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ZTE CORPORATION

中興通訊股份有限公司

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 763)

2019 ANNUAL REPORT SUMMARY AND RESULTS ANNOUNCEMENT

1. IMPORTANT

- 1.1 The Board of Directors, Supervisory Committee and the Directors, Supervisors and senior management of ZTE Corporation (“ZTE” or the “Company”) warrant that the contents of the 2019 annual report (the “Annual Report”) are true, accurate and complete without any false information, misleading statements or material omissions, and individually and collectively accept responsibility therefor.

The Annual Report containing all information required to be presented in annual reports in accordance with Appendix 16 to the Rules (the “Hong Kong Stock Exchange Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Stock Exchange”) will be posted on the website of the Hong Kong Stock Exchange (www.hkexnews.hk) and the Company’s website (www.zte.com.cn) in due course.

- 1.2 There are no Directors, Supervisors or senior management who do not warrant or who dispute the truthfulness, accuracy and completeness of the contents of the Annual Report.
- 1.3 The Annual Report has been considered and approved at the Fifteenth Meeting of the Eighth Session of the Board of Directors of the Company.
- 1.4 The respective financial statements of ZTE and its subsidiaries (the “Group”) for the year ended 31 December 2019 were prepared in accordance with PRC Accounting Standards for Business Enterprises (“PRC ASBEs”) and with Hong Kong Financial

Reporting Standards (“HKFRSs”) respectively, and had been audited by Ernst & Young Hua Ming LLP and Ernst & Young, and an unqualified auditors’ report has been issued by each of them.

- 1.5 During the year, there was no significant deficiency in internal control in relation to financial reporting of the Company, nor was any significant deficiency in internal control in relation to non-financial reporting identified.
- 1.6 Mr. Li Zixue, Chairman of the Company, Ms. Li Ying, Chief Financial Officer of the Company and Mr. Xu Jianrui, Head of Finance Division of the Company, hereby declare that they warrant the truthfulness, accuracy and completeness of the financial reports contained in the Annual Report.
- 1.7 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.

2. CORPORATE PROFILE

2.1 Corporate information

Abbreviated name of stock	ZTE	
Stock code	000063 (A Shares)	763 (H Shares)
Place of listing	The Shenzhen Stock Exchange	The Hong Kong Stock Exchange
Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, the People’s Republic of China	
Postal code	518057	
Principal place of business in Hong Kong	31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong	
Website	http://www.zte.com.cn	
E-mail	IR@zte.com.cn	

2.2 Contact persons and correspondence

	Authorized Representatives	Secretary to the Board of Directors/ Company Secretary	Securities Affairs Representative
Name	Gu Junying, Ding Jianzhong	Ding Jianzhong	Xu Yulong
Address	No. 55, Keji Road South, Shenzhen, Guangdong Province, the People's Republic of China		
Tel	+86 755 26770282		
Fax	+86 755 26770286		
E-mail	IR@zte.com.cn		

3. SUMMARY OF THE COMPANY'S BUSINESS

3.1 Principal businesses

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

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

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

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

3.2 The industry in which we operate

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

4. HIGHLIGHTS OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Statement on retrospective adjustments to or restated accounting data of the previous year by the Company because of changes in accounting policies or for the rectification of accounting errors

PRC ASBEs

On 7 December 2018, the PRC Ministry of Finance (“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”.

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.

4.1 Major accounting data and financial indicators of the Group for the past three years prepared in accordance with PRC ASBEs

4.1.1 Major accounting data of the Group for the past three years prepared in accordance with PRC ASBEs

Unit: RMB in millions

Item	For the year ended 31 December 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 (<i>million shares</i>) ^{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.

Major accounting data for 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.

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

Item	For the year ended 31 December 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) <i>Note 1</i>	1.22	(1.67)	173.05%	1.09
Diluted earnings per share (RMB/share) <i>Note 2</i>	1.22	(1.67)	173.05%	1.08
Basic earnings per share after extraordinary items (RMB/share) <i>Note 1</i>	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) <i>Note 3</i>	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;

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.

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

Unit: RMB in millions

Item	For the year ended 31 December 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

4.2 Major financial information and financial indicators of the Group for the past five years prepared in accordance with HKFRSs

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

Unit: RMB in millions

Results	Year ended 31 December				
	2019	2018	2017	2016	2015
		(Restated)		(Restated)	(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

Unit: RMB in millions

Assets and liabilities	2019	As at 31 December			
		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

4.2.2 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) <i>Note 1</i>	1.22	(1.67)	1.09	(0.57)	0.78
Net asset per share (RMB/share) <i>Note 2</i>	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.

4.3 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.

5. SHAREHOLDINGS OF THE SHAREHOLDERS AND FRAMEWORK OF CONTROL

5.1 Total number of shareholders, shareholdings of top ten shareholders and top ten holders that were not subject to lock-up as at the end of the year

Total number of shareholders

As at 31 December 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)

Shareholdings of shareholders holding 5% or above of the shares or top 10 shareholders

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the reporting period (shares)	Increase/ decrease during the reporting period (shares)	Number of shares held subject to lock-up (shares)	Number of shares pledged or frozen (shares)
1. Zhongxingxin Telecom Company Limited (“Zhongxingxin”)	Domestic general corporation	27.18%	1,148,849,600	-123,018,733	—	98,667,983
2. HKSCC Nominees Limited <i>Note 1</i>	Foreign shareholders	17.84%	754,349,386	+42,594	—	Unknown
3. Hong Kong Securities Clearing Company Limited <i>Note 2</i>	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

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 (<i>shares</i>)	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	<ol style="list-style-type: none"> 1. Zhongxingxin was neither a connected party nor a concerted party of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up.
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Description of involvement in financing and securities lending businesses of top 10 shareholders (if any) N/A

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

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

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

Note 4: Shareholders holding 5% or above of the Company's shares — As at the end of the reporting period, Zhongxingxin 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		Number of shares pledged or frozen (shares)
				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)	
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 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. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Release of Pledge and Creation of New Pledge against Shares held by the Controlling 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.

5.2 Controlling shareholder of the Company

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

Name of controlling shareholder:	Zhongxingxin
Legal representative:	Wei Zaisheng
Date of incorporation:	29 April 1993
Uniform social credit code:	91440300192224518G
Registered capital:	RMB100 million
Scope of business:	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.

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

Zhongxingxin, the controlling shareholder of the Company, was jointly formed by three shareholders, Xi'an Microelectronics Technology Research Institute ("Xi'an Microelectronics"), Shenzhen Aerospace Guangyu Industrial Company Limited ("Aerospace Guangyu") and Shenzhen Zhongxing WXT Equipment Company Limited ("Zhongxing WXT"). In April 2017, Aerospace Guangyu transferred 2.5% equity interests in Zhongxingxin to Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership) ("Guoxing Ruike"). Upon closing of the transfer, each of Xi'an Microelectronics, Aerospace Guangyu, Zhongxing WXT and Guoxing Ruike held a 34%, 14.5%, 49% and 2.5% stake in Zhongxingxin, respectively. Zhongxingxin currently has 9 directors, of which 3 have been nominated by Xi'an Microelectronics, 2 by Aerospace Guangyu and 4 by Zhongxing WXT, representing 33.33%, 22.22% and 44.45% of the board of directors of Zhongxingxin, respectively. Therefore, no shareholder of Zhongxingxin has the right to control the financial and

operating decisions of the Company whether in terms of shareholding or corporate governance structure. Therefore, the Company does not have any de facto controller and no party has effective control over the Company, whether by way of trust or other asset management. Details of the four shareholders of Zhongxingxin are as follows:

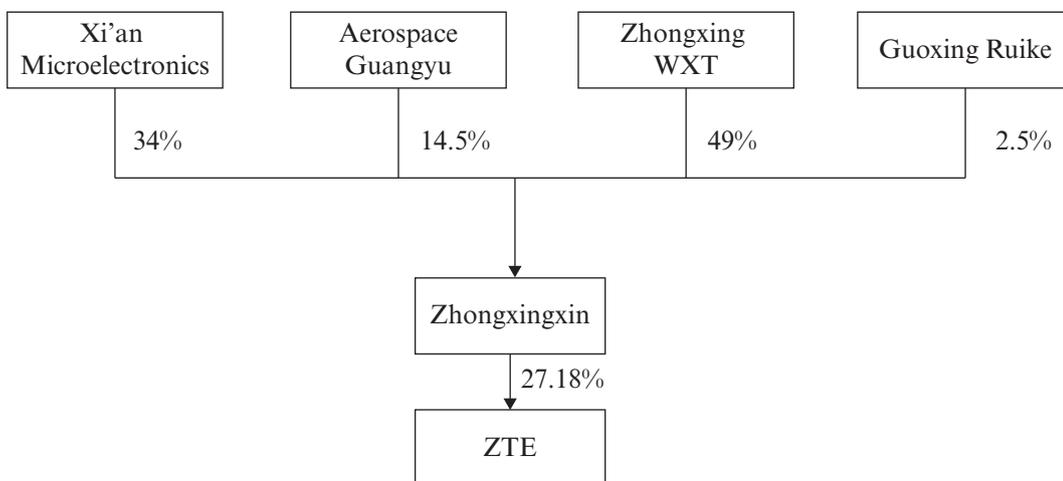
Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large-scale state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tang Lei and its uniform social credit code is 12100000H0420141X7.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

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a wholly state-owned enterprise established on 17 August 1989 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).

The following diagram shows the shareholding and controlling relationships between the aforesaid entities and the Company as at 31 December 2019.



5.4 Purchase, sale and redemption of securities

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

6. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

6.1 Changes in the shareholdings and share options of and annual remuneration of the company's directors, supervisors, senior management

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 Acting Secretary to the Board of Directors	Incumbent Resigned	3/2019 7/2019	3/2022 7/2019	—	—	—	—	—	581.3	No
2	Xu Ziyang	Male	47	Director President	Incumbent	3/2019 4/2019	3/2022 3/2022	—	42,000	—	42,000	Note 8	733.1	No
3	Li Buqing	Male	47	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	10.0	Yes
4	Gu Junying	Male	52	Director Executive Vice President	Incumbent	3/2019 4/2019	3/2022 3/2022	—	—	—	—	—	566.9	No
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														
15	Wang Xiyu ^{Note 6}	Male	45	Executive Vice President	Incumbent	4/2019	3/2022	—	41,500	—	41,500	Note 8	720.5	No
16	Li Ying ^{Note 4 and Note 6}	Female	41	Executive Vice President and Chief Financial Officer Acting Secretary to the Board	Incumbent Resigned	4/2019 4/2019	3/2022 6/2019	1,800	26,000	—	27,800	Note 8	564.4	No
17	Xie Junshi ^{Note 7}	Male	44	Executive Vice President	Incumbent	9/2019	3/2022	—	112,466	112,466	—	—	549.7	No
18	Ding Jianzheng ^{Note 4}	Male	43	Secretary to the Board	Incumbent	7/2019	3/2022	—	33,160	33,160	—	—	173.5	No
19	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 Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange, legal entities or other entities in which the Directors, Supervisors and senior management of a listed company act as directors and senior management (other than the said listed company and its subsidiaries) are deemed as connected parties of such listed company.
- Note 3:* 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 2019 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 and exercised by the Directors and senior management of the Company during the year, please refer to the section headed "Material Matters — (VI) Implementation and Impact of the Company's Share Option Incentive Scheme" in the Annual Report.

6.2 Interests of the Company's Directors, Supervisors and Chief Executive Officer in shares or debentures

The interests in shares of the Company held by Directors, Supervisors and Chief Executive Officer of the Company as at 31 December 2019 are set out in the section of this announcement "6.1 Changes in the Shareholdings and Share Options of and Annual Remuneration of the Company's Directors, Supervisors, Senior Management."

Save as disclosed above, as at 31 December 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.

7. REPORT OF THE BOARD OF DIRECTORS

7.1 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.

(3) Operating results of the Group for 2019

A. 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.

B. 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.

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 headed “7.2 Discussion and Analysis of Operations under PRC ASBEs” and section headed “7.3 Management Discussion and Analysis under HKFRSs” in this announcement.

For details of the Group’s environmental policy and performance of corporate social responsibilities, please refer to the section headed “Material Matters (XXV) Performance of corporate social responsibility by the Company” in the Annual Report.

7.2 Discussion and Analysis of Operations under PRC ASBEs

The financial data below are extracted from the Group’s audited financial statements prepared in accordance with PRC ASBEs. The following discussion and analysis should be read in conjunction with the Group’s financial statements audited by Ernst & Young Hua Ming LLP and the accompanying notes thereto set out in the Annual Report.

7.2.1 Breakdown of indicators by industry, business segment and region as compared to the previous year

Unit: RMB in millions

Revenue mix	Operating revenue	As a percentage of operating revenue	Operating costs	Gross profit margin	Year-on-year increase/decrease in operating revenue	Year-on-year increase/decrease in operating costs	Year-on-year increase/decrease in gross profit margin (percentage points)
I. By industry							
Manufacturing of communication equipment	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.

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 <i>Note</i>			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)
	Operating revenue	Operating costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin			
Operating revenue	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 Zhongxing 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 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.

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

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

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

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

The Group's operating profit for 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 Shenzhen ZTE Capital Management Company Limited; 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 operating revenue from carriers' networks, 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.

7.3 Management Discussion and Analysis under HKFRSs

The financial data below are extracted from the Group's audited financial statements prepared in accordance with HKFRSs. The following discussion and analysis should be read in conjunction with the Group's financial statements audited by Ernst & Young and the accompanying notes as set out in the Annual 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
	<hr/>	<hr/>
Total revenue	90,736.6	85,513.2
Cost of sales	(58,878.0)	(58,638.3)
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Profit/(loss) before tax	7,161.7	(7,350.2)
Income tax expense	(1,385.0)	400.9
	<hr/>	<hr/>
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)
	<hr/>	<hr/>
Other comprehensive income	49.4	(905.3)
Comprehensive income	5,826.1	(7,854.6)
	<hr/>	<hr/>
Dividend	922.4	—
	<hr/>	<hr/>
Earnings per share — Basic	RMB1.22	RMB(1.67)
	<hr/> <hr/>	<hr/> <hr/>
— Diluted	RMB1.22	RMB(1.67)
	<hr/> <hr/>	<hr/> <hr/>

REVENUE ANALYSIS BY BUSINESS SEGMENT AND REGION

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

Unit: RMB in millions

Business segment	2019		2018	
	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

Region	2019		2018	
	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

Business segment	2019		2018	
	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	<u>58,878.0</u>	<u>64.9%</u>	<u>58,638.3</u>	<u>68.6%</u>

Unit: RMB in millions

Business segment	2019		2018	
	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	<u>31,858.6</u>	<u>35.1%</u>	<u>26,874.9</u>	<u>31.4%</u>

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 (Restated)
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	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	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	<u>13,559.3</u>	<u>10,726.2</u>
Total	<u>13,559.3</u>	<u>10,726.2</u>

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 the Annual 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 the Annual Report.

PROSPECTS FOR NEW BUSINESS

Details of the prospects for new business of the Group are set out in the section headed “Chairman’s Statement — Future Prospects” in the Annual Report.

EMPLOYEES

Details of the number of employees, training programmes, remuneration, remuneration policy, bonus and the share option scheme of the Group as at 31 December 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 the Annual 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 in the Annual Report.

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 the Annual Report.

Details of the Group’s future plans for investments or acquisition of capital assets are set out in the section headed “Report of the Board of Directors” in the Annual Report.

MARKET RISKS

For details of the Group’s exposure to market risks, please refer to the section 7.5.2 of this announcement.

7.4 Proposal for profit distribution of 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 approximately 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.

7.5 Business outlook of 2020 and risk exposures

7.5.1 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 have been variously engaged in the planning, testing, deployment or commercial application of 5G services.

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.

7.5.2 Risk Exposures

(1) Country risks

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

8. COMPLIANCE OF THE CORPORATE GOVERNANCE CODE AND OTHER MATTERS

8.1 Compliance of the Corporate Governance Code

As of 31 December 2019, the Company was in full compliance with the principles and code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules.

8.2 Securities transactions by Directors and Supervisors

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

9. FINANCIAL REPORTS

9.1 The Audit Committee of the Company has reviewed, in association with the management, the accounting principles and standards adopted by the Group, and has investigated issues relating to auditing, risk management and internal control and financial reporting, including the review of the consolidated and company balance sheets at 31 December 2019 and the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2019 prepared by the Group in accordance with PRC ASBEs and the consolidated and company statement of financial position at 31 December 2019 and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended 31 December 2019 prepared in accordance with HKFRSs.

9.2 Audit opinion

The consolidated and company balance sheets as at 31 December 2019, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2019 prepared by the Group in accordance with PRC ASBEs have been audited by Ernst & Young Hua Ming LLP, who has issued a standard auditors' report with unqualified opinion (Ernst & Young Hua Ming (2020) SHENZI NO.60438556_H01).

Ernst & Young issued an unqualified auditors' report following auditing in connection with the consolidated statement of financial position as at 31 December 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year ended 31 December 2019 prepared by the Group in accordance with HKFRSs.

9.3 Comparative financial statements

9.3.1 Financial statements prepared in accordance with PRC ASBEs (Please see Appendix I)

9.3.2 Financial statements prepared in accordance with HKFRSs and notes thereto (Please see Appendix II)

9.4 Explanatory statement on changes in the accounting policies, accounting estimates, and auditing methods for the year in comparison with the previous annual financial report

√ Applicable N/A

The related explanatory statement is set out in the section 4 in this announcement.

9.5 Explanatory statement on rectification of significant accounting errors for the year requiring retrospective restatement.

Applicable √ N/A

9.6 Explanation statement on changes to the scope of consolidated financial statement in comparison with the previous annual financial report.

New subsidiaries established during the period included: 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..

Subsidiaries deregistered during the period included: tier-one subsidiaries Shijiazhuang Guochuang Zhongxing Smart City Research Institute Company Limited, Shenzhen Zhonglian Cheng 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 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 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.

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

Applicable N/A

By Order of the Board
Li Zixue
Chairman

Shenzhen, the PRC
27 March 2020

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

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

CONSOLIDATED BALANCE SHEET

31 December 2019

RMB'000

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

CONSOLIDATED BALANCE SHEET (CONTINUED)

31 December 2019

RMB'000

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

CONSOLIDATED BALANCE SHEET (CONTINUED)*31 December 2019**RMB'000*

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

Li Zixue
Legal Representative

Li Ying
Chief Financial Officer

Xu Jianrui
Head of Finance Division

CONSOLIDATED INCOME STATEMENT
2019

RMB'000

	2019	2018 (Restated)
Operating revenue	90,736,582	85,513,150
Less: Operating costs	57,008,377	57,367,578
Taxes and surcharges	930,511	637,725
Selling and distribution costs	7,868,722	9,084,489
Administration expenses	4,772,823	3,651,498
Research and development costs	12,547,898	10,905,584
Finance costs	965,955	(39,633)
Including: Interest expense	1,718,187	1,008,404
Interest income	931,929	748,810
Add: Other income	1,695,878	2,081,455
Investment income	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	(213,992)	(861,259)
Credit impairment losses	(2,228,411)	(3,654,881)
Impairment losses	(1,281,070)	(2,076,863)
Gains from asset disposals	2,688,036	19,483
Operating profit/(loss)	7,552,182	(611,951)
Add: Non-operating income	183,700	142,651
Less: Non-operating expenses	574,212	6,880,903
Total profit/(loss)	7,161,670	(7,350,203)
Less: Income tax	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)

CONSOLIDATED INCOME STATEMENT (CONTINUED)

2019

RMB'000

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2019

RMB'000

	Equity attributable to holders of ordinary shares of the parent						Other equity instruments	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments		
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
Others	—	—	—	(1,441)	1,441	—	—	—	—
Opening balance of the year as adjusted	<u>4,192,672</u>	<u>11,444,456</u>	<u>(2,047,561)</u>	<u>2,323,307</u>	<u>6,984,702</u>	<u>22,897,576</u>	<u>6,252,364</u>	<u>3,810,735</u>	<u>32,960,675</u>
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	<u>4,227,530</u>	<u>12,144,432</u>	<u>(2,000,980)</u>	<u>2,775,521</u>	<u>11,680,365</u>	<u>28,826,868</u>	<u>6,252,364</u>	<u>2,875,066</u>	<u>37,954,298</u>

2018

RMB'000

	Equity attributable to holders of ordinary shares of the parent						Other equity instruments	Non-controlling interests	Total shareholders' equity
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Including: Perpetual capital instruments		
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	<u>4,192,672</u>	<u>11,304,854</u>	<u>(1,161,905)</u>	<u>2,324,748</u>	<u>13,966,923</u>	<u>30,627,292</u>	<u>9,321,327</u>	<u>4,439,510</u>	<u>44,388,129</u>
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	<u>4,192,672</u>	<u>11,444,456</u>	<u>(2,047,561)</u>	<u>2,324,748</u>	<u>6,983,261</u>	<u>22,897,576</u>	<u>6,252,364</u>	<u>3,810,735</u>	<u>32,960,675</u>

CONSOLIDATED CASH FLOW STATEMENT
2019

	<i>RMB'000</i>	
	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	<u>5,372,061</u>	<u>4,652,950</u>
Sub-total of cash inflows	<u>105,339,269</u>	<u>101,566,911</u>
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	<u>10,696,004</u>	<u>18,389,881</u>
Sub-total of cash outflows	<u>97,892,715</u>	<u>110,782,297</u>
Net cash flows from operating activities	<u>7,446,554</u>	<u>(9,215,386)</u>
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	<u>65,000</u>	<u>2,200,000</u>
Sub-total of cash inflows	<u>4,563,204</u>	<u>6,322,170</u>
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	<u>2,200,000</u>	<u>—</u>
Sub-total of cash outflows	<u>10,586,319</u>	<u>7,608,151</u>
Net cash flows from investing activities	<u>(6,023,115)</u>	<u>(1,285,981)</u>

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

2019

RMB'000

	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	<u>45,937,925</u>	<u>29,304,500</u>
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	1,274,456	15,740
Sub-total of cash outflows	<u>40,216,207</u>	<u>28,096,132</u>
Net cash flows from financing activities	<u>5,721,718</u>	<u>1,208,368</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>226,532</u>	<u>317,841</u>
V. Net increase/(decrease) in cash and cash equivalents	7,371,689	(8,975,158)
Add: cash and cash equivalents at beginning of period	21,134,111	30,109,269
VI. Net balance of cash and cash equivalents at the end of period	<u><u>28,505,800</u></u>	<u><u>21,134,111</u></u>

BALANCE SHEET

31 December 2019

RMB'000

	31 December 2019	31 December 2018 (Restated)
Assets		
Current assets		
Cash	13,001,412	11,523,002
Derivative financial assets	103,889	72,450
Trade receivables	24,893,537	29,045,827
Receivable financing	1,980,798	2,030,426
Factored trade receivables	230,035	356,134
Prepayments	7,559	37,194
Other receivables	32,126,268	15,935,675
Inventories	19,692,914	15,343,153
Contract assets	4,460,977	3,911,263
Other current assets	<u>3,516,370</u>	<u>3,218,932</u>
Total current assets	<u>100,013,759</u>	<u>81,474,056</u>
Non-current assets		
Long-term trade receivables	7,736,877	5,542,886
Factored long-term trade receivables	200,671	270,063
Long-term equity investments	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	<u>4,749,554</u>	<u>3,094,949</u>
Total non-current assets	<u>38,259,955</u>	<u>36,834,578</u>
TOTAL ASSETS	<u>138,273,714</u>	<u>118,308,634</u>

BALANCE SHEET (CONTINUED)

31 December 2019

RMB'000

	31 December 2019	31 December 2018 (Restated)
Liabilities and shareholders' equity		
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	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

INCOME STATEMENT
2019

	<i>RMB'000</i>	
	2019	2018 (Restated)
Operating revenue	80,177,614	76,115,358
Less: Operating costs	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	7,751,031	539,196
Including: Share of losses of associates and joint ventures	(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

INCOME STATEMENT (CONTINUED)

2019

RMB'000

	2019	2018 (Restated)
Other comprehensive income, net of tax	<u>(8,219)</u>	<u>(1,852)</u>
Other comprehensive income that cannot be reclassified to profit and loss		
Change in net assets arising from the re-measurement of defined benefit plans	<u>(7,599)</u>	<u>(477)</u>
Other comprehensive income that will be reclassified to profit and loss		
Exchange differences on translation of foreign operations	<u>(620)</u>	<u>(1,375)</u>
Total comprehensive income	<u>8,116,260</u>	<u>(6,074,105)</u>
Attributable to:		
Holders of ordinary shares	<u>7,767,660</u>	<u>(6,491,142)</u>
Holders of perpetual capital instruments	<u>348,600</u>	<u>417,037</u>

STATEMENT OF CHANGES IN EQUITY
2019

RMB'000

	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Total equity of holders of ordinary shares	Other equity instruments — Perpetual capital instruments	Total shareholders' equity
I. Closing balance of previous year	4,192,672	9,244,984	704,686	1,662,992	(3,101,864)	12,703,470	6,252,364	18,955,834
Others	—	—	—	(1,441)	(12,965)	(14,406)	—	(14,406)
Opening balance of the year as adjusted	<u>4,192,672</u>	<u>9,244,984</u>	<u>704,686</u>	<u>1,661,551</u>	<u>(3,114,829)</u>	<u>12,689,064</u>	<u>6,252,364</u>	<u>18,941,428</u>
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. Capital injection from shareholders	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. Closing balance of the year	<u>4,227,530</u>	<u>9,996,674</u>	<u>696,467</u>	<u>2,113,765</u>	<u>4,208,836</u>	<u>21,243,272</u>	<u>6,252,364</u>	<u>27,495,636</u>

2018

RMB'000

	Share capital	Capital reserve	Other comprehensive income	Surplus reserve	Retained profit	Total equity of holders of ordinary shares	Other equity instruments — Perpetual capital instruments	Total shareholders' equity
I. Closing balance of previous year	4,192,672	9,067,096	706,538	1,543,680	3,588,581	19,098,567	9,321,327	28,419,894
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	<u>4,192,672</u>	<u>9,067,096</u>	<u>706,538</u>	<u>1,662,992</u>	<u>3,387,426</u>	<u>19,016,724</u>	<u>9,321,327</u>	<u>28,338,051</u>
II. Changes during the year								
(I) Total comprehensive income	—	—	(1,852)	—	(6,489,290)	(6,491,142)	417,037	(6,074,105)
(II) Shareholder's capital injection and capital reduction								
1. Equity settled share expenses charged to equity	—	193,188	—	—	—	193,188	—	193,188
2. Redemption of perpetual capital instruments	—	(15,300)	—	—	—	(15,300)	(2,984,700)	(3,000,000)
(III) Profit appropriation								
1. Distribution to shareholders	—	—	—	—	—	—	(501,300)	(501,300)
III. Closing balance of the year	<u>4,192,672</u>	<u>9,244,984</u>	<u>704,686</u>	<u>1,662,992</u>	<u>(3,101,864)</u>	<u>12,703,470</u>	<u>6,252,364</u>	<u>18,955,834</u>

CASH FLOW STATEMENT
2019

RMB'000

	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	<u>1,678,287</u>	<u>2,198,338</u>
Sub-total of cash inflows	<u>92,250,092</u>	<u>86,252,972</u>
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	<u>6,890,651</u>	<u>14,070,117</u>
Sub-total of cash outflows	<u>94,790,395</u>	<u>96,907,387</u>
Net cash flows from operating activities	<u>(2,540,303)</u>	<u>(10,654,415)</u>
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	<u>65,000</u>	<u>2,200,000</u>
Sub-total of cash inflows	<u>6,837,635</u>	<u>3,708,118</u>
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	<u>2,200,000</u>	<u>—</u>
Sub-total of cash outflows	<u>7,493,891</u>	<u>2,451,008</u>
Net cash flows from investing activities	<u>(656,256)</u>	<u>1,257,110</u>

CASH FLOW STATEMENT (CONTINUED)

2019

RMB'000

	2019	2018 (Restated)
III. Cash flows from financing activities		
Cash received from capital injection	586,150	—
Cash received from borrowings	<u>25,305,218</u>	<u>17,594,488</u>
Sub-total of cash inflows	<u>25,891,368</u>	<u>17,594,488</u>
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	<u>243,716</u>	<u>—</u>
Sub-total of cash outflows	<u>23,012,247</u>	<u>15,188,191</u>
Net cash flows from financing activities	<u>2,879,121</u>	<u>2,406,297</u>
IV. Effect of changes in foreign exchange rate on cash and cash equivalents	<u>202,184</u>	<u>132,220</u>
V. Net decrease in cash and cash equivalents	<u>(115,254)</u>	<u>(6,858,788)</u>
Add: cash and cash equivalents at the beginning of the period	<u>10,147,946</u>	<u>17,006,734</u>
VI. Net balance of cash and cash equivalents at the end of the period	<u><u>10,032,692</u></u>	<u><u>10,147,946</u></u>

APPENDIX 2: FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH HKFRSs AND NOTES THERE TO

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2019

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
		(Restated)
REVENUE	90,736,582	85,513,150
Cost of sales	<u>(58,877,974)</u>	<u>(58,638,348)</u>
Gross profit	31,858,608	26,874,802
Other income and gains	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	(209,387)	(320,281)
Other expenses	(975,775)	(8,978,307)
Finance costs	(1,718,187)	(1,008,404)
Share of profits and losses of:		
Joint ventures	(17,001)	2,621
Associates	<u>(658,615)</u>	<u>(799,939)</u>
PROFIT/(LOSS) BEFORE TAX	7,161,670	(7,350,203)
Income tax (expense)/credit	<u>(1,385,001)</u>	<u>400,863</u>
PROFIT/(LOSS) FOR THE YEAR	<u>5,776,669</u>	<u>(6,949,340)</u>
Attributable to:		
Ordinary equity holders of the parent	5,147,877	(6,983,662)
Perpetual capital instruments	348,600	417,037
Non-controlling interests	<u>280,192</u>	<u>(382,715)</u>
	<u>5,776,669</u>	<u>(6,949,340)</u>

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

(Prepared under Hong Kong Financial Reporting Standards)
Year ended 31 December 2019

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i> (Restated)
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	<u>57,040</u>	<u>(904,769)</u>
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods	<u>57,040</u>	<u>(904,769)</u>
Other comprehensive income that will not to be reclassified to profit or loss in subsequent periods:		
Actuarial loss on defined benefit plans	(7,599)	(477)
Net other comprehensive income that will not to be reclassified to profit or loss in subsequent periods	<u>(7,599)</u>	<u>(477)</u>
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX	<u>49,441</u>	<u>(905,246)</u>
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR	<u><u>5,826,110</u></u>	<u><u>(7,854,586)</u></u>
Attributable to:		
Ordinary equity holders of the parent	5,194,458	(7,869,318)
Perpetual capital instruments	348,600	417,037
Non-controlling interests	<u>283,052</u>	<u>(402,305)</u>
	<u><u>5,826,110</u></u>	<u><u>(7,854,586)</u></u>
EARNINGS/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT		
Basic	<u>RMB1.22</u>	<u>RMB(1.67)</u>
Diluted	<u>RMB1.22</u>	<u>RMB(1.67)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2019

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
NON-CURRENT ASSETS		
Property, plant and equipment	10,555,204	10,194,112
Investment properties	1,957,242	2,011,999
Prepaid land lease payments	—	4,867,296
Goodwill	186,206	186,206
Other intangible assets	7,190,061	6,270,288
Investments in joint ventures	114,515	97,650
Investments in associates	2,212,773	2,917,645
Financial assets at fair value through profit or loss	1,594,254	1,502,499
Long-term trade receivables	2,819,606	843,429
Factored long-term trade receivables	200,671	432,041
Deferred tax assets	2,511,372	2,787,790
Pledged deposits	2,928,810	2,928,146
Right-of-use assets	3,468,949	—
Long-term prepayments, deposits and other receivables	2,895,298	1,310,735
Total non-current assets	38,634,961	36,349,836
CURRENT ASSETS		
Prepaid land lease payments	—	153,260
Inventories	27,688,508	25,011,416
Contract assets	9,537,850	8,462,226
Trade receivables	19,778,280	21,592,325
Factored trade receivables	308,710	587,869
Debt investments at fair value through other comprehensive income	2,430,389	2,730,351
Prepayments, other receivables and other assets	8,847,363	8,468,728
Derivative financial instruments	106,065	228,117
Financial assets at fair value through profit or loss	560,662	1,476,823
Pledged deposits	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
Total current assets	102,567,174	93,000,913

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2019

	31 December 2019 RMB'000	31 December 2018 RMB'000 (Restated)
CURRENT LIABILITIES		
Trade and bills payables	27,728,550	27,443,104
Contract liabilities	14,517,057	14,479,355
Other payables and accruals	14,059,625	17,815,087
Provision	1,966,464	2,167,614
Derivative financial instruments	126,223	101,332
Interest-bearing bank borrowings	26,738,019	24,983,323
Bank advances on factored trade receivables	310,024	591,931
Tax payables	399,124	532,281
Dividend payables	5,222	1,322
Lease liabilities	520,208	—
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	10,045,093	2,366,568
Bank advances on factored long-term trade receivables	200,858	434,137
Deferred tax liabilities	172,060	155,041
Provision for retirement benefits	144,505	136,245
Other non-current liabilities	5,669,511	5,182,734
Lease liabilities	645,294	—
Total non-current liabilities	16,877,321	8,274,725
Net assets	37,954,298	32,960,675

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2019

	31 December 2019	31 December 2018
	<i>RMB'000</i>	<i>RMB'000</i> (Restated)
EQUITY		
Equity attributable to ordinary equity holders of the parent		
Issued capital	4,227,530	4,192,672
Reserves	<u>24,599,338</u>	<u>18,704,904</u>
	28,826,868	22,897,576
Perpetual capital instruments	6,252,364	6,252,364
Non-controlling interests	<u>2,875,066</u>	<u>3,810,735</u>
Total equity	<u>37,954,298</u>	<u>32,960,675</u>

Li Zixue
Director

Xu Ziyang
Director

1. BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments, investment properties and certain equity investments which have been measured at fair value. These financial statements are presented in Renminbi (“RMB”) and all values are rounded to the nearest thousand except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 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 arrangements; and
- (c) the Group’s voting rights and potential voting rights.

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

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

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

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

2. CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

Amendments to HKFRS 9	<i>Prepayment Features with Negative Compensation</i>
HKFRS 16	<i>Leases</i>
Amendments to HKAS 19	<i>Plan Amendment, Curtailment or Settlement</i>
Amendments to HKAS 28	<i>Long-term Interests in Associates and Joint Ventures</i>
HK(IFRIC)-Int 23	<i>Uncertainty over Income Tax Treatments</i>
Annual Improvements to HKFRSs 2015–2017 Cycle	<i>Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23</i>

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.

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.

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;

As a lessee — Leases previously classified as operating leases

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

Arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	Increase/ (decrease) RMB'000 (Unaudited)
Assets	
Increase in right-of-use assets	5,972,820
Decrease in prepaid land lease payments	<u>(5,020,556)</u>
Increase in total assets	<u><u>952,264</u></u>
Liabilities	
Increase in lease liabilities	<u>952,264</u>
Increase in total liabilities	<u><u>952,264</u></u>

The lease liabilities as at 1 January 2019 reconciled to the operating lease commitments as at 31 December 2018 are as follows:

	<i>RMB'000</i> (Unaudited)
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 ending on or before 31 December 2019	146,023
Add:	
Payments for optional extension periods not recognised as at 31 December 2018	<u>164,962</u>
	<u><u>1,044,314</u></u>
 Weighted average incremental borrowing rate as at 1 January 2019	 <u>5.66%</u>
 Lease liabilities as at 1 January 2019	 <u><u>952,264</u></u>

- (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.

3. ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	<i>Definition of a Business¹</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform¹</i>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture³</i>
HKFRS 17	<i>Insurance Contract²</i>
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material²</i>

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

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.

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' 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.
- (b) 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.
- (c) 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.

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.

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 <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government and Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue				
Sales to external customers	66,584,394	14,997,407	9,026,082	90,607,883
Rental income	—	—	128,699	128,699
	<u>66,584,394</u>	<u>14,997,407</u>	<u>9,154,781</u>	<u>90,736,582</u>
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				<u>7,161,670</u>
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				<u>141,202,135</u>
Segment liabilities	11,511,610	1,933,582	1,582,747	15,027,939
Corporate and other unallocated liabilities				<u>88,219,898</u>
Total liabilities				<u>103,247,837</u>
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.

Year ended 31 December 2018	Carriers' Networks <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government and Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
Segment revenue				
Sales to external customers	57,075,772	19,209,590	9,089,781	85,375,143
Rental income	—	—	138,007	138,007
	<u>57,075,772</u>	<u>19,209,590</u>	<u>9,227,788</u>	<u>85,513,150</u>
Segment results	16,550,965	223,002	1,649,391	18,423,358
Bank and other interest income				748,810
Dividend income and unallocated gains				3,518,477
Corporate and other unallocated expenses				(27,914,845)
Finance costs				(1,328,685)
Share of profits and losses of associates and joint ventures				<u>(797,318)</u>
Loss before tax				<u>(7,350,203)</u>
Segment assets	38,903,524	11,734,829	6,290,953	56,929,306
Investments in joint ventures				97,650
Investments in associates				2,917,645
Corporate and other unallocated assets				<u>69,406,148</u>
Total assets				<u>129,350,749</u>
Segment liabilities	11,113,248	2,595,090	1,797,085	15,505,423
Corporate and other unallocated liabilities				<u>80,884,651</u>
Total liabilities				<u>96,390,074</u>
Other segment information:				
Impairment losses recognised in profit or loss	(1,386,203)	(466,544)	(224,116)	(2,076,863)
Depreciation and amortisation	1,673,551	563,255	270,573	2,507,379
Capital expenditure*	3,137,583	1,055,995	507,271	4,700,849
Impairment losses on financial and contract assets	(2,439,451)	(821,029)	(394,401)	(3,654,881)

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

Geographical information

(a) Revenue from external customers

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>90,736,582</u>	<u>85,513,150</u>

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

(b) Non-current assets

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
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
	<u>19,702,507</u>	<u>18,629,659</u>

The non-current asset information above is based on the locations of the assets and excludes financial instruments, deferred tax assets, goodwill, investments in joint ventures and investments in associates.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue from contracts with customers	90,607,883	85,375,143
Rental income	128,699	138,007
	<u>90,736,582</u>	<u>85,513,150</u>

Revenue from contracts with customers

(i) *Disaggregated revenue information*

For the year ended 31 December 2019

Segments	Carriers' Networks <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government and Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
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
Telecommunication system construction contracts	49,252,272	—	3,669,079	52,921,351
Total revenue from contracts with customers	<u>66,584,394</u>	<u>14,997,407</u>	<u>9,026,082</u>	<u>90,607,883</u>
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	<u>66,584,394</u>	<u>14,997,407</u>	<u>9,026,082</u>	<u>90,607,883</u>
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	<u>66,584,394</u>	<u>14,997,407</u>	<u>9,026,082</u>	<u>90,607,883</u>

For the year ended 31 December 2018

Segments	Carriers' Networks <i>RMB'000</i>	Consumer Business <i>RMB'000</i>	Government and Corporate Business <i>RMB'000</i>	Total <i>RMB'000</i>
Type of goods or services				
Sale of goods	7,193,140	19,061,135	3,710,515	29,964,790
Sale of services	10,247,577	148,455	1,758,735	12,154,767
Telecommunication system construction contracts	<u>39,635,055</u>	<u>—</u>	<u>3,620,531</u>	<u>43,255,586</u>
Total revenue from contracts with customers	<u><u>57,075,772</u></u>	<u><u>19,209,590</u></u>	<u><u>9,089,781</u></u>	<u><u>85,375,143</u></u>
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	<u>4,161,136</u>	<u>8,575,459</u>	<u>2,372,823</u>	<u>15,109,418</u>
Total revenue from contracts with customers	<u><u>57,075,772</u></u>	<u><u>19,209,590</u></u>	<u><u>9,089,781</u></u>	<u><u>85,375,143</u></u>
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	<u>10,477,918</u>	<u>336,594</u>	<u>1,844,215</u>	<u>12,487,676</u>
Total revenue from contracts with customers	<u><u>57,075,772</u></u>	<u><u>19,209,590</u></u>	<u><u>9,089,781</u></u>	<u><u>85,375,143</u></u>

The following table shows the amounts of revenue recognised in the current reporting period that were included in the contract liabilities at the beginning of the reporting period and recognised from performance obligations satisfied in previous periods:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	<u><u>10,463,823</u></u>	<u><u>14,819,669</u></u>

(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.

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 <i>RMB'000</i>	2018 <i>RMB'000</i>
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 others ^{##}	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
	<u>2,861,526</u>	<u>3,019,550</u>
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
	<u>3,954,621</u>	<u>1,610,861</u>
	<u><u>6,816,147</u></u>	<u><u>4,630,411</u></u>

[#] 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 Enterprise and the IC Industry” and the approval of the state taxation authorities.

Others mainly represent other income, contract penalty income and other miscellaneous income.

6. PROFIT/(LOSS) BEFORE TAX

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

	2019	2018
	RMB'000	RMB'000
Cost of goods and services	53,594,953	55,065,491
Depreciation of property, plant and equipment	1,267,417	1,232,407
Depreciation of right-of-use assets charged to profit or loss (2018: amortisation of land lease payments)	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	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	(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	1,817,629	3,445,793
Impairment of contract assets, net	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 contract**	1,730,893	1,545,600
Provision for warranties**	148,207	363,924
Provision for legal obligation*	16,586	295,089
Cost related to the comprehensive settlement with US authorities	—	6,416,700
Write-down of inventories to net realisable value**	1,260,865	884,794

	2019	2018
	RMB'000	RMB'000
Impairment of items of property, plant and equipment*	—	7,515
Impairment of intangible assets*	—	59,356
Impairment of goodwill*	—	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	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):		
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	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	(25,296)	16,450
Gain on derecognition of a right-of-use asset	(2,662,740)	—
Gain on disposal of subsidiaries	(126,724)	(662,563)
Gain on disposal of derivative financial instruments	(36,425)	(6,147)
Gain on disposal of financial assets at fair value through profit or loss	(921,281)	(376,460)
Loss on disposal of financial assets measured at amortised cost	209,387	320,281

* The fair value losses, the provision for legal obligation, 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 contract, 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 <i>RMB'000</i>	2018 <i>RMB'000</i>
Loss on disposal of financial assets measured at amortised cost	<u>209,387</u>	<u>320,281</u>

8. FINANCE COSTS

An analysis of finance costs is as follows:

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
Interest on bank loans and other loans	1,280,980	766,393
Interest on other non-current liabilities	25,920	—
Interest on lease liabilities	<u>81,261</u>	<u>—</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<u>1,388,161</u>	<u>766,393</u>
Other finance costs:		
Finance costs on bills discounted	<u>330,026</u>	<u>242,011</u>
	<u>1,718,187</u>	<u>1,008,404</u>

9. INCOME TAX

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
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	293,437	(1,340,751)
Total tax charge for the year	<u>1,385,001</u>	<u>(400,863)</u>

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 incorporated in Shenzhen.

10. DIVIDEND

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Proposed final — RMB0.2 (2018: Nil) per ordinary share	<u>922,401</u>	<u>—</u>

The profit distribution proposal is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

11. 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 <i>RMB'000</i>	2018 <i>RMB'000</i>
Earnings/(loss)		
Profit/(loss) for the year attributable to ordinary equity holders of the parent	<u>5,147,877</u>	<u>(6,983,662)</u>
	Number of shares	
	2019 <i>'000</i>	2018 <i>'000</i>
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	<u>18,349</u>	<u>—</u>
Adjusted weighted average number of ordinary shares in issue	<u>4,224,051</u>	<u>4,192,672</u>

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.

12. TRADE RECEIVABLES/LONG-TERM TRADE RECEIVABLES

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Trade receivables	35,766,089	34,848,034
Impairment	<u>(13,168,203)</u>	<u>(12,412,280)</u>
	22,597,886	22,435,754
Current portion	<u>(19,778,280)</u>	<u>(21,592,325)</u>
Long-term portion	<u>2,819,606</u>	<u>843,429</u>

Progress payment for telecommunication system contracts is normally made in accordance with the agreed payment schedule. The Group's trading terms with its major customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally 90 days and is extendable up to one year depending on customers' creditworthiness except for certain overseas customers. The credit terms for major customers are reviewed regularly by senior management. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. In view of the aforementioned, there is no significant concentration of credit risk.

An ageing analysis of the trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowance, is as follows:

	2019	2018
	<i>RMB'000</i>	<i>RMB'000</i>
Within 6 months	18,809,602	19,058,544
6 to 12 months	2,316,934	2,117,850
1 to 2 years	1,100,804	1,126,131
2 to 3 years	370,546	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	2018
	<i>RMB'000</i>	<i>RMB'000</i>
At beginning of year	12,412,280	9,198,484
Impairment losses, net	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.

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

	Within 6 months	6 to 12 months	Past due 1 to 2 years	2 to 3 years	Over 3 years	Total
Expected credit loss rate	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

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

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
The controlling shareholder	33	14
Joint ventures	17,772	15,801
Associates	339,276	219,384
Other related companies	10,495	21,447
	<u>367,576</u>	<u>256,646</u>

The balances are unsecured, non-interest-bearing and on credit terms similar to those offered to the major customers of the Group.

The Group has pledged trade receivables of RMB67,852,000 to secure the bank borrowings (2018: nil).

13. 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 <i>RMB'000</i>	2018 <i>RMB'000</i>
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
	<u>27,728,550</u>	<u>27,443,104</u>

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

	2019 <i>RMB'000</i>	2018 <i>RMB'000</i>
The controlling shareholder	6,494	8,514
Joint ventures	30	—
Associates	352,826	216,129
Other related companies	86,840	31,028
	<u>446,190</u>	<u>255,671</u>

The balances are unsecured, non-interest-bearing and are repayable on demand.

The trade payables are non-interest-bearing and are normally settled on 180-day terms.

14. EVENTS AFTER THE REPORTING PERIOD

- (a) 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.
- (b) 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.
- (c) 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.