–	(1,016)	–	–	–	–	2,860	–
Hengyang ICT Real Estate Co., Ltd.	52,446	–	–	–	–	–	–	–	52,446	–
貴州中安雲網科技有限公司	4,133	1,198	–	(307)	–	–	–	–	5,024	–
陝西高能裝備與智能製造產業研究院有限公司	2,010	–	–	44	–	–	–	–	2,054	–
Laxense, Inc.	16,280	–	–	(276)	296	–	–	–	16,300	–
中教雲通(北京)科技有限公司	2,261	–	–	(326)	–	–	–	–	1,935	–
Kron Telekomunikasyon Hizmetleri A.S.	9,485	–	(376)	1,227	224	–	–	–	10,560	–
山東興濟置業有限公司	1,069	–	–	–	–	–	–	–	1,069	–
ZTE 9 (Wuxi) Co., Ltd.***	14,697	–	–	(1,269)	–	–	–	(13,428)	–	(13,428)
Nubia Technology Limited	1,281,524	–	–	(637,524)	–	–	–	–	644,000	(934,698)
Huanggang Education Valley Investment Holdings Co., Ltd.	8,587	–	–	(3,188)	–	–	–	–	5,399	–
Whale Cloud Technology Co., Ltd.	893,341	–	–	9,744	–	(1,411)	–	–	901,674	–
石家莊市智慧產業有限公司	48,278	–	–	(16,198)	–	–	–	–	32,080	–
中興飛流信息科技有限公司	–	45,634	–	–	–	–	–	–	45,634	–
	2,917,645	46,832	(73,720)	(664,152)	1,650	(1,411)	–	(14,071)	2,212,773	(1,018,515)

* 西安城投智能充電股份有限公司 was no longer accounted for as an associate as a result of the loss of significant influence over it following an equity transfer during the year.

** Transferred to other non-current financial assets as the Group no longer exercised significant influence over 前海融資租賃股份有限公司 after ceasing to be represented at the board of directors of 前海融資租賃 with a reduced shareholding percentage following the completion of a capital increase exercise during the year in which other shareholders had increased their capital contributions in 前海融資租賃 while the Group had waived the right to the pro-rata increase of its capital contribution.

*** The Group no longer exercised significant influence over ZTE 9 (Wuxi) Co., Ltd following its declaration of bankruptcy during the year.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Long-term equity investments (continued)

31 December 2018

(1) Joint Ventures

		Movement during the year								
	Opening balance	Increase in investment	Decrease in investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision as at the end of the year
Bestel Communications Ltd.	2,255	–	–	–	–	–	–	(2,255)	–	(2,255)
Puxing Mobile Tech Company Limited	56,687	–	–	547	–	–	–	–	57,234	–
重慶前沿大數據管理有限公司	3,443	–	(2,060)	(1,383)	–	–	–	–	–	–
Pengzhong Xingsheng	564	–	–	5,574	–	–	–	–	6,138	–
德特賽維技術有限公司	29,395	–	–	(2,117)	–	–	–	–	27,278	–
重慶百德行置業有限公司	–	7,000	–	–	–	–	–	–	7,000	–
	92,344	7,000	(2,060)	2,621	–	–	–	(2,255)	97,650	(2,255)

(2) Associates

		Movement during the year								
	Opening balance	Increase in investment	Decrease in investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision as at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	(2,477)	–	(2,477)
思卓中興(杭州)科技有限公司	21,248	–	(21,248)	–	–	–	–	–	–	–
ZTE Energy Limited	421,510	–	–	5,485	–	–	–	–	426,995	–
ZTE Software Technology (Nanchang) Company Limited	3,799	–	–	148	–	–	–	–	3,947	–
Nanjing Piaoxun Network Technology Company Limited	23	–	(23)	–	–	–	–	–	–	–
Telecom Innovations	10,698	–	–	–	518	–	–	(11,216)	–	(11,216)
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	3,155	–	–	(1,365)	–	–	–	–	1,790	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	4,179	–	–	181	–	–	–	–	4,360	–
中興耀維科技江蘇有限公司	3,834	–	–	(907)	–	–	–	–	2,927	–
中興智慧成都有限公司*	9,677	–	(8,618)	(1,059)	–	–	–	–	–	–
INTLIVE TECHNOLOGIES (Private) LIMITED	6,776	–	–	–	341	–	–	(7,117)	–	(7,117)
廈門智慧小區網絡科技有限公司	4,991	–	–	(1,135)	–	–	–	–	3,856	–
中山優順置業有限公司	2,000	–	–	–	–	–	–	–	2,000	–
鐵建聯和(北京)科技有限公司	1,836	–	–	(522)	–	–	–	–	1,314	–
西安城投智能充電股份有限公司	7,290	–	–	–	–	–	–	–	7,290	–
紹興市智慧城市集團有限公司	3,665	–	(3,665)	–	–	–	–	–	–	–
廣東福能大數據產業園建設有限公司	13,143	–	–	759	–	–	–	–	13,902	–
廣東中興城智信息技術有限公司	4,392	–	–	242	–	–	–	–	4,634	–
前海融資租賃股份有限公司	66,232	–	–	4,201	3,146	–	–	–	73,579	–
上海博色信息科技有限公司	20,909	–	–	5,225	–	–	–	–	26,134	–
New Idea Investment Pte. Ltd	13,214	–	–	–	640	–	–	(6,924)	6,930	(6,924)
中興智能科技產業有限公司	37,248	–	–	–	–	–	–	(37,248)	–	(37,248)
南京寧網科技有限公司	3,460	–	–	416	–	–	–	–	3,876	–
Hengyang ICT Real Estate Co., Ltd.	56,083	–	(3,637)	–	–	–	–	–	52,446	–
貴州中安雲網科技有限公司	2,663	1,710	–	(240)	–	–	–	–	4,133	–
陝西高能裝備與智能製造產業研究院有限公司	2,002	–	–	8	–	–	–	–	2,010	–
Laxense,Inc.	14,431	–	–	1,127	722	–	–	–	16,280	–
中教雲通(北京)科技有限公司	2,800	–	–	(539)	–	–	–	–	2,261	–
Kron Telekomunikasyon Hizmetleri A.S.	11,414	–	–	343	(2,272)	–	–	–	9,485	–
山東興濟置業有限公司	1,069	–	–	–	–	–	–	–	1,069	–
ZTE 9 (Wuxi) Co., Ltd.	15,944	–	–	(1,247)	–	–	–	–	14,697	–
Nubia Technology Limited	3,083,500	–	–	(867,278)	–	–	–	(934,698)	1,281,524	(934,698)
Huanggang Education Valley Investment Holdings Co., Ltd.	12,591	–	–	(4,004)	–	–	–	–	8,587	–
Whale Cloud Technology Co., Ltd.	–	840,695	–	52,646	–	–	–	–	893,341	–
石家莊市智慧產業有限公司	–	48,000	–	278	–	–	–	–	48,278	–
	3,868,253	890,405	(37,191)	(807,237)	3,095	–	–	(999,680)	2,917,645	(1,004,444)

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

11. Other non-current financial assets

	31 December 2019	31 December 2018
Financial assets at fair value through current profit and loss	**1,594,254**	1,502,499

12. Investment properties

Fair value measurement:

31 December 2019

	Buildings
Opening balance	**2,011,999**
Other outgoing transfers	**(62,000)**
Fair value change (Note V.48)	**7,243**
Closing balance	**1,957,242**

31 December 2018

	Buildings
Opening balance	2,023,809
Fair value change	(11,810)
Closing balance	2,011,999

During the year, the Group leased buildings of the investment properties to Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited, a related party, and other non-related parties by way of operating lease.

As at 31 December 2019, investment properties with a carrying value of RMB1,717,567,000 (31 December 2018: RMB1,773,918,000) had yet to obtain title registration certificates.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed assets

31 December 2019

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	7,293,996	41,339	4,895,506	2,992,242	287,672	356,499	15,867,254
Acquisitions	148,248	–	1,266,629	133,465	21,868	26,751	1,596,961
Transfer from construction in progress	191,860	–	33,583	256,909	8	1,226	483,586
Disposal or retirement	(259,479)	–	(661,791)	(222,717)	(27,809)	(26,689)	(1,198,485)
Exchange rate adjustments	1,671	(898)	(204)	4,226	20	4,985	9,800
Closing balance	7,376,296	40,441	5,533,723	3,164,125	281,759	362,772	16,759,116
Accumulated depreciation							
Opening balance	1,686,740	–	3,120,285	1,744,448	166,323	210,037	6,927,833
Provision	307,307	–	673,970	235,886	25,143	25,111	1,267,417
Disposal or retirement	(142,527)	–	(481,091)	(208,930)	(21,512)	(14,012)	(868,072)
Exchange rate adjustments	1,972	–	(159)	3,817	20	1,541	7,191
Closing balance	1,853,492	–	3,313,005	1,775,221	169,974	222,677	7,334,369
Provision for impairment							
Opening balance	21,270	–	1,947	16,959	1,096	81	41,353
Disposal or retirement	–	–	(41)	(33)	–	–	(74)
Exchange rate adjustments	–	–	(20)	–	–	–	(20)
Closing balance	21,270	–	1,886	16,926	1,096	81	41,259
Net book value							
As at the end of the year	5,501,534	40,441	2,218,832	1,371,978	110,689	140,014	9,383,488
As at the beginning of the year	5,585,986	41,339	1,773,274	1,230,835	120,253	146,381	8,898,068

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

13. Fixed assets (continued)

31 December 2018

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	6,411,930	46,098	4,916,218	3,455,337	305,020	563,834	15,698,437
Acquisitions	215,662	–	789,765	191,355	25,161	29,711	1,251,654
Transfer from construction in progress	927,017	–	1,983	135,148	–	475	1,064,623
Disposal or retirement	(254,272)	–	(837,558)	(789,397)	(42,369)	(239,974)	(2,163,570)
Exchange rate adjustments	(6,341)	(4,759)	25,098	(201)	(140)	2,453	16,110
Closing balance	7,293,996	41,339	4,895,506	2,992,242	287,672	356,499	15,867,254
Accumulated depreciation							
Opening balance	1,496,406	–	3,232,567	1,747,564	166,476	300,568	6,943,581
Provision	254,305	–	577,461	275,116	27,366	63,176	1,197,424
Disposal or retirement	(60,199)	–	(713,198)	(278,469)	(27,294)	(155,173)	(1,234,333)
Exchange rate adjustments	(3,772)	–	23,455	237	(225)	1,466	21,161
Closing balance	1,686,740	–	3,120,285	1,744,448	166,323	210,037	6,927,833
Provision for impairment							
Opening balance	21,270	–	20,345	12,369	4,094	2,322	60,400
Provision	–	–	1,764	5,051	700	–	7,515
Disposal or retirement	–	–	(21,642)	(313)	(3,698)	(2,388)	(28,041)
Exchange rate adjustments	–	–	1,480	(148)	–	147	1,479
Closing balance	21,270	–	1,947	16,959	1,096	81	41,353
Net book value							
As at the end of the year	5,585,986	41,339	1,773,274	1,230,835	120,253	146,381	8,898,068
As at the beginning of the year	4,894,254	46,098	1,663,306	1,695,404	134,450	260,944	8,694,456

As at 31 December 2019, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai, Nanjing, Heyuan and Sanya in China with a net book value of approximately RMB2,929,703,000 (31 December 2018: RMB3,885,897,000).

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Construction in progress

Changes in major construction in progress as at 31 December 2019 were as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Other reduction	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Staff quarters	1,017,932	11,357	19,915	31,272	–	–	Internal funds	100.00%	Completed
Sanya R&D Base Project	119,100	108,248	31,350	139,598	–	–	Internal funds	100.00%	Completed
Nanjing Project	978,070	224,488	37,080	–	–	261,568	Internal funds	26.74%	In progress
Changsha production R&D Base Phase I	236,020	4,492	–	4,492	–	–	Internal funds	100.00%	Completed
New energy commercial vehicle production base	892,530	391,436	135,359	–	–	526,795	Internal funds	59.02%	In progress
Shanghai R&D Centre Phase III	478,000	31,357	44,453	–	–	75,810	Internal funds	27.26%	In progress
ZTE high energy lithium battery project Phase I	518,460	220,896	41,793	258,732	–	3,957	Internal funds	89.19%	In progress
ZTE headquarters	699,640	59,240	33,808	–	42,336	50,712	Internal funds	7.25%	In progress
Xi'an Project	774,200	91,398	38,073	–	–	129,471	Internal funds	16.72%	In progress
Others		153,132	80,527	49,492	60,764*	123,403	Internal funds		In progress
		1,296,044	462,358	483,586	103,100	1,171,716			

* 河南興遠智慧產業發展有限公司 and 中興（淮安）智慧產業有限公司, companies where the project in progress was conducted, have ceased to be included in the consolidated financial statements as from March 2019 and May 2019, respectively.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Construction in progress (continued)

Changes in major construction in progress as at 31 December 2018 were as follows:

	Budget	Opening balance	Increase during the year	Transfer to fixed assets	Transfer to intangible assets	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Staff quarters	1,017,932	763,671	156,261	697,553	211,022	11,357	Internal fund	90.37%	In progress
Sanya R&D Base Project	119,100	105,368	2,880	–	–	108,248	Internal fund	90.89%	In progress
Heyuan R&D Training Centre Phase I	1,030,000	71,166	2,312	73,478	–	–	Internal fund	100.00%	Completed
Nanjing Project	978,070	133,346	91,142	–	–	224,488	Internal fund	22.95%	In progress
Changsha Production R&D Base Phase I	236,020	160,867	69,453	225,828	–	4,492	Internal fund	97.58%	In progress
New energy commercial vehicle production base	892,530	90,412	301,024	–	–	391,436	Internal fund	43.86%	In progress
Shanghai R&D Centre Phase III	478,000	5,091	80,778	–	54,512	31,357	Internal fund	17.96%	In progress
ZTE high energy lithium battery project Phase I	577,460	–	285,024	64,128	–	220,896	Internal fund	49.36%	In progress
ZTE headquarters	2,443,200	–	59,240	–	–	59,240	Internal fund	2.42%	In progress
Others		143,065	113,018	3,636	7,917	244,530	Internal fund		In progress
		1,472,986	1,161,132	1,064,623	273,451	1,296,044			

As at 31 December 2019, there was no capitalised interest in the balance of the construction in progress (31 December 2018: Nil).

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Rights-of-use assets

31 December 2019

	Buildings and structures	Vehicles	Other investment	Total
Cost				
Opening balance	902,642	40,736	8,886	952,264
Increase	427,607	80,424	114,356	622,387
Exchange rate adjustment	65,635	(10,841)	313	55,107
Closing balance	1,395,884	110,319	123,555	1,629,758
Cumulative depreciation				
Charge	385,208	43,621	96,039	524,868
Exchange rate adjustment	51,919	(10,817)	7	41,109
Closing balance	437,127	32,804	96,046	565,977
Book value				
As at the end of the year	958,757	77,515	27,509	1,063,781
As at the beginning of the year	902,642	40,736	8,886	952,264

16. Intangible assets

31 December 2019

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	630,241	187,480	5,307,974	1,026,695	9,026,476	16,178,866
Acquisition	232,207	12,142	67,466	183,743	–	495,558
In-house R&D	–	–	–	–	3,128,526	3,128,526
Disposal or retirement	(157,219)	(42,105)	(2,642,292)	(56,310)	(9,216)	(2,907,142)
Exchange rate adjustments	2,722	–	–	(1,194)	–	1,528
Closing balance	707,951	157,517	2,733,148	1,152,934	12,145,786	16,897,336
Accumulated amortization						
Opening balance	206,007	116,867	281,096	597,531	6,340,979	7,542,480
Provision	144,556	48,905	93,333	204,191	1,337,372	1,828,357
Disposal or retirement	(145,782)	(16,185)	(52,771)	(56,283)	(1,783)	(272,804)
Exchange rate adjustments	1,713	–	–	910	–	2,623
Closing balance	206,494	149,587	321,658	746,349	7,676,568	9,100,656
Provision for impairment						
Opening balance	14,338	–	6,322	57,238	–	77,898
Exchange rate adjustments	(38)	–	–	–	–	(38)
Closing balance	14,300	–	6,322	57,238	–	77,860
Book value						
As at the end of the year	487,157	7,930	2,405,168	349,347	4,469,218	7,718,820
As at the beginning of the year	409,896	70,613	5,020,556	371,926	2,685,497	8,558,488

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Intangible assets (continued)

31 December 2018

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	621,106	186,631	1,462,058	950,815	7,844,813	11,065,423
Acquisition	120,590	849	3,877,373	73,232	–	4,072,044
In-house R&D	–	–	–	–	1,181,663	1,181,663
Disposal & retirement	(117,581)	–	(31,457)	(312)	–	(149,350)
Exchange rate adjustments	6,126	–	–	2,960	–	9,086
Closing balance	630,241	187,480	5,307,974	1,026,695	9,026,476	16,178,866
Accumulated amortisation						
Opening balance	194,254	73,698	175,086	469,485	5,392,953	6,305,476
Provision	103,239	43,002	112,766	126,972	948,026	1,334,005
Disposal or retirement	(97,186)	–	(6,756)	(312)	–	(104,254)
Exchange rate adjustments	5,700	167	–	1,386	–	7,253
Closing balance	206,007	116,867	281,096	597,531	6,340,979	7,542,480
Provision for impairment						
Opening balance	12,010	–	6,322	–	–	18,332
Provision	2,118	–	–	57,238	–	59,356
Exchange rate adjustment	210	–	–	–	–	210
Closing balance	14,338	–	6,322	57,238	–	77,898
Book value						
As at the end of the year	409,896	70,613	5,020,556	371,926	2,685,497	8,558,488
As at the beginning of the year	414,842	112,933	1,280,650	481,330	2,451,860	4,741,615

As at 31 December 2019, the Group was in the process of obtaining the land use right certificate of land blocks located in Nanjing and Shenzhen in the PRC, with a carrying value of approximately RMB1,107,753,000 (31 December 2018: RMB3,621,923,000).

As at 31 December 2019, intangible assets formed through internal research and development accounted for 58% of the book value of intangible assets as at the end of the period (31 December 2018: 31%).

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Deferred development costs

31 December 2019

		Increase during the year	**Decrease during the year**		
	Opening balance	**Internal development**	**Intangible assets recognised**	**Charged to current profit or loss**	**Closing balance**
Handsets	**29,448**	**72,388**	**(61,582)**	**(8,197)**	**32,057**
System products	**2,702,908**	**2,252,070**	**(3,066,944)**	**(43,682)**	**1,844,352**
	2,732,356	**2,324,458**	**(3,128,526)**	**(51,879)**	**1,876,409**

31 December 2018

		Increase during the year	Decrease during the year		
	Opening balance	Internal development	Intangible assets recognised	Charged to current profit or loss	Closing balance
Handsets	29,482	44,818	(44,368)	(484)	29,448
System products	1,872,595	1,986,652	(1,137,295)	(19,044)	2,702,908
	1,902,077	2,031,470	(1,181,663)	(19,528)	2,732,356

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.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Goodwill

Movements in the original value of goodwill are as follows:

31 December 2019

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
		Business combination not under common control	**Disposal**	
Zhuhai Guangtong Bus Co., Ltd.	**186,206**	**–**	**–**	**186,206**
Suzhou Laxense Technology Co., Ltd.	**33,500**	**–**	**–**	**33,500**
NETAS TELEKOMUNIKASYON A.S.	**89,763**	**–**	**–**	**89,763**
	309,469	**–**	**–**	**309,469**

31 December 2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
		Business combination not under common control	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	186,206	–	–	186,206
Suzhou Laxense Technology Co., Ltd.	33,500	–	–	33,500
NETAS TELEKOMUNIKASYON A.S.	89,100	663	–	89,763
	308,806	663	–	309,469

Change in goodwill impairment provision was as follows:

31 December 2019

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
		Charge	**Disposal**	
Zhuhai Guangtong Bus Co., Ltd.	**–**	**–**	**–**	**–**
Suzhou Laxense Technology Co., Ltd.	**33,500**	**–**	**–**	**33,500**
NETAS TELEKOMUNIKASYON A.S.	**89,763**	**–**	**–**	**89,763**
Total	**123,263**	**–**	**–**	**123,263**

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Goodwill (continued)

31 December 2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
		Charge	Disposal	
Zhuhai Guangtong Bus Co., Ltd.	–	–	–	–
Suzhou Laxense Technology Co., Ltd.	–	33,500	–	33,500
NETAS TELEKOMUNIKASYON A.S.	–	89,763	–	89,763
Total	–	123,263	–	123,263

Goodwill acquired as a result of corporate merger has been allocated to the following asset groups or portfolio of asset groups for the purpose of impairment testing:

Zhuhai Guangtong Bus Co., Ltd. transferred material assets to ZTE Smart Auto Company Limited, its parent company, during the year. The management was of the view that Zhuhai Guangtong Bus Co., Ltd. should be combined with ZTE Smart Auto Company Limited into one asset group; the management was of the view that Suzhou Laxense Technology Co., Ltd. and NETAS TELEKOMUNIKASYON A.S. were relatively independent asset groups not related to other business segments of the Group. Hence these two companies were each accounted for as an asset group.

- ZTE Smart Auto Company Limited asset group
- Suzhou Laxense Technology Co., Ltd. asset group
- NETAS TELEKOMUNIKASYON A.S. asset group

As at 31 December 2018, full impairment charges had been provided for in respect of Suzhou Laxense Technology Co., Ltd. asset group and the NETAS TELEKOMUNIKASYON A.S. asset group.

ZTE Smart Auto Company Limited asset group

For the year, Zhuhai Guangtong Bus Co., Ltd. and ZTE Smart Auto Company Limited were combined into a portfolio of asset groups. As a result, the portfolio of asset groups determined on the date of acquisition and at the time of the performance of impairment test in the previous year was modified.

The carrying values of goodwill comprised in the asset groups:

	31 December 2019
ZTE Smart Auto Company Limited asset group	**1,041,662**

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

18. Goodwill (continued)

ZTE Smart Auto Company Limited asset group (continued)

The recoverable amounts of such asset groups and portfolio of asset groups is based on the 5-year budget approved by the management and the present value of future cash flow arrived at through a detailed projection of subsequent cash flow for 5 years using a specific long-term average growth rate. The key assumptions adopted include:

	Zhuhai Guangtong Bus Co., Ltd.
Growth rate for the forecast period	Detailed revenue growth rate for the 5-year forecast period determined by the management based on past experience and market forecasts.
Growth rate for the stable period	2%
Gross profit margin	Gross profit margin estimated by the management based on past experience and market forecasts.
Discount rate	13.07%

The Group determines the growth rate and gross profit margin based on past experience and market forecasts. The discount rate adopted reflects the specific risks of the asset groups. The growth rate for the stable period is the weighted average growth rate adopted for the detailed projection of subsequent cash flow for 5 years and is consistent with the projections set out in industry reports and does not exceed the long-term average growth rate of each product.

The Company conducted impairment tests on the aforesaid goodwill at the end of the year. In conducting such goodwill impairment tests, the Group compared the carrying values of the relevant asset groups (including goodwill) against their recoverable amounts. If the recoverable amount is lower than the carrying value, the difference is charged to current profit or loss. In the goodwill impairment test, no goodwill impairment was charged against the ZTE Smart Auto Company Limited asset group.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Deferred tax assets/liabilities

Deferred tax assets and deferred tax liabilities, which are not offset:

	31 December 2019		31 December 2018	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealised profits arising on consolidation	**1,932,855**	**423,705**	1,699,679	400,583
Provision for impairment in inventory	**1,177,002**	**241,636**	1,307,066	286,420
Foreseeable construction contract losses	**1,598,838**	**239,826**	1,324,843	198,726
Amortisation of deferred development costs	**2,532,673**	**284,946**	2,143,306	237,342
Provision for warranties and returned goods	**276,374**	**43,957**	527,320	83,847
Provision for retirement benefits	**205,509**	**32,635**	162,546	25,706
Deductible tax losses	**4,884,984**	**738,940**	7,264,374	1,104,016
Accruals	**3,475,772**	**464,503**	3,187,964	446,151
Overseas taxes pending deduction	**864,384**	**129,658**	883,782	132,567
Share option scheme expenses	**320,130**	**48,019**	404,890	60,734
Lease liabilities	**1,107,399**	**166,110**	—	—
	18,375,920	**2,813,935**	18,905,770	2,976,092

	31 December 2019		31 December 2018	
	Deductible temporary differences	**Deferred tax liabilities**	Deductible temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	**1,087,549**	**163,132**	1,065,275	162,223
Other non-current financial assets	**308,760**	**63,757**	401,121	71,436
Adjustments to fair value of business combination not under common control	**268,223**	**40,233**	326,903	49,035
Adjustments to fair value of disposal of remaining equity interests in subsidiaries	**—**	**—**	249,940	37,491
Rights-of-use assets	**1,042,607**	**156,391**	—	—
Others	**340,726**	**51,110**	154,384	23,158
	3,047,865	**474,623**	2,197,623	343,343

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Deferred tax assets/liabilities (continued)

The net amount of deferred tax assets and deferred tax liabilities after set-off:

	31 December 2019		31 December 2018	
	Amount of set-off	**Amount after set-off**	Amount of set-off	Amount after set-off
Deferred tax assets	**302,563**	**2,511,372**	188,302	2,787,790
Deferred tax liabilities	**302,563**	**172,060**	188,302	155,041

Deductible temporary differences and deductible tax losses of unrecognised deferred tax assets:

	31 December 2019	31 December 2018
Deductible tax losses	**4,286,930**	4,171,222
Deductible temporary difference	**10,189**	144,992
	4,297,119	4,316,214

Deductible tax losses of unrecognised deferred tax assets expiring in:

	31 December 2019	31 December 2018
2019	**–**	138,564
2020	**171,744**	278,465
2021	**373,813**	474,063
2022	**352,484**	374,049
2023	**285,530**	290,573
Beyond 2024	**3,103,359**	2,615,508
	4,286,930	4,171,222

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.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20. Other current assets/other non-current assets

Other current assets

	31 December 2019	31 December 2018
Prepaid out tax and credit tax available for set off	7,359,670	5,837,157
Others	61,897	11,212
	7,421,567	5,848,369

Other non-current assets

	31 December 2019	31 December 2018
Prepayments for projects, equipment and land	714,225	623,530
Risk compensation fund	59,285	183,346
Guarantee deposit	359,281	355,340
Restricted cash (Note 1)	2,869,525	2,744,800
Prepaid income tax	173,269	226,578
Others	1,648,523	105,287
	5,824,108	4,238,881

Note 1: Restricted funds represented deposits in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed. For details, please refer to Note XII.2.

21. Provision for impairment of assets/credit impairment

31 December 2019

			Decrease for the year			
	Opening balance	Adjustment for the year	Reversal	Write-back/ write off	Effect of exchange rate	Closing balance
Bad debt provision	12,547,999	3,102,744	(1,168,446)	(1,371,727)	298,245	13,408,815
Including: Trade receivables	12,381,983	2,943,516	(1,163,353)	(1,359,859)	297,963	13,100,250
Long-term receivables	30,297	37,466	–	–	190	67,953
Other receivables	130,770	121,762	(619)	(11,868)	92	240,137
Factored trade receivables	2,853	–	(2,565)	–	–	288
Long-term factored trade receivables	2,096	–	(1,909)	–	–	187
Provision for impairment of inventories	3,199,272	1,476,827	(215,962)	(157,402)	(38,187)	4,264,548
Provision for impairment of contract assets	152,485	294,632	–	–	2,970	450,087
Provision for impairment of fixed assets	41,353	–	–	(74)	(20)	41,259
Provision for impairment of intangible assets	77,898	–	–	–	(38)	77,860
Provision for impairment of long-term equity investments	1,006,699	20,205	–	–	–	1,026,904
Goodwill impairment provision	123,263	–	–	–	–	123,263
Provision for impairment of receivable financing	2,455	–	(519)	–	–	1,936
	17,151,424	4,894,408	(1,384,927)	(1,529,203)	262,970	19,394,672

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Provision for impairment of assets/credit impairment (continued)

31 December 2018

	Opening balance	Adjustment for the year	Decrease for the year: Reversal	Decrease for the year: Write-back/ write off	Effect of exchange rate	Closing balance
Bad debt provision	9,198,484	4,113,076	(531,564)	(419,730)	187,733	12,547,999
Including: Trade receivables	9,166,189	3,974,786	(531,564)	(415,443)	188,015	12,381,983
Long-term receivables	32,295	2,571	–	(4,287)	(282)	30,297
Other receivables	–	130,770	–	–	–	130,770
Factored trade receivables	–	2,853	–	–	–	2,853
Long-term factored trade receivables	–	2,096	–	–	–	2,096
Provision for impairment of inventories	2,489,548	1,036,585	(151,791)	(157,857)	(17,213)	3,199,272
Provision for impairment of contract assets	119,011	70,914	–	(33,603)	(3,837)	152,485
Provision for impairment of fixed assets	60,400	7,515	–	(28,041)	1,479	41,353
Provision for impairment of intangible assets	18,332	59,356	–	–	210	77,898
Provision for impairment of long-term equity investments	4,764	1,001,935	–	–	–	1,006,699
Goodwill impairment provision	–	123,263	–	–	–	123,263
Provision for impairment of receivable financing	–	2,455	–	–	–	2,455
	11,890,539	6,415,099	(683,355)	(639,231)	168,372	17,151,424

The Group adopted the simplified approach on the basis of expected credit loss to assess the expected credit risks of trade receivables and make provision of expected credit impairment.

Inventory is measured at the lower of cost and net realisable value. Where the cost is higher than the net realisable value, provision for impairment in inventory is recognised in current profit or loss.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

22. Short-term loans

			31 December 2019 Original currency	31 December 2019 RMB equivalent	31 December 2018 Original currency	31 December 2018 RMB equivalent
Credit loans		RMB	**10,928,990**	**10,928,990**	11,965,900	11,965,900
		USD	**740,240**	**5,169,096**	566,928	3,890,260
		EUR	**128,000**	**1,001,869**	178,000	1,397,407
		TRY	**354,915**	**417,220**	385,458	502,769
Bills discounting loans		RMB	**4,195,791**	**4,195,791**	3,327,478	3,327,478
Letter of credit loans		RMB	**4,783,000**	**4,783,000**	1,500,000	1,500,000
Pledged loans	Note 1	RMB	**75,000**	**75,000**	500,000	500,000
		USD	**—**	**—**	24,891	170,800
Guarantee loans	Note 2	RMB	**10,000**	**10,000**	—	—
Secured loans	Note 3	RMB	**65,000**	**65,000**	485,000	485,000
				26,645,966		23,739,614

As at 31 December 2019, the annual interest rate of the above loans ranged from 1.10%–27.66% (including TRY loans which were subject to an annual interest rate of 9.75%–27.66%) (31 December 2018: 0.00%–38.00%).

Note 1: Pledged loans were loans extended to ZTE ICT Company Limited pledged by trade receivables with a carrying amount of RMB60,052,000 and contract assets with a carrying amount of RMB19,948,000 of Shenzhen Zhongxing Zhiping Technology Company Limited (31 December 2018: RMB770,800,000).

Note 2: The loan primarily comprised guaranteed loans extended to ZTE ICT (Guangxi) Company Limited by ZTE ICT Company Limited (31 December 2018: Nil).

Note 3: The secured loans comprised loans extended to ZTE ICT (Hebei) Company Limited secured by land-use rights with a carrying amount of RMB15,480,000 and buildings with a carrying amount of RMB49,772,000, loans extended to 中興高能技術有限責任公司 secured by land-use rights with a carrying amount of RMB57,531,000, and loans extended to ZTE ICT (Guangxi) Company Limited secured by land use rights with a carrying amount of RMB8,996,000 (31 December 2018: RMB716,953,000).

23. Derivative financial liabilities

	31 December 2019	31 December 2018
Financial liabilities at fair value through current profit and loss	**126,223**	101,332

Financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details please refer to Note V.3.

24A. Bills payable

	31 December 2019	31 December 2018
Bank acceptance bills	**4,763,510**	3,573,813
Commercial acceptance bills	**4,609,430**	4,341,887
	9,372,940	7,915,700

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

24B. Trade payables

Trade payables

An aging analysis of the trade payables are as follows:

	31 December 2019	31 December 2018
0 to 6 months	**17,555,506**	18,731,559
6 to 12 months	**398,107**	385,737
1 year to 2 years	**194,548**	198,519
2 years to 3 years	**166,176**	169,568
Over 3 years	**41,273**	42,021
	18,355,610	19,527,404

Trade payables are interest-free and repayable normally within 6 months.

As at 31 December 2019, there were no material trade payables aged over 1 year (31 December 2018: Nil).

25. Contract liabilities

	31 December 2019	31 December 2018
Rights to receive contracted consideration obtained	**7,404,341**	7,636,303
Contracted consideration received	**7,112,716**	6,843,052
	14,517,057	14,479,355

Contract liabilities refer to the obligation to transfer goods to customers in consideration of payments received or receivable from customers. Contract liabilities are incurred when the payment schedule agreed under the contract is ahead of the performance of contract obligations.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables and provision for retirement benefits

Salary and welfare payables

31 December 2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	**6,100,580**	**19,223,455**	**(16,523,299)**	**8,800,736**
Retirement benefits (Defined contribution scheme)	**155,195**	**1,236,623**	**(1,247,952)**	**143,866**
Termination benefits	**3,864**	**215,810**	**(210,271)**	**9,403**
	6,259,639	**20,675,888**	**(17,981,522)**	**8,954,005**

31 December 2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	7,178,679	18,034,228	(19,112,327)	6,100,580
Retirement benefits (Defined contribution scheme)	200,638	1,354,080	(1,399,523)	155,195
Termination benefits	10,227	279,818	(286,181)	3,864
	7,389,544	19,668,126	(20,798,031)	6,259,639

Short-term remuneration analysed as follows:

31 December 2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	**4,823,725**	**17,413,442**	**(14,914,926)**	**7,322,241**
Staff welfare	**19,233**	**34,168**	**(36,521)**	**16,880**
Social insurance	**67,792**	**715,507**	**(721,097)**	**62,202**
Including: Medical	**60,291**	**653,638**	**(658,621)**	**55,308**
Work injuries	**3,044**	**14,407**	**(14,538)**	**2,913**
Maternity	**4,457**	**47,462**	**(47,938)**	**3,981**
Housing funds	**20,032**	**559,663**	**(556,970)**	**22,725**
Labour union fund and employee education fund	**1,169,798**	**500,675**	**(293,785)**	**1,376,688**
	6,100,580	**19,223,455**	**(16,523,299)**	**8,800,736**

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables and provision for retirement benefits (continued)

Salary and welfare payables (continued)

31 December 2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	6,075,445	15,905,580	(17,157,300)	4,823,725
Staff welfare	12,066	82,651	(75,484)	19,233
Social insurance	88,745	817,488	(838,441)	67,792
Including: Medical	78,961	753,239	(771,909)	60,291
Work injuries	3,738	20,636	(21,330)	3,044
Maternity	6,046	43,613	(45,202)	4,457
Housing funds	61,678	553,016	(594,662)	20,032
Labour union fund and employee education fund	940,745	675,493	(446,440)	1,169,798
	7,178,679	18,034,228	(19,112,327)	6,100,580

Defined contribution plans are analysed as follows:

31 December 2019

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Pension insurance	**147,602**	**1,203,191**	**(1,214,202)**	**136,591**
Unemployment insurance	**7,593**	**33,432**	**(33,750)**	**7,275**
	155,195	**1,236,623**	**(1,247,952)**	**143,866**

31 December 2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	191,817	1,316,416	(1,360,631)	147,602
Unemployment insurance	8,821	37,664	(38,892)	7,593
	200,638	1,354,080	(1,399,523)	155,195

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables and provision for retirement benefits (continued)

Long-term staff remuneration payable

	31 December 2019	31 December 2018
Net liabilities under defined benefit plan	144,505	136,245

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 2019.

Major actuarial assumptions applied as at the balance sheet date are as follows:

	31 December 2019	31 December 2018
Discount rate %	3.25%	3.25%
Expected salary increase %	5.50%	5.50%

A quantitative sensitivity analysis of significant assumptions applied is set out as follows:

2019

	Increase	Increase/ (decrease) in obligations under defined benefit plan	Decrease	Increase/ (decrease) in obligations under defined benefit plan
Discount rate	0.25%	(3,773)	0.25%	3,554
Expected salary increase	1.00%	14,451	1.00%	(13,005)

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables and provision for retirement benefits (continued)

Long-term staff remuneration payable (continued)

2018

	Increase	Increase/ (decrease) in obligations under defined benefit plan	Decrease	Increase/ (decrease) in obligations under defined benefit plan
Discount rate	**0.25%**	**(2,982)**	**0.25%**	**3,073**
Expected salary increase	**1.00%**	**13,625**	**1.00%**	**(12,262)**

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.

Relevant plans recognised in the income statement are as follows:

	31 December 2019	31 December 2018
Net interest	**4,338**	5,200
Charged to administrative expenses	**4,338**	5,200

Change in the present value of obligations under defined benefit plan:

	31 December 2019	31 December 2018
Opening balance	**136,245**	133,191
Charged to current profit or loss		
Service costs for the current period	**—**	—
Service costs for the previous period	**—**	—
Settlement gains or loss	**—**	—
Interest expenses	**4,338**	5,200
Charged to other comprehensive income		
Actuary gains or loss	**—**	—
Other changes	**—**	—
Liabilities eliminated on settlement	**—**	—
Pension paid	**(3,677)**	(2,623)
Benefit costs recognised in other comprehensive income	**7,599**	477
Closing balance	**144,505**	136,245

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26. Salary and welfare payables and provision for retirement benefits (continued)

Net liabilities under defined benefit plan

	31 December 2019	31 December 2018
Opening balance	**136,245**	133,191
Net interest	**4,338**	5,200
Charged to other comprehensive income		
Actuary loss	**—**	8,686
Experience-based adjustments	**7,599**	(8,209)
Other changes		
Benefit paid	**(3,677)**	(2,623)
Closing balance	**144,505**	136,245

27. Tax payable

	31 December 2019	31 December 2018
Value-added tax	**142,296**	138,269
Enterprise income tax	**399,124**	532,281
Including: PRC tax	**289,990**	459,622
Overseas tax	**109,134**	72,659
Personal income tax	**240,328**	131,321
City maintenance and construction tax	**35,078**	55,143
Education surcharge	**36,013**	46,008
Other taxes	**36,009**	50,999
	888,848	954,021

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28. Other payables

	31 December 2019	31 December 2018
Interest payables	**54,296**	13,563
Dividend payables	**5,222**	1,322
Other payables	**4,561,600**	11,120,145
	4,621,118	11,135,030

Dividend payables

	31 December 2019	31 December 2018
Dividend payables to holders of restricted shares	**225**	225
Dividend payables to minority shareholders	**4,997**	1,097
	5,222	1,322

Other payables

	31 December 2019	31 December 2018
Accruals	**1,003,146**	1,099,035
Deferred income from staff housing due in 1 year	**51,066**	191,846
Payables to external parties	**3,125,921**	8,968,551
Deposits	**8,299**	27,913
Others	**373,168**	832,800
	4,561,600	11,120,145

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

29. Provisions

31 December 2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Expected contract loss (Note 1)	**1,494,051**	**1,730,893**	**(1,605,728)**	**1,619,216**
Outstanding litigation (Note 2)	**366,195**	**16,586**	**(216,290)**	**166,491**
Provision for warranties	**307,368**	**148,207**	**(274,818)**	**180,757**
	2,167,614	**1,895,686**	**(2,096,836)**	**1,966,464**

31 December 2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Expected contract loss (Note 1)	581,244	1,545,600	(632,793)	1,494,051
Outstanding litigation (Note 2)	106,293	295,089	(35,187)	366,195
Provision for warranties	426,833	363,924	(483,389)	307,368
	1,114,370	2,204,613	(1,151,369)	2,167,614

Note 1: Unavoidable cost for the performance of contract in excess of expected economic benefits of the contract.

Note 2: Provisions in respect of likely compensation amounts for cases as assessed based on the advice from appointed legal counsel and the progress of such cases.

30. Non-current liabilities due within one year

	31 December 2019	31 December 2018
Long-term loans due within one year	**92,053**	1,243,709
Lease liabilities	**520,208**	—
	612,261	1,243,709

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. Long-term loans

			31 December 2019		31 December 2018	
			Original currency	**RMB equivalent**	Original currency	RMB equivalent
Credit loans		RMB	**5,999,823**	**5,999,823**	286,000	286,000
		USD	**530,000**	**3,700,990**	295,000	2,024,290
		EUR	**363**	**2,839**	290	2,278
		TRY	**195,000**	**229,232**	—	—
Guaranteed loans		RMB	**—**	**—**	54,000	54,000
Secured loans	Note 1	RMB	**20,159**	**20,159**	—	—
Pledged loans	Note 2	RMB	**92,050**	**92,050**	—	—
				10,045,093		2,366,568

Note 1: The loans comprised mainly loans extended to ZTE Smart Auto Company Limited secured by land use rights with a carrying amount of RMB230,411,000 and construction in progress with a carrying amount of RMB344,472,000 (31 December 2018: Nil).

Note 2: The pledged loans comprised mainly loan extended to Shenzhen ZTE ICT Company Limited secured by trade receivables with a carrying amount of RMB7,800,000 and contract assets with a carrying amount of RMB135,060,000 of "Smart Longhua" project (31 December 2018: Nil).

As at 31 December 2019, the annual interest rate for the aforesaid loans was 0.75%–12.56% (including TRY loans which were subject to an annual interest rate of 10.00%–12.56%) (31 December 2018: 0.75%–4.75%).

32. Lease liabilities

	31 December 2019	31 December 2018
Lease liabilities	**645,294**	—

33. Other non-current liabilities

	31 December 2019	31 December 2018
Deferred income relating to staff housing	**857,398**	918,832
Long-term payable	**2,117,396**	539,845
Amounts payable to third payables	**38,693**	1,771,000
	3,013,487	3,229,677

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Share capital

31 December 2019

		Increase/decrease during the year				
	Opening balance	Issue of new share	Transfer from reserves	Others	Sub-total	Closing balance
Restricted shares						
Senior management shares	**3,601**	**82**	**–**	**(3,189)**	**(3,107)**	**494**
Total number of restricted shares	**3,601**	**82**	**–**	**(3,189)**	**(3,107)**	**494**
Unrestricted shares						
RMB Ordinary shares	**3,433,569**	**34,776**	**–**	**3,189**	**37,965**	**3,471,534**
Overseas listed foreign shares	**755,502**	**–**	**–**	**–**	**–**	**755,502**
Total number of unrestricted shares	**4,189,071**	**34,776**	**–**	**3,189**	**37,965**	**4,227,036**
Total number of shares	**4,192,672**	**34,858**	**–**	**–**	**34,858**	**4,227,530**

31 December 2018

		Increase/decrease during the year				
	Opening balance	Issue of new share	Transfer from reserves	Others	Sub-total	Closing balance
Restricted shares						
Senior management shares	3,185	–	–	416	416	3,601
Total number of restricted shares	3,185	–	–	416	416	3,601
Unrestricted shares						
RMB Ordinary shares	3,433,985	–	–	(416)	(416)	3,433,569
Overseas listed foreign shares	755,502	–	–	–	–	755,502
Total number of unrestricted shares	4,189,487	–	–	(416)	(416)	4,189,071
Total number of shares	4,192,672	–	–	–	–	4,192,672

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35. Capital reserves

31 December 2019

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note 1)	**10,925,665**	**943,559**	**(95,148)**	**11,774,076**
Share-based payment (Note 2)	**438,791**	**191,790**	**(340,225)**	**290,356**
Capital investment by government	**80,000**	**—**	**—**	**80,000**
	11,444,456	**1,135,349**	**(435,373)**	**12,144,432**

31 December 2018

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium	10,979,251	—	(53,586)	10,925,665
Share-based payment	245,603	193,188	—	438,791
Capital investment by government	80,000	—	—	80,000
	11,304,854	193,188	(53,586)	11,444,456

Note 1: The acquisition of minority interests in subsidiaries resulted in a reduction of share premium in capital reserve by RMB95,148,000. Capital injection by non-controlling shareholders resulted in an increase of share premium in capital reserve by RMB43,434,000. The exercise of share options in the first exercise period under the share option incentive scheme resulted in an increase of share premium in capital reserve by RMB901,536,000. Capital injection by other shareholders of an associate resulted in a reduction of share premium in capital reserve by RMB1,411,000.

Note 2: Share options issued by the Company in July 2017 are divided into three exercise periods. Share option expenses of RMB191,790,000 was recognised for the year in respect of share options in the first and third periods. The exercise of share options in the first exercise period under the share option incentive scheme resulted in the reduction of share-based payment in capital reserve by RMB340,225,000. For details please refer to Note XI.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Other comprehensive income

Balance of other comprehensive income on the balance sheet attributable to the parent company:

	1 January 2018	Increase/ decrease	31 December 2018	Increase/ decrease	**31 December 2019**
Changes in net liabilities arising from the re-measurement of defined benefit plans	(65,201)	(477)	(65,678)	(7,599)	**(73,277)**
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**
Effective portion of hedging instruments	(67,982)	–	(67,982)	–	**(67,982)**
Differences arising from foreign currency translation	(1,865,841)	(885,179)	(2,751,020)	54,180	**(2,696,840)**
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**
	(1,161,905)	(885,656)	(2,047,561)	46,581	**(2,000,980)**

Other comprehensive income on the income statement incurred during the current period:

2019

	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	**(7,599)**	**–**	**–**	**(7,599)**	**–**
Other comprehensive income to be subsequently reclassified to profit or loss					
Differences arising from foreign currency translation	**54,180**	**–**	**–**	**51,320**	**2,860**
	46,581	**–**	**–**	**43,721**	**2,860**

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Other comprehensive income (continued)

2018

	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	(477)	–	–	(477)	–
Other comprehensive income to be subsequently reclassified to profit or loss					
Differences arising from foreign currency translation	(885,179)	–	–	(865,589)	(19,590)
	(885,656)	–	–	(866,066)	(19,590)

37. Surplus reserves

31 December 2019

	Opening balance	**Opening balance as adjusted**	**Increase during the year**	**Decrease during the year**	**Closing balance**
Statutory surplus reserves	**2,324,748**	**(1,441)**	**452,214**	**–**	**2,775,521**

31 December 2018

	Opening balance	Opening balance as adjusted	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	2,142,354	182,394	–	–	2,324,748

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.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

38. Retained profits

	31 December 2019	31 December 2018
Retained profits at the beginning of the year	**6,983,261**	14,149,317
Opening adjustments	**1,441**	(182,394)
After opening adjustments	**6,984,702**	13,966,923
Net profit/(loss) attributable to shareholders of the parent	**5,147,877**	(6,983,662)
Surplus reserve	**(452,214)**	—
Retained profits at the end of the year	**11,680,365**	6,983,261

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.

39. Other equity instruments

(1) General information of Medium Term Notes outstanding as at the end of the year

As at 31 December 2019, details of Medium Term Notes outstanding of the Group are as follows:

	Issue time	**Accounting classification**	**Dividend rate or interest rate**	**Issue price (RMB per unit)**	**Quantity (10,000)**	**Amount**	**Maturity or renewal**
Tranche I	**2015.1.27**	**Medium Term Notes**	**0.0581**	**100**	**6,000**	**6,252,364**	**2020.1.27**

As at 31 December 2018, details of Preferential Shares and Medium Term Notes outstanding of the Group are as follows:

	Issue time	Accounting classification	Dividend rate or interest rate	Issue price (RMB per unit)	Quantity (10,000)	Amount	Maturity or renewal
Tranche I	2015.1.27	Perpetual capital instrument	0.0581	100	6,000	6,252,364	2020.1.27
Tranche II	2015.2.6	Perpetual capital instrument	0.0569	100	1,500	—	2018.2.6
Tranche III	2015.11.20	Perpetual capital instrument	0.0449	100	1,500	—	2018.11.20
						6,252,364	

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Other equity instruments (continued)

(1) General information of Medium Term Notes outstanding as at the end of the year (continued)

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.

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.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Other equity instruments (continued)

(2) Change of issued Medium Term Note as at the end of the period

The change of Preferential Shares and Medium Term Notes outstanding of the Group are as follows:

31 December 2019

	At the beginning of the year		Increase during the year		Decrease during the year		At the end of the year	
	Amount (10,000)	Carrying value (RMB'000)	Amount (10,000)	Carrying value (RMB'000)	Amount (10,000)	Carrying value (RMB'000)	Amount (10,000)	Carrying value (RMB'000)
Tranche I	**6,000**	**6,000,000**	**–**	**–**	**–**	**–**	**6,000**	**6,000,000**

31 December 2018

	At the beginning of the year		Increase during the year		Decrease during the year		At the end of the year	
	Amount (10,000)	Carrying value (RMB'000)	Amount (10,000)	Carrying value (RMB'000)	Amount (10,000)	Carrying value (RMB'000)	Amount (10,000)	Carrying value (RMB'000)
Tranche I	6,000	6,000,000	–	–	–	–	6,000	6,000,000
Tranche II	1,500	1,500,000	–	–	(1,500)	(1,500,000)	–	–
Tranche III	1,500	1,500,000	–	–	(1,500)	(1,500,000)	–	–
		9,000,000		–		(3,000,000)		6,000,000

40. Operating revenue and costs

	2019		2018	
	Revenue	**Cost**	Revenue	Cost
Principal business	**88,975,628**	**55,849,723**	82,913,162	55,274,819
Other business	**1,760,954**	**1,158,654**	2,599,988	2,092,759
	90,736,582	**57,008,377**	85,513,150	57,367,578

Operating revenue is analysed as follows:

	2019	2018
Revenue from customer contract	**90,607,883**	85,375,143
Rental income — operating leases	**128,699**	138,007
	90,736,582	85,513,150

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Operating revenue and costs (continued)

Breakdown of revenue from customer contracts

2019

Reportable segment	**Operators network**	**Consumer business**	**Government and corporate business**	**Total**
Major operating area				
PRC	**47,260,305**	**6,259,233**	**4,568,795**	**58,088,333**
Asia (excluding PRC)	**10,345,039**	**1,523,250**	**1,311,969**	**13,180,258**
Africa	**3,814,158**	**648,528**	**853,404**	**5,316,090**
Europe and Oceania	**5,164,892**	**6,566,396**	**2,291,914**	**14,023,202**
	66,584,394	**14,997,407**	**9,026,082**	**90,607,883**
Types of key products				
Sale of products	**7,022,256**	**14,845,144**	**3,700,176**	**25,567,576**
Provision of service	**10,309,866**	**152,263**	**1,656,827**	**12,118,956**
Telecommunications system contracts with customers	**49,252,272**	**–**	**3,669,079**	**52,921,351**
	66,584,394	**14,997,407**	**9,026,082**	**90,607,883**
Recognise revenue in time				
Transferred at a point in time	**55,223,503**	**14,631,051**	**7,339,270**	**77,193,824**
Transferred over a period	**11,360,891**	**366,356**	**1,686,812**	**13,414,059**
	66,584,394	**14,997,407**	**9,026,082**	**90,607,883**

2018

Reportable segment	Operators network	Consumer business	Government and corporate business	Total
Major operating area				
PRC	41,120,969	8,762,129	4,423,070	54,306,168
Asia (excluding PRC)	9,258,787	1,548,750	1,069,713	11,877,250
Africa	2,534,880	323,252	1,224,175	4,082,307
Europe and Oceania	4,161,136	8,575,459	2,372,823	15,109,418
	57,075,772	19,209,590	9,089,781	85,375,143
Types of key products				
Sale of products	7,193,140	19,061,135	3,710,515	29,964,790
Provision of service	10,247,577	148,455	1,758,735	12,154,767
Telecommunications system contracts with customers	39,635,055	–	3,620,531	43,255,586
	57,075,772	19,209,590	9,089,781	85,375,143
Recognise revenue in time				
Transferred at a point in time	46,597,854	18,872,996	7,245,566	72,887,467
Transferred over a period	10,477,918	336,574	1,844,215	12,487,676
	57,075,772	19,209,590	9,089,781	85,375,143

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Operating revenue and costs (continued)

Revenue included in the opening book value of contract liabilities recognised for the year is set out as follows:

	2019	2018
Revenue included in the opening book value of contract liabilities recognised for the year	**10,463,823**	14,819,669

41. Taxes and surcharges

	2019	2018
City maintenance and construction tax	**344,902**	214,670
Education surcharge	**265,776**	171,305
Property tax	**66,162**	46,514
Land use tax	**18,670**	21,168
Vehicle and vessel tax	**51**	323
Stamp duty	**76,073**	73,583
Others	**158,877**	110,162
	930,511	637,725

42. Selling and distribution costs

	2019	2018
Wages, welfare and bonuses	**4,425,933**	5,133,852
Consulting and services charges	**689,219**	482,780
Travelling expenses	**636,966**	924,804
Hospitality expenses	**242,190**	464,691
Office expense	**279,895**	306,554
Advertising and promotion expenses	**878,488**	631,646
Rental fees	**207,216**	460,803
Communication expenses	**87,576**	94,746
Others	**421,239**	584,613
	7,868,722	9,084,489

43. Administrative expenses

	2019	2018
Wages, welfare and bonuses	**1,946,794**	1,759,951
Office expenses	**100,683**	127,726
Amortization and depreciation charges	**485,330**	399,124
Rental fees	**48,232**	132,870
Travelling expenses	**101,699**	80,488
Others	**2,090,085**	1,151,339
	4,772,823	3,651,498

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

44. Research and development expenses

	2019	2018
Wages, welfare and bonuses	**8,082,720**	6,959,688
Direct material costs	**472,094**	301,511
Amortization and depreciation charges	**1,799,585**	1,460,914
Office expenses	**274,205**	279,521
Technical cooperation fee	**794,119**	886,302
Others	**1,125,175**	1,017,648
	12,547,898	10,905,584

45. Financial expenses

	2019	2018
Interest expenses	**1,718,187**	1,008,404
Including: Interest expenses on lease liabilities	**81,261**	—
Interest expenses on long-term payables	**25,920**	—
Less: Interest income	**931,929**	748,810
loss on foreign currency exchange	**(16,736)**	(502,130)
Bank charges	**196,433**	202,903
	965,955	(39,633)

For 2019, interest income from ZTE Group Finance Company Limited amounted to RMB355,230,000 (2018: RMB369,477,000).

Details of interest income are as follows:

	2019	2018
Interest income on cash	**685,584**	600,357
Interest income on customer contracts	**219,398**	148,453
Interest income on finance leases	**26,947**	—
	931,929	748,810

46. Other income

	2019	2018	Relating to asset/ income
Refund of VAT on software products (Note 1)	**1,244,781**	1,590,560	Relating to income
Refund of handling charges for personal tax	**13,194**	41,677	Relating to income
Others	**437,903**	449,218	Relating to income
	1,695,878	2,081,455	

Note 1: Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective AT 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.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

47. Investment income

	2019	2018 (Restated)
Loss from long-term equity investment under equity method	**(675,616)**	(797,318)
Investment income from trading financial assets during the period of holding	**18,602**	16,438
Investment income from non-current financial assets during the period of holding	**31,416**	30,196
Investment income arising from the disposal of derivative investment	**36,425**	6,147
Investment income from the disposal of long-term equity Interests	**101,939**	431,437
Investment income arising from the disposal of financial assets at fair value through profit or loss	**921,281**	376,460
Profits remeasured at fair value by remaining equity after loss of control	**24,785**	231,126
Derecognised loss of financial assets at amortised cost	**(209,387)**	(320,281)
	249,445	(25,795)

48. Losses from changes in fair values

	2019	2018
Trading financial assets		
Including: financial assets at fair value through profit or loss	**(217,046)**	(898,978)
Other non-current financial assets		
Including: financial assets at fair value through profit or loss	**157,961**	(6,372)
Derivative financial instruments	**(162,150)**	55,901
Investment properties at fair value	**7,243**	(11,810)
	(213,992)	(861,259)

49. Credit impairment losses

	2019	2018
Impairment loss of trade receivables	**1,780,163**	3,443,222
Impairment (reversal)/losses on receivable financing	**(519)**	2,455
Impairment loss of other receivables	**121,143**	130,770
Losses of impairment of long-term receivables	**37,466**	2,571
(Reversal)/losses of impairment of factored trade receivables	**(2,565)**	2,853
(Reversal)/losses of impairment of long-term factored receivables	**(1,909)**	2,096
Impairment loss of contract assets	**294,632**	70,914
	2,228,411	3,654,881

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

50. Assets impairment losses

	2019	2018
Inventories provisions	1,260,865	884,794
Fixed assets impairment losses	—	7,515
Assets impairment losses	—	59,356
Assets impairment losses	20,205	1,001,935
Assets impairment losses	—	123,263
	1,281,070	2,076,863

51. Gains from asset disposal

	2019	2018
Gains from the disposal of fixed assets	25,296	19,483
Finance lease income	2,662,740	—
	2,688,036	19,483

52. Non-operating income/non-operating expenses

Non-operating income

	2019	2018	Amount of extraordinary gain/loss recognized for 2019
Income from contract penalty and reward	26,026	15,409	26,026
Others	157,674	127,242	157,674
	183,700	142,651	183,700

Non-operating expenses

	2019	2018	Amount of extraordinary gain/loss recognized for 2019
Compensation	435,050	6,818,978	435,050
Others	139,162	61,925	139,162
	574,212	6,880,903	574,212

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

53. 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:

	2019	2018
Cost of goods and services	**53,594,953**	55,065,491
Staff remuneration (including share-based payment)	**16,947,583**	15,639,601
Depreciation and amortization	**3,586,834**	2,507,379
Rental not included in the measurement of lease liabilities	**330,496**	593,673
Others	**7,737,954**	7,203,005
	82,197,820	81,009,149

54. Income tax

	2019	2018
Current income tax	**1,091,564**	939,888
Deferred income tax	**293,437**	(1,340,751)
	1,385,001	(400,863)

Reconciliation between income tax and total profit was as follows:

	2019	2018
Total profit	**7,161,670**	(7,350,203)
Tax at statutory tax rate (Note 1)	**1,790,418**	(1,837,551)
Effect of different tax rates applicable to certain subsidiaries	**(544,938)**	564,453
Adjustment to current tax in previous periods	**27,515**	28,408
Profits and losses attributable to jointly-controlled entities and associates	**101,342**	119,112
Income not subject to tax	**(7,503)**	(42,751)
Weighted deduction for research and development costs, interest on perpetual notes, expenses not deductible for tax and others	**(45,286)**	508,836
Unrecognised deductible temporary differences	**2,242**	30,448
Utilization of tax losses from previous years	**(36,210)**	(36,539)
Unrecognized tax losses	**97,421**	264,721
Tax charge at the Group's effective rate	**1,385,001**	(400,863)

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.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

55. 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:

	2019	2018
Earnings		
Net profit/(loss) attributable to ordinary shareholders of the Company for the period	**5,147,877**	(6,983,662)
Shares		
Weighted average number of ordinary shares of the Company ('000 shares)	**4,205,702**	4,192,672
Diluting effect — weighted average number of ordinary shares ('000 shares) (Note 1)		
Stock option	**18,349**	—
Adjusted weighted average number of ordinary shares of the Company ('000 shares)	**4,224,051**	4,192,672

Note 1: 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.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

56. Notes to major items in cash flow statement

	2019	2018
Cash received in connection with other operating activities:		
Interest income	**931,929**	747,518
Cash paid in connection with other operating activities:		
Selling and distribution costs	**3,536,898**	4,008,434
Administrative expenses and research and development costs	**3,312,175**	2,007,217
Penalty payments	**—**	9,654,487
Payment of default penalty to Shenzhen Investment Holdings Co., Ltd.	**89,298**	—
Cash received in connection with other investing activities:		
Amounts received from Shenzhen Investment Holdings Co., Ltd. in connection with business cooperation	**—**	2,200,000
Cash paid in connection with investing activities:		
Refund of amounts in connection with business cooperation with Shenzhen Investment Holdings Co., Ltd.	**2,200,000**	—
Cash paid in connection with other financing activities:		
Refund of investment by non-controlling interests	**787,460**	15,740
Cash payment of operating lease principal amount	**474,490**	—

57. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

	2019	2018
Net profit/(loss)	**5,776,669**	(6,949,340)
Add: Credit impairment losses	**2,228,411**	3,654,881
Assets impairment losses	**1,281,070**	2,076,863
Depreciation of fixed assets	**1,267,417**	1,197,424
Depreciation of right-of-use assets	**524,868**	—
Amortisation of intangible assets	**1,794,549**	1,274,972
Amortisation of long-term deferred assets	**—**	34,983
(Gain)/loss on disposal of fixed assets, intangible assets and other long-term assets	**(2,688,036)**	16,450
Loss from changes in fair value	**213,992**	861,259
Finance costs	**1,569,367**	853,661
Investment (income)/loss	**(249,445)**	25,795
Decrease/(increase) in deferred tax assets	**276,418**	(1,134,581)
Increase/(decrease) in deferred tax liabilities	**17,019**	(206,170)
(Increase)/decrease in inventories	**(3,861,583)**	337,928
(Increase)/decrease in operating receivables	**(2,901,656)**	6,428,744
Increase/(decrease) in operating payables	**2,292,420**	(16,558,294)
Cost of share-based payment	**191,790**	193,188
(Increase) in cash not immediately available for payments	**(286,716)**	(1,323,149)
Net cash flow from operating activities	**7,446,554**	(9,215,386)

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

57. Supplemental information on cash flow statement (continued)

(2) Net change in cash and cash equivalents:

	2019	2018
Cash		
Including: Cash on hand	**2,269**	1,597
Bank deposit readily available	**28,503,531**	21,132,514
Cash and cash equivalents at end of period	**28,505,800**	21,134,111

58. Assets under restrictions on ownership or right of use

	31 December 2019	31 December 2018	
Cash	**3,343,511**	3,057,459	Note 1
Trade receivables and contract assets	**222,860**	—	Note 2
Fixed assets	**49,772**	1,179,755	Note 3
Work in progress	**344,472**	—	Note 4
Intangible assets	**312,418**	158,551	Note 5
Long-term equity investment	**—**	5,933	Note 6
Other non-current assets — restricted cash	**3,288,091**	3,283,486	Note 7
	7,561,124	7,685,184	

Note 1: As at 31 December 2019, the Group's cash subject to ownership restriction amounted to RMB3,343,511,000 (31 December 2018: RMB3,057,459,000), including acceptance bill deposits of RMB556,146,000 (31 December 2018: RMB294,949,000), letter of credit deposits of RMB434,039,000 (31 December 2018: RMB667,084,000), deposit for guarantee letter of RMB368,311,000 (31 December 2018: RMB346,475,000), dues from the People's Bank of China of RMB887,492,000 (31 December 2018: RMB373,553,000), technology grants of RMB957,924,000 (31 December 2018: RMB1,118,309,000) and risk compensation fund to be released within one year of RMB139,599,000 (31 December 2018: RMB257,089,000).

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 2019, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB198,884,000 (31 December 2018: RMB440,435,000). Risk compensation fund to be released within one year amounting to RMB139,599,000 (31 December 2018: RMB257,089,000) was accounted for as cash subject to ownership restriction. Risk compensation fund to be released after one year amounting to RMB59,285,000 (31 December 2018: RMB183,346,000) was accounted for as other non-current assets.

Note 2: As at 31 December 2019, trade receivables and contract assets with total carrying value of RMB222,860,000 (31 December 2018: Nil) were pledged to secure bank borrowing.

Note 3: As at 31 December 2019, fixed assets with a carrying value of RMB49,772,000 (31 December 2018: RMB648,245,000) were pledged to secure bank borrowing. No fixed assets were pledged in connection with asset acquisitions (31 December 2018: RMB531,510,000).

Note 4: As at 31 December 2019, work in progress with a carrying value of RMB344,472,000 (31 December 2018: Nil) were pledged to secure bank borrowing.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

58. Assets under restrictions on ownership or right of use (continued)

Note 5: As at 31 December 2019, intangible assets with a carrying value of RMB312,418,000 (31 December 2018: RMB68,708,000) were pledged to secure bank borrowings. No intangible assets were pledged as security for asset acquisition (31 December 2018: RMB89,843,000).

Note 6: As at 31 December 2019, no equity pledge was applied to equity transfer (31 December 2018: RMB5,933,000).

Note 7: As at 31 December 2019, restricted funds represented a RMB2,869,525,000 (31 December 2018: 2,744,800,000) deposit in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed, the details of which are set out in Note XII. The RMB359,281,000 (31 December 2018: 355,340,000) performance bond with a term of over 1 year was paid to a project partner; and risk compensation fund to be released after one year amounting to RMB59,285,000 (31 December 2018: RMB183,346,000).

59. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		31 December 2019			31 December 2018		
		Original currency	**Exchange rate**	**RMB Equivalent**	Original currency	Exchange rate	RMB Equivalent
Cash	USD	**174**	**6.9830**	**1,217**	203	6.8620	1,393
	DZD	**2,305**	**0.0586**	**135**	1,813	0.0579	105
	KZT	**–**	**0.0183**	**–**	56	0.0180	1
	EGP	**55**	**0.4352**	**24**	18	0.3831	7
Bank deposit	USD	**635,033**	**6.9830**	**4,434,438**	407,942	6.8620	2,799,298
	HKD	**20,127**	**0.8968**	**18,050**	21,169	0.8750	18,523
	BRL	**15,514**	**1.7326**	**26,880**	16,992	1.7711	30,095
	PKR	**2,713,750**	**0.0450**	**122,180**	1,479,636	0.0494	73,094
	EGP	**110,864**	**0.4352**	**48,253**	32,840	0.3831	12,581
	IDR	**128,779,835**	**0.0005**	**64,691**	196,822,000	0.0005	98,411
	EUR	**167,128**	**7.8271**	**1,308,125**	122,559	7.8506	962,162
	DZD	**577,232**	**0.0586**	**33,809**	96,028	0.0579	5,560
	MYR	**18,701**	**1.6976**	**31,747**	29,781	1.6511	49,171
	ETB	**244,354**	**0.2196**	**53,651**	240,453	0.2449	58,887
	CAD	**6,632**	**5.3473**	**35,464**	3,765	5.0315	18,944
	GBP	**1,698**	**9.1651**	**15,559**	2,247	8.6770	19,497
	THB	**158,926**	**0.2318**	**36,844**	314,957	0.2116	66,645
	RUB	**995,793**	**0.1128**	**112,326**	635,324	0.0988	62,770
	JPY	**1,612,927**	**0.0642**	**103,558**	1,612,488	0.0619	99,813
	COP	**3,696,697**	**0.0021**	**7,877**	1,990,476	0.0021	4,180
	NPR	**307,507**	**0.0612**	**18,818**	572,333	0.0613	35,084
	CLP	**431,037**	**0.0093**	**4,020**	1,415,758	0.0099	14,016
Other cash	USD	**21,773**	**6.9830**	**152,038**	65,995	6.8620	452,858
Trade receivables	USD	**1,744,816**	**6.983**	**12,184,049**	972,607	6.8620	6,674,029
	EUR	**306,027**	**7.8271**	**2,395,300**	312,319	7.8506	2,451,892
	BRL	**52,442**	**1.7326**	**90,861**	39,275	1.7711	69,560
	THB	**466,332**	**0.2318**	**108,096**	69,078	0.2116	14,617
	INR	**21,544,873**	**0.0979**	**2,109,243**	10,590,560	0.0983	1,041,052

The Group's principal places of business overseas include the United States, Indonesia and India. Its operating entities in these countries adopt their respective principal currency for conducting business as their functional currencies.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VI. CHANGES TO THE SCOPE OF CONSOLIDATION

1. Disposal of subsidiaries

		Place of registration	Business nature	Percentage of the Group's shareholding in aggregate	Percentage of the Group's voting rights in aggregate	Reasons for ceasing to be a subsidiary
Shenzhen Green Pea Educational Technology Company Limited	Note 1	Shenzhen	Education information and consultation	90%	90%/100%	Disposal
ZTE (Huai'an) Smart Industries Company Limited	Note 2	Nantong	R&D, implementation, service and operation of one-stop smart city plans	51%	51%/100%	Disposal
Henan Xingyuan Intelligent Industry Development Company Limited	Note 3	Luoyang	Property development and sales	100%	100%/100%	Disposal
Zhongxing Feiliu Information Technology Company Limited	Note 4	Shenzhen	Big Data and AI	51%	51%/100%	Disposal
NFS Netcare Field Services GmbH	Note 5	Germany	Operational and maintenance service	100%	100%	Disposal

Note 1: Shenzhen ZTE ICT Company Limited, a subsidiary of the Group, and 深圳市寶誠紅土文化產業基金合夥企業(有限合夥) completed the disposal of 90% equity interests in Shenzhen Green Pea Educational Technology Company Limited on 18 June 2019. Shenzhen Green Pea Educational Technology Company Limited has been excluded from the consolidated financial statements of the Group as from 18 June 2019.

Note 2: The Group and 淮安新城投資開發有限公司 completed the disposal of 51% equity interests in ZTE (Huai'an) Smart Industries Company Limited in June 2019. ZTE (Huai'an) Smart Industries Company Limited has been excluded from the consolidated financial statements of the Group as from June 2019.

Note 3: Henan ZTE ICT Company Limited, a subsidiary of the Group, and 河南修尚置業有限公司 completed the disposal of 100% equity interests in Henan Xingyuan Intelligent Industry Development Company Limited on 29 March 2019. Henan Xingyuan Intelligent Industry Development Company Limited has been excluded from the consolidated financial statements of the Group as from 29 March 2019.

Note 4: The Group and 南京鑫數投資管理中心 completed the disposal of 12% equity interests in Zhongxing Feiliu Information Technology Company Limited in December 2019. Zhongxing Feiliu Information Technology Company Limited has been excluded from the consolidated financial statements of the Group as from December 2019.

Note 5: NXT Netcare Services GmbH, a subsidiary of the Group, completed the disposal of 100% equity interests in NFS Netcare Field Services GmbH in January 2019. NFS Netcare Field Services GmbH has been excluded from the consolidated financial statements of the Group as from January 2019.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VI. CHANGES TO THE SCOPE OF CONSOLIDATION (continued)

2. Changes to the scope of consolidation for other reasons

New subsidiaries established during the period included: a tier-one subsidiary Shenzhen Yingbo Super Computer Technology Company Limited, tier-two subsidiaries Shenzhen Yingbo Smart Auto Technology Company Limited and ZTE Optoelectronics (Japan) Limited and tier-four subsidiaries Netas Algeria SARL and ZTE SAN MARINO S.r.l.

Shijiazhuang Smart City Research Institute Company Limited, a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 4 January 2019 and had been excluded from the consolidated financial statements of the Group as from 4 January 2019. Shenzhen Zhongliancheng Electronic Development Company Limited, a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 17 January 2019 and had been excluded from the consolidated financial statements of the Group as from 17 January 2019. ZTE (Kunming) ZTE Smart City Industry Research Institute Co., Ltd., a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 21 January 2019 and had been excluded from the consolidated financial statements of the Group as from 21 January 2019. ZTE Smart Terminal Company Limited, a tier-one subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 12 March 2019 and had been excluded from the consolidated financial statements of the Group as from 12 March 2019. Shenzhen Xinglianda Technology Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 21 March 2019 and had been excluded from the consolidated financial statements of the Group as from 21 March 2019. ZTEJC NIGERIA LIMITED, a tier-three subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 8 May 2019 and had been excluded from the consolidated financial statements of the Group as from 8 May 2019. Shandong Bobei Information Technology Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities on 2 September 2019 and had been excluded from the consolidated financial statements of the Group as from 2 September 2019. ZTE HONGKONG (LAO) SOLE COMPANY LIMITED a tier-two subsidiary of the Group, completed deregistration with the industrial and commercial administration authorities on 9 September 2019 and had been excluded from the consolidated financial statements of the Group as from 9 September 2019. ZTE (Hangzhou) Co., Ltd., a tier-one subsidiary of the Group, completed deregistration with the industrial and commercial administration authorities on 18 October 2019 and had been excluded from the consolidated financial statements of the Group as from 18 October 2019. Shanghai Xingxin New Energy Automobile Company Limited, a tier-two subsidiary of the Group, completed deregistration with the industrial and commercial administration authorities on 15 November 2019 and had been excluded from the consolidated financial statements of the Group as from 15 November 2019. Jiyuan Zhongxing Intelligent Technology Industry Company Limited, a tier-one subsidiary of the Group, completed deregistration with the industrial and commercial administration authorities on 19 November 2019 and had been excluded from the consolidated financial statements of the Group as from 19 November 2019. ZTE Research and Development Center, a tier-two subsidiary of the Group, completed deregistration with the industrial and commercial administration authorities on 31 December 2019 and had been excluded from the consolidated financial statements of the Group as from 31 December 2019.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of the major subsidiaries of the Group are as below:

Type of subsidiary	Place of registration/ principal places of business	Business nature	Registered capital	Percentage of Shareholding % Direct	Percentage of Shareholding % Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen ZTE Kangxun Telecom Company Limited	Shenzhen	Manufacturing	RMB1,755 million	100%	–
ZTE (H.K) Limited	Hong Kong	Information technology	HKD995 million	100%	–
Shenzhen Zhongxing Software Company Limited	Shenzhen	Manufacturing	RMB51.08 million	100%	–
西安中興通訊終端科技有限公司	Xi'an	Manufacturing	RMB300 million	100%	–
Xi'an Zhongxing New Software Company Limited	Xi'an	Telecommunications and related equipment manufacturing	RMB600 million	100%	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	Shenzhen	Telecommunications services	RMB200 million	90%	10%

2. Equity investments in joint ventures and associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding % Direct	Percentage of Shareholding % Indirect	Accounting method
Joint Ventures						
Bestel Communications Ltd.	Republic of Cyprus	Information technology	EUR446,915	50%	–	Equity method
Puxing Mobile Tech Company Limited	PRC	R&D, production and sales of communications equipment	RMB128,500,000	50%	–	Equity method
Pengzhong Xingsheng	Uzbekistan	Mobile terminals and smart phones	USD3,160,000	50%	–	Equity method
德特賽維技術有限公司	PRC	Software development, information technology consultant and information systems integration	RMB60,000,000	49%	–	Equity method
重慶百德行置業有限公司*	PRC	Real estate	RMB70,000,000	10%	–	Equity method
Shaanxi Zhongxing Innovative Investment Fund Limited Partnership Enterprise (Limited Partnership)	PRC	Investment management and consultation	RMB100,000,000	40%	–	Equity method

* The Group had 10% shareholdings in 重慶百德行置業有限公司, which was accounted for as associate mainly owing to the fact that the articles of association of this company stipulates that its board of director shall comprise 5 members, 2 of which shall be nominated by 重慶中興網信科技有限公司 and 3 of which shall be nominated by 建歷有限公司, and that board resolutions can only be passed with the approval of over two-thirds of the directors. Hence the Group and 建歷有限公司 exercised joint control over its production and operational decisions or its finances.

During the reporting period, the Group had no subsidiaries that were subject to significant minority interest, nor key joint ventures which had a significant impact on the Group.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding % Direct	Percentage of Shareholding % Indirect	Accounting method
Associates						
KAZNURTEL Limited Liability Company	Kazakhstan	Manufacturing of computers and related equipment	USD3,000,000	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
Telecom Innovations	Uzbekistan	Sales and production of communications equipment	USD5,050,000	32.73%	–	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
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
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
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	9.31%	–	Equity method

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding % Direct	Indirect	Accounting method
Associates (continued)						
陝西高端裝備與智能製造產業研究院有限公司*	PRC	High-end equipment and smart manufacturing, product research, consultation service and technology development	RMB16,000,000	12.5%	–	Equity method
Laxense, Inc.*	U.S.A.	Manufacturing of communication and other electronic equipment	USD2,460,318	18.7%	–	Equity method
中教雲通(北京)科技有限公司	PRC	Education	RMB15,000,000	28%	–	Equity method
Kron Telekomunikasyon Hizmetleri A.S.*	Turkey	Communication and Internet service	TRY14,268.513	10%	–	Equity method
山東興濟置業有限公司*	PRC	Real estate	RMB10,000,000	10%	–	Equity method
Nubia Technology Limited	PRC	Manufacturing of communication equipment and Internet information service	RMB118,748,300	49.9%	–	Equity method
Huanggang Education Valley Investment Holdings Co., Ltd	PRC	Education	RMB50,000,000	25%	–	Equity method
石家莊市智慧產業有限公司*	PRC	Smart City construction and operation	RMB400,000,000	12%	–	Equity method
Whale Cloud Technology Co., Ltd.	PRC	Scientific research and technical service	RMB731,074,442	29.91%	–	Equity method
中興飛流信息科技有限公司	PRC	Development and computer hardware and software and Big Data development	RMB96,000,000	39%	–	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.

Nubia Technology Limited, an important associate of the Group engaged in the production of communication products as a strategic partner of the Group, is accounted for using the equity method. Such investment is strategic to the Group's business activities.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Equity investments in joint ventures and associates (continued)

The following table shows the financial information of Nubia Technology Limited, adjusted for all differences accounting policies and reconciled to the amount on the face of the financial statements:

	31 December 2019	31 December 2018
Current assets	**2,222,720**	2,300,675
Non-current assets	**268,827**	411,531
Total assets	**2,491,547**	2,712,206
Current liabilities	**1,116,389**	1,146,038
Non-current liabilities	**86,102**	—
Total liabilities	**1,202,491**	1,146,038
Non-controlling interests	**—**	795
Equity attributable to shareholders of the parent company	**1,289,056**	1,565,373
Attributable net assets per shareholding percentage	**643,239**	781,121
Adjustments	**761**	500,403
Carrying value of the investment	**644,000**	1,281,524

	31 December 2019	31 December 2018
Joint ventures		
Aggregate carrying value of investments	**114,515**	97,650

	2019	2018
Aggregate amounts of the following attributable to shareholdings:		
Net (loss)/profit	**(17,001)**	2,621
Total comprehensive income	**(17,001)**	2,621

	31 December 2019	31 December 2018
Associates		
Aggregate carrying value of investments	**1,568,773**	1,636,121

	2019	2018
Aggregate amounts of the following attributable to shareholdings:		
Net (loss)/profit	**(26,628)**	60,041
Total comprehensive income	**(26,628)**	60,041

As at 31 December 2019, there were no contingent liabilities associated with the investments in joint ventures and associates (31 December 2018: Nil).

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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:

31 December 2019

Financial assets

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
Cash	–	33,309,347	–	33,309,347
Derivative financial assets	106,065	–	–	106,065
Trading financial assets	560,662	–	–	560,662
Trade receivables	–	19,778,280	–	19,778,280
Long-term trade receivables	–	2,819,606	–	2,819,606
Factored trade receivables and factored long-term receivables	–	509,381	–	509,381
Financial assets in other receivable	–	826,308	–	826,308
Receivable financing	–	–	2,430,389	2,430,389
Financial assets in other non-current assets	–	3,288,091	–	3,288,091
Other non-current assets	1,594,254	–	–	1,594,254
	2,260,981	60,531,013	2,430,389	65,222,383

Financial liabilities

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Total
Derivative financial liabilities	126,223	–	126,223
Bank loans	–	36,783,112	36,783,112
Lease liabilities	–	1,165,502	1,165,502
Bills payable	–	9,372,940	9,372,940
Trade payables	–	18,355,610	18,355,610
Bank advances on factored trade receivables and long-term trade receivables	–	510,882	510,882
Other payables (excluding accruals and staff housing fund contributions)	–	3,507,388	3,507,388
Other non-current liabilities	–	2,117,396	2,117,396
	126,223	71,812,830	71,939,053

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

31 December 2018

Financial assets

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Total
Cash	—	24,289,798	—	24,289,798
Derivative financial assets	228,117	—	—	228,117
Trading financial assets	1,476,823	—	—	1,476,823
Trade receivables	—	21,592,325	—	21,592,325
Long-term trade receivables	—	843,429	—	843,429
Factored trade receivables and factored long-term receivables	—	1,019,910	—	1,019,910
Financial assets in other receivable	—	1,444,140	—	1,444,140
Receivable financing	—	—	2,730,351	2,730,351
Financial assets in other non-current assets	—	3,283,486	—	3,283,486
Other non-current assets	1,502,499	—	—	1,502,499
	3,207,439	52,473,088	2,730,351	58,410,878

Financial liabilities

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Total
Derivative financial liabilities	101,332	—	101,332
Bank loans	—	27,349,891	27,349,891
Bills payable	—	7,915,700	7,915,700
Trade payables	—	19,527,404	19,527,404
Bank advances on factored trade receivables and long-term trade receivables	—	1,026,068	1,026,068
Other payables (excluding accruals and staff housing fund contributions)	—	9,829,264	9,829,264
Other non-current liabilities	—	539,845	539,845
	101,332	66,188,172	66,289,504

(All amounts in RMB'000 unless otherwise stated)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

During the period, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that bills receivable with a carrying value of RMB79,816,000 (31 December 2018 RMB652,657,000) retained substantially all risks and rewards upon discounting and hence did not qualify for derecognition of financial assets.

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. 31 December 2019, trade receivables that have been transferred but not settled by the debtors amounted to RMB41,438,000 (31 December 2018: RMB413,633,000).

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 recognised to the extent of trade receivables transferred under continuous involvement. As at 31 December 2019, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB25,798,167,000 (31 December 2018: RMB26,338,984,000). 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 amortised cost) Trade receivables/ long-term receivables	
	31 December 2019	31 December 2018
Carrying value of assets under continuous involvement	**467,943**	606,277
Carrying value of liabilities under continuous involvement	**469,406**	610,440

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 2019, the amount of factored trade receivables was RMB509,381,000 (31 December 2018: RMB1,019,910,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 31 December 2019, the amount of bank advances on factored trade receivables was RMB510,882,000 (31 December 2018: RMB1,026,068,000).

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets (continued)

Transferred financial assets derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the period. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB2,009,638,000 (31 December 2018: RMB167,820,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognised at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognised 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 derecognised bills receivable is not significant. For the relevant period, the Group recognised discounted interests of RMB27,630,000 (31 December 2018: RMB2,615,000) in respect of the derecognised bills receivable as at the date of transfer.

3. Risks of financial instruments

The Group's daily activities expose it to the risk of a variety of financial instruments, mainly including credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The Group's major financial instruments included cash and bank balances, equity investments, borrowings, notes receivable and trade receivables, notes payable and trade payables, etc. The risks related to these financial instruments and the risk management strategy adopted by the Group to reduce these risks are described as follows.

The Company management is responsible for planning and establishing the risk management framework of the Group, formulating risk management policies and related guidelines of the Group and supervising the implementation of risk management measures. The Group has already developed risk management policies to identify and analyse the risks faced by the Group, which have clearly identified specific risks, covering numerous aspects such as market risk, credit risk and liquidity risk management. The Group regularly assesses the market environment and changes in the Group's business activities to determine whether or not to update its risk management policies and systems. The risk management of the Group is conducted by the operations and management department according to the policy approved by the Company management. The operations and management department identifies, evaluates and avoids related risks through close cooperation with other business units of the Group. The internal audit department of the Group conducts regular audits on risk management control and procedures and reports to the Audit Committee of the Group.

The Group spreads the risks of financial instruments by means of the appropriate diversification of its investment and business portfolios, and reduces the risks of concentration on any single industry, particular region or specific trading counterparty by formulating corresponding risk management policies.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

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 to ensure that the Group is not exposed to significant bad debts. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the special approval of the credit control department of the Group.

Since cash and bank balances, bank acceptance bills receivable and derivative financial instruments are placed with the well-established banks with high credit ratings, the credit risk of these financial instruments is relatively low.

The Group's other financial assets, which comprise cash, equity investments, other receivables and certain derivatives. The credit risk associated with such financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Criteria for judging significant increases in credit risk

The Company assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Company takes into account the reasonable and substantiated information that is accessible without exerting undue extra cost or effort, including qualitative and quantitative analysis based on the historical data of the Company, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Company compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to determine changes in the risk of default during the expected lifetime of financial instruments.

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative and qualitative criteria have been met:

- Quantitative criteria are primarily represented by the increase in the probability of default for the remaining lifetime at the reporting date is considered significant comparing with the one at initial recognition.

- Qualitative criteria are primarily represented by the significant adverse change in the debtor's operational or financial status and the watch list for potential default, among others.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Credit risk (continued)

Definition of credit-impaired financial assets

The standard adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the principal factors considered are as follows:

- Significant financial difficulty of the issuer or debtor;
- Debtors' breach of contract, such as defaulting or becoming overdue on interest or principal payments;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties of the issuer or debtor;
- The purchase or origination of a financial asset at a deep discount that reflects the incurrence of credit losses;

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

Based on whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the expected credit loss model, taking into account the forward-looking information to reflect the debtor's PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that the Company should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Credit risk (continued)

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL.

The impact of these economic indicators on the PD and the LGD varies according to different business sectors. The Group applies experts' judgement in this process and predicts these economic indicators on a monthly basis according to the result of the experts' judgement to determine the impact of these economic indicators on the PD and the LGD.

For trade receivables and contract assets for which impairment provision for expected credit loss for the entire period has been made, a risk matric model may be provided in lieu of credit risk rating. The risk matrix may follow the example shown in Note V.4A and V.8.

Liquidity risk

The Group monitors its risk to the shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans and other interest-bearing loans.

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarised as follows:

31 December 2019

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	27,337,474	2,254,612	7,894,790	40,753	37,527,629
Lease liabilities	–	520,208	105,225	238,741	553,593	1,417,767
Derivative financial liabilities	–	126,223	–	–	–	126,223
Bills payable	–	9,372,940	–	–	–	9,372,940
Trade payables	18,355,610	–	–	–	–	18,355,610
Bank advances on factored trade receivables and factored long-term trade receivable	–	348,866	94,745	39,913	27,358	510,882
Other payables (excluding accruals and staff housing fund contributions)	3,507,388	–	–	–	–	3,507,388
Other non-current liabilities	–	86,266	13,238	13,871	2,340,987	2,454,362
	21,862,998	37,791,977	2,467,820	8,187,315	2,962,691	73,272,801

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

31 December 2018

	Current	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	–	25,504,584	2,201,645	201,623	58,240	27,966,092
Derivative financial liabilities	–	101,332	–	–	–	101,332
Bills payable	–	7,915,700	–	–	–	7,915,700
Trade payables	19,527,404	–	–	–	–	19,527,404
Bank advances on factored trade receivables and factored long-term trade receivable	–	618,664	283,390	88,042	87,439	1,077,535
Other payables (excluding accruals and staff housing fund contributions)	9,829,264	–	–	–	–	9,829,264
Other non-current liabilities	–	–	47,347	36,193	456,305	539,845
	29,356,668	34,140,280	2,532,382	325,858	601,984	66,957,172

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 2019, 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 0.75% to 27.66%. In addition, the Group borrowed an approximately USD954 million loan at floating interest rates. As at 31 December 2019, there were no outstanding interest rate swaps (31 December 2018: Nil). Approximately 67% (31 December 2018: 78%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Interest rate risk (continued)

Interest-bearing borrowings with floating interest rate were mainly denominated in USD and EUR. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit or loss (through the impact on floating rate loans) and other comprehensive income (net of tax) assuming that other variables remain constant.

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
2019	**25**	**(12,150)**	**—**	**(12,150)**
	(25)	**12,150**	**—**	**12,150**
2018	25	(23,078)	—	(23,078)
	(25)	23,078	—	23,078

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 minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses and 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 net profit or loss, with all other variables held constant, as at the balance sheet date.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk (continued)

	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
2019				
Weaker RMB against USD	**3%**	**264,451**	**–**	**264,451**
Stronger RMB against USD	**(3%)**	**(264,451)**	**–**	**(264,451)**
2018				
Weaker RMB against USD	3%	330,151	–	330,151
Stronger RMB against USD	(3%)	(330,151)	–	(330,151)

	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
2019				
Weaker RMB against EUR	**5%**	**103,228**	**–**	**103,228**
Stronger RMB against EUR	**(5%)**	**(103,228)**	**–**	**(103,228)**
2018				
Weaker RMB against EUR	5%	124,333	–	124,333
Stronger RMB against EUR	(5%)	(124,333)	–	(124,333)

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

4. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group makes adjustments in the light of changes in economic conditions and in the risk profiles of relevant assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the current period ended 31 December 2019.

The Group manages capital using the financial gearing ratio, which is the ratio of interest-bearing liabilities to the sum of owners' equity and interest-bearing liabilities. The financial gearing ratio of the Group as at the balance sheet dates was as follows:

	31 December 2019	1 January 2019	31 December 2018
Interest-bearing bank borrowings	**36,783,112**	27,349,891	27,349,891
Lease liabilities	**1,165,502**	952,264	—
Other payables	**—**	500,000	500,000
Bank advances on factored receivables and long-term trade receivables	**510,882**	1,026,068	1,026,068
Total interest-bearing liabilities	**38,459,496**	29,828,223	28,875,959
Owners' equity	**37,954,298**	32,960,675	32,960,675
Total equity and interest-bearing liabilities	**76,413,794**	62,788,898	61,836,634
Gearing ratio	**50.3%**	47.5%	46.7%

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

31 December 2019

	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	**—**	**106,065**	**—**	**106,065**
Trading financial assets	**116,220**	**37,435**	**407,007**	**560,662**
Other non-current financial assets	**—**	**—**	**1,594,254**	**1,594,254**
Receivable financing	**—**	**2,430,389**	**—**	**2,430,389**
Investment properties				
Leased buildings	**—**	**—**	**1,957,242**	**1,957,242**
	116,220	**2,573,889**	**3,958,503**	**6,648,612**
Derivative financial liabilities	**—**	**(126,223)**	**—**	**(126,223)**
	—	**(126,223)**	**—**	**(126,223)**

31 December 2018

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Continuous measurement of fair value				
Derivative financial assets	—	228,117	—	228,117
Trading financial assets	761,359	666,412	49,052	1,476,823
Other non-current financial assets	—	—	1,502,499	1,502,499
Receivable financing	—	2,730,351	—	2,730,351
Investment properties				
Leased buildings	—	—	2,011,999	2,011,999
	761,359	3,624,880	3,563,550	7,949,789
Derivative financial liabilities	—	(101,332)	—	(101,332)
	—	(101,332)	—	(101,332)

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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 2019, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity instruments are determined on the basis of market prices. The fair values of equity investments in listed companies during the lock-up period is arrived at based on quotations in an active market discounted at a percentage reflecting the lack of liquidity during lock-up.

Fair value of non-listed equity investment at fair value through profit or loss is estimated using the market-based method. The assumptions on which it is based are unobservable input. The estimation requires the management to determine comparable public companies (peers) based on industry, scale, gearing and strategy and compute appropriate price multiples in respect of each identified comparable company, such as enterprise value to EBIT ("EV/EBIT"), enterprise value to revenue ("EV/Revenue") or price to earnings ("P/E"), etc. Such multiples are measured and arrived at based on the relevant data of the comparable companies and discounted by a percentage for the lack of liquidity. The discounted multiple shall be used for the measurement of the profit or asset of the non-listed equity investment to arrive at its fair value. The management believes that the estimated fair value (as recorded in the balance sheet) and changes in fair value (as recorded in profit or loss and other comprehensive income) arrived at using the aforesaid valuation method were reasonable and represented the most appropriate value as the end of the reporting period.

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 2019, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

For financial products at fair value through profit or loss, the Group estimates the fair value based on the discounted cash flow model using market interest rates of instruments with similar terms and risks.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IX. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value (continued)

Fair value of investment properties under the fair value model

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 2019 was RMB1,957,242,000 (31 December 2018: RMB2,011,999,000).

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

31 December 2019

	Fair value at end of period	Valuation techniques	Unobservable inputs	Range
Commercial properties	**RMB1,957,242,000**	**Discounted cash flow method**	**Estimated rental value (per sq. m. and per month)**	**RMB51–RMB513**
				2%–5%
			Rent growth (p.a.)	**0.5%–5.9%**
			Long term vacancy rate	**7.50%–8.25%**
			Discount rate	
Equity instrument investment	**RMB2,001,261,000**	**Market method**	**Liquidity discount rate**	**4%–30%**
			P/E	**13–67**
			EV/Revenue	**2–6**
			EV/EBIT	**11–14**

31 December 2018

	Fair value at end of period	Valuation techniques	Unobservable inputs	Range (weighted average)
Commercial properties	RMB2,011,999,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB49.5–RMB559.4
				2%–7%
			Rent growth (p.a.)	2.5%
			Long term vacancy rate	7.58%
			Discount rate	
Equity instrument investment	RMB1,551,551,000	Market method	Liquidity discount rate	4%–30%
			P/E	13–55
			EV/Revenue	2–7
			EV/EBIT	11–23

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

IX. DISCLOSURE OF FAIR VALUES (continued)

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorised within Level 3 of the fair value hierarchy:

31 December 2019

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Acquisition	Disposal	Closing balance	Change in unrealised profit or less for the period of assets held at end of period included in profit and loss
Investment properties	2,011,999	–	(62,000)	7,243	–	–	1,957,242	7,243
Trading financial assets	49,052	70,581	(49,052)	336,426	–	–	407,007	336,426
Other non-current financial assets	1,502,499	60,000	(70,581)	209,295	4,793	(111,752)	1,594,254	157,961
Total	3,563,550	130,581	(181,633)	552,964	4,793	(111,752)	3,958,503	501,630

31 December 2018

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Acquisition	Disposal	Closing balance	Change in unrealised profit or less for the period of assets held at end of period included in profit and loss
Investment properties	2,023,809	–	–	(11,810)	–	–	2,011,999	(11,810)
Trading financial assets	–	37,434	–	11,618	–	–	49,052	11,618
Other non-current financial assets	1,602,930	–	–	(2,228)	101,100	(199,303)	1,502,499	(6,372)
Total	3,626,739	37,434	–	(2,420)	101,100	(199,303)	3,563,550	(6,564)

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to non-financial assets is analysed as follows:

	2019 Relating to financial assets	2018 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	7,243	(11,810)
Change in unrealised profit or loss for the period of assets held at year-end included in profit and loss as at the end of the period	7,243	(11,810)

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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.

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Place of registration	Nature of business	Registered capital	Percentage of shareholding (%)	Percentage of voting rights (%)
Zhongxingxin Telecom Company Limited	Shenzhen, Guangdong	Manufacturing	RMB100 million	27.18%	27.18%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Zhongxingxin Telecom Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note VI and Note VII.1.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

4. Other related parties

	Relationship
深圳市中興新地技術股份有限公司	Subsidiary of the Company's controlling shareholder
ZTE Quantum Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxingxin Cloud Service Company Limited	Subsidiary of the Company's controlling shareholder
深圳市中興新力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
安徽中興聚力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
Pylon Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited	Subsidiary of the Company's controlling shareholder
Shenzhen Xingkai Communication Equipment Limited	Subsidiary of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd	Subsidiary of the Company's controlling shareholder
中興儀器(深圳)有限公司[*1]	Former subsidiary of the Company's controlling shareholder
惠州中興新通訊設備有限公司[*2]	Former subsidiary of the Company's controlling shareholder

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
Zhongxing Development Company Limited	Company for which a connected natural person of the Company acted as director and executive vice president
Huatong Technology Co., Ltd	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Huatong Software Technology (Nanjing) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
杭州中興中投物業管理有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Hangzhou Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
重慶中興中投物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
三河中興物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
ZTE Software Technology (Shenyang) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Shenzhen ZTE International Investment Company Limited	Company for which a connected natural person of the Company acted as chairman
Tianjin ZTE International Investment Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as chairman
Shenzhen Zhongxing WXT Equipment Company Limited	Company for which a connected natural person of the Company acted as director
北京中興協力科技有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
Shenzhen Zhongxing Information Company Limited	Company for which a connected natural person of the Company acted as director
航天歐華信息技術有限公司 (formerly known as 深圳市航天歐華科技發展有限責任公司)	Subsidiary of a company for which a connected natural person of the Company served as senior management

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
廣東歐科空調製冷有限公司	Company for which a connected natural person of the Company acted as director
深圳市中興宜和投資發展有限公司	Company for which a connected natural person of the Company acted as chairman
Xi'an Microelectronics Technology Research Institute	Entity for which connected natural person of the Company acted as head of institute
Lishan Microelectronics Corporation	Company for which a connected natural person of the Company acted as executive director and general manager
深圳中興新源環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
上海中興科源實業有限公司	Subsidiary of a company for which a connected natural person of the Company acted as chairman
深圳中興節能環保股份有限公司	Company for which a connected natural person of the Company acted as vice chairman
興天通訊技術有限公司*3	Company for which a former connected natural person of the Company had previously acted as chairman
長沙浩鯨雲軟件有限公司	Subsidiary of an associate of the Company
南京中興軟創軟件技術有限公司	Subsidiary of an associate of the Company
玄雀數據科技(南京)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
南京中興和泰酒店管理有限公司	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
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company
ZTE Energy (Shenzhen) Limited	Subsidiary of an associate of the Company

*1 Such company has ceased to be a subsidiary of the Controlling Shareholder of the Company as from 14 December 2017,and such company has ceased to be a connected person of the Company as from 14 December 2018.

*2 The said company has ceased to be a subsidiary of the controlling shareholder of the Company as from 10 January 2018 and has ceased to be a connected party of the Company as from 10 January 2019.

*3 The former chairman of the said company has ceased to be a connected natural person of the Company as from 21 February 2018 and the said company has ceased to be a connected party of the Company as from 21 February 2018.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties

(1) Transaction of goods and labour service with related parties

Sales of goods and rendering of service to related parties

	2019 Amount	2018 Amount
Zhongxingxin Telecom Company Limited	58	14
Puxing Mobile Tech Company Limited	14,364	57,961
ZTE Quantum Co., Ltd.	—	3
Zhongxing Development Company Limited	3	20
航天歐華信息技術有限公司 (formerly known as 深圳市航天歐華科技發展有限責任公司)	604,909	256,667
上海中興思秸通訊有限公司	690	1
中興儀器(深圳)有限公司	—	5,475
深圳中興節能環保股份有限公司	—	839
Shenzhen Xinyu Tengyue Electronics Co., Ltd	—	133
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	54	55
三河中興發展有限公司	—	6
Huanggang Education Valley Investment Holdings Co., Ltd.	2,702	2,715
Nubia Technology Limited	348,969	706,326
ZTE Energy (Shenzhen) Limited	—	1
上海市和而泰酒店投資管理有限公司	—	1,763
上海博色信息科技有限公司	3,760	6,975
德特賽維技術有限公司	—	5
深圳市中興新力精密機電技術有限公司	—	56
浩鯨雲計算科技股份有限公司	21,446	183
惠州中興新通訊設備有限公司	—	18
Shenzhen Zhongxingxin Cloud Service Company Limited	208	—
Shenzhen Zhongxing Information Company Limited	8,476	—
長沙浩鯨雲軟件有限公司	6	—
Sindi Technologies Co., Ltd.	6,124	—
興天通訊技術有限公司	—	34
鄂爾多斯市雲端科技有限公司	1	—
ZTE Software Technology (Nanchang) Company Limited	802	—
	1,012,572	1,039,250

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(1) Transaction of goods and labour service with related parties (continued)

Purchases of goods and services from related parties

	2019 Amount	2018 Amount
Zhongxingxin Telecom Company Limited	**1,970**	65,877
Sindi Technologies Co., Ltd.	**79,519**	56,032
Shenzhen Xinyu Tengyue Electronics Co., Ltd	**30,200**	35,919
Huatong Technology Co., Ltd	**56,768**	38,880
ZTE Software Technology (Nanchang) Company Limited	**24,288**	19,787
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**22,959**	21,592
南京中興和泰酒店管理有限公司	**4,366**	3,474
上海市和而泰酒店投資管理有限公司	**3,717**	5,145
西安中興和泰酒店管理有限公司	**4,461**	2,467
中興儀器(深圳)有限公司	**—**	239
Pylon Technologies Co., Ltd.	**105,668**	51,768
Nubia Technology Limited	**91,383**	756,479
Laxense,Inc.	**—**	10,745
Shenzhen Zhongxingxin Cloud Service Company Limited	**—**	57
深圳市中興新力精密機電技術有限公司	**185,356**	57
ZTE Software Technology (Shenyang) Company Limited	**4,580**	3,418
Whale Cloud Technology Co., Ltd	**498,583**	92,175
安徽中興聚力精密機電技術有限公司	**40**	—
	1,113,858	1,164,111

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

	Type of property leased	2019 Lease income	2018 Lease income
Zhongxing Development Company Limited	Office	—	13
Puxing Mobile Tech Company Limited	Office	521	655
中興儀器(深圳)有限公司	Office	—	1,668
深圳中興節能環保股份有限公司	Office	176	—
Hengyang ICT Real Estate Co., Ltd	Office	6	211
上海中興思秸通訊有限公司	Office	342	453
上海中興科源實業有限公司	Office	416	303
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment and facilities	17,475	17,826
南京中興和泰酒店管理有限公司	Property and equipment and facilities	8,278	7,848
上海市和而泰酒店投資管理有限公司	Property and equipment and facilities	19,547	29,412
西安中興和泰酒店管理有限公司	Property and equipment and facilities	26,729	28,986
Huatong Software Technology (Nanjing) Company Limited	Office	369	184
Shenzhen ZTE International Investment Company Limited	Office	—	73
Shenzhen Zhongxingxin Cloud Service Company Limited	Office	1,112	841
Zhongxingxin Telecom Company Limited	Staff quarters	—	6
深圳市中興新力精密機電技術有限公司	Staff quarters	19	8
		74,990	88,487

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties (continued)

As lessee

	Type of property leased	2019 Lease expense	2018 Lease expense
Zhongxingxin Telecom Company Limited	Office	**9,809**	8827
Zhongxing Development Company Limited	Office	**1,571**	704
Chongqing Zhongxing Development Company Limited	Office	**8,117**	4,812
三河中興發展有限公司	Office	**12,512**	6,180
三河中興物業服務有限公司	Office	**4,066**	1,900
Tianjin ZTE International Investment Company Limited	Office	**4,595**	2,413
Hangzhou Zhongxing Development Company Limited	Quarters and plants	**48**	120
杭州中興中投物業管理有限公司	Quarters and plants	**—**	33
重慶中興中投物業服務有限公司	Office	**9**	—
		40,727	24,989

(3) Other major related transactions

	2019 Amount	2018 Amount
Remuneration of key management personnel	**42,642**	19,617

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 RMB74,990,000 (2018: RMB88,487,000) 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 RMB40,727,000 (2018: RMB24,989,000) 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 RMB42,642,000 (2018: RMB19,617,000). The corresponding cost for share-based payment was RMB1,926,000 (2018: RMB2,112,000). Certain of the key management personnel referred to above were concurrently entitled to defined benefit plans provided by the Group, which were not included in the remuneration set out above.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties

(1) In December 2018, the Group entered into a 3-year purchase agreement with Zhongxingxin Telecom Company Limited and its subsidiaries for the purchase of raw materials for use in production. For details of purchases incurred during the year, please refer to Note X.5(1). The maximum amounts of total purchases by the Group from the aforesaid related parties for 2020 to 2021 are estimated at RMB800 million and RMB900 million (before VAT), respectively.

(2) In December 2018, the Group entered into a 3-year purchase agreement with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries for the purchase of hotel services. For details of purchases incurred during the year, please refer to Note X.5(1). The maximum amounts of total purchases of hotel services by the Group from the aforesaid related parties for 2020 to 2021 are estimated at RMB36.5 million and RMB37.5 million (before VAT), respectively.

(3) In December 2018, the Group entered into a 2-year international project service cooperation agreement with ZTE Software Technology (Nanchang) Company Limited for the purchase of software outsourcing services. For details of purchases incurred during the year, please refer to Note X.5(1). The maximum amounts of total purchases by the Group from the aforesaid related party for 2018 to 2020 are estimated at RMB1 million and RMB1 million (before VAT), respectively.

(4) In July 2017, the Group entered into a 2-year property lease contract with 上海中興思秸通訊有限公司. For details of rental income incurred during the year, please refer to Note X.5(2).

(5) In April 2018, the Group entered into a 15-month property lease contract with 上海中興思秸通訊有限公司. For details of rental income incurred during the year, please refer to Note X.5(2).

(6) In April 2019, the Group entered into a 3-year property lease contract with 上海中興思秸通訊有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2020, 2021 and 2022 to be RMB325,000, RMB325,000 and RMB103,000, respectively.

(7) In October 2018, the Group entered into a 6-month property lease contract with Puxing Mobile Tech Company Limited. For details of rental income incurred during the year, please refer to Note X.5(2).

(8) In April 2019, the Group entered into a 6-month property lease contract with Puxing Mobile Tech Company Limited. For details of rental income incurred during the year, please refer to Note X.5(2).

(9) In June 2018, the Group entered into a 1-year property lease contract with 中興儀器(深圳)有限公司. For details of rental income incurred during the year, please refer to Note X.5(2).

(10) In January 2019, the Group entered into a 1-year property and equipment leasing agreement with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries. For details of rental income incurred during the year, please refer to Note X.5(2).

(11) In January 2016, the Group entered into a 3-year property lease contract with Hengyang ICT Real Estate Co., Ltd. For details of rental income incurred during the year, please refer to Note X.5(2).

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(12) In July 2018, the Group entered into a 2-year property lease contract with 上海中興科源實業有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2020 to be RMB208,000.

(13) In April 2018, the Group entered into a 26-month property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2020 to be RMB390,000.

(14) In September 2017, the Group entered into a 2-year property lease contract with Huatong Software Technology (Nanjing) Company Limited. For details of rental income incurred during the year, please refer to Note X.5(2).

(15) In July 2018, the Group entered into a 1-year property lease contract with 深圳市中興新力精密機電技術有限公司. For details of rental income incurred during the year, please refer to Note X.5(2).

(16) In July 2019, the Group entered into a 1-year property lease contract with 深圳市中興新力精密機電技術有限公司. For details of rental income incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2020 to be RMB8,000.

(17) In April 2017, the Group entered into a 2-year lease agreement with Zhongxingxin Telecom Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2).

(18) In April 2019, the Group entered into a 2-year lease agreement with Zhongxingxin Telecom Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental income for 2020 and 2021 to be RMB10,225,000 and RMB3,039,000, respectively

(19) In January 2018, the Group entered into a 3-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 and 2021 to be RMB1,073,000 and RMB1,073,000, respectively.

(20) In January 2018, the Group entered into a 18-month lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2).

(21) In June 2019, the Group entered into a 6-month lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2).

(22) In July 2019, the Group entered into a 18-month lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to be RMB749,000.

(23) In December 2019, the Group entered into a 13-month lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to be RMB5,829,000.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments with related parties (continued)

(24) In June 2019, the Group entered into a 18-month lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to be RMB405,000.

(25) In December 2019, the Group entered into a 13-month lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to be RMB338,000.

(26) In April 2018, the Group entered into a 3-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to 2021 to be RMB2,803,000 and RMB833,000, respectively.

(27) In April 2019, the Group entered into a 1-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to be RMB106,000.

(28) In April 2018, the Group entered into a 3-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to 2021 to be RMB1,493,000 and RMB444,000, respectively.

(29) In December 2018, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2).The Group estimated rental expense for 2020 to 2021 to be RMB753,000 and RMB722,000, respectively.

(30) In December 2017, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to be RMB1,631,000.

(31) In March 2017, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to be RMB2,435,000.

(32) In June 2017, the Group entered into a 2-year lease agreement with Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2).

(33) In June 2019, the Group entered into a 2-year lease agreement with Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 and 2021 to be RMB1,733,000 and RMB814,000, respectively.

(34) In April 2018, the Group entered into a 2-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to be RMB31,000.

(35) In April 2018, the Group entered into a 2-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X.5(2). The Group estimated rental expense for 2020 to be RMB4,000.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties

Item	Name of related parties	31 December 2019 Amount	31 December 2018 Amount
Receivable financing/ other current assets	航天歐華信息技術有限公司 (formerly known as 深圳市航天歐華科技發展有限責任公司)	**87,756**	252,992
	中興儀器(深圳)有限公司	**—**	7,380
	Nubia Technology Limited	**—**	991
		87,756	261,363
Trade receivable	Puxing Mobile Tech Company Limited	**17,772**	15,801
	Zhongxingxin Telecom Company Limited	**33**	14
	Xi'an Microelectronics Technology Research Institute	**9**	9
	ZTE Quantum Co., Ltd.	**—**	304
	航天歐華信息技術有限公司 (formerly known as 深圳市航天歐華科技發展有限責任公司)	**9,515**	13,948
	鄂爾多斯市雲端科技有限公司	**1**	—
	興天通訊技術有限公司	**—**	1,588
	ZTE Software Technology (Nanchang) Company Limited	**650**	—
	中興儀器(深圳)有限公司	**—**	5,577
	廈門智慧小區網絡科技有限公司	**—**	1
	Huanggang Education Valley Investment Holdings Co., Ltd.	**902**	925
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**—**	2
	Nubia Technology Limited	**157,533**	46,423
	Whale Cloud Technology Co., Ltd.	**180,125**	172,033
	Zhongxing Development Company Limited	**—**	21
	Shenzhen Zhongxing Information Company Limited	**730**	—
	上海中興思秸通訊有限公司	**64**	—
	Shenzhen Zhongxingxin Cloud Service Company Limited	**241**	—
	長沙浩鯨雲軟件有限公司	**1**	—
		367,576	256,646

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	31 December 2019 Amount	31 December 2018 Amount
Prepayments	Zhongxingxin Telecom Company Limited	**73**	242
	Laxense, Inc.	**3,842**	—
		3,915	242
Other receivables	Zhongxingxin Telecom Company Limited	**—**	14
	南京中興和泰酒店管理有限公司	**4,172**	6,962
	ZTE 9 (Wuxi) Co., Ltd	**90**	90
	Shenzhen Zhongxing Information Company Limited	**14**	14
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**7,124**	28,336
	Sindi Technologies Co., Ltd.	**445**	445
	西安中興和泰酒店管理有限公司	**7,276**	9,526
	Zhongxing Development Company Limited	**—**	14
	山東興濟置業有限公司	**21,761**	21,761
	Hengyang ICT Real Estate Co., Ltd	**—**	236
	上海市和而泰酒店投資管理有限公司	**30,086**	29,412
	Whale Cloud Technology Co., Ltd.	**640**	2,101
		71,608	98,911
Dividend receivable	前海融資租賃股份有限公司	**3,081**	5,400
Bills payable	Shenzhen Xinyu Tengyue Electronics Co., Ltd	**43**	220
	Sindi Technologies Co., Ltd.	**39,408**	—
		39,451	220
Trade payables	Zhongxingxin Telecom Company Limited	**6,494**	8,514
	Shenzhen Xinyu Tengyue Electronics Co., Ltd	**4,323**	3,096
	Sindi Technologies Co., Ltd.	**424**	3,802
	深圳市中興新舟成套設備有限公司	**183**	183
	Shenzhen Zhongxing WXT Equipment Company Limited	**327**	327
	Shenzhen Zhongxing Information Company Limited	**2,915**	3,811
	Puxing Mobile Tech Company Limited	**30**	—
	Xi'an Microelectronics Technology Research Institute	**192**	192
	北京中興協力科技有限公司	**—**	36
	ZTE Software Technology (Nanchang) Company Limited	**—**	50
	中興儀器(深圳)有限公司	**—**	16,021
	ZTE 9 (Wuxi) Co., Ltd	**83**	83
	Nubia Technology Limited	**91,282**	134,115
	Kron Telekomunikasyon Hizmetleri A.S.	**617**	88
	廣東歐科空調製冷有限公司	**200**	—
	Pylon Technologies Co., Ltd.	**12,062**	2,943
	Whale Cloud Technology Co., Ltd.	**260,844**	81,793
	深圳市中興新力精密機電技術有限公司	**26,763**	—
	興天通訊技術有限公司	**—**	397
		406,739	255,451

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related parties	31 December 2019 Amount	31 December 2018 Amount
Contract liabilities	ZTE Software Technology (Nanchang) Company Limited	**5,327**	5,025
	Puxing Mobile Tech Company Limited	**4,273**	23,704
	Xi'an Microelectronics Technology Research Institute	**1,628**	1,391
	北京中興協力科技有限公司	**155**	132
	航天歐華信息技術有限公司 (formerly known as 深圳市航天歐華科技發展有限責任公司)	**28,946**	53,097
	ZTE Software Technology (Shenyang) Company Limited	**4**	12
	ZTE Energy Limited	**6**	5
	ZTE 9 (Wuxi) Co., Ltd	**1**	1
	Whale Cloud Technology Co., Ltd.	**8,361**	11,434
	Huanggang Education Valley Investment Holdings Co., Ltd.	**17**	35
	深圳市中興宜和投資發展有限公司	**40**	38
	紹興市智慧城市集團有限公司	**—**	476
	深圳市中興新力精密機電技術有限公司	**—**	5
	Zhongxing Development Company Limited	**30**	—
	ZTE Quantum Co., Ltd.	**38**	—
	Shenzhen Zhongxing Information Company Limited	**1,570**	—
		50,396	95,355
Other payables	Shenzhen Zhongxing WXT Equipment Company Limited	**12**	12
	Zhongxing Development Company Limited	**—**	215
	Zhongxingxin Telecom Company Limited	**310**	500,812
	深圳中興新源環保股份有限公司	**4**	4
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	**5,261**	5,184
	中山優順置業有限公司	**2,000**	2,000
	Huanggang Education Valley Investment Holdings Co., Ltd.	**78**	178
	Hengyang ICT Real Estate Co., Ltd	**198**	434
	Nubia Technology Limited	**—**	10
	山東興濟置業有限公司	**272**	272
	ZTE Software Technology (Nanchang) Company Limited	**50**	50
	Lishan Microelectronics Corporation	**65**	65
	Whale Cloud Technology Co., Ltd. Whale Cloud Technology Co., Ltd.	**419,381**	419,560
	南京中興軟創軟件技術有限公司	**47,883**	—
	玄雀數據科技(南京)有限公司	**47,264**	—
	Shenzhen Xingkai Communication Equipment Limited	**4,053**	—
		526,831	928,796

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivables from related parties were interest-free and unsecured with a usual credit term of 0–90 days, which may be extended to up to 1 year.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) Customer deposits

	31 December 2019 Amount	31 December 2018 Amount
深圳市中興宜和投資發展有限公司	**89**	88

(2) Interest expenses

	2019 Amount	2018 Amount
Huanggang Education Valley Investment Holdings Co., Ltd.	**–**	3
深圳市中興宜和投資發展有限公司	**–**	636
	–	639

(3) Interest income from loans and bills discounting

	2019 Amount	2018 Amount
Pylon Technologies Co., Ltd.	**–**	78

XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:

	2019	2018
Accumulated balance of equity-settled share-based payments credited to capital reserves	**290,356**	438,791
Transfer of cost of equity-settled share-based payments to share premium in capital reserve upon exercise of share options	**(340,225)**	–
Total costs of equity-settled share-based payments in the period	**191,790**	193,188

Notes to Financial Statements

31 December 2019
(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

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.

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/3	2019.7.6 – 2020.7.5	ROE for 2017 shall be no less than 10% and Net Profit Growth for 2017 shall be no less than 10% on a base amount of RMB3,825 million
Second exercise period ("Second Period")	1/3	2020.7.6 – 2021.7.5	ROE for 2018 shall be no less than 10% and Net Profit Growth for 2018 shall be no less than 20% on a base amount of RMB3,825 million
Third exercise period ("Third Period")	1/3	2021.7.6 – 2022.7.5	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

Notes to Financial Statements

31 December 2019
(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)

2017 Share Option Incentive Scheme (continued)

The fair value of the share options granted amounted to RMB1,477,496,000. Due to the non-fulfilment of exercise conditions for the second vesting period, the Group recognised the share options expense of RMB191,790,000 during the 12 months ended 31 December 2019 based on the actual volume for the first vesting period and the best estimates of expected number of exercisable options at the end of the period for the third vesting period.

Share options issued and outstanding under the Scheme are as follows:

	2019		2018	
	Weighted average exercise price* RMB/share	**Number of share options In '000**	Weighted average exercise price* RMB/share	Number of share options In '000
At the beginning of the year	**17.06**	**81,864**	17.06	149,601
Exercised during the year		**(34,858)**		—
Lapsed		**(2,474)**		(67,737)
At the end of the period	**17.06**	**44,532**	17.06	81,864

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

31 December 2019 Number of share options In '000	**Exercise price* RMB/share**	**Valid exercise period**
4,806	**17.06**	6 July 2019 to 5 July 2020
39,726	**17.06**	6 July 2021 to 5 July 2022
44,532		

31 December 2018 Number of share options In '000	Exercise price* RMB/share	Valid exercise period
40,932	17.06	6 July 2019 to 5 July 2020
40,932	17.06	6 July 2021 to 5 July 2022
81,864		

In 2019, the Company issued 34,858,026 ordinary shares as a result of the exercise of 34,858,026 share options and its share capital was increased by RMB34,858,000 with a share capital premium of RMB901,536,000. For details, please refer to Note V.34 and 35.

Notes to Financial Statements

31 December 2019
(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)

2017 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**
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.

XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	31 December 2019	31 December 2018
Contracted but not provided of		
Capital commitments	**3,097,021**	3,414,134
Investment commitments	**68,246**	73,452
	3,165,267	3,487,586

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events

2.1 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 RMB54,322,900). 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 RMB54,098,700), 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 RMB54,098,700) 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 RMB54,098,700) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB144 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.

Notes to Financial Statements

31 December 2019
(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 On 12 July 2017, the Company received a notice of arbitration (reference numbers LCIA No.173683 and LCIA No.173696) 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 (reference number DIFC-LCIA No.17098) filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by a Mauritanian subsidiary of the said Sudanese carrier (the "Mauritanian Subsidiary"). The Sudanese carrier and its Mauritanian Subsidiary filed claims against the Company for damages arising from breach of contract amounting to USD31.80 million in aggregate, together with legal fees, arbitration fees and other related costs. Upon receipt of the aforesaid arbitration notices, the Company has appointed an attorney for active response to the case.

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

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

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

In May 2019, the aforesaid Sudanese carrier withdrew its application for LCIA arbitration (reference number LCIA No.173696).

In February 2020, LCIA made a ruling in respect of arbitration case LCIA No.173683 rejecting the USD30,060,326 claim of the counterparty and requiring the aforesaid Sudanese carrier and its Mauritanian subsidiary to make payments of USD4,209,877 and GBP260,095.20 together with interests to the Company.

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.

Notes to Financial Statements

31 December 2019
(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)

2.3. On 15 April 2018, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the "15 April 2018 Denial Order"). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (its wholly-owned subsidiary) (the "ZTE Companies") from participating in any way, whether directly or indirectly, in any transaction involving any commodity, software, or technology exported or to be exported from the United States that is subject to the U.S. Export Administration Regulations ("EAR"), or any other activities subject to control under EAR. The full text of the 15 April 2018 Denial Order was published in the United States Federal Register (Federal Register Vol. 83, p. 17644) dated 23 April 2018.

In June 2018, ZTE and BIS entered into a superseding settlement agreement ("2018 Superseding Settlement Agreement") to supersede the settlement agreement signed between ZTE and BIS in March 2017. The 2018 Superseding Settlement Agreement came into effect via a superseding order relating to ZTE on 8 June 2018 (the "8 June 2018 Order"). In accordance with the 2018 Superseding Settlement Agreement, the Company had paid civil monetary penalties totalling USD1.4 billion, including a lump sum payment of USD1 billion and an additional penalty of USD0.4 billion placed in an escrow account with a U.S. bank suspended during the Probationary Period (10 years from the issue of the 8 June 2018 Order) (The USD0.4 billion penalty will be waived after the end of Probation Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order (the "Probationary Period") that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR to be imposed by BIS, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE's compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To fulfill the obligations under the superseding settlement agreement of 2018 and the settlement agreement with the U.S. government in 2017, the Company is required to provide and implement a comprehensive and updated export control compliance programme that covers all levels of ZTE.

In the event of the Company's violation of obligations under the 2018 Superseding Settlement Agreement or agreement of 2017, (i) the suspended New Denial Order might be activated, which would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any transaction involving any commodity, software, or technology that is subject to the EAR; (ii) the USD0.4 billion placed in an escrow account with a U.S. bank shall become payable immediately and shall be paid in full or in part.

Notes to Financial Statements

31 December 2019
(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)

2.3. (continued)

The Company has formed an export compliance committee under the Board comprising the Company's Executive Directors, Non-executive Directors and Independent Non-executive Directors. An export control compliance team comprising the chief export control compliance officer, the regional export control compliance officer and senior export control compliance experts from around the world has been formed with the support of professional external legal and consultants' teams. A number of consulting firms has been engaged to provide professional guidance for the development and improvement of the Company's administrative structure, system and processes for export control compliance. The SAP trade compliance control system (GTS) has been introduced and implemented to facilitate automated export control compliance administration. We commenced the online publication of ECCN to provide customers and business partners with ECCN code and other export control information relating to products governed by U.S. Export Control Regulations. Online and offline export control compliance training has been provided to senior management personnel, subsidiaries, compliance coordinators, account managers and new employees. Supervisory initiatives have been carried out in support of the work of the independent compliance monitor and the Special Compliance Coordinator, complemented by ongoing input of resources in export control compliance.

In 2020, the Company will continue to comply with applicable laws and regulations of the countries and regions where its business is operated, including economic sanctions and various restrictions under export control laws and regulations. Adherence to the export control compliance measures of ZTE and the statutory regulations on which such measures are based is a fundamental requirement for the employees, contract-based staff and business departments of the Company.

Compliance will not only defend values, but will also add value. The Company places a strong emphasis on export control compliance and regards compliance as the cornerstone of its strategy as well as the pre-requisite condition and bottomline of its operations. With the dedicated and prudent efforts of each employee on export control compliance, the Company will continue to add value for our customers, shareholders and staff and foster a sound and compliant business environment with customers and partners.

During the period from 1 January 2019 to the date of publication of this report, to the best of the Company's knowledge, the aforesaid contingent events will not have any material adverse impact on the current financial conditions and operating results of the Group.

Notes to Financial Statements

31 December 2019
(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)

2.4 On 31 October 2018, a natural person filed a litigation with the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") against the Company as defendant and ZTE Integration Telecom Limited ("ZTE Integration") and Nubia Technology Limited as third parties without independent rights of claim, on the grounds that the Company had infringed upon his interests as a shareholder of ZTE Integration, demanding (1) a RMB200 million compensation payable to him by the Company; and (2) the assumption by the Company of all costs of the litigation (including but not limited to litigation costs and legal fees amounting to RMB200,000).

On 9 April 2019, the Company received judiciary documents from the Guangdong Higher Court, including a notice of response to action, summons for exchange of evidence and a notice requiring the provision of evidence, among others. The Company has appointed an attorney for active response to the 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 arbitration cannot be reliably estimated.

2.5 As at 31 December 2019, an amount of RMB13,559,281,000 (31 December 2018: RMB10,726,178,000) was outstanding under the bank guarantee letters issued by the Group.

XIII. POST-BALANCE SHEET DATE EVENTS

1. Pursuant to the profit distribution proposal recommended by the Board, distribution of RMB2 in cash (before tax) for every 10 shares to all shareholders based on the total share capital (including A shares and H shares) as at the record date for profit distribution and dividend payment. In the event of changes in the Company's total share capital after the announcement of the Company's profit distribution proposal for 2019 but before its implementation, the total amount of distribution shall be readjusted in accordance with the law on the basis of the total share capital (including A shares and H shares) as at the record date for profit and dividend distribution for the purpose of the profit distribution proposal for 2019 according to the existing proportion for distribution. The aforesaid matter is subject to consideration and approval at the general meeting.

2. On 15 January 2020, the Company entered into a subscription agreement with 10 subscribers confirming the issue of 381,098,968 shares at an issue price of RMB30.21/share raising total issue proceeds of RMB11,512,999,823.28. New shares under the Company's non-public issue of A shares were listed on Shenzhen Stock Exchange on 4 February 2020.

3. Since the outbreak of COVID-19, the measures to prevent and contain the epidemic have been ongoing. As at the date of publication of this report, to the best of the knowledge of the Company, the epidemic will not have any material adverse impact on the financial conditions and operating results of the Group.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XIV. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee

	2019
Interest expense on lease liabilities	**81,261**
Short-term lease expenses under simplified approach included in current profit or loss	**330,496**
Total cash outflow relating to leases	**474,490**

Lease assets rented by the Group included houses and buildings, transportation equipment and other equipment. Houses and buildings are typically leased for terms of 1 year to 10 years, transportation equipment and other equipment are typically leased for terms of 1 to 5 years, and other equipment are typically leased for terms of 1 to 2 years. Some lease contracts provide for renewal option and option for termination.

Major leases (applicable only to 2018):

According to the lease contract signed with lessor, future minimum lease payments under non-cancellable operating leases falling due are as follows:

	31 December 2018
Within one year (including first year)	479,365
In the first to second years (including second year)	243,953
In the second to third years (including third year)	154,819
After the third year	147,238
	1,025,375

As lessor

The Group leased certain of its houses and buildings under operating leases with lease terms ranging from 1 year to 9 years. According to the lease contracts, the rental shall be adjusted annually according to market rates. For 2019, the Group reported revenue of RMB294,545,000 from the lease of houses and buildings. For details, please refer to Note V. 40 and Note V. 12.

Finance lease:

Profit or loss relating finance lease is set out in the following:

	2019
Profit or loss from sales	**2,662,740**
Interest income from finance leases	**26,947**
	2,689,687

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XIV. OTHER SIGNIFICANT MATTERS (continued)

1. Leases (continued)

As lessor (continued)

Finance lease: (continued)

Finance leasing: as at 31 December 2019, the balance of unrealised finance income amounting to RMB242,505,000 was amortised over the respective periods in the lease period using the effective interest rate method. According to the lease contract signed with the lessees, future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 December 2019
In the second to third years (including third year)	1,824,100
Less: unrealised finance income	242,505
Lease investment, net	1,581,595

Operating lease:

Profit and loss relating to operating lease is set out as follows:

	2019
Lease income	128,699

Operating lease: according to the lease contract signed with lessee, minimum lease payments under non-cancellable operating leases falling due are as follows:

	31 December 2019
Within one year (including first year)	132,482
In the first to second years (including second year)	131,019
In the second to third years (including third year)	58,788
In the third to fourth years (including fourth year)	49,811
In the fourth to fifth years (including fifth year)	51,472
After the fifth year	213,724
	637,296

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting

Operating segments

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

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

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that finance costs, research and development costs, impairment losses, gain/(losses) from changes in fair values, investment income as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude derivative financial instruments, deferred tax assets, cash, long-term equity investments, other receivables and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, loans, other payables, bonds payables, tax payable, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
2019				
Revenue from external transactions	66,584,394	14,997,407	9,026,082	90,607,883
Rental income	—	—	128,699	128,699
Sub-total	66,584,394	14,997,407	9,154,781	90,736,582
Segment results	21,917,122	1,229,827	1,782,023	24,928,972
Unallocated revenue				1,879,578
Unallocated cost				(17,791,317)
Finance costs				(965,955)
Gain from changes in fair values				(213,992)
Investment gain from associates and joint ventures				(675,616)
Total profit				7,161,670
Total assets				
31 December 2019				
Segment assets	46,843,989	9,479,379	6,440,646	62,764,014
Unallocated assets				78,438,121
Sub-total				141,202,135
Total liabilities				
Segment liabilities	11,511,610	1,933,582	1,582,747	15,027,939
Unallocated liabilities				88,219,898
Sub-total				103,247,837
Supplemental information				
2019				
Depreciation and amortization expenses	2,246,935	506,097	833,802	3,586,834
Capital expenditure	3,580,558	806,481	1,114,683	5,501,722
Asset impairment losses	(940,076)	(211,742)	(129,252)	(1,281,070)
Credit impairment loss	(1,635,255)	(368,323)	(224,833)	(2,228,411)

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Operating segments (continued)

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
2018				
Revenue from external transactions	57,075,772	19,209,590	9,089,781	85,375,143
Rental income	—	—	138,007	138,007
Sub-total	57,075,772	19,209,590	9,227,788	85,513,150
Segment results	16,550,965	223,002	1,649,391	18,423,358
Unallocated revenue				142,651
Unallocated cost				(23,976,987)
Finance costs				(280,648)
Gain from changes in fair values				(861,259)
Investment gain from associates and joint ventures				(797,318)
Total profit				(7,350,203)
Total assets				
31 December 2018				
Segment assets	38,903,524	11,734,829	6,290,953	56,929,306
Unallocated assets				72,421,443
Sub-total				129,350,749
Total liabilities				
Segment liabilities	11,113,248	2,595,090	1,797,085	15,505,423
Unallocated liabilities				80,884,651
Sub-total				96,390,074
Supplemental information				
2018				
Depreciation and amortization expenses	1,673,551	563,255	270,573	2,507,379
Capital expenditure	3,137,583	1,055,995	507,271	4,700,849
Asset impairment losses	(1,386,203)	(466,544)	(224,116)	(2,076,863)
Credit impairment loss	(2,439,451)	(821,029)	(394,401)	(3,654,881)

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XIV. OTHER SIGNIFICANT MATTERS (continued)

2. Segment reporting (continued)

Group Information

Geographic information

Revenue from external customers

	2019	2018
PRC Mainland	**58,217,032**	54,444,175
Asia (excluding PRC)	**13,180,258**	11,877,250
Africa	**5,316,090**	4,082,307
Europe, America and Oceania	**14,023,202**	15,109,418
	90,736,582	85,513,150

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

	31 December 2019	31 December 2018
PRC Mainland	**19,844,745**	20,260,245
Asia (excluding PRC)	**1,651,432**	1,741,804
Africa	**562,167**	540,986
Europe, America and Oceania	**49,331**	953,920
	22,107,675	23,496,955

Non-current assets, excluding long-term receivables, factored long-term receivables, long-term equity investments, other non-current financial assets, deferred tax assets, right-of-use assets, goodwill and other non-current assets, are analysed by geographic locations where the assets are located.

Information of major customers

Operating revenue of RMB26,285,650,000 was derived from carriers' network and handset terminal revenue from one major customer (2018: RMB21,408,710,000 from one major customer).

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

XV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

The aging analysis of trade receivables is set out as follows:

	31 December 2019	31 December 2018
Within 1 year	**13,772,606**	18,786,786
1–2 years	**7,173,545**	7,546,493
2–3 years	**3,636,401**	2,627,386
Over 3 years	**11,285,660**	9,643,102
	35,868,212	38,603,767
Less: bad debt provision for trade receivables	**10,974,675**	9,557,940
	24,893,537	29,045,827

	31 December 2019				31 December 2018			
	Book balance		**Expected credit loss for the entire subsisting period**		Book balance		Expected credit loss for the entire subsisting period	
	Amount	**Percentage (%)**	**Amount**	**Percentage (%)**	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	**6,237,644**	**17**	**6,237,644**	**100**	4,743,118	12	4,743,118	100
For which bad debt provision has been collectively made								
0–6 months	**9,542,656**	**27**	**218,276**	**2**	11,660,246	31	228,095	2
6–12 months	**3,267,561**	**9**	**74,955**	**2**	5,282,249	14	159,596	3
12–18 months	**2,824,007**	**8**	**155,611**	**6**	3,620,399	9	187,758	5
18–24 months	**2,291,844**	**6**	**79,193**	**3**	2,086,197	5	158,751	8
2–3 years	**3,366,571**	**10**	**989,417**	**29**	2,549,977	7	1,046,319	41
Over 3 years	**8,337,929**	**23**	**3,219,579**	**39**	8,661,581	22	3,034,303	35
	29,630,568	**83**	**4,737,031**	**16**	33,860,649	88	4,814,822	14
	35,868,212	**100**	**10,974,675**		38,603,767	100	9,557,940	

Movements in bad-debt provisions for trade receivables:

	Opening balance	**Provision for the year**	**Reversed for the year**	**Write off**	**Closing balance**
31 December 2019	**9,557,940**	**2,638,857**	**–**	**(1,222,122)**	**10,974,675**
31 December 2018	6,630,794	3,021,151	–	(94,005)	9,557,940

As at 31 December 2019, there was no reversal of bad debt provision for the year (2018: Nil) and trade receivables which were individually significant and for which bad-debt provision had been made amounting to RMB1,072,476,000 (31 December 2018: Nil) was written off for the year.

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables".

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

2. Other receivables

The aging analysis of other receivables:

	31 December 2019	31 December 2018
Within 1 year	**25,056,517**	8,898,896
1–2 years	**3,374,021**	3,085,770
2–3 years	**2,793,401**	2,615,148
Over 3 years	**1,023,092**	1,349,401
	32,247,031	15,949,215
Bad debt provision	**(120,763)**	(13,540)
Total	**32,126,268**	15,935,675

Other receivables are analysed as follows:

	31 December 2019	31 December 2018
Dividend receivable	**3,912,671**	23,753
Staff loans	**145,462**	243,676
Transactions with third parties	**28,068,135**	15,668,246
Total	**32,126,268**	15,935,675

3. Long-term trade receivables

	31 December 2019	31 December 2018
Loans granted to subsidiaries (Note 1)	**5,541,687**	5,415,135
Installment payments for the provision of telecommunication system construction projects	**2,224,784**	130,322
Less: Bad debt provision for long-term receivables	**29,594**	2,571
	7,736,877	5,542,886

Note 1: Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

Movements in bad debt provision for long-term receivables during the year are as follows:

	Opening balance	**Provision for the year**	**Reversed for the year**	**Write off**	**Closing balance**
31 December 2019	**2,571**	**27,023**	**—**	**—**	**29,594**
31 December 2018	—	2,571	—	—	2,571

The interest rate of long-term trade receivables ranged from 4.50%–6.16%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables".

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

4. Long-term equity investments

		31 December 2019	31 December 2018
Equity method			
Joint ventures	(1)	**67,515**	84,513
Associates	(2)	**1,875,993**	1,996,509
Less: Provision for impairment in long-term equity investments		**7,241**	7,241
		1,936,267	2,073,781
Cost method			
Subsidiaries	(3)	**10,759,982**	11,156,132
Less: Provision for impairment in long-term equity Investments	(4)	**425,667**	61,192
		10,334,315	11,094,940
		12,270,582	13,168,721

31 December 2019

(1) Joint ventures

	Opening balance	Movements during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	57,234	–	–	(11,528)	–	–	–	–	45,706	–
德特賽維技術有限公司	27,278	–	–	(5,469)	–	–	–	–	21,809	–
	84,512	–	–	(16,997)	–	–	–	–	67,515	–

(2) Associates

	Opening balance	Movements during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	–	–	–	–	–	–	–	–	–	(2,477)
ZTE Software Technology (Nanchang) Company Limited	3,947	–	–	(184)	–	–	–	–	3,763	–
ZTE Energy Limited	426,995	–	–	(227)	–	–	–	–	426,768	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	1,790	–	–	(466)	–	–	–	–	1,324	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	4,360	–	–	(2,179)	–	–	–	–	2,181	–
中興江蘇耀維科技	2,927	–	–	(65)	–	–	–	–	2,862	
廣東中城信息技術有限公司	4,634	–	–	228	–	–	–	–	4,862	–
上海博色信息科技有限公司	26,134	–	–	648	–	–	–	–	26,782	–
南京寧網科技有限公司	3,876	–	–	(1,016)	–	–	–	–	2,860	–
Nubia Technology Limited	801,118	–	–	(136,070)	–	–	–	–	665,048	–
Whale Cloud Technology Co., Ltd.	665,209	–	–	15,575	–	(1,411)	–	–	679,373	–
石家莊市智慧產業有限公司	48,278	–	–	(16,198)	–	–	–	–	32,080	–
中興飛流信息科技有限公司	–	20,849	–	–	–	–	–	–	20,849	–
	1,989,268	20,849	–	(139,954)	–	(1,411)	–	–	1,868,752	(7,241)

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

4. Long-term equity investments (continued)

31 December 2019 (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100.0%	100.0%	4,690,000
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	68.0%	68.0%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	–	179,767	90.0%	90.0%	4,000
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80.0%	80.0%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100.0%	100.0%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	–	40,500	83.0%	83.0%	–
Guangdong ZTE Newstart Technology Co., Ltd.	13,110	13,110	–	13,110	90.0%	90.0%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100.0%	100.0%	–
Shenzhen Zhongliancheng Electronic Development Company Limited	–	2,100	(2,100)	–	–	–	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100.0%	100.0%	1,200,000
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90.0%	90.0%	–
ZTE (Hangzhou) Company Limited	–	100,000	(100,000)	–	–	–	–
中興國通通訊裝備技術(北京)有限公司	22,160	15,200	6,960	22,160	100.0%	100.0%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100.0%	100.0%	2,752
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 Do Brasil 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%	–
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%	12,100
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100.0%	100.0%	129,562
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	–	–	–	–	–	*	186,000

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

4. Long-term equity investments (continued)

31 December 2019 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100.0%	100.0%	–
北京中興網捷科技有限公司	289,341	289,341	–	289,341	100.0%	100.0%	–
北京中興高達通信技術有限公司	42,750	42,750	–	42,750	100.0%	100.0%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100.0%	100.0%	–
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95.0%	95.0%	–
中興新能源汽車有限責任公司	232,360	218,240	14,120	232,360	100.0%	100.0%	–
西安中興通訊終端科技有限公司	300,000	300,000	–	300,000	100.0%	100.0%	718,136
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	56,800	92,800	(36,000)	56,800	28.9%	*	45,000
中興捷維通訊技術有限責任公司	51,530	46,530	5,000	51,530	100.0%	100.0%	–
深圳市興聯達科技有限公司	–	30,000	(30,000)	–	–	–	–
西安中興精誠科技有限公司	9,393	9,393	–	9,393	100.0%	100.0%	–
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	–	19,500	65.0%	65.0%	–
長沙中興智能技術有限公司	350,000	350,000	–	350,000	100.0%	100.0%	128,504
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	45,000	45,000	–	45,000	100.0%	100.0%	–
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	–	50,000	100.0%	100.0%	–
ZTE (Huai'an) Smart Industries Company Limited	–	31,620	(31,620)	–	0.0%	0.0%	–
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	–	2,000	100.0%	100.0%	–
中興飛流信息科技有限公司	–	48,960	(48,960)	–	0.0%	0.0%	–
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)	–	0.0%	0.0%	–
ZTE Smart Auto Company Limited	790,500	790,500	–	790,500	100.0%	100.0%	127,034
Shijiazhuang Smart City Research Institute Company Limited	–	2,000	(2,000)	–	0.0%	0.0%	–
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)	120,000	300,000	(180,000)	120,000	25.0%	*	21,000
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%	–

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

4. Long-term equity investments (continued)

31 December 2019 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
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%	100,230
ZTE Wangkun Information Technology (Shanghai) Co., Ltd.	36,000	36,000	–	36,000	75.0%	75.0%	–
西安中興電子科技有限公司	45,000	45,000	–	45,000	100.0%	100.0%	–
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	3,000	–	3,000	100.0%	100.0%	–
ZTE (Kunming) ZTE Smart City Industry Research Institute Co., Ltd.	–	2,000	(2,000)	–	0.0%	0.0%	–
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	10,000	10,000	–	10,000	100.0%	100.0%	–
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	623,260
深圳市英博超算科技有限公司	13,000	–	13,000	13,000	45.2%	**	–
		11,156,132	(396,150)	10,759,982			7,987,578

* 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.

** This subsidiary is a company with limited liability in which the Company had a shareholding of less than 50%. It was accounted for as a subsidiary mainly owing to the fact that the board of directors of such subsidiary comprises 5 members in accordance with its articles of association and 3 of them were nominated by the Company. As board resolutions are passed by a majority vote of the directors, the Company was in a position to exercise control over this subsidiary.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

4. Long-term equity investments (continued)

31 December 2019 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	–	5,381
Shenzhen Guoxin Electronics Development Company Limited	23,767	–	23,767
ZTE Do Brasil LTDA	10,059	8,513	18,572
ZTE Integration Telecom Limited	4,591	–	4,591
Wistron Telecom AB	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	334,105	335,759
ZTE Romania S.R.L	827	–	827
PT ZTE Indonesia	–	15,275	15,275
ZTE-Communication Technologies,Ltd.	–	6,582	6,582
	61,192	364,475	425,667

31 December 2018

(1) Joint ventures

		Movements during the year								
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Carrying value as at the end of the year	Impairment provision at the end of the year
Puxing Mobile Tech Company Limited	56,687	–	–	547	–	–	–	–	57,234	–
德特賽維技術有限公司	29,395	–	–	(2,116)	–	–	–	–	27,279	–
	86,082	–	–	(1,569)	–	–	–	–	84,513	–

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

4. Long-term equity investments (continued)

31 December 2018 (continued)

(2) Associates

	Opening balance	Movements during the year: Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other comprehensive income	Other equity movements	Cash dividend declared	Allowance for impairment provision	Others	Carrying value as at the end of the year	Impairment provision at the end of the year
KAZNURTEL Limited Liability Company	2,477	–	–	–	–	–	–	(2,477)	–	–	(2,477)
ZTE Software Technology (Nanchang) Company Limited	3,799	–	–	148	–	–	–	–	–	3,947	–
ZTE Energy Limited	421,510	–	–	5,485	–	–	–	–	–	426,995	–
思卓中興(杭州)科技有限公司	21,248	–	(21,248)	–	–	–	–	–	–	–	–
Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited	3,155	–	–	(1,365)	–	–	–	–	–	1,790	–
北京億科三友科技發展有限公司	–	–	–	–	–	–	–	–	–	–	(4,764)
上海中興思秸通訊有限公司	4,179	–	–	181	–	–	–	–	–	4,360	–
中興江蘇耀維科技	3,834	–	–	(907)	–	–	–	–	–	2,927	–
廣東中興城智信息技術有限公司	4,392	–	–	242	–	–	–	–	–	4,634	–
上海博色信息科技有限公司	20,909	–	–	5,225	–	–	–	–	–	26,134	–
南京寧網科技有限公司	3,460	–	–	416	–	–	–	–	–	3,876	–
Nubia Technology Limited	1,400,518	–	–	(599,400)	–	–	–	–	–	801,118	–
Whale Cloud Technology Co., Ltd.	–	–	–	55,723	–	–	–	–	609,486	665,209	–
石家莊市智慧產業有限公司	–	48,000	–	278	–	–	–	–	–	48,278	–
	1,889,481	48,000	(21,248)	(533,974)	–	–	–	(2,477)	609,486	1,989,268	(7,241)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	–
Iwhale Cloud Technology Co., Ltd	–	250,441	(250,441)	–	89.0%	89.0%	80,099
Shanghai Zhongxing Telecom Equipment Technology Company Limited	37,382	37,382	–	37,382	90.0%	90.0%	–
ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100.0%	100.0%	–
ZTE Microelectronics Technology Company Limited	91,957	91,957	–	91,957	76.0%	76.0%	–
Anhui Wantong Posts and Telecommunication Company Limited	179,767	179,767	–	179,767	90.0%	90.0%	4,667
ZTE Integration Telecom Limited	41,250	41,250	–	41,250	80.0%	80.0%	–
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	45,000	45,000	–	45,000	100.0%	100.0%	–
Xi'an Zhongxing Jing Cheng Communication Company Limited	40,500	40,500	–	40,500	83.0%	83.0%	–
Guangdong ZTE Newstart Technology Co., Ltd.	13,110	13,110	–	13,110	90.0%	90.0%	–
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100.0%	100.0%	–

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

4. Long-term equity investments (continued)

31 December 2018 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongliancheng Electronic Development Company Limited	2,100	2,100	–	2,100	100.0%	100.0%	–
Xi'an Zhongxing New Software Company Limited	600,000	600,000	–	600,000	100.0%	100.0%	–
Shenzhen Zhongxing ICT Company Limited	157,019	157,019	–	157,019	90.0%	90.0%	–
ZTE (Hangzhou) Company Limited	100,000	100,000	–	100,000	100.0%	100.0%	–
中興國通通訊裝備技術(北京)有限公司	15,200	15,200	–	15,200	76.0%	76.0%	–
Shenzhen Guoxin Electronics Development Company Limited	29,700	29,700	–	29,700	100.0%	100.0%	–
PT. ZTE Indonesia	15,275	15,275	–	15,275	100.0%	100.0%	–
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 Do Brasil LTDA	18,573	18,573	–	18,573	100.0%	100.0%	–
ZTE Romania S.R.L	827	827	–	827	100.0%	100.0%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100.0%	100.0%	–
ZTE Communication Technologies, Ltd. (Russia)	6,582	6,582	–	6,582	100.0%	100.0%	–
Zhongxing Telecom Pakistan (Private) Ltd.	5,279	5,279	–	5,279	93.0%	93.0%	–
Closed Joint Stock Company TK Mobile	16,871	16,871	(16,871)	–	51.0%	51.0%	–
ZTE (H.K.) Limited	853,800	853,800	–	853,800	100.0%	100.0%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55.0%	55.0%	57,200
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100.0%	100.0%	–
Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise	–	–	–	–	31.0%	*	96,000
ZTE Group Finance Co., Ltd	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
深圳市百維技術有限公司	16,000	16,000	–	16,000	100.0%	100.0%	–
北京中興網捷科技有限公司	289,341	289,341	–	289,341	100.0%	100.0%	–
北京中興高達通信技術有限公司	47,500	47,500	(4,750)	42,750	100.0%	100.0%	–
深圳市中興雲服務有限公司	50,000	50,000	–	50,000	100.0%	100.0%	–

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

4. Long-term equity investments (continued)

31 December 2018 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
深圳市中興系統集成技術有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
福建海絲路科技有限公司	47,500	47,500	–	47,500	95.0%	95.0%	–
中興新能源汽車有限責任公司	112,500	112,500	105,740	218,240	85.0%	85.0%	–
西安中興通訊終端科技有限公司	300,000	300,000	–	300,000	100.0%	100.0%	–
中興健康科技有限公司	15,000	15,000	–	15,000	50.0%	50.0%	–
深圳市中興智谷科技有限公司	15,000	15,000	–	15,000	100.0%	100.0%	–
Jiaxing Xinghe Equity Investment Partnership	92,800	92,800	–	92,800	30.0%	*	–
中興捷維通訊技術有限責任公司	46,530	46,530	–	46,530	100.0%	100.0%	–
深圳市興聯達科技有限公司	30,000	30,000	–	30,000	100.0%	100.0%	–
西安中興精誠科技有限公司	9,393	9,393	–	9,393	100.0%	100.0%	–
河南中興光伏科技有限責任公司	–	3,000	(3,000)	–	100.0%	100.0%	–
Xinjiang ZTE Silk Road Network Technology Company Limited	19,500	19,500	–	19,500	65.0%	65.0%	–
長沙中興智能技術有限公司	350,000	350,000	–	350,000	100.0%	100.0%	–
深圳市中興視通科技有限公司	35,400	35,400	–	35,400	100.0%	100.0%	–
中興(溫州)軌道通訊技術有限公司	25,500	25,500	–	25,500	51.0%	51.0%	–
Zhongxing (Shenyang) Financial Technology Company Limited	22,000	26,500	18,500	45,000	100.0%	100.0%	–
Shenzhen ZTE Jinkong Commercial Factoring Company Limited	50,000	50,000	–	50,000	100.0%	100.0%	–
ZTE (Huai'an) Smart Industries Company Limited	31,620	31,620	–	31,620	51.0%	51.0%	–
Shenzhen Zhiheng Technology Company Limited	2,000	2,000	–	2,000	100.0%	100.0%	–
中興飛流信息科技有限公司	48,960	48,960	–	48,960	51.0%	51.0%	–
ZTE Gaoneng Technology Company Limited	400,000	400,000	–	400,000	80.0%	80.0%	–
Jiyuan ZTE Smart Technology Industries Company Limited	2,550	2,550	–	2,550	51.0%	51.0%	–

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

4. Long-term equity investments (continued)

31 December 2018 (continued)

(3) Subsidiaries (continued)

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenyang (ZTE) Big Data Research Company Limited	–	2,000	(2,000)	–	100.0%	100.0%	–
ZTE Smart Auto Company Limited	790,500	790,500	–	790,500	100.0%	100.0%	–
Shijiazhuang Smart City Research Institute Company Limited	2,000	2,000	–	2,000	80.0%	80.0%	–
ZTE Group Finance Holdings (Hangzhou) Limited	–	500,000	(500,000)	–	100.0%	100.0%	–
ZTE (Yiwu) Research Institute Company Limited	–	2,800	(2,800)	–	70.0%	70.0%	–
中興光電子技術有限公司	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership)	300,000	300,000	–	300,000	25.0%	*	–
深圳市中瑞檢測科技有限公司	10,000	10,000	–	10,000	100.0%	100.0%	–
ZTE Kela Technology (Suzhou) Co., Ltd.	44,100	44,100	–	44,100	90.0%	90.0%	–
Xi'an ZTE IOT Terminal Co., Ltd.	49,000	49,000	–	49,000	100.0%	100.0%	–
ZTE (Xi'an) Co., Ltd.	500,000	500,000	–	500,000	100.0%	100.0%	–
ZTE Wangkun Information Technology (Shanghai) Co., Ltd.	36,000	36,000	–	36,000	75.0%	75.0%	–
西安中興電子科技有限公司	11,250	11,250	33,750	45,000	100.0%	100.0%	–
Wuhan ZTE Smart City Research Institute Co., Ltd.	3,000	3,000	–	3,000	100.0%	100.0%	–
ZTE (Kunming) ZTE Smart City Industry Research Institute Co., Ltd.	–	–	2,000	2,000	100.0%	100.0%	–
ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd.	5,000	5,000	5,000	10,000	100.0%	100.0%	–
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100.0%	100.0%	–
		11,771,004	(614,872)	11,156,132			237,966

* This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

Notes to Financial Statements

31 December 2019
(Prepared in accordance with PRC ASBEs)
(All amounts in RMB'000 unless otherwise stated)
(English translation for reference only)

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

4. Long-term equity investments (continued)

31 December 2018 (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the year	Closing balance
ZTE (USA) Inc.	5,381	—	5,381
Shenzhen Guoxin Electronics Development Company Limited	23,767	—	23,767
ZTE Do Brasil LTDA	10,059	—	10,059
ZTE Integration Telecom Limited	4,591	—	4,591
Wistron Telecom AB (Europe Research Institute)	2,030	—	2,030
ZTE Corporation Mexico S.DER.LDEC.V.	41	—	41
Zhongxing Telecom Pakistan (Private) Ltd.	2,971	—	2,971
Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited	9,656	—	9,656
ZTE Holdings (Thailand) Co., Ltd	10	—	10
ZTE (Thailand) Co., Ltd.	205	—	205
ZTE Telecom India Private Ltd.	1,654	—	1,654
ZTE Romania S.R.L	827	—	827
	61,192	—	61,192

5. Operating revenue and costs

	2019		2018	
	Revenue	**Cost**	Revenue	Cost
Principal operations	**66,022,132**	**64,882,345**	64,560,080	63,831,760
Other businesses	**14,155,482**	**172,233**	11,555,278	129,181
	80,177,614	**65,054,578**	76,115,358	63,960,941

6. Investment income

	2019	2018 (Restated)
Investment loss from long-term equity investment under equity method	**(159,135)**	(535,543)
Investment income from long-term equity investment under cost method	**7,987,576**	237,966
Investment gain earned during the period of holding financial assets at fair value through profit or loss for the period of holding other non-current financial assets	**31,416**	30,196
Investment income from the disposal of long-term equity investment	**15,146**	1,017,940
Investment loss/(income) from disposal of derivative investments	**(28,111)**	27,492
Loss on derecognition of financial assets at amortised cost	**(95,861)**	(238,855)
	7,751,031	539,196

Supplementary Information to Financial Statements

31 December 2019
(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	2019
Income from the disposal of non-current assets	2,688,036
Investment gain from the disposal of long-term equity investments	126,724
Gain/loss from fair-value change in derivative financial assets and derivative financial liabilities, and investment gain from disposal of derivative financial assets and derivative financial liabilities	(125,724)
Reversal of impairment provision for individually tested receivables	67,171
Gain/loss from change in fair value of investment properties	7,243
Impairment of long-term equity investment	(20,205)
Other income (other than software VAT refund and refund of tax handing fees)	437,903
Net amount of other non-operating income and expenses and others other than the above	(390,511)
Other profit or loss items meeting the criteria for extraordinary profit or loss	2,713,492
	5,504,129
Effect of income tax	825,619
Effect of non-controlling interests (net of tax)	15,290
	4,663,220

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:

	2019	Reason
Refund of VAT on software products	1,244,781	In line with national policies and received on an ongoing basis
Return of tax refund fee	13,194	In line with national policies and received on an ongoing basis
Venture capital firm and fair value change	819,627	Within the scope of business

Supplementary Information to Financial Statements

31 December 2019
(Prepared under PRC ASBEs)
(Currency: RMB'000 unless otherwise stated)
(English translation for reference only)

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

2019

	Weighted average return on net assets (%)	**Earnings per share Basic**	**Diluted**
Net profit attributable to ordinary shareholders of the Company	**19.96%**	**RMB1.22**	**RMB1.22**
Net profit after extraordinary items attributable to ordinary shareholders of the Company	**1.88%**	**RMB0.12**	**RMB0.11**

2018

	Weighted average return on net assets (%)	Earnings per share Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	(26.10%)	RMB(1.67)	RMB(1.67)
Net profit after extraordinary items attributable to ordinary shareholders of the Company	(12.69%)	RMB(0.81)	RMB(0.81)

3. RECONCILIATION OF DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER PRC AND HONG KONG FINANCIAL REPORTING STANDARDS

There were no significant differences between financial statements prepared under PRC ASBEs and under HKFRSs for the year.

Independent Auditor's Report

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 329 to 439, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

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

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of telecommunications system construction contracts	
Revenue generated from telecommunications system construction contracts amounted to RMB52,921,351,000 for the year ended 31 December 2019, representing 58% of the total revenue for the year. Such contracts consisted a number of performance obligations mainly included sales of equipment, installation services and various other services. The following significant judgements and estimates by the management are required for the revenue recognition of telecommunications system construction contracts: I. Whether the promised goods or services represent separate performance obligations. In making such judgment, the management needs to assess whether the promised goods or services are distinct. II. Whether each distinct performance obligation is satisfied over time or at a point in time. In making such judgment, the management needs to consider how the performance obligation is being delivered to customers.	Our audit procedures mainly included the following: I. We evaluated the process of revenue recognition of telecommunications system construction contracts and the related internal controls, assessed the Group's accounting policies, and tested the effectiveness of the design and execution of key internal controls. II. We performed the following tests of details on a sampling basis: In respect of the judgement on whether a performance obligation is distinct and on the timing of the transfer of control, we have assessed the management's assumptions and methodology upon which judgement is based, as well as reviewed the key terms of the contract. In respect of the allocation of transaction price, we have assessed the expected cost plus a margin approach and compared the major parameters (e.g., cost, gross margin percentage) used in the model against historical data.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Revenue recognition of telecommunications system construction contract (continued)	
III. To allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling price of the distinct good or service underlying each performance obligation, the management adopts the expected cost plus a margin approach, which is primarily based on historic data, past experience, parts and configuration of the projects and the evaluation of risk and uncertainty inherent in the arrangement. IV. For contract modifications (mainly by way of increasing performance obligations and/or reducing transaction prices) caused by delay in deliveries, the management needs to judge whether this constitute new performance obligations and whether satisfied and unsatisfied performance obligations are distinct from each other on the date of modification, in order to allocate the modified transaction prices appropriately between the delivered and undelivered performance obligations. When changes in the corresponding transaction price are yet to be confirmed, the management needs to make estimations on the changes in transaction price caused by contract modification. In view of the above, the revenue recognition of telecommunications system construction contracts is relatively complicated, we have identified the recognition of revenue from telecommunications system construction as a key audit matter. The relevant disclosures are contained in note 2.4 "Summary of significant accounting policies"; note 3 "Significant accounting judgements and estimates"; note 4 "Operating segment information"; note 5 "Revenue, other income and gains"; note 28 "Contract assets" and note 33 "Contract liabilities" to the financial statements.	Our audit procedure mainly included the following (continued): III. In respect of contract modification, we have examined the supplemental agreements signed with customers and assessed the methods for allocating transaction prices between the delivered and undelivered performance obligations; for contract modification of which the amount has yet to be confirmed, we have assessed the key assumptions on which the management's estimates are based.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss of trade receivables and contract assets	
The carrying amount of trade receivables (long-term trade receivables included) and contract assets as at 31 December 2019 was approximately RMB32,135,736,000 in aggregate, represented 23% of the Group's total asset. According to IFRS 9 *Financial Instruments*, Impairment losses of trade receivables and contact assets are accounted for using the expected credit loss ("ECL") approach. For trade receivables and contract assets that contain a significant financing component, ZTE Corporation elects to measure loss provision based on the ECL amount for the lifetime period, therefore the loss provision for all trade receivables and contract assets shall be measured on the basis of the ECL amount for the lifetime period. The Management assesses the ECL of some trade receivables and contract assets individually and others by group. For trade receivables and contract assets that are individually significant with objective evidence that the credit risk is obviously different from others, impairment losses are measured based on the present value of all cash shortfalls over their remaining expected lives. For other trade receivables and contract asset, ECLs are assessed collectively, taking into consideration past due information in response to shared credit risk characteristics of debtors. The management has established a provision matrix based on days past due by reference to its historical credit loss experience, adjusted for reasonable and supportable forward-looking factors specific to current and future economic environments.	Our audit procedure mainly included the following: We evaluated the processes of the ECL of trade receivables and contract assets and the related internal controls, and we tested the effectiveness of design and execution of key internal controls. For ECL of trade receivables and contract assets assessed on individual level, we have examined on a sampling basis the objective evidence relating to the impairment of trade receivables and contract assets and the key assumptions used in the estimate of the present value of all cash shortfalls. We have also reviewed whether amounts have been recovered after the end of reporting period. For other trade receivables and contract assets, we have assessed whether the provision matrix established by the management was in compliance with the ECL approach and assessed the key parameters used in the provision matrix including mainly credit rating, historical rates of bad debts, migration rates and forward-looking information, etc.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Expected credit loss of trade receivables and contract assets (continued)	
The ECL of trade receivables and contract assets has a significant impact on the financial statements and is subject to significant judgments and estimates of the management. Accordingly, the ECL of trade receivables and contract assets was identified as a key audit matter. The relevant disclosures are contained in note 2.4 "Summary of significant accounting policies"; note 3 "Significant accounting judgements and estimates"; note 22 "Trade receivables/long-term trade receivables" and note 28 "Contract assets" to the financial statements.	Our audit procedure mainly included the following (continued): We have obtained debtors' credit information on a sampling basis to check whether the classification of debtors was in compliance with the Group's policy. We have tested the management's ageing analysis based on days past due by examining the original documents (such as bills and bank deposit advices). We have recalculated the ECL of each type of trade receivables and contract assets according to the provision matrix.

Independent Auditor's Report

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Write-down of inventories to net realisable value	
As at 31 December 2019, the carrying amount of inventories in the consolidated financial statements was RMB27,688,508,000 representing 27% of the Group's total assets. The impairment provision of inventories was made based on their respective estimated net realisable values. The assessment of the estimated net realisable value was calculated based on the management's estimated selling prices, estimated costs to be incurred upon completion of production, costs to be incurred to make the sale and the relevant tax. With respect to the estimation of selling price, the selling price of the inventories will be made with reference to their contract price if they are held for particular contracts. For those without being earmarked to a particular contract or held for contracts which were cancelled or modified, the management will base on their realisation method to estimate their respective realisable values. The amount of write-down of inventories to net realisable value has a significant impact on the financial statements and is subject to significant judgements and estimates. Therefore, the write-down of inventories to net realisable value was identified as a key audit matter. The relevant disclosures are contained in note 2.4 "Summary of significant accounting policies"; note 3 "Significant accounting judgements and estimates"; note 6 "Profit/(loss) before tax" and note 27 "Inventories" to the financial statements.	Our audit procedure mainly included the following: We evaluated processes of write-down of inventories to net realisable value and the related internal controls; and we performed testing on key controls to assess the design and execution effectiveness of key internal controls. We observed the stocktaking process to check whether the damaged, slow-moving and obsolete inventories were identified. We tested the ageing analysis of inventories by checking the original documents. We evaluated the key assumptions, such as selling prices, cost to be incurred upon completion, selling expense and the relevant taxes, which were used by the management in calculating the net realisable value. For inventories held for particular contracts, we checked the respective contract prices on a sampling basis. For others, we inspected key assumptions used by the management in estimating the net realisable value and checked whether these inventories were sold subsequent to the reporting period on a sampling basis.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Gain on the derecognition of land-use rights relating to the Shenzhen Bay Super Headquarters Base	
ZTE Corporation and Shenzhen Vanke Development Company Limited (formerly known as "Shenzhen Vanke Real Estate Co., Ltd.", hereafter refers to as "Vanke") entered into a series of agreements (collectively "the Agreements") to entrust Vanke with full powers to construct and develop the land site No. T208–0049 (the "Site") held by ZTE Corporation. Vanke will take all responsibilities and risks on development funding and construction of the Site, and earn all rewards from the Site. ZTE Corporation, in return, will receive the agreed amount of cash and housing properties as the considerations for the land-use right of the Site entrusted to Vanke. Based on HKFRS 16 *Leases*, though the legal title of the land-use right had not been transferred, the transaction was classified as finance lease as (i) the period of Vanke's entitlement to the land-use right was equivalent to the whole term of the land-use right of the Site, and (ii) the considerations received by ZTE Corporation was equivalent to the entire fair value of the land-use right at the inception date. ZTE Corporation, as the lessor, derecognised the land-use right assets and recognised income of RMB2,662,740,000, which accounted for 37% of the Group's total profit for the year. As the amount had a significant impact on the financial statements and was subject to significant management judgement and estimates, we identified the gain on the derecognition of land-use rights relating to the Shenzhen Bay Super Headquarters Base as a key audit matter. The relevant disclosures are contained in note 2.2 "Changes in accounting policies and disclosures", note 2.4 "Summary of significant accounting policies", note 3 "Significant accounting judgements and estimates" and note 16 "Leases" to the financial statements.	Our audit procedures mainly included the following: We obtained and examined the series of agreements entered into with Vanke; We obtained an understanding of the background of the transaction, interviewed related personnel regarding the arrangements for the transaction, and inspected resolutions of general meetings and board resolutions and relevant documents relating to the matter; We reviewed the fair value appraisal report furnished by the valuer engaged by the management and assessed the competence, professional capability and objectivity of the valuer engaged by the management; We involved an internal valuation expert to assist us in reviewing the method, model and key parameters adopted for the fair value evaluation; We reviewed the management analysis of the accounting treatment of the method and examined the adequacy and completeness of the relevant disclosures in the financial statements; and We reviewed the management calculations of revenue from the derecognition of land-use rights.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is TJEN, Michael.

Certified Public Accountants
Hong Kong

27 March 2020

Consolidated Statement of Profit or Loss and Other Comprehensive Income

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
REVENUE	5	**90,736,582**	85,513,150
Cost of sales		**(58,877,974)**	(58,638,348)
Gross profit		**31,858,608**	26,874,802
Other income and gains	5	**6,816,147**	4,630,411
Research and development costs		**(12,547,898)**	(10,905,584)
Selling and distribution expenses		**(7,868,722)**	(9,084,489)
Administrative expenses		**(5,289,089)**	(4,106,152)
Impairment losses on financial and contract assets, net		**(2,228,411)**	(3,654,881)
Loss on disposal of financial assets measured at amortised cost	7	**(209,387)**	(320,281)
Other expenses		**(975,775)**	(8,978,307)
Finance costs	8	**(1,718,187)**	(1,008,404)
Share of profits and losses of:			
Joint ventures		**(17,001)**	2,621
Associates		**(658,615)**	(799,939)
PROFIT/(LOSS) BEFORE TAX	6	**7,161,670**	(7,350,203)
Income tax (expense)/credit	11	**(1,385,001)**	400,863
PROFIT/(LOSS) FOR THE YEAR		**5,776,669**	(6,949,340)
Attributable to:			
Ordinary equity holders of the parent		**5,147,877**	(6,983,662)
Perpetual capital instruments		**348,600**	417,037
Non-controlling interests		**280,192**	(382,715)
		5,776,669	(6,949,340)
OTHER COMPREHENSIVE INCOME			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences on translation of foreign operations		**57,040**	(904,769)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**57,040**	(904,769)
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:			
Actuarial loss on defined benefit plans	37	**(7,599)**	(477)
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods		**(7,599)**	(477)
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX		**49,441**	(905,246)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**5,826,110**	(7,854,586)
Attributable to:			
Ordinary equity holders of the parent		**5,194,458**	(7,869,318)
Perpetual capital instruments	42	**348,600**	417,037
Non-controlling interests		**283,052**	(402,305)
		5,826,110	(7,854,586)
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT	13		
Basic		**RMB1.22**	RMB(1.67)
Diluted		**RMB1.22**	RMB(1.67)

Consolidated Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

	Notes	**31 December 2019 RMB'000**	31 December 2018 RMB'000 (Restated)
NON-CURRENT ASSETS			
Property, plant and equipment	14	**10,555,204**	10,194,112
Investment properties	15	**1,957,242**	2,011,999
Right-of-use assets	16(b)	**3,468,949**	—
Prepaid land lease payments	16(a)	**—**	4,867,296
Goodwill	17	**186,206**	186,206
Other intangible assets	18	**7,190,061**	6,270,288
Investments in joint ventures	19	**114,515**	97,650
Investments in associates	20	**2,212,773**	2,917,645
Financial assets at fair value through profit or loss	21	**1,594,254**	1,502,499
Long-term trade receivables	22	**2,819,606**	843,429
Factored long-term trade receivables	23	**200,671**	432,041
Deferred tax assets	24	**2,511,372**	2,787,790
Pledged deposits	25	**2,928,810**	2,928,146
Long-term prepayments, deposits and other receivables	26	**2,895,298**	1,310,735
Total non-current assets		**38,634,961**	36,349,836
CURRENT ASSETS			
Prepaid land lease payments	16(a)	**—**	153,260
Inventories	27	**27,688,508**	25,011,416
Contract assets	28	**9,537,850**	8,462,226
Trade receivables	22	**19,778,280**	21,592,325
Debt investments at fair value through other comprehensive income	29	**2,430,389**	2,730,351
Factored trade receivables	23	**308,710**	587,869
Prepayments, other receivables and other assets	30	**8,847,363**	8,468,728
Financial assets at fair value through profit or loss	21	**560,662**	1,476,823
Derivative financial instruments	31	**106,065**	228,117
Pledged deposits	25	**3,343,511**	3,057,459
Time deposits with original maturity of over three months	25	**1,460,036**	98,228
Cash and cash equivalents	25	**28,505,800**	21,134,111
Total current assets		**102,567,174**	93,000,913

Consolidated Statement of Financial Position

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

	Notes	**31 December 2019 RMB'000**	31 December 2018 RMB'000 (Restated)
CURRENT LIABILITIES			
Trade and bills payables	32	**27,728,550**	27,443,104
Contract liabilities	33	**14,517,057**	14,479,355
Other payables and accruals	34	**14,059,625**	17,815,087
Derivative financial instruments	31	**126,223**	101,332
Interest-bearing bank borrowings	35	**26,738,019**	24,983,323
Lease liabilities	16(c)	**520,208**	—
Bank advances on factored trade receivables	23	**310,024**	591,931
Tax payables		**399,124**	532,281
Dividend payables		**5,222**	1,322
Provision	36	**1,966,464**	2,167,614
Total current liabilities		**86,370,516**	88,115,349
NET CURRENT ASSETS		**16,196,658**	4,885,564
TOTAL ASSETS LESS CURRENT LIABILITIES		**54,831,619**	41,235,400
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	35	**10,045,093**	2,366,568
Bank advances on factored long-term trade receivables	23	**200,858**	434,137
Deferred tax liabilities	24	**172,060**	155,041
Provision for retirement benefits	37	**144,505**	136,245
Lease liabilities	16(c)	**645,294**	—
Other non-current liabilities	38	**5,669,511**	5,182,734
Total non-current liabilities		**16,877,321**	8,274,725
Net assets		**37,954,298**	32,960,675
EQUITY			
Equity attributable to ordinary equity holders of the parent			
Issued capital	39	**4,227,530**	4,192,672
Reserves	41	**24,599,338**	18,704,904
		28,826,868	22,897,576
Perpetual capital instruments	42	**6,252,364**	6,252,364
Non-controlling interests		**2,875,066**	3,810,735
Total equity		**37,954,298**	32,960,675

Li Zixue
Director

Xu Ziyang
Director

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2019

		Attributable to ordinary equity holders of the parent										
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2017		4,192,672	12,269,304	(67,982)	245,603	2,205,436	(1,865,841)	14,667,683	31,646,875	9,321,327	4,411,945	45,380,147
Effect of adoption of HKFRS 9	2.2	–	(438,135)	–	–	12,136	–	485,323	59,324	–	27,565	86,889
Effect of adoption of HKFRS 15	2.2	–	–	–	–	(75,218)	–	(1,003,689)	(1,078,907)	–	–	(1,078,907)
Other		–	–	–	–	182,394	–	(182,394)	–	–	–	–
At 1 January 2018 (restated)		4,192,672	11,831,169	(67,982)	245,603	2,324,748	(1,865,841)	13,966,923	30,627,292	9,321,327	4,439,510	44,388,129
Profit for the year		–	–	–	–	–	–	(6,983,662)	(6,983,662)	417,037	(382,715)	(6,949,340)
Other comprehensive income for the year:												
Actuarial loss on defined benefit plans		–	(477)	–	–	–	–	–	(477)	–	–	(477)
Exchange differences on translation of foreign operations		–	–	–	–	–	(885,179)	–	(885,179)	–	(19,590)	(904,769)
Total comprehensive income/(loss) for the year		–	(477)	–	–	–	(885,179)	(6,983,662)	(7,869,318)	417,037	(402,305)	(7,854,586)
Capital contributions by non-controlling shareholders		–	(6,680)	–	–	–	–	–	(6,680)	–	187,280	180,600
Acquisition of non-controlling shareholders		–	(31,606)	–	–	–	–	–	(31,606)	–	15,866	(15,740)
Disposal of subsidiary		–	–	–	–	–	–	–	–	–	(91,449)	(91,449)
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(338,167)	(338,167)
Distribution to perpetual capital instrument holders		–	–	–	–	–	–	–	–	(501,300)	–	(501,300)
Share Incentive Scheme:	40											
– Equity-settled share option expense		–	–	–	193,188	–	–	–	193,188	–	–	193,188
Repurchase of perpetual capital instruments		–	(15,300)	–	–	–	–	–	(15,300)	(2,984,700)	–	(3,000,000)
At 31 December 2018		4,192,672	11,777,106*	(67,982)*	438,791*	2,324,748*	(2,751,020)*	6,983,261*	22,897,576	6,252,364	3,810,735	32,960,675

Consolidated Statement of Changes in Equity

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2019

		Attributable to ordinary equity holders of the parent										
	Notes	Issued capital RMB'000	Capital reserve RMB'000	Hedging reserve RMB'000	Share Incentive Scheme reserve RMB'000	Statutory reserves RMB'000	Exchange fluctuation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Perpetual capital instruments RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 31 December 2018		4,192,672	11,777,106	(67,982)	438,791	2,324,748	(2,751,020)	6,983,261	22,897,576	6,252,364	3,810,735	32,960,675
Other		–	–	–	–	(1,441)	–	1,441	–	–	–	–
At 1 January 2019 (restated)		4,192,672	11,777,106	(67,982)	438,791	2,323,307	(2,751,020)	6,984,702	22,897,576	6,252,364	3,810,735	32,960,675
Profit for the year		–	–	–	–	–	–	5,147,877	5,147,877	348,600	280,192	5,776,669
Other comprehensive income for the year:												
Actuarial loss on defined benefit plans		–	(7,599)	–	–	–	–	–	(7,599)	–	–	(7,599)
Exchange differences on translation of foreign operations		–	–	–	–	–	54,180	–	54,180	–	2,860	57,040
Total comprehensive income/(loss) for the year		–	(7,599)	–	–	–	54,180	5,147,877	5,194,458	348,600	283,052	5,826,110
Capital contributions by non-controlling shareholders		–	42,023	–	–	–	–	–	42,023	–	112,167	154,190
Capital withdraws by non-controlling shareholders		–	–	–	–	–	–	–	–	–	(820,451)	(820,451)
Acquisition of non-controlling shareholders		–	(95,148)	–	–	–	–	–	(95,148)	–	(29,856)	(125,004)
Dividends declared to non-controlling shareholders		–	–	–	–	–	–	–	–	–	(480,581)	(480,581)
Distribution to perpetual capital instrument holders		–	–	–	–	–	–	–	–	(348,600)	–	(348,600)
Share Incentive Scheme:	40											
– Equity-settled share option expense		–	–	–	191,790	–	–	–	191,790	–	–	191,790
– Issue of shares		34,858	901,536	–	(340,225)	–	–	–	596,169	–	–	596,169
Transferred from retained earnings		–	–	–	–	452,214	–	(452,214)	–	–	–	–
At 31 December 2019		4,227,530	12,617,918*	(67,982)*	290,356*	2,775,521*	(2,696,840)*	11,680,365*	28,826,868	6,252,364	2,875,066	37,954,298

* These reserve accounts comprise the consolidated reserves of approximately RMB24,599,338,000 (2018: RMB18,704,904,000) in the consolidated statement of financial position.

Consolidated Statement of Cash Flows

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit/(Loss) before tax		**7,161,670**	(7,350,203)
Adjustments for:			
Finance costs	8	**1,718,187**	1,008,404
Share of profits and losses of joint ventures		**17,001**	(2,621)
Share of profits and losses of associates		**658,615**	799,939
Bank interest income	5	**(685,584)**	(600,357)
Interest income arising from revenue contracts	5	**(219,398)**	(148,453)
Finance income on the net investment in a lease	5	**(26,947)**	—
Dividend income from equity investments at fair value through profit or loss	5	**(50,018)**	(46,634)
(Gain)/loss on disposal of items of property, plant and equipment	5	**(25,296)**	16,450
Gain on disposal of subsidiaries	5	**(126,724)**	(662,563)
Gain on disposal of financial assets at fair value through profit or loss	5	**(921,281)**	(376,460)
Gain on derecognition of a right-of-use asset	5	**(2,662,740)**	—
Fair value (gains)/losses, net:			
Derivative instruments — transactions not qualifying as hedges	5	**162,150**	(55,901)
Equity investments at fair value through profit or loss	5	**59,300**	913,010
Wealth management products	5	**(215)**	(7,660)
Gain on disposal of derivative financial instruments	5	**(36,425)**	(6,147)
Loss on disposal of financial assets measured at amortised cost	7	**209,387**	320,281
Depreciation	14	**1,267,417**	1,232,407
Depreciation of right-of-use assets		**584,393**	—
Recognition of prepaid land lease payments		**—**	53,733
Amortisation of intangible assets	18	**1,735,024**	1,221,239
Write-down of inventories to net realisable value	6	**1,260,865**	884,794
Impairment of trade receivables	6	**1,817,629**	3,445,793
Impairment of other receivables	6	**121,143**	130,770
Impairment of factored trade receivables	6	**(2,565)**	2,853
Impairment of factored long-term trade receivables	6	**(1,909)**	2,096
Impairment of property, plant and equipment	6	**—**	7,515
Impairment of debt investments at fair value through other comprehensive income	6	**(519)**	2,455
Impairment of investments in associates	6	**14,071**	999,680
Impairment of investments in joint ventures	6	**6,134**	2,255
Impairment of contract assets	6	**294,632**	70,914
Impairment of intangible assets	6	**—**	59,356
Impairment of goodwill	6	**—**	123,263
Equity-settled share option expense	6	**191,790**	193,188
Changes in fair value of investment properties	6	**(7,243)**	11,810
		12,512,544	2,245,206

Consolidated Statement of Cash Flows

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES (continued)			
Increase in inventories		**(3,943,014)**	(2,314,884)
Decrease in the amount due from customers for contract works		**—**	9,012,909
Increase in contract assets		**(1,370,256)**	(8,533,140)
Increase in trade receivables		**(199,167)**	(384,092)
Decrease/(increase) in debt investments at fair value through other comprehensive income		**300,481**	(2,732,806)
(Increase)/decrease in long-term trade receivables		**(459,318)**	398,760
Decrease in factored trade receivables		**515,003**	2,663,596
(Increase)/decrease in prepayments other receivables and other assets		**(671,875)**	3,111,981
Increase/(decrease) in trade and bills payables		**303,489**	(5,337,437)
(Decrease) in the amount due to customers for contract works		**—**	(8,050,655)
Increase in contract liabilities		**37,702**	14,479,355
Increase/(decrease) in other payables and accruals		**846,773**	(11,919,607)
(Decrease)/increase in provision for retirement benefits		**(3,677)**	3,531
Increase in other non-current assets		**(33,580)**	(469,562)
Cash generated from/(used in) operations		**7,835,105**	(7,826,845)
Interest received		**933,228**	747,518
Interest and other finance costs paid		**(1,811,072)**	(1,003,489)
Hong Kong profits tax and overseas taxes paid		**(363,271)**	(310,698)
PRC taxes paid		**(861,449)**	(679,999)
Dividends paid to non-controlling shareholders		**(480,581)**	(338,167)
Interest paid to perpetual bondholders		**(348,600)**	(501,300)
Net cash flows from/(used in) operating activities		**4,903,360**	(9,912,980)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from finance lease		**1,843,640**	—
Additions to right-of-use assets		**(1,838,466)**	—
Additions to prepaid land lease payment		**—**	(268,158)
Purchases of items of property, plant and equipment		**(1,769,947)**	(2,209,997)
Purchases of intangible assets		**(2,752,550)**	(2,226,141)
Proceeds from disposal of items of property, plant and equipment		**40,062**	374,948
Acquisition of joint ventures		**(40,000)**	(7,000)
Capital contribution to associates		**(1,198)**	(81,710)
Purchases of equity investments at fair value through profit or loss		**(4,967)**	(65,100)
Proceeds from disposal of subsidiaries		**447,907**	498,207

Consolidated Statement of Cash Flows

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2019

	Notes	2019 RMB'000	2018 RMB'000 (Restated)
CASH FLOWS FROM INVESTING ACTIVITIES (continued)			
Proceeds from disposal of associates		**29,730**	—
Loss on disposal of financial assets measured at amortised cost		**(209,387)**	(320,281)
(Decrease)/increase in other payables and accruals		**(2,135,000)**	2,200,000
Dividend received from equity investments at fair value through profit or loss		**50,018**	46,634
Proceeds from disposal of equity investments at fair value through profit or loss		**1,162,806**	466,017
Purchases of wealth management products		**(218,339)**	(1,810,274)
Receipt from maturity of wealth management products		**763,968**	2,272,595
Proceeds from settlement of derivative financial instruments		**160,073**	21,855
(Increase)/decrease in time deposits with original maturity of over three months		**(1,361,808)**	134,183
Increase in pledged bank deposits		**(286,716)**	(1,457,120)
Net cash flows used in investing activities		**(6,120,174)**	(2,431,342)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from exercise of share options		**587,310**	—
Capital contribution by non-controlling shareholders		**29,690**	180,600
Capital withdraw by non-controlling shareholders		**(787,460)**	—
Acquisition of non-controlling interests		**(12,506)**	(15,740)
Principal portion of lease payments	51(b)	**(474,490)**	—
Repayment of perpetual capital instruments		**—**	(3,000,000)
New bank loans		**45,320,925**	29,123,900
Repayment of bank loans		**(35,786,312)**	(22,811,035)
Decrease in bank advances on factored trade receivables		**(515,186)**	(426,402)
Net cash flows from financing activities		**8,361,971**	3,051,323
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**7,145,157**	(9,292,999)
Cash and cash equivalents at beginning of year		**21,134,111**	30,109,269
Effect of foreign exchange rate changes, net		**226,532**	317,841
CASH AND CASH EQUIVALENTS AT END OF YEAR	25	**28,505,800**	21,134,111
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Unrestricted bank balances and cash	25	**23,657,550**	20,964,655
Time deposits with original maturity of less than three months	25	**4,848,250**	169,456
Cash and cash equivalents as stated in the statement of financial position and the statement of cash flows		**28,505,800**	21,134,111

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

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 Zhongxingxin Telecom Company Limited ("Zhongxingxin"), a limited liability company registered in the PRC.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
ZTE Kangxun Telecom Company Limited#* (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")#* (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")#* (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")#* (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
ZTE Technology & Service Company Limited#* (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%	Telecommunications services

* These subsidiaries are registered as limited companies under PRC law.

\# The English names of these subsidiaries are directly translated from their Chinese names.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

There are three limited partnership entities whose general partner is controlled by the Company, so the Company controls three limited partnership entities even though it holds less than half of the ownership percentage in them.

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, investment properties and certain equity investments which have been measured at fair value. These financial statements are presented in Renminbi ("RMB") and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2019. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arranges; and

(c) the Group's voting rights and potential voting rights.

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

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

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*
HKFRS 16	*Leases*
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to HKFRSs 2015–2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Except for the amendments to HKFRS 9 and HKAS 19, and *Annual Improvements to HKFRSs 2015–2017 Cycle*, which are not relevant to the preparation of the Group's financial statements, the nature and the impact of the new and revised HKFRSs are described below:

(a) HKFRS 16 replaces HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model to recognise and measure right-of-use assets and lease liabilities, except for certain recognition exemptions. Lessor accounting under HKFRS 16 is substantially unchanged from HKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in HKAS 17.

The Group has adopted HKFRS 16 using the modified retrospective method with the date of initial application of 1 January 2019. Under this method, the standard has been applied retrospectively with the cumulative effect of initial adoption recognised as an adjustment to the opening balance of retained profits at 1 January 2019, and the comparative information for 2018 was not restated and continued to be reported under HKAS 17 and related interpretations.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

New definition of a lease

Under HKFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to obtain substantially all of the economic benefits from use of the identified asset and the right to direct the use of the identified asset. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 at the date of initial application. Contracts that were not identified as leases under HKAS 17 and HK(IFRIC)-Int 4 were not reassessed. Therefore, the definition of a lease under HKFRS 16 has been applied only to contracts entered into or changed on or after 1 January 2019.

As a lessee — Leases previously classified as operating leases

Nature of the effect of adoption of HKFRS 16

The Group has lease contracts for various items of property, machinery, motor vehicles and other equipment. As a lessee, the Group previously classified leases as either finance leases or operating leases based on the assessment of whether the lease transferred substantially all the rewards and risks of ownership of assets to the Group. Under HKFRS 16, the Group applies a single approach to recognise and measure right-of-use assets and lease liabilities for all leases, except for two elective exemptions for leases of low-value assets (elected on a lease-by-lease basis) and leases with a lease term of 12 months or less ("short-term leases") (elected by class of underlying asset). Instead of recognising rental expenses under operating leases on a straight-line basis over the lease term commencing from 1 January 2019, the Group recognises depreciation (and impairment, if any) of the right-of-use assets and interest accrued on the outstanding lease liabilities (as finance costs).

Impact on transition

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and included in interest-bearing bank and other borrowings. The right-of-use assets for most leases were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the statement of financial position. This includes the lease assets recognised previously under finance leases of RMB21,174 that were reclassified from property, plant and equipment.

For the leasehold land and buildings (that were held to earn rental income and/or for capital appreciation) previously included in investment properties and measured at fair value, the Group has continued to include them as investment properties at 1 January 2019. They continue to be measured at fair value applying HKAS 40.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(a) (continued)

As a lessee — Leases previously classified as operating leases (continued)

Impact on transition (continued)

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application
- Using hindsight in determining the lease term where the contract contains options to extend/terminate the lease

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases. Accordingly, the carrying amounts of the right-of-use assets and the lease liabilities at 1 January 2019 were the carrying amounts of the recognised assets and liabilities (i.e., finance lease payables) measured under HKAS 17.

Financial impact at 1 January 2019

The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000
Assets	
Increase in right-of-use assets	5,972,820
Decrease in prepaid land lease payments	(5,020,556)
Increase in total assets	952,264
Liabilities	
Increase in lease liabilities	952,264
Increase in total liabilities	952,264

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	RMB'000
Operating lease commitments as at 31 December 2018	1,025,375
Less: Commitments relating to short-term leases and those leases with a remaining lease term ended on or before 31 December 2019	146,023
Add: Payments for optional extension periods not recognised as at 31 December 2018	164,962
	1,044,314
Weighted average incremental borrowing rate as at 1 January 2019	5.66%
Lease liabilities as at 1 January 2019	952,264

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (continued)

(b) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group assessed its business model for its long-term interests in associates and joint ventures upon adoption of the amendments on 1 January 2019 and concluded that the long-term interests in associates and joint ventures continued to be measured at amortised cost in accordance with HKFRS 9. Accordingly, the amendments did not have any impact on the financial position or performance of the Group.

(c) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions arising from the transfer pricing on its intergroup sales. Based on the Group's tax compliance and transfer pricing study, the Group determined that it is probable that its transfer pricing policy will be accepted by the tax authorities. Accordingly, the interpretation did not have any impact on the financial position or performance of the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[1]
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	*Interest Rate Benchmark Reform*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3]
HKFRS 17	*Insurance Contracts*[2]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]

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

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

3 No mandatory effective date yet determined but available for adoption

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (continued)

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

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

Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address the effects of interbank offered rate reform on financial reporting. The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the replacement of an existing interest rate benchmark. In addition, the amendments require companies to provide additional information to investors about their hedging relationships which are directly affected by these uncertainties. The amendments are effective for annual periods beginning on or after 1 January 2020. Early application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

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.

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates and joint ventures

An associate is an entity, in which the Group has a long-term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The Group's investments in associates and joint ventures are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The Group's share of the post-acquisition results and other comprehensive income of associates and joint ventures is included in profit or loss and consolidated other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates or joint ventures are eliminated to the extent of the Group's investments in the associates or joint ventures, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates or joint ventures is included as part of the Group's investments in associates or joint ventures.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 — based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 — based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, construction contract assets, investment properties, deferred tax assets and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 property held as a right-of-use asset (2018: leasehold property under an operating lease) 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties (continued)

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" for owned property and/or accounts for such property in accordance with the policy stated under "Right-of-use assets" for property held as a right-of-use asset up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in profit or loss.

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

Technology know-how

Purchased technology know-how is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over its estimated useful life of not more than 10 years.

Computer software

Purchased computer software is stated at cost less accumulated amortisation and any impairment losses, and is amortised on the straight-line basis over its estimated useful life of not more than 5 years.

Franchise

Franchise is stated at cost less accumulated amortisation and any impairment losses. Amortisation is provided on the straight-line basis for 3 to 10 years, being the period that the franchise is granted to the Group.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

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 (applicable from 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(a) Right-of-use assets

Right-of-use assets are recognised at the commencement date of the lease (that is the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease terms and the estimated useful lives of the assets as follows:

Prepaid land lease payments	18 to 63 years
Buildings	1 to 10 years
Motor vehicles	1 to 5 years
Other equipment	1 to 2 years

If ownership of the leased asset transfers to the Group by the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessee (continued)

(b) *Lease liabilities*

Lease liabilities are recognised at the commencement date of the lease at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for termination of a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in lease payments (e.g., a change to future lease payments resulting from a change in an index or rate) or a change in assessment of an option to purchase the underlying asset.

(c) *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (that is those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the recognition exemption for leases of low-value assets to leases of office equipment and laptop computers that are considered to be of low value.

Lease payments on short-term leases and leases of low-value assets are recognised as an expense on a straight-line basis over the lease term.

Group as a lessor

When the Group acts as a lessor, it classifies at lease inception (or when there is a lease modification) each of its leases as either an operating lease or a finance lease. Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. When a contract contains lease and non-lease components, the Group allocates the consideration in the contract to each component on a relative stand-alone selling price basis. Rental income is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Leases that transfer substantially all the risks and rewards incidental to ownership of an underlying assets to the lessee, are accounted for as finance leases. At the commencement date, the cost of the leased asset is capitalised at the present value of the lease payments and related payments (including the initial direct costs), and presented as a receivable at an amount equal to the net investment in the lease. The finance income of such leases is recognized in profit or loss so as to provide a constant periodic rate of charge over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (applicable from 1 January 2019) (continued)

Group as a lessor (continued)

When the Group is an intermediate lessor, a sublease is classified as a finance lease or operating lease with reference to the right-of-use asset arising from the head lease. If the head lease is a short-term lease to which the Group applies the on-balance sheet recognition exemption, the Group classifies the sublease as an operating lease.

Leases (applicable before 1 January 2019)

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding. Financial assets with cash flows that are not SPPI are classified and measured at fair value through profit or loss, irrespective of the business model.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments and other financial assets (continued)

Initial recognition and measurement (continued)

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both. Financial assets classified and measured at amortised cost are held within a business model with the objective to hold financial assets in order to collect contractual cash flows, while financial assets classified and measured at fair value through other comprehensive income are held within a business model with the objective of both holding to collect contractual cash flows and selling. Financial assets which are not held within the aforementioned business models are classified and measured 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 amortised cost (debt instruments)

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the profit or loss.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value through profit or loss are also recognised as other income in the profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of financial assets (continued)

General approach (continued)

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Debt investments at fair value through other comprehensive income and financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables and contract assets which apply the simplified approach as detailed below.

Stage 1 — Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs

Stage 2 — Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs

Stage 3 — Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group assesses ECLs on an individual level for trade receivable, debt investments at fair value through other comprehensive income and contract assets that are individually significant and there is objective evidence that the expected credit losses are obviously higher than others. For others, the Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and bills payables, other payables, derivative financial instruments, interest-bearing bank and other borrowings, bank advances on factored trade receivables, bank advances on factored long-term trade receivables and lease liabilities.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at amortised cost (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 the statement of 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 the statement of profit or loss.

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, the nature of the risk being hedged and how the Group will assess whether the hedging relationship meets the hedge effectiveness requirements (including the analysis of sources of hedge ineffectiveness and how the hedge ratio is determined). A hedging relationship qualifies for hedge accounting if it meets all of the following effectiveness requirements:

- There is "an economic relationship" between the hedged item and the hedging instrument.
- The effect of credit risk does not "dominate the value changes" that result from that economic relationship.
- The hedge ratio of the hedging relationship is the same as that resulting from the quantity of the hedged item that the Group actually hedges and the quantity of the hedging instrument that the Group actually uses to hedge that quantity of hedged item.

Hedges which meet all the qualifying criteria for hedge accounting are accounted for as follows:

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised in other comprehensive income while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recorded in equity is transferred to profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative financial instruments and hedge accounting (continued)

Current versus non-current classification

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.
- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.
- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of finished goods, comprises direct materials, direct labour, an appropriate proportion of overheads and/or subcontracting fees. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

The Group provides for warranties in relation to the sale of certain hardware products and the provision of construction services for general repairs of defects occurring during the warranty period. Provisions for these assurance-type warranties granted by the Group are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions (continued)

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 policy for provisions above; and (ii) the amount initially recognised less, when appropriate, the amount of income recognised in accordance with the policy 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, and the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Sale of goods

The product sales contracts between the Group and its customers typically includes contractual performance obligations for the transfer of products. The Group typically recognizes its revenue at the time of delivery and acceptance upon inspection taking into account the following factors: the acquisition of the current right to receive payments for the products, the transfer of major risks and rewards of ownership, the transfer of the legal right of the products, the transfer of the physical assets of the products, and customers' acceptance of the products.

Rendering of services

The service contracts between the Group and its customers usually include performance obligations such as service-type warranty; management and maintenance services; engineering services. As the customer simultaneously receives and consumes the benefits provided by the Group's contractual performance, the Group considers such contractual performance obligations to be obligations performed over a period of time, and revenue shall be recognized according the progress of performance. For contracts with direct measurements, such as service-type warranty; management and maintenance services, the Group determines the progress of performance of the service according to the output method. For a small number of service contracts which output indicators cannot be reliably measured, input method is used to determine the progress of performance.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

Telecommunications system construction services

Telecommunications system construction services usually contains equipment sales, installation services, etc. There are two models to distinct performance obligations.

In some cases, the promises to transfer the equipment and provide installation services are capable of being distinct and separately identifiable. In other cases, the equipment and installation services are highly interdependent, thus, customers can benefit from each bundle of equipment sales or installation services either on its own or together with other resources that are readily available to the customer. A bundle of equipment sales and installation services is accounted as a single performance obligation. Performance obligations in those contracts are identified and transaction price allocated each performance obligation is recognised as revenue when that performance obligation is satisfied by transferring a promised good or service to a customer, which is the point in time when the customer obtains control of those distinct equipment and installation services or a bundle of equipment sales and installation services.

Variable consideration

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

Significant financing component

When the contract contains a financing component which provides the customer with a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Consideration paid or payable to a customer

A consideration payable to a customer should be accounted for as a reduction of the transaction price and the Group will recognise the reduction of revenue when (or as) the later of either of the following events occurs, except when the consideration payable to a customer is a payment for a distinct good or service from the customer: (a) the Group recognises revenue for the transfer of the related goods or services to the customer; and (b) the Group pays or promises to pay the consideration (even if the payment is conditional on a future event). That promise might be implied by the Group's customary business practices.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

Rights of return

For contracts which provide a customer with a right to return the goods within a specified period, the expected value method is used to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The requirements in HKFRS 15 on constraining estimates of variable consideration are applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, a refund liability is recognised. A right-of-return asset (and the corresponding adjustment to cost of sales) is also recognised for the right to recover products from a customer.

Contract modifications

When a change in the scope or price (or both) of a contract is approved by the parties to the contract:

(a) when the scope of the contract increases because of the addition of promised goods or services that are distinct, and the price of the contract increases by an amount of consideration that reflects the Group's stand-alone selling prices of the additional promised goods or services, the Group shall account for a contract modification as a separate contract.

(b) If a contract modification is not accounted for as a separate contract in accordance with paragraph (a), and the remaining goods or services are distinct from the goods or services transferred on or before the date of the contract modification, the Group shall account for the contract modification as if it were a termination of the existing contract and the creation of a new contract.

(c) If a contract modification is not accounted for as a separate contract in accordance with paragraph (a), and the remaining goods or services are not distinct from the goods or services transferred on or before the date of the contract modification, the Group shall account for the contract modification as if it were a part of the existing contract. The effect that the contract modification has on the transaction price, and on the Group's measure of progress towards complete satisfaction of the performance obligation, is recognised as an adjustment to revenue at the date of the contract modification.

Warranties

Warranties are commonly included in arrangements to sell goods or services. They can be explicitly stated, required by law or implied based on the Group's customary business practices. The assurance-type warranties are accounted referring to note 2.4 Provisions. The service-type warranties represent a distinct service and are separate performance obligations. Therefore, using the estimated stand-alone selling price of the warranty, the Group allocates a portion of the transaction price to the service-type warranty. The Group then recognises the allocated revenue over the period in which the service-type warranty service is provided. In assessing whether a warranty provides a customer with a service in addition to the assurance that the product complies with agreed-upon specifications, the Group will consider factors such as, (a) whether the warranty is required by law, (b) the length of the warranty coverage period and (c) the nature of the tasks that the Group promises to perform.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms. Variable lease payments that do not depend on an index or a rate are recognised as income in the accounting period in which they are incurred.

Other income

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional. Contract assets are subject to impairment assessment, details of which are included in the accounting policies for impairment of financial assets.

Contract liabilities

A contract liability is recognised when a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods or services to the customer).

Contract costs

Other than the costs which are capitalised as inventories, property, plant and equipment and intangible assets, costs incurred to fulfil a contract with a customer are capitalised as an asset if all of the following criteria are met:

(a) The costs relate directly to a contract or to an anticipated contract that the entity can specifically identify.

(b) The costs generate or enhance resources of the entity that will be used in satisfying (or in continuing to satisfy) performance obligations in the future.

(c) The costs are expected to be recovered.

The capitalised contract costs are amortised and charged to the profit or loss on a systematic basis that is consistent with the pattern of the revenue to which the asset related is recognised. Other contract costs are expensed as incurred.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Right-of-return assets

A right-of-return asset represents the Group's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the goods to be returned, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Group updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned goods.

Employee benefits

Defined contribution pension schemes

The Company and certain of its subsidiaries established in the PRC have joined a number of defined contribution pension schemes organised by the relevant provincial and municipal social insurance management bodies of the PRC government for those employees who are eligible to participate in the schemes. The Company, these subsidiaries and the employees are required to make monthly contributions to these plans calculated as a percentage of the employees' salaries during the year. The contributions payable are charged as an expense to profit or loss as incurred. The assets of the schemes are held separately from those of the Group in independently administered funds.

In addition, the Group provides certain employees, who joined the Group before 1 January 2002, with post-retirement monthly pension payments. The cost of providing these benefits under the Group's defined benefit pension scheme is actuarially determined and recognised over the employees' service period by using the projected unit credit method. The Group makes monthly pension payments to eligible retirees and no contribution has been made to fund future obligations since the commencement of the defined benefit pension scheme. Therefore, there are no assets in respect of this scheme held separately from those of the Group in independently administered funds and no actuarial valuation for the plan assets has been conducted.

Remeasurements arising from defined benefit pension plans, comprising actuarial gains and losses, the effect of the asset ceiling (excluding net interest) and the return on plan assets (excluding net interest), are recognised immediately in the consolidated statement of financial position with a corresponding debit or credit to the capital reserve through other comprehensive income in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognised in profit or loss at the earlier of:

- the date of the plan amendment or curtailment; and
- the date that the Group recognises restructuring-related costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under "cost of sales" and "administrative expenses" in profit or loss by function:

- service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- net interest expense or income

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 40 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.

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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Employee benefits (continued)

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 Note 12 to the financial statements.

Foreign currencies

These financial statements are presented in Renminbi, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries, joint ventures and associates are currencies other than Renminbi. As at the end of the reporting period, the assets and liabilities of these entities are translated into Renminbi at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Renminbi at the weighted average exchange rates for the year.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

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:

Revenue from contracts with customers

The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Performance obligation under telecommunications system construction contracts

The Group's telecommunications system construction contracts typically include equipment sales and installation services or a combination of both. The Group determines whether the equipment sales and installation services and their combination are distinct. Where the customer can benefit from the individual use of such equipment or installation services or their use together with other readily available resources, the standalone equipment sales and installation services are accounted for individually as a single contractual performance. Such standalone equipment sales and installation services are considered distinct when: (a) the Group does not provide a significant service of integrating the equipment or installation services with other goods or services promised in the contract into a bundle of goods or services that represent the combined output or outputs for which the customer has contracted; (b) one or more of the equipment sales or installation services do not significantly modify or customise, nor will they be significantly modified or customised by, one or more of the other goods or services promised in the contract; and (c) the equipment or installation service is not highly interdependent nor highly interrelated. For a number of bundles of equipment sales and installation services that are not distinct, if these bundles are not highly interdependent nor highly interrelated, and customers can benefit individually from each bundle or from using it with other easily accessible resources, each of the aforementioned performance obligations (distinct equipment sales, distinct installation services or each bundle of the equipment sales and installation services) is treated as a single performance obligation. The comprehensive application of the aforesaid judgement is significant for identifying performance obligations.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Revenue from contracts with customers (continued)

Measuring progress towards complete satisfaction of service rendering contracts

The service contracts between the Group and its customers usually include performance obligations such as service-type warranty, management and maintenance services, and engineering services. The Group satisfies such performance obligations and recognises revenue over time by measuring the progress towards complete satisfaction of those performance obligations. For contracts with explicit measures of output, such as service-type warranty, management services and maintenance services, the Group measures the progress towards complete satisfaction using output method. For certain service contracts in which no measure of output can be reliably measured, input method is used to measure the progress towards complete satisfaction.

Revenue recognition

Performance obligation at a point in time

For performance obligations of the Group such as sale of telecommunications system equipment and terminals, installation service in a telecommunications system construction contract and bundles of equipment sales and installation services that are not distinct from each other, as: (a) the customer is unable to receive and consume the benefits provided by the Group's performance; (b) the Group's performance does not create or enhance an asset (e.g., work in progress) that the customer controls as the asset is created or enhanced; and (c) the Group does not have an enforceable right to payment for performance completed to date. Hence, such performance obligations are satisfied at a point in time. Specifically, revenue of those performance obligations is recognised upon acceptance by the customers after the respective performance obligations are satisfied.

Business model

The classification of financial assets at initial recognition depends on the Group's business model for managing the financial assets. In determining the business model, the Group considers how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within) and, in particular, the way those risks are managed and how managers of the business are compensated. In determining whether cash flows are going to be realised by collecting the financial assets' contractual cash flows, it is necessary for the Group to consider the reason, timing, frequency, and value of sales prior to maturity date.

Characteristics of contract cash flow

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics, and judgement is required to determine whether they are "solely payments of principal and interest on the principal amount outstanding". The Group needs to determine whether the resulting cash flows from those of an instrument with modified time value of money element are significantly different from an instrument that has an unmodified time value of money element when assessing modification to time value of money element, and the Group needs to determine whether the fair value of the prepayment feature is insignificant when assessing a financial asset with a prepayment feature.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Derecognition of financial assets

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset. Significant judgement is often required when the Group has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, and estimates the extent of the Group's continuing involvement in the asset.

Recognition of deferred tax liability for investments in associates and joint ventures

Deferred tax liability should be recognised for all taxable temporary differences associated with investments in associates and joint ventures, except for when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future. Significant management judgement is required to determine whether or not the temporary differences related to investments in associates and joint ventures will reverse in the foreseeable future, based upon the way investments in associates and joint ventures being recovered. More details are set out in note 24.

Property lease classification — Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all the fair value of the commercial property, that it retains substantially all the significant risks and rewards of incidental to ownership of these properties which are leased out on and accounts for the contracts as operating leases.

The Group has entered into a series of agreements to entrust Vanke with full powers to construct and develop the land site No. T208–0049 (the "Site") held by the Group. Vanke will take all responsibilities and risks on development funding and construction of the Site, while earn all rewards accordingly. The Group, in return, will receive the agreed amount of cash and housing properties as the considerations for the land-use right of the Site entrusted to Vanke. Given that the duration of Vanke's entitlement to the land-use right was equivalent to the entire tenure of the site, and that the consideration received by the Group was equivalent to the fair value of the aforesaid land-use right based on the relevant arrangements under the cooperation agreement, the Group is of the view that the transaction qualified as a finance lease under the HKFRS 16 Leases, even though the legal title of the land-use right has not been transferred.

Significant judgement in determining the lease term of contracts with renewal option

The Group has several lease contracts that include extension and termination options. The Group applies judgement in evaluating whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation to the leased asset).

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Judgements (continued)

Significant judgement in determining the lease term of contracts with renewal option (continued)

The Group includes the renewal period as part of the lease term for leases of machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., one to five years) and there will be a significant negative effect on production if a replacement is not readily available.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below.

Estimating the stand-alone selling price of a good or service

The stand-alone selling price refers to the price at which the Group can independently sell goods or services. The observable price of a good or service sold separately provides the best evidence of a stand-alone selling price. If a stand-alone selling price is not directly observable, an entity shall estimate the stand-alone selling price. The Group has adopted the expected cost plus a margin approach according to the characteristics of the goods or services and its related price and cost and the level of difficulty in obtaining it. Under this approach, an entity could forecast its expected costs of satisfying a performance obligation and then add an appropriate margin for that good or service and thus to determine its stand-alone selling price. This approach focuses more on internal factors. The margin may have to be adjusted for differences in product types, geographical locations, customer types and other factors when the performance obligation has a determinable direct fulfilment cost.

Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic products) are expected to deteriorate over the next year which can lead to an increased number of defaults in the telecommunications sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in note 22 and note 28 to the financial statements, respectively.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Fair value of unlisted equity investments

The unlisted equity investments have been valued based on a market-based valuation technique as detailed in note 21 to the financial statements. The valuation requires the Group to determine the comparable public companies (peers) and select the price multiple. In addition, the Group makes estimates about the discount for illiquidity and size differences. The Group classifies the fair value of these investments as Level 3.

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 was RMB186,206,000 (2018: RMB186,206,000). Further details are given in note 17.

Depreciation and amortisation

Depreciation and amortisation are calculated on the straight-line basis to write off the cost of each item of property, plant and equipment and intangible asset to its residual value over its estimated useful life. The estimated useful lives and dates that the Group places the items of property, plant and equipment into productive use reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets.

Impairment of investments in associates, investments in joint ventures, intangible assets and property, plant and equipment

The carrying amount of investments in associates at 31 December 2019 was RMB2,212,773,000 (2018: RMB2,917,645,000). The carrying amount of investments in joint ventures at 31 December 2019 was RMB114,515,000 (2018: RMB97,650,000). The carrying amount of property, plant and equipment as at 31 December 2019 was approximately RMB10,555,204,000 (2018: RMB10,194,112,000). The carrying amount of intangible assets as at 31 December 2019 was RMB7,190,061,000 (2018: RMB6,270,288,000). More details are set out in notes 14, 18,19 and 20.

The Group assesses whether there are any indicators of impairment for all non-financial assets (including the right-of-use 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

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 2019 was RMB1,138,351,000 (2018: RMB1,104,016,000). The amount of unrecognised tax losses and deductible temporary differences at 31 December 2019 was RMB4,297,119,000 (2018: RMB4,316,214,000). Further details are contained in note 24 to the financial statements.

Deferred development costs

Deferred development costs are capitalised in accordance with the accounting policy for research and development costs in note 2.4 to the financial statements. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. At 31 December 2019, the best estimate of the carrying amount of capitalised development costs was RMB6,345,627,000 (2018: RMB5,417,853,000).

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 2019, the carrying amount of inventories was RMB27,688,508,000 (2018: RMB25,011,416,000).

Estimation of fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Further details, including the key assumptions used for fair value measurement and a sensitivity analysis, are given in note 15 to the financial statements. The carrying amount of investment properties at 31 December 2019 was RMB1,957,242,000 (2018: RMB2,011,999,000).

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 2019 was RMB180,757,000 (2018: RMB307,368,000).

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Leases — Estimating the incremental borrowing rate

The Group cannot readily determine the interest rate implicit in a lease, and therefore, it uses an incremental borrowing rate ("IBR") to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group "would have to pay", which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when it needs to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary's stand-alone credit rating).

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

(a) The Carriers' Networks segment focuses on meeting the demands for carriers by providing wireless networks, wireline networks, core networks, 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 for the demands of industry and corporate clients through the development, production and sale of products such as smart phones, mobile broadband, family terminals, innovative fusion terminals, wearable devices, as well as the provision of related software application and value-added services.

(c) The Government and Corporate Business segment focuses on meeting the demands of government and corporate clients, proving top-level design and consultation services as well as implementation, operation and maintenance of integrated informatisation solutions for the government and corporate informatisation projects through the application of Cloud Computing, communications networks, Internet of Things, Big Data technologies and other related products.

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, non-lease-related finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and joint ventures, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from the measurement.

Segment assets exclude derivative financial instruments, deferred tax assets, pledged deposits, cash and cash equivalents, investments in joint ventures and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

Segment liabilities exclude derivative financial instruments, interest-bearing bank borrowings, lease liabilities, 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 2019	Carriers' Networks RMB'000	Consumer Business RMB'000	Government and Corporate Business RMB'000	Total RMB'000
Segment revenue (note 5)				
Sales to external customers	66,584,394	14,997,407	9,026,082	90,607,883
Rental income	—	—	128,699	128,699
	66,584,394	14,997,407	9,154,781	90,736,582
Segment results	21,917,122	1,229,827	1,782,023	24,928,972
Bank and other interest income				931,929
Dividend income and unallocated gains				5,726,257
Corporate and other unallocated expenses				(22,031,685)
Finance costs				(1,718,187)
Share of profits or losses of associates and joint ventures				(675,616)
Profit before tax				7,161,670
Segment assets	46,843,989	9,479,379	6,440,646	62,764,014
Investments in joint ventures				114,515
Investments in associates				2,212,773
Corporate and other unallocated assets				76,110,833
Total assets				141,202,135
Segment liabilities	11,511,610	1,933,582	1,582,747	15,027,939
Corporate and other unallocated liabilities				88,219,898
Total liabilities				103,247,837
Other segment information:				
Impairment losses recognised in profit or loss, net	(940,076)	(211,742)	(129,252)	(1,281,070)
Depreciation and amortisation	2,246,935	506,097	833,802	3,586,834
Capital expenditure*	3,580,558	806,481	1,114,683	5,501,722
Impairment losses on financial and contract assets	(1,635,255)	(368,323)	(224,833)	(2,228,411)

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018	Carriers' Networks RMB'000	Consumer Business RMB'000	Government and Corporate Business RMB'000	Total RMB'000
Segment revenue (note 5)				
Sales to external customers	57,075,772	19,209,590	9,089,781	85,375,143
Rental income	—	—	138,007	138,007
	57,075,772	19,209,590	9,227,788	85,513,150
Segment results	16,550,965	223,002	1,649,391	18,423,358
Bank and other interest income				748,810
Dividend income and unallocated gains				3,518,477
Corporate and other unallocated expenses				(27,914,845)
Finance costs				(1,328,685)
Share of profits and losses of associates and joint ventures				(797,318)
Loss before tax				(7,350,203)
Segment assets	38,903,524	11,734,829	6,290,953	56,929,306
Investments in joint ventures				97,650
Investments in associates				2,917,645
Corporate and other unallocated assets				69,406,148
Total assets				129,350,749
Segment liabilities	11,113,248	2,595,090	1,797,085	15,505,423
Corporate and other unallocated liabilities				80,884,651
Total liabilities				96,390,074
Other segment information:				
Impairment losses recognised in profit or loss	(1,386,203)	(466,544)	(224,116)	(2,076,863)
Depreciation and amortisation	1,673,551	563,255	270,573	2,507,379
Capital expenditure*	3,137,583	1,055,995	507,271	4,700,849
Impairment losses on financial and contract assets	(2,439,451)	(821,029)	(394,401)	(3,654,881)

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

4. OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019 RMB'000	2018 RMB'000
The PRC (place of domicile)	**58,217,032**	54,444,175
Asia (excluding the PRC)	**13,180,258**	11,877,250
Africa	**5,316,090**	4,082,307
Europe, Americas and Oceania	**14,023,202**	15,109,418
	90,736,582	85,513,150

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

(b) Non-current assets

	2019 RMB'000	2018 RMB'000
The PRC (place of domicile)	**17,439,577**	15,392,949
Asia (excluding the PRC)	**1,651,432**	1,741,804
Africa	**562,167**	540,986
Europe, Americas and Oceania	**49,331**	953,920
	19,702,507	18,629,659

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

Information about major customers

Revenue from the Carriers' Networks and Consumer Business segments from one single customer accounted for more than 10% of the Group's consolidated revenue for 2019 in the amount of RMB26,285,650,000 (2018: one single customer accounted for more than 10% of the Group's consolidated revenue for 2018 in the amount of RMB21,408,710,000).

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 RMB'000	2018 RMB'000
Revenue from contracts with customers	**90,607,883**	85,375,143
Rental income	**128,699**	138,007
	90,736,582	85,513,150

Revenue from contracts with customers

(i) Disaggregated revenue information

For the year ended 31 December 2019

Segments	Carriers' Networks RMB'000	Consumer Business RMB'000	Government and Corporate Business RMB'000	Total RMB'000
Type of goods or services				
Sale of goods	7,022,256	14,845,144	3,700,176	25,567,576
Sale of services	10,309,866	152,263	1,656,827	12,118,956
Telecommunications system construction contracts	49,252,272	—	3,669,079	52,921,351
Total revenue from contracts with customers	66,584,394	14,997,407	9,026,082	90,607,883
Geographical markets				
The PRC (place of domicile)	47,260,305	6,259,233	4,568,795	58,088,333
Asia (excluding the PRC)	10,345,039	1,523,250	1,311,969	13,180,258
Africa	3,814,158	648,528	853,404	5,316,090
Europe, Americas and Oceania	5,164,892	6,566,396	2,291,914	14,023,202
Total revenue from contracts with customers	66,584,394	14,997,407	9,026,082	90,607,883
Timing of revenue recognition				
Transferred at a point in time	55,223,503	14,631,051	7,339,270	77,193,824
Transferred over time	11,360,891	366,356	1,686,812	13,414,059
Total revenue from contracts with customers	66,584,394	14,997,407	9,026,082	90,607,883

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(i) Disaggregated revenue information (continued)

For the year ended 31 December 2018

Segments	Carriers' Networks RMB'000	Consumer Business RMB'000	Government and Corporate Business RMB'000	Total RMB'000
Type of goods or services				
Sale of goods	7,193,140	19,061,135	3,710,515	29,964,790
Sale of services	10,247,577	148,455	1,758,735	12,154,767
Telecommunications system construction contracts	39,635,055	—	3,620,531	43,255,586
Total revenue from contracts with customers	57,075,772	19,209,590	9,089,781	85,375,143
Geographical markets				
The PRC (place of domicile)	41,120,969	8,762,129	4,423,070	54,306,168
Asia (excluding the PRC)	9,258,787	1,548,750	1,069,713	11,877,250
Africa	2,534,880	323,252	1,224,175	4,082,307
Europe, Americas and Oceania	4,161,136	8,575,459	2,372,823	15,109,418
Total revenue from contracts with customers	57,075,772	19,209,590	9,089,781	85,375,143
Timing of revenue recognition				
Transferred at a point in time	46,597,854	18,872,996	7,245,566	72,887,467
Transferred over time	10,477,918	336,594	1,844,215	12,487,676
Total revenue from contracts with customers	57,075,772	19,209,590	9,089,781	85,375,143

The following table shows the amount of revenue recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 RMB'000	2018 RMB'000
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	**10,463,823**	14,819,669

(ii) Performance obligations

Information about the Group's performance obligations is summarised below:

Sale of hardware products

The performance obligation is satisfied upon delivery of the hardware products and payment is generally due within 60 to 120 days from delivery.

Installation services

The performance obligation is satisfied when the services are rendered and accepted by customer.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

5. REVENUE, OTHER INCOME AND GAINS (continued)

Revenue from contracts with customers (continued)

(ii) Performance obligations (continued)

A bundle of sales of equipment and installation services

The sale of equipment and installation services are highly interdependent, thus, customers cannot benefit from the equipment or installation services either on their own or together with other resources that are readily available to the customer. A bundle of sales of equipment and installation services is accounted for as a single performance obligation. The performance obligation is satisfied upon the completion of equipment and installation and acceptance.

Maintenance services

Revenue from the provision of maintenance services is recognised over the scheduled period on a straight-line basis because the customer simultaneously receives and consumes the benefits provided by the Group.

	2019 **RMB'000**	2018 RMB'000
Other income		
Bank interest income#	**685,584**	600,357
Interest income arising from revenue contracts	**219,398**	148,453
Finance income on the net investment in a lease	**26,947**	—
VAT refunds and other tax subsidies##	**1,257,975**	1,632,237
Dividend income from equity investments at fair value through profit or loss	**50,018**	46,634
Others###	**621,604**	591,869
	2,861,526	3,019,550
Gains		
Gain on disposal of financial assets at fair value through profit or loss	**921,281**	376,460
Gain on disposal of derivative financial instruments	**36,425**	6,147
Gain on disposal of subsidiaries	**126,724**	662,563
Gain on disposal of items of property, plant and equipment	**25,296**	—
Gain on derecognition of a right-of-use asset	**2,662,740**	—
Fair value gains, net:		
Equity investments at fair value through profit or loss	**157,961**	—
Fair value gains on derivative instruments	**—**	55,901
Wealth management products	**215**	7,660
Fair value gains on investment properties	**7,243**	—
Foreign exchange gain	**16,736**	502,130
	3,954,621	1,610,861
	6,816,147	4,630,411

The bank interest income for the year ended 31 December 2019 includes the interest income generated from ZTE Group Finance Company Ltd. amounting to RMB355,230,000 (2018: RMB369,477,000).

Refunds of VAT on software products represent the refund upon payment of VAT with respect to the portion of any effective VAT rate in excess of 3% in respect of software product sales of the Group pursuant to the principles of the State Council document entitled "Certain Policies to Encourage the Development of Software Enterprises and the IC Industry" and the approval of the state taxation authorities.

Others mainly represent other income, contract penalty income and other miscellaneous income.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

6. PROFIT/(LOSS) BEFORE TAX

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

	Notes	**2019 RMB'000**	2018 RMB'000
Cost of goods and services		**53,594,953**	55,065,491
Depreciation of property, plant and equipment	14	**1,267,417**	1,232,407
Depreciation of right-of-use assets charged to profit or loss (2018: amortisation of land lease payments)	16(b)	**584,393**	53,733
Amortisation of intangible assets other than deferred development costs		**397,652**	273,213
Research and development costs:			
Deferred development costs amortised	18	**1,337,372**	948,026
Current year expenditure		**13,483,105**	11,969,500
Less: Deferred capitalised development costs		**(2,272,579)**	(2,011,942)
		12,547,898	10,905,584
Fair value losses/(gains), net:*			
Derivative instruments*		**162,150**	(55,901)
Investment properties	15	**(7,243)**	11,810
Equity investments at fair value through profit or loss*		**59,300**	913,010
Wealth management products		**(215)**	(7,660)
Impairment of financial and contract assets, net:			
Impairment of trade receivables	22	**1,817,629**	3,445,793
Impairment of contract assets, net	28	**294,632**	70,914
Impairment of other receivables		**121,143**	130,770
Impairment of debt investments at fair value through other comprehensive income		**(519)**	2,455
Impairment of factored trade receivables		**(2,565)**	2,853
Impairment of factored long-term trade receivables		**(1,909)**	2,096
Dividend income from equity investments at fair value through profit or loss/available-for-sale investments		**(50,018)**	(46,634)
Provision for onerous contracts**	36	**1,730,893**	1,545,600
Provision for warranties**	36	**148,207**	363,924
Provision for legal obligation*	36	**16,586**	295,089
Cost related to the comprehensive settlement with United States authorities		**—**	6,416,700
Write-down of inventories to net realisable value**		**1,260,865**	884,794
Impairment of items of property, plant and equipment*	14	**—**	7,515

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

6. PROFIT/(LOSS) BEFORE TAX (continued)

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

	Notes	**2019 RMB'000**	2018 RMB'000
Impairment of intangible assets*	18	**–**	59,356
Impairment of goodwill*	17	**–**	123,263
Impairment of investments in associates*		**14,071**	999,680
Impairment of investments in joint ventures*		**6,134**	2,255
Minimum lease payments under operating leases on land and buildings		**–**	593,673
Lease payments not included in the measurement of lease liabilities	16(d)	**330,496**	–
Contingent rental income in respect of operating leases		**(2,736)**	(5,689)
Auditor's remuneration		**11,202**	10,662
Staff costs (including directors', chief executives' and supervisors' remuneration in note 9):			
Wages, salaries, bonuses, allowances and welfare		**15,548,264**	14,124,797
Equity-settled share option expense		**191,790**	193,188
Retirement benefit scheme contributions:			
Defined benefit pension scheme	37	**4,338**	5,200
Defined contribution pension schemes		**1,203,191**	1,316,416
		16,947,583	15,639,601
Foreign exchange gain		**(16,736)**	(502,130)
(Gain)/loss on disposal of items of property, plant and equipment	5	**(25,296)**	16,450
Gain on derecognition of a right-of-use asset	5	**(2,662,740)**	–
Gain on disposal of subsidiaries	5	**(126,724)**	(662,563)
Gain on disposal of derivative financial instruments	5	**(36,425)**	(6,147)
Gain on disposal of financial assets at fair value through profit or loss	5	**(921,281)**	(376,460)
Loss on disposal of financial assets measured at amortised cost	7	**209,387**	320,281

* The fair value losses, the provision for legal obligations, the impairment of items of property, plant and equipment, the impairment of intangible assets, the impairment of goodwill, the impairment of investments in associates and the impairment of investments in joint ventures are included in "Other expenses" on the face of the consolidated statement of profit or loss and other comprehensive income.

** The provision for onerous contracts, 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. LOSS ON DISPOSAL OF FINANCIAL ASSETS MEASURED AT AMORTISED COST

	2019 RMB'000	2018 RMB'000
Loss on disposal of financial assets measured at amortised cost	**209,387**	320,281

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 RMB'000	2018 RMB'000
Interest on bank loans and other loans	**1,280,980**	766,393
Interest on other non-current liabilities	**25,920**	—
Interest on lease liabilities	**81,261**	—
Total interest expense on financial liabilities not at fair value through profit or loss	**1,388,161**	766,393
Other finance costs:		
Finance costs on bills discounted	**330,026**	242,011
	1,718,187	1,008,404

9. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION

Directors' and chief executives' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2019 RMB'000	2018 RMB'000
Other emoluments of directors, chief executives and supervisors:		
Salaries, bonuses, allowances and welfare	**7,125**	7,968
Performance-related bonuses*	**19,823**	2,614
Retirement benefit scheme contributions	**223**	207
	27,171	10,789

* Certain executive directors of the Company are entitled to bonus payments which are determined based on their work performance.

(a) Independent non-executive directors

The salaries, bonuses, allowances and welfare paid to independent non-executive directors during the year were as follows:

Independent non-executive directors in office as at the end of the year:

	2019 RMB'000	2018 RMB'000
Cai Manli	**250**	125
Bao Yuming	**250**	125
Wu Jundong	**250**	125
	750	375

There were no other emoluments payable to the independent non-executive directors during the year (2018: Nil).

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

9. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors

Executive directors, non-executive directors, chief executives and supervisors in office as at the end of the year:

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Share Incentive Scheme* RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2019						
Executive directors:						
Li Zixue	—	1,405	4,376	—	32	5,813
Xu Ziyang	—	1,372	5,921	438	38	7,769
Gu Junying	—	1,315	4,306	—	48	5,669
	—	4,092	14,603	438	118	19,251
Non-executive directors:						
Li Buqing	—	100	—	—	—	100
Zhu Weimin	—	100	—	—	—	100
Fang Rong	—	100	—	—	—	100
	—	300	—	—	—	300
	—	4,392	14,603	438	118	19,551
Supervisors:						
Xie Daxiong	—	962	3,778	—	35	4,775
Xia Xiaoyue	—	474	568	—	35	1,077
Li Quancai	—	547	874	—	35	1,456
Wang Junfeng	—	—	—	—	—	—
Shang xiaofeng	—	—	—	—	—	—
Zhang Sufang	—	—	—	—	—	—
	—	1,983	5,220	—	105	7,308

* On 6 July 2017, the "Resolution on Adjustments to the List of Participants and the Number of share options to be Granted under the 2017 Share Option Incentive Scheme of the Company" was considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors of the Company and the Seventeenth Meetings of Seventh Session of the Supervisory Committee of the Company. The date of grant was set for 6 July 2017. Pursuant to the scheme, the Company proposed to grant 149,601,200 share options to 1,996 participants of the scheme. The fair value of the share options granted amounted to RMB1,477,496,000, and the share option expense recognised by the Company in 2019 amounted to RMB191,790,000 (2018: RMB193,188,000), among which share the option expense related to executive directors, non-executive directors, chief executives and supervisors amounted to approximately RMB438,000 (2018: RMB610,000). There were 42,000 (2018: Nil) ordinary shares issued pursuant to the exercise of options under the 2017 Scheme.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

9. DIRECTORS', CHIEF EXECUTIVES' AND SUPERVISORS' REMUNERATION (continued)

(b) Executive directors, non-executive directors, chief executives and supervisors (continued)

Executive directors, non-executive directors, chief executives and supervisors in office as at the end of the year:

	Fees RMB'000	Salaries, bonuses, allowances and welfare RMB'000	Performance related bonuses RMB'000	Share Incentive Scheme* RMB'000	Retirement benefit scheme contributions RMB'000	Total RMB'000
2018						
Executive directors:						
Li Zixue	—	537	—	—	—	537
Xu Ziyang	—	861	1,053	610	43	2,567
Gu Junying	—	468	—	—	—	468
	—	1,866	1,053	610	43	3,572
Non-executive directors:						
Li Buqing	—	50	—	—	—	50
Zhu Weimin	—	50	—	—	—	50
Fang Rong	—	50	—	—	—	50
	—	150	—	—	—	150
	—	2,016	1,053	610	43	3,722
Supervisors:						
Xie Daxiong	—	798	733	—	40	1,571
Wang Junfeng	—	—	—	—	—	—
Xia Xiaoyue	—	452	348	—	40	840
Li Quancai	—	535	480	—	40	1,055
	—	1,785	1,561	—	120	3,466

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two executive directors (2018: Nil), details of whose remuneration are set out in note 9 above. Details of the remuneration for the year of the remaining three (2018: five) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2019 RMB'000	2018 RMB'000
Salaries, bonuses, allowances and welfare	**5,966**	9,295
Performance-related bonuses	**28,000**	9,972
Share option incentive scheme	**1,725**	1,172
Retirement benefit scheme contributions	**175**	120
	35,866	20,559

10. FIVE HIGHEST PAID EMPLOYEES (continued)

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2019	2018
RMB2,000,001 to RMB3,000,000	**—**	1
RMB3,000,001 to RMB4,000,000	**—**	1
RMB4,000,001 to RMB5,000,000	**—**	2
RMB5,000,001 to RMB6,000,000	**—**	1
RMB6,000,001 to RMB7,000,000	**2**	—
RMB7,000,001 to RMB8,000,000	**1**	—
	3	5

During the year, no director, chief executive or supervisor waived or agreed to waive any emolument, and no emoluments were paid by the Group to the directors, chief executives, supervisors or any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

11. INCOME TAX

	2019 **RMB'000**	2018 RMB'000
Current — Hong Kong	**8,833**	11,879
Current — Mainland China		
Charge for the year	**601,036**	649,683
Under/(over)provision in prior years	**13,096**	(16,571)
Current — Overseas		
Charge for the year	**454,180**	249,918
Underprovision in prior years	**14,419**	44,979
Deferred (note 24)	**293,437**	(1,340,751)
Total tax charge for the year	**1,385,001**	(400,863)

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Under the new enterprise income tax law of the PRC effective from 1 January 2008, the tax rate applicable to domestic-invested enterprises and foreign-invested enterprises has been standardised at 25%.

The Company was subject to an enterprise income tax rate of 15% for the years 2017 to 2019 as a national-grade hi-tech enterprise established in Shenzhen.

Major subsidiaries operating in Mainland China that enjoyed preferential tax rates are as follows:

Shenzhen Zhongxing Telecom Technology & Service Company Limited is subject to an enterprise income tax rate of 15% for the years from 2019 to 2022 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

11. INCOME TAX (continued)

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Xi'an ZTE Terminal Technology Limited is subject to an enterprise income tax rate of 15% for 2019 as an approved enterprise engaged in nationally encouraged industries under the West China preferential policy.

Nanjing Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2019 as a national-grade key software enterprise.

Xi'an Keruisi Semi-conductor Technology Company Limited is subject to an enterprise income tax rate of 12.5% for 2019 in the fourth year of its entitlement to the preferential treatment for qualified Integrated Circuit Design Enterprise of exemption for two years and 50% reduction for three years.

ZTE Smart Auto Company Limited is subject to an enterprise income tax rate of 15% from 2018 to 2020 as a national-grade hi-tech enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Wuhan Zhongxing Software Company Limited is subject to an enterprise income tax rate of 12.5% for 2019 in the third year of its entitlement to the preferential treatment for software companies of exemption for two years and 50% reduction for three years.

Beijing Zhongxing Gaoda Communication Technology Limited is subject to an enterprise income tax rate of 15% from 2019 to 2022 as a national-grade hi-tech enterprise.

Chongqing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2019 as a national-grade key software enterprise.

Sanya Zhongxing Software Company Limited is subject to an enterprise income tax rate of 10% in 2019 as a national-grade key software enterprise.

Shanghai Zhongxing Yilian 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.

Shenzhen Zhongxing SI Technology Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Guangdong ZTE Newstart Technology Co., Ltd. is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Xi'an Zhongxing Jing Cheng Communication Company Limited is subject to an enterprise income tax rate of 15% in 2019 as an approved enterprise engaged in nationally encouraged industries.

Nanjing Yilian Technology and Software Company Limited is subject to an enterprise income tax rate of 15% from 2017 to 2019 as a national-grade hi-tech enterprise.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

11. INCOME TAX (continued)

A reconciliation of the tax expense applicable to profit before tax at the statutory rate for the jurisdiction in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rate, and a reconciliation of the applicable rate (i.e., the statutory tax rate) to the effective tax rates, are as follows:

	2019		2018	
	RMB'000	**%**	RMB'000	%
Profit/(loss) before tax	**7,161,670**		(7,350,203)	
Tax at the statutory tax rate	**1,790,418**	**25.0**	(1,837,551)	25.0
Lower tax rate for specific provinces or enacted by local authority	**(544,938)**	**(7.6)**	564,453	(7.7)
Adjustments in respect of current tax of previous periods	**27,515**	**(0.4)**	28,408	(0.4)
Profits and losses attributable to associates and joint ventures	**101,342**	**1.4**	119,112	(1.6)
Income not subject to tax	**(7,503)**	**(0.1)**	(42,751)	0.6
Additional deductible R&D expense, interest of Perpetual Capital Instrument and expenses not deductible for tax	**(45,286)**	**(0.6)**	508,836	(6.9)
Unrecognised deductible temporary differences	**2,242**	**0.0**	30,448	(0.4)
Tax losses utilised from previous years	**(36,210)**	**(0.5)**	(36,539)	0.5
Tax losses of subsidiaries not recognised	**97,421**	**1.4**	264,721	(3.6)
Tax charge at the Group's effective rate	**1,385,001**	**19.34**	(400,863)	5.5

The share of tax attributable to associates amounting to RMB6,896,000 (2018: RMB12,434,000) 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

12. DIVIDEND

	2019 RMB'000	2018 RMB'000
Proposed final — RMB0.2 (2018: Nil) per ordinary share	**922,401**	—

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

13. 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 4,205,702,000 (2018: 4,192,672,000) 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:

	2019 RMB'000	2018 RMB'000
Earnings/(loss)		
Profit/(loss) for the year attributable to ordinary equity holders of the parent	**5,147,877**	(6,983,662)

	Number of shares 2019 '000	 2018 '000
Shares		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings/(loss) per share calculation	**4,205,702**	4,192,672
Effect of dilution-weighted average number of ordinary shares:		
Share options	**18,349**	—
Adjusted weighted average number of ordinary shares in issue	**4,224,051**	4,192,672

Commencing on 7 July 2019, scheme participants that had fulfilled the exercise conditions under the share option incentive scheme of the Company were entitled to exercise share options qualified as such during the first exercise period. As at 31 December 2019, 34,858,000 new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 13,030,000 after taking into account the duration of time for such shares had been issued and outstanding.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2019						
At 31 December 2018 and at 1 January 2019:						
Cost	7,018,734	316,601	8,244,247	287,672	1,296,044	17,163,298
Accumulated depreciation and impairment	(1,564,633)	(143,377)	(5,093,757)	(167,419)	–	(6,969,186)
Net carrying amount	5,454,101	173,224	3,150,490	120,253	1,296,044	10,194,112
At 1 January 2019, net of accumulated depreciation and impairment	5,454,101	173,224	3,150,490	120,253	1,296,044	10,194,112
Additions	17,014	131,234	1,426,845	21,868	462,358	2,059,319
Disposals	(108,765)	(8,187)	(207,090)	(6,297)	(103,100)	(433,439)
Depreciation provided during the year	(225,377)	(81,930)	(934,967)	(25,143)	–	(1,267,417)
Transfers	191,860	–	291,718	8	(483,586)	–
Exchange realignments	(1,485)	286	3,828	–	–	2,629
At 31 December 2019, net of accumulated depreciation and impairment	5,327,348	214,627	3,730,824	110,689	1,171,716	10,555,204
At 31 December 2019:						
Cost	7,052,993	363,744	9,060,620	281,759	1,171,716	17,930,832
Accumulated depreciation and impairment	(1,725,645)	(149,117)	(5,329,796)	(171,070)	–	(7,375,628)
Net carrying amount	5,327,348	214,627	3,730,824	110,689	1,171,716	10,555,204

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

14. PROPERTY, PLANT AND EQUIPMENT (continued)

	Land and buildings RMB'000	Leasehold improvements RMB'000	Machinery, computers and office equipment RMB'000	Motor vehicles RMB'000	Construction in progress RMB'000	Total RMB'000
31 December 2018						
At 31 December 2017 and at 1 January 2018:						
Cost	6,303,495	154,533	9,061,495	305,020	1,472,986	17,297,529
Accumulated depreciation and impairment	(1,419,004)	(98,672)	(5,406,858)	(170,570)	—	(7,095,104)
Net carrying amount	4,884,491	55,861	3,654,637	134,450	1,472,986	10,202,425
At 1 January 2018, net of accumulated depreciation and impairment	4,884,491	55,861	3,654,637	134,450	1,472,986	10,202,425
Additions	30,321	185,341	1,010,831	25,161	1,161,132	2,412,786
Disposals	(183,324)	(10,749)	(695,746)	(11,377)	—	(901,196)
Depreciation provided during the year	(197,588)	(56,717)	(950,736)	(27,366)	—	(1,232,407)
Transfers	927,017	—	137,606	—	(1,064,623)	—
Transfer to prepaid land lease payments	—	—	—	—	(273,451)	(273,451)
Exchange realignments	(6,816)	(512)	713	85	—	(6,530)
Impairment	—	—	(6,815)	(700)	—	(7,515)
At 31 December 2018, net of accumulated depreciation and impairment	5,454,101	173,224	3,150,490	120,253	1,296,044	10,194,112
At 31 December 2018:						
Cost	7,018,734	316,601	8,244,247	287,672	1,296,044	17,163,298
Accumulated depreciation and impairment	(1,564,633)	(143,377)	(5,093,757)	(167,419)	—	(6,969,186)
Net carrying amount	5,454,101	173,224	3,150,490	120,253	1,296,044	10,194,112

As at 31 December 2019, the Group was in the process of obtaining the real estate title certificates for buildings located in Nanjing, Shenzhen, Shanghai, Heyuan, Sanya, the PRC, with net carrying values of approximately RMB43,050,000 (2018: RMB520,134,000), RMB1,878,070,000 (2018: RMB1,938,504,000), RMB155,660,000 (2018: RMB163,576,000), RMB721,704,000 (2018: RMB746,590,000) and RMB131,219,000 (2018: RMB292,457,000), respectively.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

15. INVESTMENT PROPERTIES

	2019 RMB'000	2018 RMB'000
Fair value		
Carrying amount at 1 January	**2,011,999**	2,023,809
Net gain/(loss) from a fair value adjustment (note 6)	**7,243**	(11,810)
Transfer to owner-occupied property	**(62,000)**	—
Carrying amount at 31 December	**1,957,242**	2,011,999

The Group's investment properties consist of five commercial properties in Mainland China. The Group's investment properties were revalued on 31 December 2019 based on valuations performed by Beijing Colliers International, an independent professionally qualified valuer, at RMB1,957,242,000. Each year, the Group's property manager and the chief financial officer decide, after approval from the audit committee, to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's property manager and the chief financial officer have discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

The investment properties are leased to a related party, Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") and third parties under operating leases, further summarised details of which are included in note 16 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 2019 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	**—**	**—**	**1,957,242**	**1,957,242**

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Recurring fair value measurement for:				
Commercial properties	—	—	2,011,999	2,011,999

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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

15. INVESTMENT PROPERTIES (continued)

Fair value hierarchy (continued)

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties RMB'000
Carrying amount at 1 January 2018	2,023,809
Net loss from a fair value adjustment recognised in other expenses in profit or loss	(11,810)
Carrying amount at 31 December 2018	2,011,999
Carrying amount at 1 January 2019	**2,011,999**
Net gain from a fair value adjustment recognised in other income and gains in profit or loss	**7,243**
Transfer to owner-occupied property	**(62,000)**
Carrying amount at 31 December 2019	**1,957,242**

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 2019**	2018
Commercial properties	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	**RMB51 to RMB513**	RMB49.5 to RMB559.4
		Rent growth (p.a.)	**2% to 5%**	2% to 7%
		Long-term vacancy rate	**0.5% to 5.9%**	2.5%
		Discount rate	**7.50% to 8.25%**	7.58%

Valuations were based on the capitalisation of net rental income derived from the existing tenancies with allowance for the reversionary income potential of the properties, using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The resultant figures are adjusted back to present values to reflect the existing state of the properties at the end of the reporting period.

Under the discounted cash flow method, fair value is estimated using assumptions regarding the benefits and liabilities of ownership over the asset's life including an exit or terminal value. This method involves the projection of a series of cash flows on a property interest. A market-derived discount rate is applied to the projected cash flows in order to establish the present value of the income stream associated with the asset. The exit yield is normally separately determined and differs from the discount rate.

The duration of the cash flows and the specific timing of inflows and outflows are determined by events such as rent reviews, lease renewal and related reletting, redevelopment or refurbishment. The appropriate duration is driven by market behaviour that is a characteristic of the class of property. The periodic cash flows are estimated as gross income less vacancy, non-recoverable expenses, collection losses, lease incentives, maintenance costs, agent and commission costs and other operating and management expenses. The series of periodic net operating income, along with an estimate of the terminal value anticipated at the end of the projection period, is then discounted.

A significant increase in the discount rate in isolation would result in a significant decrease in the fair value of the investment properties. Generally, a change in the assumption made for the estimated rental value is accompanied by a directionally similar change in the rent growth per annum and the discount rate and an opposite change in the long-term vacancy rate.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

16. LEASES

The Group as a lessee

The Group has lease contracts for various items of prepaid land lease payments, buildings, motor vehicles and other equipment used in its operations. Leases of prepaid land lease payments generally have lease terms between 18 years and 63 years, buildings have lease terms between 1 and 10 years, while motor vehicles generally have lease terms between 1 and 5 years. Other equipment generally has lease between 1 and 2 years. Generally, the Group is restricted from assigning and subleasing the leased assets outside the Group. There are several lease contracts that include extension and termination options, which are further discussed below.

(a) Prepaid land lease payments (before 1 January 2019)

	2018 RMB'000
Carrying amount at 1 January 2018	1,280,650
Additions during the year	3,603,922
Transfer from construction in progress	273,451
Disposals	(24,701)
Recognised during the year	(112,766)
Carrying amount at 31 December 2018	5,020,556
Current portion included in prepayments, other receivables and other assets	(153,260)
Non-current portion	4,867,296

(b) Right-of-use assets

The carrying amounts of the Group's right-of-use assets and the movements during the year are as follows:

	Prepaid land lease payments RMB'000	**Buildings RMB'000**	**Motor vehicles RMB'000**	**Other equipment RMB'000**	**Total RMB'000**
As at 1 January 2019	**5,020,556**	**902,642**	**40,736**	**8,886**	**5,972,820**
Additions	**67,466**	**427,607**	**80,424**	**114,356**	**689,853**
Exchange realignment	**—**	**13,716**	**(24)**	**306**	**13,998**
Derecognition	**(2,589,521)**	**—**	**—**	**—**	**(2,589,521)**
Transfer to construction in progress	**(33,808)**	**—**	**—**	**—**	**(33,808)**
Deprecation charged to profit or loss	**(59,525)**	**(385,208)**	**(43,621)**	**(96,039)**	**(584,393)**
	2,405,168	**958,757**	**77,515**	**27,509**	**3,468,949**

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

16. LEASES (continued)

The Group as a lessee (continued)

(c) ***Lease liabilities***

The carrying amount of lease liabilities and the movements during the year are as follows:

	2019 Lease liabilities RMB'000
Carrying amount at 1 January	952,264
New leases	622,387
Exchange realignment	(15,920)
Accretion of interest recognised during the year	81,261
Payments	(474,490)
Carrying amount at 31 December 2019	1,165,502
Analysed into:	
Current portion	520,208
Non-Current portion	645,294

The maturity analysis of lease liabilities is disclosed in note 50 to the financial statements.

(d) The amounts recognised in profit or loss in relation to leases are as follows:

	2019 RMB'000
Interest on lease liabilities	(81,261)
Deprecation charged to profit or loss	(584,393)
Expense relating to short-term leases and other leases with remaining lease terms ended on or before 31 December 2019	(330,496)
Total amount recognised in profit or loss	(996,150)

(e) The total cash outflow for leases and future cash outflows relating to leases are disclosed in note 51 and note 50, respectively, to the financial statements.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

16. LEASES (continued)

The Group as a lessor

(a) Operating Lease

The Group leases its investment properties (note 15) consisting of Zhongxing Hetai commercial properties in Mainland China under operating lease arrangements. The terms of the leases generally require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions. Rental income recognised by the Group during the year was RMB128,699,000 (2018: RMB138,007,000), details of which are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivables by the Group in future periods under non-cancellable operating leases with its tenants are as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**132,482**	136,009
In the second to fifth years, inclusive	**291,090**	226,279
After five years	**213,724**	264,308
	637,296	626,596

(b) Finance Lease

Derecognition gain recognised by the Group in relation to the land site No. T208–0049 during the year was RMB2,662,740,000 (2018: Nil), and finance income on a net investment in a lease recognised by the Group during the year was RMB26,947,000. Details are included in note 5 to the financial statements.

At 31 December 2019, the undiscounted lease payments receivable by the Group in future periods under finance leases with its tenants are as follows:

	2019 RMB'000
In the second to third years, inclusive	**1,824,100**
Less: Unrealised finance income	**(242,505)**
Net investment in the lease	**1,581,595**

17. GOODWILL

	RMB'000
Cost at 1 January 2019, net of accumulated impairment	**186,206**
Impairment during the year	**–**
Exchange realignment	**–**
Net carrying amount at 31 December 2019	**186,206**
At 31 December 2019:	
Cost	**309,469**
Accumulated impairment	**(123,263)**
Net carrying amount	**186,206**

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

17. GOODWILL (continued)

Impairment testing of goodwill

Zhuhai Guangtong Bus Co., Ltd. transferred material assets to ZTE Smart Auto Company Limited, its parent company, during the year. The management was of the view that Zhuhai Guangtong Bus Co., Ltd. should be combined with ZTE Smart Auto Company Limited into one cash-generating units ("CGUs"). The management was also of the view that Suzhou Laxense Technology Co., Ltd. and NETAS TELEKOMUNIKASYON A.S. were relatively independent asset groups not related to other business segments of the Group. Hence these two companies were each accounted for as an CGU.

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Suzhou Laxense Technology Co., Ltd. ("Suzhou Laxense Technology CGU")
- Netas Telekomünikasyon A.S. ("Netas CGU")
- Zhuhai Guangtong Bus Co., Ltd. ("Bus CGU")

Goodwill allocated for Suzhou Laxense Technology CGU and Netas CGU had been fully impaired in 2018.

Bus CGU

For the year, Zhuhai Guangtong Bus Co., Ltd. and ZTE Smart Auto Company Limited were combined into a portfolio of asset groups. As a result, the portfolio of asset groups determined on the date of acquisition and at the time of the performance of impairment test in the previous year was modified.

The recoverable amount of the Bus CGU was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 13.07% and cash flows beyond the five-year period were extrapolated using a growth rate of 2%.

The carrying amount of goodwill allocated to each of the CGUs is as follows:

	Suzhou Laxense CGU RMB'000	Netas CGU RMB'000	Bus CGU RMB'000	Total RMB'000
As at 31 December 2018	33,500	89,763	186,206	309,469
As at 31 December 2019	**—**	**—**	**186,206**	**186,206**

Assumptions were used in the value-in-use calculation of the Suzhou Laxense Technology, Netas and Bus cash-generating units at 31 December 2019 and 31 December 2018. 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

18. OTHER INTANGIBLE ASSETS

	Technology know-how RMB'000	Computer software RMB'000	Franchise RMB'000	Deferred development costs RMB'000	Total RMB'000
31 December 2019					
Cost at 1 January 2019, net of accumulated amortisation and impairment	**70,613**	**409,896**	**371,926**	**5,417,853**	**6,270,288**
Additions	**12,142**	**232,207**	**183,743**	**2,324,458**	**2,752,550**
Retirements and disposals	**(25,920)**	**(11,437)**	**(27)**	**(59,312)**	**(96,696)**
Amortisation provided during the year	**(48,905)**	**(144,556)**	**(204,191)**	**(1,337,372)**	**(1,735,024)**
Exchange realignment	**—**	**1,047**	**(2,104)**	**—**	**(1,057)**
At 31 December 2019	**7,930**	**487,157**	**349,347**	**6,345,627**	**7,190,061**
At 31 December 2019:					
Cost	**157,517**	**707,951**	**1,152,934**	**14,022,195**	**16,040,597**
Accumulated amortisation and impairment	**(149,587)**	**(220,794)**	**(803,587)**	**(7,676,568)**	**(8,850,536)**
Net carrying amount	**7,930**	**487,157**	**349,347**	**6,345,627**	**7,190,061**
31 December 2018					
Cost at 1 January 2018, net of accumulated amortisation and impairment	112,933	414,842	481,330	4,353,937	5,363,042
Additions	849	120,590	73,232	2,031,470	2,226,141
Retirements and disposals	—	(20,395)	—	(19,528)	(39,923)
Amortisation provided during the year	(43,002)	(103,239)	(126,972)	(948,026)	(1,221,239)
Impairment during the year	—	(2,118)	(57,238)	—	(59,356)
Exchange realignment	(167)	216	1,574	—	1,623
At 31 December 2018	70,613	409,896	371,926	5,417,853	6,270,288
At 31 December 2018:					
Cost	187,480	630,241	1,026,695	11,758,832	13,603,248
Accumulated amortisation and impairment	(116,867)	(220,345)	(654,769)	(6,340,979)	(7,332,960)
Net carrying amount	70,613	409,896	371,926	5,417,853	6,270,288

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

19. INVESTMENTS IN JOINT VENTURES

	2019 RMB'000	2018 RMB'000
Share of net assets	**96,312**	73,313
Goodwill on acquisition	**26,592**	26,592
Provision for impairment	**(8,389)**	(2,255)
	114,515	97,650

The Group's balances of trade receivables with joint ventures are disclosed in note 22 to the financial statements. The amounts due from joint ventures are unsecured and interest-free.

There is no individually material joint venture of the Group.

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	2019 RMB'000	2018 RMB'000
Share of the joint ventures' (loss)/profit for the year	**(17,001)**	2,622
Share of the joint ventures' total comprehensive (loss)/profit	**(17,001)**	2,622
Aggregate carrying amount of the Group's investments in the joint ventures	**114,515**	97,650

20. INVESTMENTS IN ASSOCIATES

	2019 RMB'000	2018 RMB'000
Share of net assets	**2,015,173**	2,705,974
Goodwill on acquisition	**1,216,115**	1,216,115
	3,231,288	3,922,089
Provision for impairment	**(1,018,515)**	(1,004,444)
	2,212,773	2,917,645

The Group's balances of trade receivables and trade payables with associates are disclosed in notes 22 and 32 to the financial statements, respectively.

Particulars of the Group's material associate is as follows:

Name	Particulars of registered capital	Place of registration and business	Percentage of ownership interest attributable to the Group	Principal activities
Nubia Technology Co., Ltd.* ("Nubia Technology")	RMB118,748,300	PRC/Mainland China	49.9	Note (a)

* The English name of the company is not official and is the direct translation from its Chinese name for identification purposes only.

The associate has been accounted for using the equity method in the financial statements. The accounting year end of the associate is coterminous with that of the Group.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

20. INVESTMENTS IN ASSOCIATES (continued)

Note (a):

Nubia Technology

Nubia Technology, which is considered a material associate of the Group, is a strategic partner of the Group that engaged in the trading of handset products and is accounted for using the equity method.

The following table illustrates the summarised financial information of Nubia Technology, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	Nubia Technology	
	2019	2018
	RMB'000	RMB'000
Current assets	**2,222,720**	2,300,675
Non-current assets	**268,827**	411,531
Current liabilities	**(1,116,389)**	(1,146,038)
Non-current liabilities	**(86,102)**	—
Non-controlling interest	**—**	795
Net assets attributable to parent	**1,289,056**	1,565,373
Reconciliation to the Group's interest in the associate:		
Percentage of the Group's interest	**49.9%**	49.9%
Group's share of net assets of the associate, excluding goodwill	**643,239**	781,121
Goodwill on acquisition (less cumulative impairment)	**—**	—
Other adjustments	**761**	500,403
Carrying amount of the investment	**644,000**	1,281,524

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2019	2018
	RMB'000	RMB'000
Share of the associates' (loss)/profit for the year	**(26,628)**	60,041
Share of the associates' total comprehensive (loss)/profit	**(26,628)**	60,041
Aggregate carrying amount of the Group's investments in the associates	**1,568,773**	1,636,121

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		2019 RMB'000	2018 RMB'000
Current assets			
Equity investments at fair value through profit or loss	(i)		
— Listed equity investments, at fair value		**523,227**	810,411
Wealth management products	(ii)	**37,435**	666,412
		560,662	1,476,823
Non-current assets			
Equity investments designated at fair value through profit or loss	(i)		
— Unlisted equity investments, at fair value		**1,594,254**	1,502,499
		1,594,254	1,502,499
		2,154,916	2,979,322

(i) The above equity investments at 31 December 2019 were classified as the Group has not elected to recognise the fair value gain or loss through other comprehensive income.

The fair values of the listed equity investments determined are based on the closing prices quoted in active markets. They are accounted for using their fair values based on the quoted market prices (level 1: quoted price (unadjusted) in active markets) without deduction for transaction costs. The fair value of the equity investment in the listed company which was subject to a lockup period has been estimated using the closing price quoted in the active stock market discounted by the percentage of the lack of marketability during the lockup period (level 3: significant unobservable inputs).

The fair values of the unlisted equity investments are measured using a valuation technique with unobservable inputs and hence categorised within level 3 of the fair value hierarchy. The major assumptions used in the valuation for investments in private companies are disclosed in note 49 to the financial statements.

(ii) The above debt investments at 31 December 2019 were wealth management products issued by banks in Mainland China. They were mandatorily classified as financial assets at fair value through profit or loss as their contractual cash flows are not solely payments of principal and interest.

None of these investments are past due. The fair values are based on cash flows discounted using the expected return based on management judgement and are within level 2 of the fair value hierarchy.

(iii) Amounts recognised in profit or loss

	2019 RMB'000
Fair value changes on:	
Equity investments at fair value through profit or loss	
— Listed equity investments, at fair value	**(217,261)**
— Unlisted equity investments, at fair value	**157,961**
Wealth management products	**215**
	(59,085)

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

22. TRADE RECEIVABLES/LONG-TERM TRADE RECEIVABLES

	2019 RMB'000	2018 RMB'000
Trade receivables	**35,766,089**	34,848,034
Impairment	**(13,168,203)**	(12,412,280)
	22,597,886	22,435,754
Current portion	**(19,778,280)**	(21,592,325)
Long-term portion	**2,819,606**	843,429

Progress payment for telecommunications system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days and is extendable up to one year depending on customers' creditworthiness except for certain overseas customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019 RMB'000	2018 RMB'000
Within 6 months	**18,838,561**	19,058,544
6 to 12 months	**2,331,934**	2,117,850
1 to 2 years	**1,061,611**	1,126,131
2 to 3 years	**365,780**	133,229
	22,597,886	22,435,754
Current portion of trade receivables	**(19,778,280)**	(21,592,325)
Long-term portion	**2,819,606**	843,429

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

	2019 RMB'000	2018 RMB'000
At beginning of year	**12,412,280**	9,198,484
Impairment losses, net (note 6)	**1,817,629**	3,445,793
Amount written off as uncollectible	**(1,359,859)**	(419,730)
Fluctuation in exchange	**298,153**	187,733
At end of year	**13,168,203**	12,412,280

Impairment under HKFRS 9 for the year ended 31 December 2019

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

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

22. TRADE RECEIVABLES/LONG-TERM TRADE RECEIVABLES (continued)

Impairment under HKFRS 9 for the year ended 31 December 2019 (continued)

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

As at 31 December 2019

	Past due					
	Within 6 months	**6 to 12 months**	**1 to 2 years**	**2 to 3 years**	**Over 3 years**	**Total**
Expected credit loss rate	**11%**	**13%**	**76%**	**81%**	**100%**	**37%**
Gross carrying amount	**21,102,244**	**2,675,234**	**4,353,567**	**1,956,298**	**5,678,746**	**35,766,089**
Expected credit losses	**2,263,683**	**343,300**	**3,291,956**	**1,590,518**	**5,678,746**	**13,168,203**

As at 31 December 2018

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

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

	2019 RMB'000	2018 RMB'000
The controlling shareholder	**33**	14
Joint ventures	**17,772**	15,801
Associates	**339,276**	219,384
Other related companies	**10,495**	21,447
	367,576	256,646

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 pledged trade receivables of RMB67,852,000 to secure the bank borrowings (note 35) (2018: Nil).

23. FACTORED TRADE RECEIVABLES/FACTORED LONG-TERM TRADE RECEIVABLES

As part of its normal business, the Group enters into some trade receivables factoring arrangements (the "Arrangements") and transferred certain trade receivables to banks. None of these financial assets are past due. Some of the trade receivables are not derecognised in their entirety and some of them are derecognised in their entirety but for which the Group retains continuing involvement. More details are set out in note 43.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

24. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

	2019 RMB'000	2018 RMB'000
Deferred tax assets and liabilities:		
At 1 January	**2,632,749**	1,126,119
Effect of adoption of HKFRS 9	**—**	(23,080)
Effect of adoption of HKFRS 15	**—**	188,959
At 1 January (restated)	**2,632,749**	1,291,998
Deferred tax credited to profit or loss during the year (note 11)	**(293,437)**	1,340,751
At 31 December	**2,339,312**	2,632,749

	2019 RMB'000	2018 RMB'000
Deferred tax assets:		
Unrealised profits arising on consolidation	**423,705**	400,583
Provision against inventories	**241,636**	286,420
Foreseeable contract losses	**239,826**	198,726
Amortisation of intangible assets	**284,946**	237,342
Provision for warranties	**43,957**	83,847
Provision for retirement benefits	**32,635**	25,706
Other payables and accruals	**464,503**	446,151
Equity-settled share options	**48,019**	60,734
Tax losses	**738,940**	1,104,016
Overseas tax	**129,658**	132,567
Lease liabilities	**166,110**	—
	2,813,935	2,976,092
Deferred tax liabilities:		
Changes in fair value of investment property	**(163,132)**	(162,223)
Changes in fair value of financial assets at fair value through profit or loss	**(63,757)**	(71,436)
Fair value adjustment of business combinations not under common control	**(40,233)**	(49,035)
Fair value adjustment on the remaining equity of disposal of subsidiaries	**—**	(37,491)
Right-of-use assets	**(156,391)**	—
Others	**(51,110)**	(23,158)
	(474,623)	(343,343)
	2,339,312	2,632,749

24. DEFERRED TAX (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the statement of financial position. The following is an analysis of the deferred tax balances of the Group for financial reporting purposes:

	2019 RMB'000
Net deferred tax assets recognised in the consolidated statement of financial position	**2,511,372**
Net deferred tax liabilities recognised in the consolidated statement of financial position	**(172,060)**
	2,339,312

Deferred tax assets have not been recognised in respect of the following items:

	2019 RMB'000	2018 RMB'000
Tax losses	**4,286,930**	4,171,222
Deductible temporary differences	**10,189**	144,992
	4,297,119	4,316,214

The tax losses that have not been recognised as deferred tax assets will expire as follows:

	2019 RMB'000	2018 RMB'000
2019	**–**	138,564
2020	**171,744**	278,465
2021	**373,813**	474,063
2022	**352,484**	374,049
2023	**285,530**	290,573
2024 and thereafter	**3,103,359**	2,615,508
	4,286,930	4,171,222

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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

25. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2019 **RMB'000**	2018 RMB'000
Cash and bank balances	**36,238,157**	27,217,944
Less:		
Pledged deposits — non-current	**(2,928,810)**	(2,928,146)
Pledged deposits — current	**(3,343,511)**	(3,057,459)
Time deposits with original maturity of over three months	**(1,460,036)**	(98,228)
Cash and cash equivalents	**28,505,800**	21,134,111
Time deposits with original maturity of less than three months	**(4,848,250)**	(169,456)
Unrestricted cash and bank balances	**23,657,550**	20,964,655

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi amounted to approximately RMB25,594,019,000 (2018: RMB18,214,459,000). 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 2019 of RMB887,492,000 (2018: RMB373,553,000) with the People's Bank of China held by ZTE Group Finance Company Limited, at a statutory reserve rate of 6% (2018: 7%).

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.

26. LONG-TERM PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 **RMB'000**	2018 RMB'000
Prepayments for purchase of property, plant and equipment and right-of-use assets	**714,225**	623,530
Prepayments for corporate income tax	**173,269**	226,578
Long-term deposits	**359,281**	355,340
Other assets	**1,648,523**	105,287
	2,895,298	1,310,735

27. INVENTORIES

	2019 **RMB'000**	2018 RMB'000
Raw materials	**5,300,413**	4,178,607
Work in progress	**1,188,235**	1,459,102
Finished goods	**2,572,771**	3,281,339
Contract costs	**7,904,860**	6,796,296
Contract works in progress	**10,722,229**	9,296,072
	27,688,508	25,011,416

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

28. CONTRACT ASSETS

	31 December 2019 RMB'000	31 December 2018 RMB'000
Contract assets	**9,987,937**	8,614,711
Impairment	**(450,087)**	(152,485)
	9,537,850	8,462,226

During the year ended 31 December 2019, RMB450,087,000 was recognised as an allowance for expected credit losses on contract assets. The Group's trading terms and credit policy with customers are disclosed in note 22 to the financial statements.

The expected timing of recovery or settlement for contract assets as at 31 December is as follows:

	2019 RMB'000	2018 RMB'000
Within one year	**9,537,850**	8,462,226

The movements in the loss allowance for impairment of contract assets are as follows:

	2019 RMB'000	2018 RMB'000
At beginning of year	**152,485**	119,011
Impairment losses recognised (note 6)	**294,632**	70,914
Amount written off as uncollectible	**—**	(33,603)
Fluctuation in exchange	**2,970**	(3,837)
At end of year	**450,087**	152,485

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates for the measurement of the expected credit losses of the contract assets are based on those of the trade receivables as the contract assets and the trade receivables are from the same customer bases.

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

	2019	2018
Expected credit loss rate	**4.51%**	1.77%
Gross carrying amount (RMB'000)	**9,987,937**	8,614,711
Expected credit losses (RMB'000)	**450,087**	152,485

29. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2019 RMB'000	2018 RMB'000
Debt investments at fair value through other comprehensive income	**2,432,325**	2,732,806
Impairment (note 6)	**(1,936)**	(2,455)
	2,430,389	2,730,351

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

29. DEBT INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (continued)

Bills receivable are classified as debt investments at fair value through other comprehensive income under HKFRS 9, as these were held within a business model with the objective of both holding to collect contractual cash flows and selling.

For debt investments at fair value through other comprehensive income, the Group applies the low credit risk simplification. At each reporting date, the Group evaluates whether the debt investments are considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort. In making that evaluation, the Group reassesses the external credit ratings of the debt investments. In addition, the Group considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

30. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	2019 **RMB'000**	2018 RMB'000
Prepayments	**402,525**	615,489
Deposits and other receivables	**8,624,170**	7,919,586
Dividends receivable	**3,081**	5,400
Interest receivable	**890**	2,189
Advances and loans	**56,834**	56,834
Impairment allowance (note 6)	**(240,137)**	(130,770)
	8,847,363	8,468,728

Expected credit losses are estimated by applying a loss rate approach with reference to the historical loss record of the Group. The loss rate is adjusted to reflect the current conditions and forecasts of future economic conditions, as appropriate.

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

	2019 **RMB'000**	2018 RMB'000
The controlling shareholder	**73**	256
Associates	**74,991**	52,524
Other related companies	**459**	46,373
	75,523	99,153

The amounts due from the controlling shareholder, associates and other related companies are unsecured, non-interest-bearing and are repayable on demand.

31. DERIVATIVE FINANCIAL INSTRUMENTS

	2019		2018	
	Assets **RMB'000**	**Liabilities** **RMB'000**	Assets RMB'000	Liabilities RMB'000
Forward currency contracts	**106,065**	**(126,223)**	228,117	(101,332)
Current portion	**106,065**	**(126,223)**	228,117	(101,332)

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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

32. 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:

	2019 **RMB'000**	2018 RMB'000
Within 6 months	**26,928,446**	26,647,259
6 to 12 months	**398,107**	385,737
1 to 2 years	**194,548**	198,519
2 to 3 years	**166,176**	169,568
Over 3 years	**41,273**	42,021
	27,728,550	27,443,104

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

	2019 **RMB'000**	2018 RMB'000
The controlling shareholder	**6,494**	8,514
Joint ventures	**30**	—
Associates	**352,826**	216,129
Other related companies	**86,840**	31,028
	446,190	255,671

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.

33. CONTRACT LIABILITIES

	31 December 2019 **RMB'000**	31 December 2018 RMB'000
Right to an amount of consideration	**7,404,341**	7,636,303
Consideration received	**7,112,716**	6,843,052
	14,517,057	14,479,355

Contract liabilities include short-term advances received to deliver hardware products and render installation, construction and management services.

34. OTHER PAYABLES AND ACCRUALS

	Notes	**2019** **RMB'000**	2018 RMB'000
Other payables	(a)	**5,156,342**	10,771,685
Advance receipts for the staff housing scheme		**51,066**	191,846
Accruals		**8,325,386**	5,922,760
Due to the controlling shareholder	(b)	**310**	500,812
Due to other related companies	(c)	**526,521**	427,984
		14,059,625	17,815,087

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

34. OTHER PAYABLES AND ACCRUALS (continued)

Notes:

(a) Other payables are non-interest-bearing and have an average term of three months.

(b) The 2018 balance included a loan of RMB500,000,000 (2019: Nil) which bored interest at a rate of 5.30% per annum and was repayable within 1 year.

(c) The balance is unsecured, non-interest-bearing and is repayable on demand.

35. INTEREST-BEARING BANK BORROWINGS

	2019			2018		
	Effective interest rate (%)	**Maturity**	**RMB'000**	Effective interest rate (%)	Maturity	RMB'000
Current						
Bank loans – unsecured	**0–18.2500**	**2020**	**18,642,749**	0–18.2500	2019	17,196,944
Bank loans – unsecured	**20.7500–42.0000**	**2020**	**224,530**	20.7500–42.0000	2019	95,409
Bank loans – unsecured	**3MLIBOR+1.3500–2.2000**	**2020**	**1,305,821**	3MLIBOR+1.3500–2.2000	2019	1,283,194
Bank loans – unsecured	**6MLIBOR+0.7000–1.9000**	**2020**	**2,444,050**	6MLIBOR+0.7000–1.9000	2019	2,195,491
Bank loans – unsecured	**12MLIBOR+1.8000**	**2020**	**156,542**	12MLIBOR+1.8000	–	–
Bank loans – unsecured	**LPR+0.0500–0.9200**	**2020**	**2,969,000**	LPR+0.0500–0.9200	2019	2,359,000
Bank loans – unsecured	**3MEURIBOR+1.1000**	**2020**	**845,327**	3MEURIBOR+1.1000	–	–
Bank loans – unsecured	**9MEURIBOR+1.9600**	**–**	**–**	9MEURIBOR+1.9600	2019	157,012
Bank loans – guaranteed	**4.7500–5.5000**	**2020**	**10,000**	4.7500–5.5000	2019	128,753
Bank loans – guaranteed	**3MLIBOR+1.3500–2.2000**	**–**	**–**	3MLIBOR+1.3500–2.2000	2019	411,720
Bank loans – secured	**2.7800–18.0000**	**2020**	**140,000**	2.7800–18.0000	2019	678,800
Bank loans – secured	**LRP+0.4850–0.6925**	**–**	**–**	LRP+0.4850–0.6925	2019	485,000
			26,738,019			24,983,323
Non-current						
Bank loans – guaranteed	**–**	**–**	**–**	1.2000	2027	54,000
Bank loans – secured	**4.7500–6.9000**	**2022**	**92,050**	4.7500–6.9000	–	–
Bank loans – secured	**4.7500–6.9000**	**2027**	**20,159**	4.7500–6.9000	–	–
Bank loans – unsecured	**6MLIBOR+1.4000–1.70000**	**2022**	**3,700,990**	6MLIBOR+1.4000–1.70000	2020	2,024,290
Bank loans – unsecured	**LPR+0.4400–0.6500**	**2021**	**185,000**	LPR+0.4400–0.6500	–	–
Bank loans – unsecured	**LPR+0.4400–0.6500**	**2022**	**1,900,000**	LPR+0.4400–0.6500	–	–
Bank loans – unsecured	**4.7500–12.5600**	**2021**	**2,061,499**	4.7500–12.5600	2020	91,000
Bank loans – unsecured	**4.7500–12.5600**	**2022**	**2,082,556**	4.7500–12.5600	2021	195,000
Bank loans – unsecured	**0.7500**	**2023**	**2,839**	0.7500	2023	2,278
			10,045,093			2,366,568
			36,783,112			27,349,891

	2019 RMB'000	2018 RMB'000
Analysed into:		
Bank loans repayable:		
Within one year or on demand	**26,738,019**	24,983,323
In the second year	**2,246,499**	2,115,290
In the third to fifth years, inclusive	**7,778,435**	197,278
Over five years	**20,159**	54,000
	36,783,112	27,349,891

Notes:

Except for bank loans of approximately RMB26,255,000 (2018: RMB18,817,000) 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 RMB24,710,000 (2018: RMB21,278,000), all borrowings of the Group bear interest at floating interest rates.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

35. INTEREST-BEARING BANK BORROWINGS (continued)

The Group's secured bank loans and banking facilities are secured by:

	2019 **RMB'000**	2018 RMB'000
Land use rights	**312,418**	68,708
Pledged bank deposits	**2,444,871**	2,122,496
Fixed assets	**394,244**	648,245
Trade receivables and contract assets	**222,860**	—
	3,374,393	2,839,449

Certain of the Group's bank loans are guaranteed by:

	2019 **RMB'000**	2018 RMB'000
Entities within the Group	**10,000**	594,473

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.

36. PROVISION

	Provision for onerous contracts*	**Provision for litigation****	**Provision for warranties*****	**Total**
At 1 January 2018	581,244	106,293	426,833	1,114,370
Additional provision	1,545,600	295,089	363,924	2,204,613
Amounts utilised during the year	(632,793)	(35,187)	(483,389)	(1,151,369)
At 31 December 2018	1,494,051	366,195	307,368	2,167,614
At 1 January 2019	**1,494,051**	**366,195**	**307,368**	**2,167,614**
Additional provision	**1,730,893**	**16,586**	**148,207**	**1,895,686**
Amounts utilised during the year	**(1,605,728)**	**(216,290)**	**(274,818)**	**(2,096,836)**
At 31 December 2019	**1,619,216**	**166,491**	**180,757**	**1,966,464**

* The present obligation recognised under contract in which unavoidable costs of meeting the obligation under the contract exceed the economic benefits expected to be received under it.

** Based on the legal opinion furnished by the legal counsel engaged by the Group and the progress of the case, the Group makes provisions for cases that can be reliably estimated.

*** The Group generally provides a one-year warranty for handset to their customers for general repairs of defects occurring during the warranty period. The amount of provision for warranties is estimated based on sales volume and past experience of the level of repairs and returns. The estimation basis is reviewed on an ongoing basis and revised where appropriate.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

37. 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 2019 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:

	2019	2018
Discount rate (%)	**3.25**	3.25
Expected rate of salary increases (%)	**5.50**	5.50

A quantitative sensitivity analysis for significant assumptions as at 31 December 2019 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%**	**(3,773)**	**0.25%**	**3,554**
Future salary increase	**1.00%**	**14,451**	**1.00%**	**(13,005)**

The sensitivity analysis above has been determined based on a method that extrapolates the impact on net defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period.

The total expenses recognised in profit or loss in respect of the plan are as follows:

	2019 RMB'000	2018 RMB'000
Interest cost	**4,338**	5,200
Net benefit expenses	**4,338**	5,200
Recognised in administrative expenses	**4,338**	5,200

The movements in the present value of the defined benefit obligations are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	**136,245**	133,191
Interest cost	**4,338**	5,200
Pension payments made	**(3,677)**	(2,623)
Benefit expenses recognised in other comprehensive income	**7,599**	477
At 31 December	**144,505**	136,245

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

37. PROVISION FOR RETIREMENT BENEFITS (continued)

The movements in the defined benefit obligations and the fair value of plan assets are as follows:

2019

	1 January 2019 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 2019 RMB'000
Defined benefit obligations	**136,245**	**4,338**	**4,338**	**(3,677)**	**–**	**7,599**	**7,599**	**144,505**
Benefit liability	**136,245**	**4,338**	**4,338**	**(3,677)**	**–**	**7,599**	**7,599**	**144,505**

2018

	1 January 2018 RMB'000	Net interest RMB'000	Sub-total included in profit or loss RMB'000	Benefit paid RMB'000	Actuarial changes arising from changes in financial assumptions RMB'000	Experience adjustments RMB'000	Sub-total included in other comprehensive income RMB'000	31 December 2018 RMB'000
Defined benefit obligations	133,191	5,200	5,200	(2,623)	8,686	(8,209)	477	136,245
Benefit liability	133,191	5,200	5,200	(2,623)	8,686	(8,209)	477	136,245

38. OTHER NON-CURRENT LIABILITIES

	2019 RMB'000	2018 RMB'000
Deferred income for the staff housing scheme	**857,398**	918,832
Deferred income	**2,656,024**	1,953,057
Long-term payables	**2,117,396**	539,845
Other payables	**38,693**	1,771,000
	5,669,511	5,182,734

39. ISSUED CAPITAL

	2019 RMB'000	2018 RMB'000
Restricted shares		
Senior management shares	**494**	3,601
	494	3,601
Unrestricted shares		
RMB ordinary shares	**3,471,534**	3,433,569
Overseas listed foreign shares	**755,502**	755,502
	4,227,036	4,189,071
	4,227,530	4,192,672

40. SHARE OPTION INCENTIVE SCHEME

2017 Share Option Incentive Scheme

Pursuant to the "Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee, the date of grant was set for 6 July 2017. Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company's business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the Company's performance as the condition of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

(1) Weighted average rate of return on common stockholders' equity (ROE); and

(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:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period	1/3	From 6 July 2019 to 5 July 2020	ROE for 2017 shall be no less than 10% and net profit growth for 2017 shall be no less than 10% on a base amount of RMB3,825,000,000
Second exercise period	1/3	From 6 July 2020 to 5 July 2021	ROE for 2018 shall be no less than 10% and net profit growth for 2018 shall be no less than 20% on a base amount of RMB3,825,000,000
Third exercise period	1/3	From 6 July 2021 to 5 July 2022	ROE for 2019 shall be no less than 10% and net profit growth for 2019 shall be no less than 30% on a base amount of RMB3,825,000,000

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

40. SHARE OPTION INCENTIVE SCHEME (continued)

2017 Share Option Incentive Scheme (continued)

The fair value of the share options granted amounted to RMB1,477,496,000, among which the share option expense recognised by the Company in 2019 amounted to RMB191,790,000 based on the best estimates of expected number of exercisable options at the end of the period for the first vesting period and the third vesting period.

In 2019, the Company issued 34,858,026 ordinary shares as a result of the exercise of 34,858,026 share options. The share capital increased by RMB34,858,026, and the share premium amounted to RMB901,536,000.

The following share options were outstanding under the Scheme during the year:

	2019		2018	
	Weighted average exercise price RMB per share	**Number of options '000**	Weighted average exercise price RMB per share	Number of options '000
At 1 January	**17.06**	**81,864**	17.06	149,601
Granted during the year		**(34,858)**		—
Forfeited during the year		**(2,474)**		67,737
At 31 December	**17.06**	**44,532**	17.06	81,864

The exercise prices and exercise periods of the share options outstanding as at the end of the reporting period are as follows:

2019 Number of options '000	**Exercise price* RMB per share**	**Exercise period**
4,806	**17.06**	From 6 July 2019 to 5 July 2020
39,726	**17.06**	From 6 July 2021 to 5 July 2022
44,532		

2018 Number of options '000	Exercise price* RMB per share	Exercise period
40,932	17.06	From 6 July 2019 to 5 July 2020
40,932	17.06	From 6 July 2021 to 5 July 2022
81,864		

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

40. SHARE OPTION INCENTIVE SCHEME (continued)

2017 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 rates	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.

41. 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 332 and 333 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.

42. 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 interest payable (including all deferred interest payments and the compound interest. 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.

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 interest and interest 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 interest at the current coupon rate for the period of deferral.

In the event the issuer conducts the following within 12 months prior to the current interest payment date for the Medium Term Notes, it should not defer the payment of current interest and all deferred interest and their accruals:

1. Dividend distribution to holders of ordinary shares;
2. Reduction of registered capital.

(b) Movement of the issued Medium Term Notes as at the end of the year

Face value RMB'000	Issue date	Volume	Issue amount RMB'000	Opening balance RMB'000	Interest charged for the year RMB'000	Principal paid during the year RMB'000	Interest paid during the year RMB'000	**Closing balance RMB'000**
6,000,000	1/27/2015	60,000,000	6,000,000	6,252,364	348,600	–	(348,600)	**6,252,364**

43. 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 2019, certain bills receivable were discounted by banks in the PRC (the "Discounted Bills") with a carrying amount of RMB2,009,638,000 (2018: RMB167,820,000). 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 amount of the Discounted Bills. The maximum exposure to loss from the Group's continuing involvement in the Discounted Bills and the undiscounted cash flows to repurchase these Discounted Bills is equal to their carrying amounts. In the opinion of the directors, the fair values of the Group's continuing involvement in the Discounted Bills are not significant.

During the year ended 31 December 2019, the Group has recognized a loss of RMB27,630,000 on the date of transfer of the Discounted Bills (2018: Loss of RMB2,615,000). No gains or losses were recognised from the continuing involvement, both during the year or cumulatively.

Trade receivable factoring

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.

Transferred trade receivables that are not derecognised in their entirety

According to some factoring arrangements, the Group is exposed to default risks of the trade debtors after the transfer and accordingly, it continues to recognise the full carrying amounts of the trade receivables. The carrying value of trade receivables transferred under the Arrangements that has not been settled as at 31 December 2019 amounted to RMB41,438,000 (2018: RMB413,633,000).

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 has not been settled as at 31 December 2019 amounted to RMB25,798,167,000 (2018: RMB26,338,984,000). The continuing involvement and associated liabilities are summarised as follows:

	RMB'000
Carrying amount of assets that continue to be recognised	467,943,000
Carrying amount of liabilities that continue to be recognised	469,406,000

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

44. CONTINGENT LIABILITIES

(a) At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

	2019 **RMB'000**	2018 RMB'000
Guarantees given to banks in respect of performance bonds	**13,559,281**	10,726,178
	13,559,281	10,726,178

(b) 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 RMB54,322,900). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand a compensation amount of BRL31,224,300 (equivalent to approximately RMB54,098,700), together with accrued interest and legal fees payable immediately by the Brazilian company. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB54,098,700) 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 RMB54,098,700) together with accrued interest and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB144 million). The Company has appointed a 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.

(c) 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 (cases LCIA No. 173683 and LCIA No. 173696). On the same date, the Company also received a notice of arbitration filed with Dubai International Financial Centre — London Court for International Arbitration (DIFC-LCIA) against the Company by a Mauritanian subsidiary of the said Sudanese carrier (the "Mauritanian Subsidiary") (case DIFC-LCIA No. 17098). 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.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

44. CONTINGENT LIABILITIES (continued)

(c) (continued)

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

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

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

In May 2019, the aforesaid Sudanese carrier withdrew its application for LCIA arbitration (Case No: LCIA No.173696).

In February 2020, LCIA made a ruling on case LCIA No.173683 to reject the USD30,060,326 claim of the counterparty and order the payment of USD4,209,877 and GBP260,095.20 together with interest to the Company by the said Mauritanian subsidiary.

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.

(d) On 15 April 2018, the United States Department of Commerce's Bureau of Industry and Security ("BIS") signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the "15 April 2018 Denial Order"). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (a wholly-owned subsidiary) from participating in any way, whether directly or indirectly, in any transaction involving any commodity, software, or technology exported or to be exported from the United States that is subject to the United States Export Administration Regulations ("EAR"), or any other activities subject to control under EAR. The full text of the 15 April 2018 Denial Order was published in the United States Federal Register (Federal Register Vol. 83, p. 17644).

44. CONTINGENT LIABILITIES (continued)

(d) (continued)

In June 2018, ZTE and BIS entered into a superseding settlement agreement ("2018 Superseding Settlement Agreement") to supersede the settlement agreement signed between ZTE and BIS in March 2017. The 2018 Superseding Settlement Agreement came into effect via a superseding order relating to ZTE on 8 June 2018 (the "8 June 2018 Order"). In accordance with the 2018 Superseding Settlement Agreement, the Company had paid civil monetary penalties totalling USD1.4 billion, including a lump sum payment of USD1 billion and an additional penalty of USD0.4 billion placed in an escrow account with a United States bank suspended during the Probationary Period (10 years from the issue of the 8 June 2018 Order) (The USD0.4 billion penalty will be waived after the end of Probation Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order (the "Probationary Period") that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any licence, licence exception or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR to be imposed by BIS, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE's compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To fulfil the obligations under the superseding settlement agreement of 2018 and the settlement agreement with the United States government in 2017, the Company is required to provide and implement a comprehensive and updated export control compliance programme that covers all levels of ZTE.

In the event of the Company's violation of obligations under the 2018 Superseding Settlement Agreement or agreement of 2017, (i) the suspended New Denial Order might be activated, which would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any licence, licence exception or export control document, and participating in any transaction involving any commodity, software, or technology that is subject to the EAR; and (ii) the USD0.4 billion placed in an escrow account with a United States bank shall become payable immediately and shall be paid in full or in part.

The Company has established the Export Compliance Committee of the Board of Directors, which includes the Company's executive directors, non-executive directors and independent non-executive directors; built a team composed of Chief Export Control Compliance Officer, Regional Export Control Compliance Directors and sophisticated export control compliance experts with global coverage and engaged a number of counsels and consultants; established and optimised the Company's export control compliance management structure, system and procedure; introduced and implemented SAP Global Trade System to automate export compliance management; carried out ECCN Publication Project, made available to its customers and business partners the applicable Export Control Classification Number ("ECCN") and other export control information for products subject to the Export Administration Regulations; continued to provide comprehensive online and offline export compliance training for senior management, subsidiaries, compliance liaisons, account managers and new employees; cooperated with the independent compliance monitor and special compliance coordinator to conduct various monitoring; and made continuous investment on the work on export control compliance.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

44. CONTINGENT LIABILITIES (continued)

(d) (continued)

In 2020, the Company will continually comply with all local rules and regulations, as applicable, including restrictions under economic sanctions and export control laws and regulations, of the countries in which it operates its businesses. Complying with ZTE's Export Compliance Program and the regulations on which it is based is an essential requirement for ZTE's employees, contract employees, and businesses.

Compliance not only protects value, but it also creates value. The Company attaches significant importance to the work on export control compliance, regarding compliance as foundation to the Company's strategy and condition and bottom-line for the Company's operations. The Company will continually build its value for its customers, shareholders, and employees, and build a compliant and healthy business environment with customers and partners through the dedication and vigilance to export compliance of every employee.

During the period from 1 January 2019 to the date of publication of this report, to the best of the Company's knowledge, the aforesaid contingent liabilities will not have any material adverse impact on the financial conditions and operating results of the Group for the current period.

(e) On 31 October 2018, a natural person filed a litigation with the Guangdong Provincial Higher People's Court ("Guangdong Higher Court") against the Company as defendant and ZTE Integration and Nubia Technology Limited as third parties without independent rights of claim, on the grounds that the Company had infringed upon his interests as a shareholder of ZTE Integration, demanding (1) a RMB200 million compensation payable to him by the Company; and (2) the assumption by the Company of all costs of the litigation (including but not limited to litigation costs and legal fees amounting to RMB200,000).

On 9 April 2019, the Company received judiciary documents from the Guangdong Higher Court, including among others, a notice of response to action, summons for exchange of evidence and a notice requiring the provision of evidence. The Company has appointed an attorney for active response to the 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 arbitration cannot be reliably estimated.

45. PLEDGE OF ASSETS

Details of the Group's bank loans, which are secured by the assets of the Group, are included in note 35 to the financial statements.

46. COMMITMENTS

(a)

	2019 **RMB'000**	2018 RMB'000
Contracted, but not provided for		
Land and buildings	**3,097,021**	3,414,134
Investments in associates	**48,690**	65,312
	3,145,711	3,479,446

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

46. COMMITMENTS (continued)

(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 2019, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 RMB'000
Within one year	479,365
In the second to fifth years, inclusive	531,882
After five years	14,128
	1,025,375

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	**2019** **RMB'000**	2018 RMB'000
The controlling shareholder:			
Purchases of raw materials	(a)	**1,970**	65,877
Sales of finished goods	(b)	**58**	14
Rental expense	(c)	**9,809**	8,827
Rental income	(e)	**—**	6
Associates:			
Purchases of raw materials and other service	(a)	**649,757**	880,991
Sales of finished goods	(b)	**378,430**	716,255
Rental income	(e)	**72,377**	18,490
Interest expense	(f)	**—**	88
Joint ventures:			
Sales of finished goods	(b)	**14,364**	57,966
Rental income	(e)	**521**	655
Entities controlled by the controlling shareholder:			
Purchases of raw materials	(a)	**400,783**	144,072
Sales of finished goods	(b)	**6,332**	5,667
Rental income	(e)	**1,131**	2,517
Other related parties:			
Purchases of raw materials	(a)	**61,348**	73,171
Sales of finished goods	(b)	**613,388**	259,348
Rental expense	(d)	**30,918**	16,162
Rental income	(e)	**961**	66,819

In the opinion of the directors, the above transactions were conducted in the ordinary course of business.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

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 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 ranging from RMB40 to RMB46.5 per square metre and RMB200 per car parking space.

(d) The rental expense was charged at rates ranging from RMB14.13 to RMB75 per square metre.

(e) The rental income was earned from RMB34.5 to RMB157.5 per square metre.

(f) The interest rates for deposits, loans and bills discounting were determined with reference to the interest rates adopted by financial institutions as regulated by the People's Bank of China.

(II) Commitments with related parties

(i) The Group leases certain of its office premises from related parties under non-cancellable operating lease arrangements. The Group expected the lease payments to related parties under non-cancellable operating leases falling due as follows:

	Within one year RMB'000	**In the second year** RMB'000	**In the third year** RMB'000
The controlling shareholder	10,225	3,039	—
Other related parties	19,383	3,886	—

(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	800,000	900,000	—
Associates	37,500	37,500	—

(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
Entities controlled by the controlling shareholder	398	—	—
Associates	325	325	103
Other related parties	208	—	—

47. RELATED PARTY TRANSACTIONS (continued)

(III) Outstanding balances with related parties

(i) Details of the Group's trade balances with the controlling shareholder, joint ventures, associates and other related parties as at the end of the reporting period are disclosed in notes 22 and 32 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 30 and 34 to the financial statements.

(IV) Compensation of key management personnel of the Group

	2019 **RMB'000**	2018 RMB'000
Short-term employee benefits	**40,426**	17,173
Post-employment benefits	**290**	332
Share option incentive scheme	**1,926**	2,112
Total compensation paid to key management personnel	**42,642**	19,617

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 RMB403,000,000 (2018: RMB210,000,000) constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. For details, please refer to the section headed "Material Matters (X) Significant Connected Transactions of the Group 2. Continuing Connected Transactions under the Hong Kong Listing Rules" of the Annual Report.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

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:

2019

Financial assets	Financial assets at fair value through profit or loss Held for trading RMB'000	Financial assets at fair value through other comprehensive income Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	2,117,481	–	–	2,117,481
Wealth management products	37,435	–	–	37,435
Debt investments at fair value through other comprehensive income	–	2,430,389	–	2,430,389
Trade receivables/long-term trade receivables	–	–	22,597,886	22,597,886
Factored trade receivables/factored long-term trade receivables	–	–	509,381	509,381
Financial assets included in prepayments, other receivables and other assets	–	–	826,308	826,308
Financial assets included in long-term prepayments, deposits and other receivables	–	–	359,281	359,281
Pledged deposits	–	–	6,272,321	6,272,321
Time deposits with original maturity of over three months	–	–	1,460,036	1,460,036
Cash and cash equivalents	–	–	28,505,800	28,505,800
Derivative financial instruments	106,065	–	–	106,065
	2,260,981	2,430,389	60,531,013	65,222,383

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

48. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2019

Financial liabilities	Financial liabilities at fair value through profit or loss Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	–	27,728,550	27,728,550
Lease liabilities	–	1,165,502	1,165,502
Bank advances on factored trade receivables/ bank advances on factored long-term trade receivables	–	510,882	510,882
Financial liabilities included in other payables and accruals	–	3,507,388	3,507,388
Interest-bearing bank borrowings	–	36,783,112	36,783,112
Financial liabilities included in other non-current liabilities	–	2,117,396	2,117,396
Derivative financial instruments	126,223	–	126,223
	126,223	71,812,830	71,939,053

2018

Financial assets	Financial assets at fair value through profit or loss Held for trading RMB'000	Financial assets at fair value through other comprehensive income Debt investments RMB'000	Financial assets at amortised cost RMB'000	Total RMB'000
Equity investments at fair value through profit or loss	2,312,910	–	–	2,312,910
Wealth management products	666,412	–	–	666,412
Debt investments at fair value through other comprehensive income	–	2,730,351	–	2,730,351
Trade receivables/long-term trade receivables	–	–	22,435,754	22,435,754
Factored trade receivables/factored long-term trade receivables	–	–	1,019,910	1,019,910
Financial assets included in prepayments, other receivables and other assets	–	–	1,444,140	1,444,140
Financial assets included in long-term prepayments, deposits and other receivables	–	–	355,340	355,340
Pledged deposits	–	–	5,985,605	5,985,605
Time deposits with original maturity of over three months	–	–	98,228	98,228
Cash and cash equivalents	–	–	21,134,111	21,134,111
Derivative financial instruments	228,117	–	–	228,117
	3,207,439	2,730,351	52,473,088	58,410,878

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

48. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows: (continued)

2018

Financial liabilities	Financial liabilities at fair value through profit or loss Held for trading RMB'000	Financial liabilities at amortised cost RMB'000	Total RMB'000
Trade and bills payables	—	27,443,104	27,443,104
Bank advances on factored trade receivables/ bank advances on factored long-term trade receivables	—	1,026,068	1,026,068
Financial liabilities included in other payables and accruals	—	9,829,264	9,829,264
Interest-bearing bank borrowings	—	27,349,891	27,349,891
Financial liabilities included in other non-current liabilities	—	539,845	539,845
Derivative financial instruments	101,332	—	101,332
	101,332	66,188,172	66,289,504

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, other receivables and other assets, financial liabilities included in other payables and accruals, amounts due from/to subsidiaries, an amount due to the ultimate holding company and loans from associates approximate to their carrying amounts largely due to the short-term maturities of these instruments.

The Group's finance department headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The finance department reports directly to the chief financial officer and the audit committee. At each reporting date, the finance department analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of pledged deposits, trade receivables, other receivables and other assets and interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2019 was assessed to be insignificant.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

The fair value of a listed equity investment is based on quoted market prices. The fair value of the equity investment in the listed company which was subject to a lockup period has been estimated using the closing price quoted in the active stock market discounted by the percentage of the lack of marketability during the lockup period.

The fair values of unlisted equity investments designated at fair value through profit or loss, which were previously classified as available-for-sale equity investments, have been estimated using a market-based valuation technique based on assumptions that are not supported by observable market prices or rates. The valuation requires the directors to determine comparable public companies (peers) based on industry, size, leverage and strategy, and to calculate an appropriate price multiple, such as enterprise value to earnings before interest, taxes ("EV/EBIT") multiple and price to earnings ("P/E") multiple, for each comparable company identified. The multiple is calculated by dividing the enterprise value of the comparable company by an earnings measure. The trading multiple is then discounted for considerations such as illiquidity and size differences between the comparable companies based on company-specific facts and circumstances. The discounted multiple is applied to the corresponding earnings measure of the unlisted equity investments to measure the fair value. The directors believe that the estimated fair values resulting from the valuation technique, which are recorded in the consolidated statement of financial position, and the related changes in fair values, which are recorded in profit or loss, are reasonable, and that they were the most appropriate values at the end of the reporting period.

The Group invests in debt investments, which represent wealth management products issued by banks in Mainland China. The Group has estimated the fair value of these unlisted investments by using a discounted cash flow valuation model based on the market interest rates of instruments with similar terms and risks.

The Group enters into derivative financial instruments with various counterparties, principally financial institutions with A- or above credit ratings. Derivative financial instruments, including forward currency contracts and interest rate swaps, are measured using valuation techniques similar to forward pricing and swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, foreign exchange spot and forward rates and interest rate curves. The carrying amounts of forward currency contracts and interest rate swaps are the same as their fair values.

Below is a summary of significant unobservable inputs to the valuation of financial instruments together with a quantitative sensitivity analysis as at 31 December 2019 and 2018:

	Valuation technique	Significant unobservable input	2019 Range	2018 Range
Listed equity investment with lock up period	Market approach	Discount for lack of marketability%	4–10	4–10
Non-listed equity investment	Market approach	Discount for lack of marketability%	30	30
		Price-earnings ratio ("P/E ratio")	13–67	13–55
		Entity value/revenue ratio ("EV/Revenue ratio")	2–6	2–7
		Entity value/EBIT ratio ("EV/EBIT ratio")	11–14	11–23

The fair value of equity investments designated at fair value through profit or loss is affected by changes in the discount for lack of marketability, P/E ratio, P/B ratio, EV/Revenue ratio and EV/EBIT ratio. If the discount for lack of marketability had increased/decreased by 10% with all other variables held constant, the fair value of equity investments designated at fair value through profit or loss for the year ended 31 December 2019 would have been approximately RMB122,601,000 lower/higher.

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

If the P/E ratio, P/B ratio, EV/Revenue ratio and EV/EBIT ratio had increased/decreased by 10% with all other variables held constant, the fair value of equity investments designated at fair value through profit or loss for the year ended 31 December 2019 would have been approximately RMB81,900,000 higher/lower.

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 31 December 2019

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	**Significant observable inputs (Level 2) RMB'000**	**Significant unobservable inputs (Level 3) RMB'000**	**Total RMB'000**
Equity investments designated at fair value through profit or loss				
— listed entities	**116,220**	**—**	**407,007**	**523,227**
— unlisted entities	**—**	**—**	**1,594,254**	**1,594,254**
Wealth management products	**—**	**37,435**	**—**	**37,435**
Derivative financial instruments	**—**	**106,065**	**—**	**106,065**
Debt investments designated at fair value through other comprehensive income	**—**	**2,430,389**	**—**	**2,430,389**
	116,220	**2,573,889**	**2,001,261**	**4,691,370**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Equity investments designated at fair value through profit or loss				
— listed entities	761,359	—	49,052	810,411
— unlisted entities	—	—	1,502,499	1,502,499
Wealth management products	—	666,412	—	666,412
Derivative financial instruments	—	228,117	—	228,117
Debt investments designated at fair value through other comprehensive income	—	2,730,351	—	2,730,351
	761,359	3,624,880	1,551,551	5,937,790

49. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

Liabilities measured at fair value:

As at 31 December 2019

	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	**—**	**(126,223)**	**—**	**(126,223)**

As at 31 December 2018

	Fair value measurement using			
	Quoted prices in active markets (Level 1) RMB'000	Significant observable inputs (Level 2) RMB'000	Significant unobservable inputs (Level 3) RMB'000	Total RMB'000
Derivative financial instruments	—	(101,332)	—	(101,332)

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2018: Nil).

The movements in fair value measurements within Level 3 during the year are as follows:

	2019 RMB'000	2018 RMB'000
At 1 January	**1,551,551**	1,602,930
Transfer to the third level	**130,581**	37,434
Transfer out of the third level	**(119,633)**	—
Total gains recognised in profit or loss included in other income	**545,721**	9,390
Purchase	**4,793**	101,100
Disposals	**(111,752)**	(199,303)
At 31 December	**2,001,261**	1,551,551

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:

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Interest rate risk

At 31 December 2019, the bank loans of the Group included fixed and variable rate debts.

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. As the Group borrowed a USD954,000,000 (2018: USD861,949,000) of floating interest rate loan, at 31 December 2019, there were no interest rate swaps (2018: nil) and approximately 67% (2018: 78%) 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/(loss) 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
2019	**25**	**(14,294)**	**—**
	(25)	**14,294**	**—**
2018	25	(27,151)	—
	(25)	27,151	—

* Excluding retained profits

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies, where the revenue is predominately in USD, EUR and a certain portion of the bank loans is denominated in USD. The Group has entered into forward currency contracts and tends to accept foreign currency exchange risk avoidance or allocation terms when arriving at purchase and sale contracts to minimise its transactional currency exposures. The Group takes a rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact on business due to exchange rate fluctuation.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the USD and EUR exchange rates, with all other variables held constant, of the Group's profit/(loss) before tax (due to changes in the fair values of monetary assets and liabilities). There would be no change in other components of equity.

	Increase/ (decrease) in exchange rate %	Increase/ (decrease) in profit before tax RMB'000
2019		
If RMB weakens against USD	**3%**	**311,119**
If RMB strengthens against USD	**(3%)**	**(311,119)**
If RMB weakens against EUR	**5%**	**121,445**
If RMB strengthens against EUR	**(5%)**	**(121,445)**

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

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
2018		
If RMB weakens against USD	3%	388,413
If RMB strengthens against USD	(3%)	(388,413)
If RMB weakens against EUR	5%	146,274
If RMB strengthens against EUR	(5%)	(146,274)

Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2019

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2019. The amounts presented are gross carrying amounts for financial assets and the exposure to credit risk for the financial guarantee contracts.

As at 31 December 2019

	12-month ECLs	Lifetime ECLs			
	Stage 1 RMB'000	Stage 2 RMB'000	Stage 3 RMB'000	Simplified approach RMB'000	RMB'000
Wealth management products	37,435	–	–	–	37,435
Contract assets*	–	–	–	9,987,937	9,987,937
Trade receivables/long-term trade receivables*	–	–	–	35,766,089	35,766,089
Financial assets included in prepayments, other receivables and other assets					
— Normal**	827,135	–	–	–	827,135
— Doubtful**	–	–	239,310	–	239,310
Financial assets included in long-term prepayments, deposits and other receivables	359,281	–	–	–	359,281
Pledged deposits					
— Not yet past due	6,272,321	–	–	–	6,272,321
Time deposits with original maturity of over three months					
— Not yet past due	1,460,036	–	–	–	1,460,036
Cash and cash equivalents					
— Not yet past due	28,505,800	–	–	–	28,505,800
	37,462,008	–	239,310	45,754,026	83,455,344

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

Maximum exposure and year-end staging as at 31 December 2019 (continued)

As at 31 December 2018

	12-month ECLs	Lifetime ECLs			
	Stage 1	Stage 2	Stage 3	Simplified approach	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Wealth management products	2,730,351	—	—	—	2,730,351
Contract assets*	—	—	—	8,614,711	8,614,711
Trade receivables/long-term trade receivables*	—	—	—	34,848,034	34,848,034
Financial assets included in prepayments, other receivables and other assets	—				
— Normal**	1,444,140	—	—	—	1,444,140
— Doubtful**	—	—	—	—	—
Financial assets included in long-term prepayments, deposits and other receivables	355,340	—	—	—	355,340
Pledged deposits					
— Not yet past due	5,985,605	—	—	—	5,985,605
Time deposits with original maturity of over three months					
— Not yet past due	98,228	—	—	—	98,228
Cash and cash equivalents					
— Not yet past due	21,134,111	—	—	—	21,134,111
	31,747,775	-	-	43,462,745	75,210,520

* For trade receivables and contract assets to which the Group applies the simplified approach for impairment, information based on the provision matrix is disclosed in notes 22 and 28 to the financial statements, respectively.

** The credit quality of the financial assets included in prepayments, other receivables and other assets is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, other receivables and derivative instruments, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis, by counterparty, by geographical region and by industry sector. Although the receivables from the five largest customers accounted for 26.12% (2018: 24.28%) of the total trade receivables, the risk profiles of these customers were relatively low and did not give rise to a significant concentration of credit risk for the Group.

Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 22 to the financial statements.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

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:

2019

	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	—	27,337,474	2,254,612	7,894,790	40,753	37,527,629
Lease liabilities	—	520,208	105,225	238,741	553,593	1,417,767
Trade and bills payables	18,355,610	9,372,940	—	—	—	27,728,550
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	348,866	94,745	39,913	27,358	510,882
Financial liabilities included in other payables and accruals	3,507,388	—	—	—	—	3,507,388
Derivative financial instruments	—	126,223	—	—	—	126,223
Financial liabilities included in other non-current liabilities	—	86,266	13,238	13,871	2,340,987	2,454,362
	21,862,998	37,791,977	2,467,820	8,187,315	2,962,691	73,272,801

2018

	On demand RMB'000	Within 1 year RMB'000	1 to 2 years RMB'000	2 to 3 years RMB'000	Over 3 years RMB'000	Total RMB'000
Interest-bearing bank borrowings	—	25,504,584	2,201,645	201,623	58,240	27,966,092
Trade and bills payables	19,527,404	7,915,700	—	—	—	27,443,104
Bank advances on factored trade receivables/bank advances on factored long-term trade receivables	—	618,664	283,390	88,042	87,439	1,077,535
Financial liabilities included in other payables and accruals	9,829,264	—	—	—	—	9,829,264
Derivative financial instruments	—	101,332	—	—	—	101,332
Financial liabilities included in other non-current liabilities	—	—	47,347	36,193	456,305	539,845
	29,356,668	34,140,280	2,532,382	325,858	601,984	66,957,172

50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2019 and 31 December 2018.

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:

	31 December 2019 RMB'000	1 January 2019 RMB'000 (note)	31 December 2018 RMB'000
Interest-bearing borrowings	**36,783,112**	27,349,891	27,349,891
Lease liabilities	**1,165,502**	952,264	—
Other payables	**—**	500,000	500,000
Bank advances on factored trade receivables and long-term trade receivables	**510,882**	1,026,068	1,026,068
Total interest-bearing liabilities	**38,459,496**	29,828,223	28,875,959
Total equity	**37,954,298**	32,960,675	32,960,675
Total equity and interest-bearing liabilities	**76,413,794**	62,788,898	61,836,634
Gearing ratio	**50.3%**	47.5%	46.7%

Note: The Group has adopted HKFRS 16 using the modified retrospective approach and the effect of the initial adoption is adjusted against the opening balances as at 1 January 2019 with no adjustments to the comparative amounts as at 31 December 2018. This resulted in an increase in the Group's net debt and hence the Group's gearing ratio increased from 46.7% to 47.5% on 1 January 2019 when compared with the position as at 31 December 2018.

51. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transactions

The Group had non-cash additions to right-of-use assets and lease liabilities of RMB630,387,000 and RMB630,387,000, respectively, in respect of lease arrangements for plant and equipment (2018: Nil).

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

51. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

(b) Changes in liabilities arising from financing activities

	Interest-bearing bank borrowings RMB'000	Due to the controlling shareholder RMB'000	Lease liabilities RMB'000	Bank advances on factored trade receivables RMB'000	Bank advances on factored long-term trade receivables RMB'000
At 31 December 2018	27,349,891	500,812	–	591,931	434,137
Effect of adoption of HKFRS 16	–	–	952,264	–	–
At 1 January 2019 (restated)	27,349,891	500,812	952,264	591,931	434,137
Changes from financing cash flows	9,433,221	(500,812)	(474,490)	(281,907)	(233,279)
New leases	–	–	622,387	–	–
Exchange realignment	–	–	(15,920)	–	–
Interest expense	–	–	81,261	–	–
At 31 December 2019	36,783,112	–	1,165,502	310,024	200,858

(c) Total cash outflow for leases

The total cash outflow for leases included in the statement of cash flows is as follows:

	2019 RMB'000
Within operating activities	(330,496)
Within investing activities	1,843,640
Within financing activities	(474,490)
	1,038,654

52. EVENTS AFTER THE REPORTING PERIOD

(a) The profit distribution proposal recommended by the Board is as follows: distribution of RMB2 in cash (before tax) for every 10 shares to all shareholders based on the total share capital (including A shares and H shares) as at the record date for profit distribution and dividend payment. In the event of changes in the Company's total share capital after the announcement of the Company's profit distribution proposal for 2019 but before its implementation, the total amount of distribution shall be readjusted according to law, based on the total share capital (including A shares and H shares) as at the record date for profit and dividend distribution for 2019 and the existing profit distribution proportion. The aforesaid matter is subject to consideration and approval at the general meeting.

(b) On 15 January 2020, the Company entered into a subscription agreement with 10 subscribers confirming the issue of 381,098,968 shares at an issue price of RMB30.21 per share, raising total issue proceeds of RMB11,512,999,823.28. Newly issued shares of the Company under non-public issuance of A shares were listed on Shenzhen Stock Exchange on 4 February 2020.

(c) Since the outbreak of Coronavirus, the measures to prevent and contain the epidemic have been implemented. As at the date of publication of this report, to the best of the knowledge of the Board, the epidemic will not have any material adverse impact on the financial conditions and operating results of the Group.

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

53. COMPARATIVE AMOUNTS

As further explained in note 2.2 to the financial statements, the Group adopted HKFRS 16 on 1 January 2019 using the modified retrospective approach. Under this approach, the comparative amounts in the financial statements were not restated and continued to be reported under the requirements of the previous standard, HKAS 17, and related interpretations.

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 2019 RMB'000	31 December 2018 RMB'000
NON-CURRENT ASSETS		
Property, plant and equipment	**5,872,237**	5,569,630
Prepaid land lease payments	**—**	3,927,067
Right-of-use assets	**2,101,919**	—
Intangible assets	**1,976,772**	1,530,859
Investment properties	**1,562,380**	1,556,775
Investments in subsidiaries	**15,844,624**	16,510,075
Investments in joint ventures	**84,948**	84,948
Investments in associates	**767,133**	729,695
Financial assets at fair value through profit or loss	**725,125**	658,078
Long-term trade receivables	**2,226,569**	127,752
Factored long-term trade receivables	**200,671**	270,063
Deferred tax assets	**1,063,838**	1,383,311
Pledged deposits	**2,928,810**	2,928,146
Long-term prepayments, deposits and other receivables	**1,820,744**	166,803
Total non-current assets	**37,175,770**	35,443,202
CURRENT ASSETS		
Prepaid land lease payments	**—**	132,239
Inventories	**19,692,914**	15,343,153
Contract assets	**4,460,977**	3,911,263
Trade receivables	**24,893,537**	27,015,401
Debt investments at fair value through other comprehensive income	**1,980,798**	2,030,426
Factored trade receivables	**230,035**	356,134
Prepayments other receivables and other assets	**35,650,197**	21,222,227
Derivative financial instruments	**103,889**	72,450
Pledged deposits	**1,781,520**	1,375,055
Time deposits with original maturity of over three months	**1,187,200**	—
Cash and cash equivalents	**10,032,692**	10,147,947
Total current assets	**100,013,759**	81,606,295

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

54. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

	31 December 2019 RMB'000	31 December 2018 RMB'000
CURRENT LIABILITIES		
Trade and bills payables	**49,098,798**	46,554,829
Contract liabilities	**9,347,162**	9,204,928
Other payables and accruals	**26,639,119**	22,605,031
Provision	**1,786,167**	1,757,603
Interest-bearing bank borrowings	**11,814,902**	13,442,700
Lease liabilities	**224,489**	—
Bank advances on factored trade receivables	**230,323**	360,196
Derivative financial instruments	**115,811**	14,041
Tax payable	**44,177**	—
Dividends payable	**225**	225
Total current liabilities	**99,301,173**	93,939,553
NET CURRENT ASSETS/(LIABILITIES)	**712,586**	(12,333,258)
TOTAL ASSETS LESS CURRENT LIABILITIES	**37,888,356**	23,109,944
NON-CURRENT LIABILITIES		
Interest-bearing bank borrowings	**7,550,990**	2,115,290
Bank advances on factored long-term trade receivables	**200,858**	272,159
Provision for retirement benefits	**144,505**	136,245
Lease liabilities	**337,764**	—
Other non-current liabilities	**3,242,788**	2,889,553
Total non-current liabilities	**11,476,905**	5,413,247
Net assets	**26,411,451**	17,696,697
EQUITY		
Issued capital	**4,227,530**	4,192,672
Reserves (note)	**15,931,557**	7,251,661
Perpetual capital instruments	**6,252,364**	6,252,364
Total equity	**26,411,451**	17,696,697

Notes to Financial Statements

(Prepared under Hong Kong Financial Reporting Standards)
31 December 2019

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 2017	4,192,672	9,536,065	245,603	1,543,680	(17,804)	2,352,652	9,321,327	27,174,195
Effect of adoption of HKFRS 9	–	–	–	12,136	–	109,223	–	121,359
Effect of adoption of HKFRS 15	–	–	–	(75,218)	–	(676,965)	–	(752,183)
At 1 January 2018 (restated)	4,192,672	9,536,065	245,603	1,480,598	(17,804)	1,784,910	9,321,327	26,543,371
Final 2017 dividend declared (restated)	–	–	–	–	–	–	(501,300)	(501,300)
Total comprehensive income for the year	–	–	–	–	(1,852)	(5,953,747)	417,037	(5,538,562)
Share Incentive Scheme:								
– Equity-settled share option expense	–	–	193,188	–	–	–	–	193,188
Repurchase of perpetual capital instruments	–	(15,300)	–	–	–	–	(2,984,700)	(3,000,000)
At 31 December 2018	**4,192,672**	**9,520,765**	**438,791**	**1,480,598**	**(19,656)**	**(4,168,837)**	**6,252,364**	**17,696,697**
Others	**–**	**–**	**–**	**(1,441)**	**–**	**1,441**	**–**	**–**
At 1 January 2019	**4,192,672**	**9,520,765**	**438,791**	**1,479,157**	**(19,656)**	**(4,167,396)**	**6,252,364**	**17,696,697**
Final 2018 dividend declared								
Total comprehensive income for the year	**–**	**(7,599)**	**–**	**–**	**(620)**	**7,935,014**	**348,600**	**8,275,395**
Share Incentive Scheme:								
– Equity-settled share option expense	**–**	**–**	**191,790**	**–**	**–**	**–**	**–**	**191,790**
– Issue of shares	**34,858**	**901,536**	**(340,225)**	**–**	**–**	**–**	**–**	**596,169**
Transferred from retained profits	**–**	**–**	**–**	**452,214**	**–**	**(452,214)**	**–**	**–**
Distribution to perpetual capital instrument holders	**–**	**–**	**–**	**–**	**–**	**–**	**(348,600)**	**(348,600)**
At 31 December 2019	**4,227,530**	**10,414,702**	**290,356**	**1,931,371**	**(20,276)**	**3,315,404**	**6,252,364**	**26,411,451**

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 27 March 2019.

Documents Available for Inspection

(I) Text of the 2019 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 2019 prepared in accordance with the PRC ASBEs and HKFRSs duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;

(III) Original copy of the auditors' report affixed with seal of the accountants' firm and duly signed under the hand and seal of the certified public accountants;

(IV) Original copies of all of the Company's documents and announcements published in China Securities Journal, Securities Times and Shanghai Securities News and posted on http://www.cninfo.com.cn during the year; and

(V) Articles of Association.

By order of the Board
Li Zixue
Chairman

28 March 2020

中兴通讯股份有限公司
ZTE CORPORATION