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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)**

## **2020 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 2020 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](http://www.hkexnews.hk)) and the Company’s website ([www.zte.com.cn](http://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 Thirty-third Meeting of the Eighth Session of the Board of Directors of the Company.
- 1.4 The respective financial statement of ZTE and its subsidiaries (the “Group”) for the year ended 31 December 2020 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 2020 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 2020 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 2020 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**

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

## 2.2 Contact persons and correspondence

	<b>Authorized Representatives</b>	<b>Secretary to the Board of Directors/ Company Secretary</b>	<b>Securities Affairs Representative</b>
<b>Name</b>	Gu Junying, Ding Jianzhong	Ding Jianzhong	Qian Yu
<b>Address</b>	No. 55, Keji Road South, Shenzhen, Guangdong Province, the People's Republic of China		
<b>Tel</b>	+86 755 26770282		
<b>Fax</b>	+86 755 26770286		
<b>E-mail</b>	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

##### 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*

<b>Item</b>	<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2019</b>	<b>Year-on-year change</b>	<b>For the year ended 31 December 2018</b>
Operating revenue	<b>101,450.7</b>	90,736.6	11.81%	85,513.2
Operating profit	<b>5,470.7</b>	7,552.2	(27.56%)	(612.0)
Total profit	<b>5,064.2</b>	7,161.7	(29.29%)	(7,350.2)
Net profit attributable to holders of ordinary shares of the listed company	<b>4,259.8</b>	5,147.9	(17.25%)	(6,983.7)
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	<b>1,035.6</b>	484.7	113.66%	(3,395.5)
Net cash flows from operating activities	<b>10,232.7</b>	7,446.6	37.41%	(9,215.4)

*Unit: RMB in millions*

<b>Item</b>	<b>As at 31 December 2020</b>	<b>As at 31 December 2019</b>	<b>Year-on-year change</b>	<b>As at 31 December 2018</b>
Total assets	<b>150,634.9</b>	141,202.1	6.68%	129,350.7
Total liabilities	<b>104,512.4</b>	103,247.8	1.22%	96,390.1
Owners' equity attributable to holders of ordinary shares of the listed company	<b>43,296.8</b>	28,826.9	50.20%	22,897.6
Share capital ( <i>million shares</i> ) <sup>Note</sup>	<b>4,613.4</b>	4,227.5	9.13%	4,192.7

*Note:* The total share capital of the Company increased from 4,227,529,869 shares to 4,613,434,898 shares following the addition of 381,098,968 new shares under the non-public issuance of A shares and the exercise of a total of 4,806,061 A share options by the participants under the Company's 2017 Share Option Incentive Scheme during the year.

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

*Unit: RMB in millions*

<b>Item</b>	<b>Three months ended 31 March 2020</b>	<b>Three months ended 30 June 2020</b>	<b>Three months ended 30 September 2020</b>	<b>Three months ended 31 December 2020</b>
Operating revenue	21,484.5	25,714.9	26,930.1	27,321.2
Net profit attributable to holders of ordinary shares of the listed company	780.0	1,077.3	854.8	1,547.7
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	160.2	741.9	543.7	(410.2)
Net cash flows from operating activities	372.4	1,668.4	1,828.1	6,363.8

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**

<b>Item</b>	<b>For the year ended 31 December 2020</b>	For the year ended 31 December 2019	Year-on-year change	For the year ended 31 December 2018
Basic earnings per share (RMB/share) <i>Note 1</i>	<b>0.92</b>	1.22	(24.59%)	(1.67)
Diluted earnings per share (RMB/share) <i>Note 2</i>	<b>0.92</b>	1.22	(24.59%)	(1.67)
Basic earnings per share after extraordinary items (RMB/share) <i>Note 1</i>	<b>0.22</b>	0.12	83.33%	(0.81)
Weighted average return on net assets (%)	<b>10.18%</b>	19.96%	Decreased by 9.78 percentage points	(26.10%)
Weighted average return on net assets after extraordinary items (%)	<b>2.47%</b>	1.88%	Increased by 0.59 percentage point	(12.69%)
Net cash flows from operating activities per share (RMB/share) <i>Note 3</i>	<b>2.22</b>	1.76	26.14%	(2.20)
<b>Item</b>	<b>As at 31 December 2020</b>	As at 31 December 2019	Year-on-year change	As at 31 December 2018
Net asset per share attributable to holders of ordinary shares of the listed company (RMB/share) <i>Note 3</i>	<b>9.39</b>	6.82	37.68%	5.46
Gearing ratio	<b>69.38%</b>	73.12%	Decreased by 3.74 percentage points	74.52%

*Note 1:* Basic earnings per share and basic earnings per share after extraordinary items for 2020, 2019 and 2018 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 21,153,000, 18,349,000 and 0 potentially dilutive ordinary shares for 2020, 2019 and 2018, 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 2020, 2019 and 2018 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*

<b>Item</b>	<b>For the year ended 31 December 2020</b>	<b>For the year ended 31 December 2019</b>	<b>For the year ended 31 December 2018</b>
Non-operating income, other income and others	<b>3,751.5</b>	3,359.7	3,117.7
Gains/(Losses) from fair value change	<b>(108.5)</b>	(120.1)	51.8
Investment income	<b>854.1</b>	170.9	668.7
Less: Losses/(gains) on disposal of non-current assets	—	(2,688.0)	34.2
Less: Other non-operating expenses	<b>644.3</b>	574.2	6,851.3
Less: Asset impairment loss	<b>7.7</b>	20.2	1,161.4
Less: Effect of income tax	<b>576.8</b>	825.6	(631.3)
Less: Effect of non-controlling interests (after tax)	<b>44.1</b>	15.3	10.8
<b>Total</b>	<b><u>3,224.2</u></b>	<b><u>4,663.2</u></b>	<b><u>(3,588.2)</u></b>

## 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				
	2020	2019	2018 (Restated)	2017	2016 (Restated)
Revenue	<b>101,450.7</b>	90,736.6	85,513.2	108,815.3	101,233.2
Cost of sales	<b>(69,888.9)</b>	(58,878.0)	(58,638.3)	(76,116.5)	(71,312.5)
Gross profit	<b>31,561.8</b>	31,858.6	26,874.9	32,698.8	29,920.7
Other income and gains	<b>4,836.3</b>	6,816.1	4,630.4	6,950.9	6,116.0
Research and development costs	<b>(14,797.0)</b>	(12,547.9)	(10,905.6)	(12,962.2)	(11,689.2)
Selling and distribution expenses	<b>(7,578.8)</b>	(7,868.7)	(9,084.5)	(12,260.0)	(12,622.4)
Administrative expenses	<b>(5,463.5)</b>	(5,289.1)	(4,106.2)	(3,237.7)	(2,731.0)
Impairment loss on financial assets and contract assets, net	<b>(503.4)</b>	(2,228.4)	(3,654.9)	—	—
Loss on derecognition of financial assets at amortised cost	<b>(187.5)</b>	(209.4)	(320.3)	—	—
Other expenses	<b>(887.5)</b>	(975.7)	(8,978.3)	(3,184.9)	(8,651.0)
Profit from operating activities	<b>6,980.4</b>	9,555.5	(5,544.5)	8,004.9	343.1
Finance costs	<b>(1,495.7)</b>	(1,718.2)	(1,008.4)	(1,157.8)	(1,156.1)
Share of profit and loss of jointly entities and associates	<b>(420.5)</b>	(675.6)	(797.3)	(128.2)	45.2
Profit/(loss) before tax	<b>5,064.2</b>	7,161.7	(7,350.2)	6,718.9	(767.8)
Income tax expense	<b>(342.5)</b>	(1,385.0)	400.9	(1,332.6)	(640.1)
Profit/(loss) for the year	<b>4,721.7</b>	5,776.7	(6,949.3)	5,386.3	(1,407.9)
Attributable to:					
Non-controlling interests	<b>(445.7)</b>	(280.2)	382.6	(316.8)	(448.2)
Attributable to:					
Perpetual capital instruments	<b>(16.2)</b>	(348.6)	(417.0)	(501.3)	(501.3)
Attributable to:					
Holders of ordinary shares of the parent company	<b>4,259.8</b>	5,147.9	(6,983.7)	4,568.2	(2,357.4)

Unit: RMB in millions

Assets and liabilities	2020	As at 31 December			
		2019	2018	2017	2016
Total assets	<b>150,634.9</b>	141,202.1	129,350.7	143,962.2	141,408.2
Total liabilities	<b>104,512.4</b>	103,247.8	96,390.1	98,582.1	100,523.1
Non-controlling interests	<b>2,825.7</b>	2,875.1	3,810.6	4,411.9	5,162.6
Perpetual capital instruments	—	6,252.4	6,252.4	9,321.3	9,321.3
Equity attributable to holders of ordinary shares of the parent company	<b>43,296.8</b>	28,826.9	22,897.6	31,646.9	26,401.2

**4.2.2 Major financial indicators of the Group for the past five years prepared In accordance with HKFRSs**

Item	2020	2019	2018	2017	2016
Basic earnings per share (RMB/share) <i>Note 1</i>	<b>0.92</b>	1.22	(1.67)	1.09	(0.57)
Net asset per share (RMB/share) <i>Note 2</i>	<b>9.39</b>	6.82	5.46	7.55	6.31
Fully diluted return on net assets (%)	<b>9.84%</b>	17.86%	(30.50%)	14.43%	(8.93%)

*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 2020 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 2020

There were 596,189 shareholders (comprising 595,874 holders of A shares and 315 holders of H shares)

As at 28 February 2021, namely the last day of the preceding month of the date of publication of the Annual Report

There were 606,664 shareholders (comprising 606,351 holders of A shares and 313 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 ( <i>shares</i> )	Class of shares	Increase/decrease during the reporting period ( <i>shares</i> )	Number of shares held subject to lock-up ( <i>shares</i> )	Number of shares pledged or frozen ( <i>shares</i> )
1. Zhongxingxin Telecom Company Limited (“Zhongxingxin”)	Domestic general corporation	22.44%	1,033,442,200	A share	-113,369,400	—	Nil <sup>Note 2</sup>
			2,038,000 <sup>Note 1</sup>	H share	—		
2. HKSCC Nominees Limited <sup>Note 3</sup>	Foreign shareholder	16.30%	752,209,308	H share	-102,078	—	Unknown
3. Hong Kong Securities Clearing Company Limited <sup>Note 4</sup>	Foreign corporation	1.22%	56,082,897	A share	-11,785,409	—	Nil
4. Central Huijin Asset Management Co. Ltd.	State-owned corporation	1.14%	52,519,600	A share	—	—	Nil
5. NSSF Portfolio #101	Others	1.10%	50,644,553	A share	34,324,915	42,204,567	Nil
6. Shenzhen Huitong Rongxin Investment Co., Ltd.	State-owned corporation	0.93%	43,032,108	A share	43,032,108	43,032,108	Nil
7. Nanjing Xinchuangxing Consulting and Management Partnership (Limited Partnership)	Domestic general corporation	0.93%	43,032,108	A share	43,032,108	43,032,108	Nil
8. New China Life Insurance Company Limited — New Traditional Products 2	Others	0.93%	43,032,108	A share	43,032,108	43,032,108	Nil
9. Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-win Equity Investment Fund Partnership (Limited Partnership)	Others	0.93%	43,032,108	A share	43,032,108	43,032,108	Nil
10. Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership)	Others	0.93%	43,032,108	A share	43,032,108	43,032,108	Nil

**Shareholdings of top 10 holders of shares that were not subject to lock-up**

Name of shareholders	Number of shares not subject to lock-up (shares)	Class of shares
1. Zhongxingxin	1,033,442,200	A share
	2,038,000	H share
2. HKSCC Nominees Limited	752,209,308	H share
3. Hong Kong Securities Clearing Company Limited	56,082,897	A share
4. Central Huijin Asset Management Co. Ltd.	52,519,600	A share
5. Hunan Nantian (Group) Co., Ltd.	41,516,065	A share
6. Bank of China Limited — Huaxia Chinese Securities 5G Themed Traded Open-ended Index Securities Fund	37,908,924	A share
7. Bank of Communications Co., Ltd. — Southern Growth Vanguard Hybrid Securities Fund	21,306,863	A share
8. China Mobile No. 7 Research Institute	19,073,940	A share
9. China Construction Bank Corporation — Southern Information Innovation Hybrid Securities Fund	11,876,071	A share
10. China Life Insurance Company Limited — Dividend — Personal Dividend — 005L-FH002 Shen	11,789,965	A share

<p>Descriptions of any connected party relationships or concerted actions among the above shareholders</p>	<ol style="list-style-type: none"> <li>Zhongxingxin was neither a connected party nor a party of concerted action 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.</li> <li>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.</li> </ol>
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Description of involvement in financing and securities lending businesses of top 10 shareholders (if any) N/A

- Note 1:* 2,038,000 H shares in the Company held by Zhongxingxin were held by HKSCC Nominees Limited as nominee.
- 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 released the aforesaid pledge and created a new pledge on 25 March 2020, which was subsequently released on 14 July 2020. 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” and “Overseas Regulatory Announcement Announcement on the Release of Pledge on Shares held by the Controlling Shareholder” published by the Company on 26 March 2020 and 15 July 2020, respectively.
- Note 3:* 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. To avoid repetition in counting, 2,038,000 H shares in the Company held by Zhongxingxin have been excluded from the number of shares held HKSCC Nominees Limited.
- Note 4:* 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 5:* During the reporting period, there was no placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for a designated period.
- Note 6:* Shareholders holding 5% or above of the Company’s shares — Zhongxingxin, holding 1,035,480,200 shares in the Company in aggregate, representing 22.44% of the total share capital of the Company as at the end of the reporting period, was the controlling shareholder of the Company. Changes in the shareholdings of the Zhongxingxin during the reporting period are as follows:

Name of shareholder	Increase/ decrease of number of shares held during the reporting period (shares)	Number of shares held at the end of the reporting period (shares)	Class of shares held	Number of		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	-113,369,400	1,033,442,200	A shares	0	1,033,442,200	Nil
	0	2,038,000	H shares	0	2,038,000	Nil

- Note:* Zhongxingxin conducted a sell-down of 48,913,100 A shares in the Company through block trading at the stock exchange during the period from 2 April 2020 to 7 April 2020. On 22 June 2020, Zhongxingxin conducted a sell-down of 20,366,800 A shares in the Company through block trading at the stock exchange. On 1 July 2020, Zhongxingxin completed a sell-down of 44,089,500 A shares in the Company by way of block trading at the stock exchange. As at the end of the year, Zhongxingxin held 1,035,480,200 shares in the

Company in aggregate, accounting for 22.44% of the Company's total share capital. On 25 January 2021, Zhongxingxin conducted a sell-down of 27,601,800 A shares in the Company through block trading at the stock exchange. As at the date of publication of the announcement, Zhongxingxin held 1,007,878,400 shares in the Company in aggregate, accounting for 21.85% of the Company's total share capital.

**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, Pylon Technologies Co., Ltd. (上海派能能源科技股份有限公司), a subsidiary of Zhongxingxin, was listed on the STAR Market of Shanghai Stock Exchange on 30 December 2020 (stock code: 688063, stock name: 派能科技).

### **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 semi-conductor integrated circuits, hybrid integrated circuits and computers.

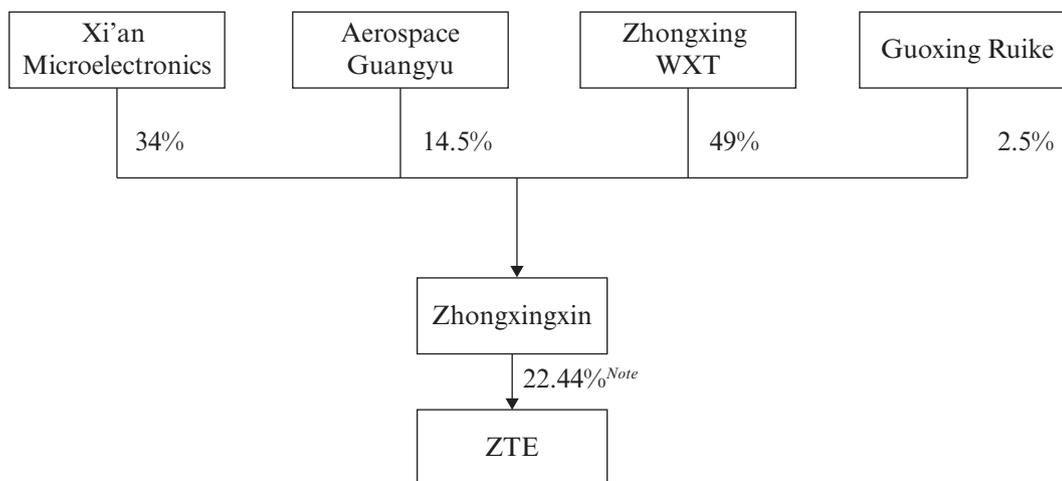
Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a state-owned enterprise established on 17 August 1989 with a registered capital of RMB17,950,000. Its legal representative is Xie Jing and its uniform social credit code is 91440300192175031U. The scope of business includes 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 2020.



*Note:* As at the date of publication of the announcement, Zhongxingxin held 1,007,878,400 shares in the Company in aggregate, accounting for 21.85% of the Company's total share capital.

## 5.4 Repurchase, sale and redemption of securities

During the year, the Company conducted the repurchase of A shares by way of centralised price bidding via the trading system of the Shenzhen Stock Exchange and repurchased 2,973,900 A shares, which accounted for 0.06% of the Company's total share capital. On 16 December 2020, the above-mentioned repurchase shares were transferred to the securities account titled "ZTE Corporation — Tranche I Employee Stock Ownership Scheme" through non-trading transfer for the implementation the Company's management stock ownership scheme. For details concerning the Company's repurchase of securities, please refer to the section headed "Material Matters — (VIII) REPURCHASE OF A SHARES BY THE COMPANY" in the Annual Report.

## 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 <sup>Note 1</sup>	Term of office ending on <sup>Note 1</sup>	Number of A shares held at the beginning of the reporting period	Increase in the number of A shares held during the period	Decrease in the number of A shares held during the period	Number of A shares held at the end of the reporting period	Reasons for changes	Total payable remuneration received from the Company during the reporting period <sup>Note 2</sup> (RMB in ten thousands)	Whether remuneration is received from related parties <sup>Note 2</sup>
								(shares)	(shares)	(shares)	(shares)			
<b>Directors of the Company</b>														
1	Li Zixue	Male	56	Chairman	Incumbent	3/2019	3/2022	—	—	—	—	—	850.1	No
2	Xu Ziyang	Male	48	Director President	Incumbent	3/2019 4/2019	3/2022 3/2022	42,000	42,000	—	84,000	Note 4	1,118.3	No
3	Li Buqing	Male	48	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	10.0	Yes
4	Gu Junying	Male	53	Director Executive Vice President	Incumbent	3/2019 4/2019	3/2022 3/2022	—	—	—	—	—	755.7	No
5	Zhu Weimin	Male	55	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	10.0	Yes
6	Fang Rong	Female	56	Director	Incumbent	3/2019	3/2022	—	—	—	—	—	10.0	Yes
7	Cai Manli	Female	47	Independent Non-executive Director	Incumbent	3/2019	3/2022	—	—	—	—	—	25.0	Yes
8	Gordon Ng	Male	56	Independent Non-executive Director	Incumbent	3/2019	3/2022	—	—	—	—	—	25.0	Yes
9	Zhuang Jiansheng <sup>Note 3</sup>	Male	55	Independent Non-executive Director	Incumbent	6/2020	3/2022	—	—	—	—	—	13.2	Yes
10	Yuming Bao <sup>Note 3</sup>	Male	48	Former Independent Non-executive Director	Resigned	3/2019	6/2020	—	—	—	—	—	11.8	Yes
<b>Supervisors of the Company</b>														
11	Xie Daxiong	Male	57	Chairman of Supervisory Committee	Incumbent	3/2019	3/2022	495,803	—	—	495,803	—	599.2	No
12	Xia Xiaoyue	Female	45	Supervisor	Incumbent	3/2019	3/2022	50,927	—	—	50,927	—	136.4	No
13	Li Quancai	Male	59	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—	167.5	No
14	Shang Xiaofeng	Male	45	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—	—	Yes
15	Zhang Sufang	Female	46	Supervisor	Incumbent	3/2019	3/2022	—	—	—	—	—	—	Yes
<b>Senior management of the Company</b>														
16	Wang Xiyu	Male	46	Executive Vice President	Incumbent	4/2019	3/2022	41,500	45,966	18,900	68,566	Note 4	973.0	No
17	Li Ying	Female	42	Executive Vice President and Chief Financial Officer	Incumbent	4/2019	3/2022	27,800	26,800	—	54,600	Note 4	780.1	No
18	Xie Junshi	Male	45	Executive Vice President	Incumbent	9/2019	3/2022	—	—	—	—	—	768.5	No
19	Ding Jianzheng	Male	44	Secretary to the Board of Directors	Incumbent	7/2019	3/2022	—	—	—	—	—	267.9	No
	<b>Total</b>	—	—	—	—	—	—	<b>658,030</b>	<b>114,766</b>	<b>18,900</b>	<b>753,896</b>	—	<b>6,521.7</b>	—

- 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:* Mr. Yuming Bao resigned as Independent Non-executive Director of the Company on 10 April 2020, which resignation became effective after the election of a new Independent Non-executive Director at the 2019 Annual General Meeting of the Company. At the 2019 Annual General Meeting of the Company held on 19 June 2020, Mr. Zhuang Jiansheng was elected as Independent Non-executive Director of the Eighth Session of the Board of Directors of the Company for a term commencing on 19 June 2020 and ending on 29 March 2022.
- Note 4:* Increase or decrease of shareholdings, including the exercise of A share options, in accordance with pertinent domestic regulations.
- Note 5:* None of the Directors, Supervisors and senior management personnel in office as at the end of the year held any H shares in the issued share capital of the Company during the year.
- Note 6:* As at the end of the year, Mr. Zhang Changling, spouse of Ms. Li Ying, held 20,000 options of 2020 A shares options of the Company. Such share options have been recorded in the register required to be kept under the Securities and Futures Ordinance (the “SFO”).
- Note 7:* During the past three years, the Directors, Supervisors and senior management personnel of the Company were not punished by securities regulatory.

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 — (VII) 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 2020 are set out in the section of this announcement headed “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 2020, 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 2020, 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 2020**

#### ***(1) Overview of the domestic telecommunications industry for 2020***

The domestic telecommunication industry sustained stable development during 2020. According to the data published by the Ministry of Industry and Information Technology (the “MIIT”) of the PRC, the domestic telecommunications sector reported revenue of RMB1,360 billion for 2020, representing a year-on-year growth of 3.6%. Rapid growth was also sustained in domestic mobile Internet traffic flow with the discharge of usage (DOU) of mobile Internet reaching 10.35 GB per user per month for the year, representing a year-on-year growth of 32% (Data derived from the “2020 Statistical Communique on the Telecom Industry” published by the MIIT of the PRC).

During 2020, the big three domestic carriers completed their second-phase 5G tenders, while large-scale commercial application of standalone 5G networks in the country was initially realised, covering all domestic cities at the prefecture-level or above as well as key county-level cities. Steady progress in the construction of 5G networks was noted, as more than 700,000 5G base stations had been opened. A number of sectors, including industrial manufacturing, transportation, energy, medical care, education and media, pioneered in the use of 5G networks. During the COVID-19 epidemic, Internet applications operating on the basis of the communication infrastructure, such as home office, online teaching, online shopping, mobile payment and health code, played an active role in safeguarding people’s livelihood and fighting the epidemic.

## **(2) Overview of the global telecommunications industry for 2020**

Investment in 5G was gaining pace on a global basis during 2020. According to the statistics of Global mobile Suppliers Association (GSA), 140 carriers in 59 countries or regions across the globe had launched 5G commercial services as at December 2020, while 61 carriers around the world launched tests, trial runs or commercial application of standalone 5G networks. 5G terminals were launched with growing variety in types and models, with more than 200 million 5G handsets shipped in 2020, representing growth of more than 10 times compared to the previous year.

While the business and construction work delivery for global telecommunications projects have been affected by the outbreak of COVID-19 epidemic in varying degrees, the substantial increase in demand for home office and online teaching has driven exploding growth in mobile data volume, providing a solid groundwork for the recovery in investment and stable growth of the global telecommunication market.

## **(3) Operating results of the Group for 2020**

Facing the COVID-19 epidemic and challenges in the external environment, the Group achieved operating revenue of RMB101,451 million, representing a year-on-year increase of 11.81%, as it persisted in the focus on its principal businesses and pursued vigorous business expansion based on technological innovation with an emphasis on operational quality. A year-on-year growth in operating revenue was reported for both the international market and the domestic market, as well as for the three principal business segments (carriers' networks, government and corporate business, and consumer business). Net profit attributable to holders of ordinary shares of the listed company for 2020 amounted to RMB4.26 billion. Basic earnings per share amounted to RMB0.92.

### **A. By market**

The domestic market

For the reporting period, the Group's operating revenue from the domestic market amounted to RMB68,051 million, accounting for 67.08% of the Group's overall operating revenue. During 2020, the Group achieved growth in both market structure and market share, as it seized opportunities for development in 5G and new infrastructure. The Group was deeply involved in the construction of 5G commercial applications, joining forces with carriers to deploy 5G networks in 240+ cities across the nation. On the back of the excellent 5G networks, the Group rolled out 5G applications with more than 500 industry partners to empower digital transformation in various industries.

## The international market

For the reporting period, the Group's operating revenue from the international market amounted to RMB33.4 billion, accounting for 32.92% of the Group's overall operating revenue. In 2020, the Group reported improving profitability as it persisted in its globalisation strategy and healthy operations and explored value markets with meticulous effort. The Group reported overall stability in its international operations, overcoming difficulties and addressing uncertainties as it mitigated the impact of overseas epidemic through the employment of ICT technologies, staff localisation and efficient industry chain coordination.

### *B. By business segment*

For the reporting period, the Group's operating revenue for carriers' networks, government and corporate business and consumer business amounted to RMB74,018 million, RMB11,272 million and RMB16,160 million, respectively.

#### Carriers' networks

During 2020, the competitiveness of the Group's products was further enhanced, as it reported considerable breakthroughs in the international as well as domestic markets. In connection with wireless products, the Group continued to command a pivotal role in the innovation of 5G technologies and market applications. According to statistics on the share of global 5G base station dispatch in 2020 published by Dell'Oro Group, ZTE ranked second in the industry. The Group was actively involved in the phase-two 5G tendering of the big three domestic carriers, establishing itself firmly in the first quadrant of the domestic industry. In connection with wireline products, the Group was engaged in the large-scale deployment of its full range of end-to-end 5G bearer products. Inspection and delivery of the ROADM optical backbone network of China Telecom, the largest of its kind in the world, was completed successfully. The Group is among the top players in the industry in terms of the aggregate shipment volume of FTTx products. In connection with energy products, our communication power source products accounted for the largest share in the centralised procurement tenders of domestic carriers and China Tower.

#### Government and corporate business

In 2020, the Group reported notable growth in the overall results of its government and corporate business. GoldenDB became the first domestical distributed database for financial transaction putting to official commercial application in the core business system of a large bank. The full modular data centre solution was officially launched for commercial application, while tenders with leading Internet companies were won. Our safe corporate office solution contributed to the speedy resumption of corporate operation during the epidemic and facilitated home office for more than 30,000 research staffs. The Binjiang Manufacturing Base of ZTE Corporation in

Nanjing was cited as an Outstanding ICT Case in China 2020 for its initiative to “manufacture 5G with 5G”. The Group was working actively to establish its presence in new infrastructure on the back of its ability to empower digital transformation with precision, as exemplary projects were delivered in association with carriers and a number of leading enterprises, with 4 cooperative projects that won the Blossom Award (Class I) of MIIT.

### Consumer business

The Group’s consumer business involves handset, mobile data terminal, home information terminal and integrated innovative terminal. In 2020, the Group presented Axon 20 5G, the world’s first handset with an under-display camera for commercial uses. Meanwhile, our market share for mobile data terminals increased substantially, as our new-generation 5G indoor router started to be launched in the overseas market. The Group has also been a consistent global leader in home information terminal and integrated innovative terminal.

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 — (XXVII) 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*

	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)
<b>Revenue mix</b>							
<b>I. By industry</b>							
Manufacturing of communication equipment	101,450.7	100.00%	69,379.2	31.61%	11.81%	21.70%	(5.56)
<b>Total</b>	<b>101,450.7</b>	<b>100.00%</b>	<b>69,379.2</b>	<b>31.61%</b>	<b>11.81%</b>	<b>21.70%</b>	<b>(5.56)</b>
<b>II. By business segment</b>							
Carriers' networks	74,018.2	72.96%	49,005.8	33.79%	11.16%	28.25%	(8.82)
Government and corporate business	11,272.2	11.11%	8,023.6	28.82%	23.13%	23.73%	(0.34)
Consumer business	16,160.3	15.93%	12,349.8	23.58%	7.75%	0.30%	5.68
<b>Total</b>	<b>101,450.7</b>	<b>100.00%</b>	<b>69,379.2</b>	<b>31.61%</b>	<b>11.81%</b>	<b>21.70%</b>	<b>(5.56)</b>
<b>III. By region</b>							
The PRC	68,051.2	67.08%	48,414.6	28.86%	16.89%	38.30%	(11.01)
Asia (excluding the PRC)	14,729.3	14.52%	8,348.2	43.32%	11.75%	2.54%	5.09
Africa	4,822.6	4.75%	2,492.0	48.33%	(9.28%)	(16.09%)	4.19
Europe, Americas and Oceania	13,847.6	13.65%	10,124.4	26.89%	(1.25%)	(7.02%)	4.54
<b>Total</b>	<b>101,450.7</b>	<b>100.00%</b>	<b>69,379.2</b>	<b>31.61%</b>	<b>11.81%</b>	<b>21.70%</b>	<b>(5.56)</b>

**(1) Analysis of change in revenue**

The Group reported RMB101,450.7 million in operating revenue for 2020, increasing by 11.81% as compared with the same period last year. Operating revenue generated from the domestic business amounted to RMB68,051.2 million, increasing by 16.89% as compared with the same period last year. Operating revenue generated from the international business amounted to RMB33,399.5 million, increasing by 2.71% as compared with the same period last year.

Analysed by business segment, the Group reported year-on-year growth in operating revenue for 2020, reflecting mainly year-on-year growth in operating revenue from carriers' networks, government and corporate business and consumer business. The Group's carriers' networks reported 11.16% year-on-year increase in operating revenue for 2020, reflecting mainly the year-on-year increase in operating revenue from 5G wireless products, bearer products and core network products; the Group's government and corporate business reported 23.13% year-on-year increase in operating revenue for 2020, reflecting mainly the year-on-year increase in operating revenue from bearer products and domestic servers as compared to the same period last year; the Group's consumer business reported 7.75% year-on-year increase in operating revenue for 2020, reflecting mainly the year-on-year increase in operating revenue from handset products and international home terminals as compared to the same period last year.

(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*

Operating revenue	2020			2019 <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 costs	Gross profit margin	Operating revenue	Operating costs	Gross profit margin				
101,450.7	69,379.2	31.61%	90,612.6	56,933.4	37.17%	11.96%	21.86%	(5.56)	

*Note:* Figures of operating revenue and operating costs for 2019 have excluded operating revenue and operating costs of subsidiaries deconsolidated in 2020.

ZTE Singapore Pte Ltd, ZTE Albania Sh.p.k, ZICT (Nigeria) Limited, ZTE (Lithuania) Limited, Shenzhen Zhongrui Detection Technology Co., Ltd, Foshan Zhongxing Gaojian New Energy Technology Limited, Xi'an Zhongxing Jingcheng Communications (Hong Kong) Limited, ZTE PORTUGAL — TELECOMMUNICATIONS PROJECTS, UNIPERSONNEL LIMITED, NXT NETCARE SERVICES S.R.L., ZTE Benin Sarl completed deregistration with industrial and commercial administration authorities on 6 January 2020, 20 January 2020, 27 February 2020, 10 March 2020, 9 May 2020, 12 May 2020, 17 July 2020, 26 August 2020, 27 October 2020 and 4 December 2020, respectively, and the aforesaid companies have been excluded from the consolidated financial statements of the Group as from the date on which such deregistrations were completed.

Zhongxin New Energy Technology Company Limited (formerly known as Zhongxing New Energy Automobile Company Limited), a subsidiary of the Company, completed the disposal of 5.1% equity interests in Shenzhen Zhongxin New Energy Technology Company Limited in March 2020, and Shenzhen Zhongxin New Energy

Technology Company Limited and its subsidiaries have been excluded from the consolidated financial statements of the Group as from March 2020. The Company disposed of 100% equity interests in Shenzhen Guoxin Electronics Development Company Limited in December 2020, and Shenzhen Guoxin Electronics Development Company Limited has been excluded from the consolidated financial statements of the Group as from December 2020.

- (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 2020 amounted to RMB5,470.7 million, representing a year-on-year decrease of 27.56%, which was attributable to the income for the same period last year resulting from matters disclosed in the "UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION" published by the Company on 11 July 2019. Expenses for the period amounted to RMB27,791.3 million, increasing by 6.25%, year-on-year, and reflecting the increase in R&D investment; investment income amounted to RMB906.4 million, an increase by 263.43% as compared to the same period last year reflecting mainly the increase in income from the disposal of equity during the period.

- (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 2020 was 31.61%, decreasing by 5.56 percentage points compared to the same period last year, which was mainly attributable to the growth in revenue from low-margin products as a percentage of total revenue.

### 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*

<b>Consolidated statement of profit or loss and other comprehensive income</b>	<b>2020</b>	<b>2019</b>
<b>Operating revenue:</b>		
Carriers' networks	<b>74,018.2</b>	66,584.4
Government and corporate business	<b>11,272.2</b>	9,154.8
Consumer business	<b>16,160.3</b>	14,997.4
<b>Total revenue</b>	<b>101,450.7</b>	90,736.6
Cost of sales	<b>(69,888.9)</b>	(58,878.0)
<b>Gross profit</b>	<b>31,561.8</b>	31,858.6
Other income and gains	<b>4,836.3</b>	6,816.1
Research and development costs	<b>(14,797.0)</b>	(12,547.9)
Selling and distribution expenses	<b>(7,578.8)</b>	(7,868.7)
Administrative expenses	<b>(5,463.5)</b>	(5,289.1)
Impairment loss on financial assets and contract assets, net	<b>(503.4)</b>	(2,228.4)
Loss on disposal of financial assets at amortised cost	<b>(187.5)</b>	(209.4)
Other expenses	<b>(887.5)</b>	(975.7)
<b>Profit from operating activities</b>	<b>6,980.4</b>	9,555.5
Finance costs	<b>(1,495.7)</b>	(1,718.2)
Share of profits and losses of joint ventures and associates	<b>(420.5)</b>	(675.6)
<b>Profit/(loss) before tax</b>	<b>5,064.2</b>	7,161.7
Income tax expense	<b>(342.5)</b>	(1,385.0)
<b>Profit/(loss) for the year</b>	<b>4,721.7</b>	5,776.7
Attributable to:		
Non-controlling interests	<b>(445.7)</b>	(280.2)
Attributable to:		
Perpetual capital instruments	<b>(16.2)</b>	(348.6)
Attributable to:		
Ordinary shares of the parent company	<b>4,259.8</b>	5,147.9
<b>Other comprehensive income</b>	<b>(295.3)</b>	49.4
<b>Comprehensive income</b>	<b>4,426.4</b>	5,826.1
<b>Dividend</b>	<b>922.7</b>	922.7
<b>Earnings per share — Basic</b>	<b>RMB0.92</b>	RMB1.22
— Diluted	<b>RMB0.92</b>	RMB1.22

## 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	2020		2019	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
Carriers' networks	74,018.2	73.0%	66,584.4	73.4%
Government and corporate business	11,272.2	11.1%	9,154.8	10.1%
Consumer business	16,160.3	15.9%	14,997.4	16.5%
<b>Total</b>	<b>101,450.7</b>	<b>100.0%</b>	<b>90,736.6</b>	<b>100.0%</b>

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	2020		2019	
	Revenue	As a percentage of operating revenue	Revenue	As a percentage of operating revenue
The PRC	68,051.2	67.1%	58,217.0	64.2%
Asia (excluding the PRC)	14,729.3	14.5%	13,180.3	14.5%
Africa	4,822.6	4.8%	5,316.1	5.9%
Europe, the Americas and Oceania	13,847.6	13.6%	14,023.2	15.4%
<b>Total</b>	<b>101,450.7</b>	<b>100.0%</b>	<b>90,736.6</b>	<b>100.0%</b>

The Group reported RMB101,450.7 million in operating revenue for 2020, increasing by 11.8% as compared with the same period last year. Operating revenue generated from the domestic business amounted to RMB68,051.2 million, increasing by 16.9%

as compared with the same period last year. Operating revenue generated from the international business amounted to RMB33,399.5 million, increasing by 2.7% as compared with the same period last year.

Analysed by business segment, the Group reported year-on-year growth in operating revenue for 2020, reflecting mainly year-on-year growth in operating revenue from carriers' networks, government and corporate business and consumer business. The Group's carriers' networks reported 11.2% year-on-year increase in operating revenue for 2020, reflecting mainly the year-on-year increase in operating revenue from 5G wireless products, bearer products and core network products; the Group's government and corporate business reported 23.1% year-on-year increase in operating revenue for 2020, reflecting mainly the year-on-year increase in operating revenue from bearer products and domestic servers as compared to the same period last year; the Group's consumer business reported 7.8% year-on-year increase in operating revenue for 2020, reflecting mainly the year-on-year increase in operating revenue from handset products and international home terminals as compared to the same period last year.

### ***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*

<b>Business segment</b>	<b>2020</b>		<b>2019</b>	
	<b>Cost of sales</b>	<b>As a percentage of business segment revenue</b>	<b>Cost of sales</b>	<b>As a percentage of business segment revenue</b>
Carriers' networks	<b>49,443.5</b>	<b>66.8%</b>	39,701.5	59.6%
Government and corporate business	<b>8,055.1</b>	<b>71.5%</b>	6,636.1	72.5%
Consumer business	<b>12,390.3</b>	<b>76.7%</b>	12,540.4	83.6%
<b>Total</b>	<b>69,888.9</b>	<b>68.9%</b>	58,878.0	64.9%

*Unit: RMB in millions*

Business segment	2020		2019	
	Gross profit	Gross profit margin	Gross profit	Gross profit margin
Carriers' networks	24,574.7	33.2%	26,882.9	40.4%
Government and corporate business	3,217.1	28.5%	2,518.7	27.5%
Consumer business	3,770.0	23.3%	2,457.0	16.4%
<b>Total</b>	<b>31,561.8</b>	<b>31.1%</b>	<b>31,858.6</b>	<b>35.1%</b>

Cost of sales of the Group for 2020 increased by 18.7%, year-on-year, to RMB69,888.9 million, reflecting mainly the increase in costs of sales for carriers' networks and government and corporate business as compared to the same period last year. The Group's overall gross profit margin decreased by 4.0 percentage points to 31.1% for 2020, as compared to the same period last year, in line with the lower gross profit margin for carriers' networks.

Cost of sales of the Group's carriers' networks for 2020 amounted to RMB49,443.5 million, a 24.5% increase compared to the same period last year. The relevant gross profit margin was 33.2%, compared to 40.4% for the same period last year. The decrease in gross profit margin for the carriers' networks reflected mainly the increase in revenue from low-margin products in the domestic market as a percentage of total revenue.

Cost of sales of the Group's government and corporate business for 2020 amounted to RMB8,055.1 million, a 21.4% increase compared to the same period last year. The relevant gross profit margin was 28.5%, compared to 27.5% for the same period last year.

Cost of sales of the Group's consumer business for 2020 amounted to RMB12,390.3 million, a 1.2% decrease compared to the same period last year. The relevant gross profit margin was 23.3%, compared to 16.4% for the same period last year. The increase in gross profit margin for the consumer business reflected mainly the increase in revenue from home terminals with a higher margin in the international markets as a percentage of total revenue, as well as higher gross profit margins for handset products in the domestic and international markets.

### ***OTHER INCOME AND GAINS***

Other income and gains of the Group for 2020 amounted to RMB4,836.3 million, representing a 29.0% decrease compared to RMB6,816.1 million for 2019, attributable mainly to the recognition of relevant income for the same period last year 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 2020 increased by 17.9% to RMB14,797.0 million from RMB12,547.9 million for 2019. During the period, the Group continued to invest in core technologies such as 5G wireless, core network, bearer, access and chips. The Group’s research and development costs as a percentage of operating revenue increased by 0.8 percentage point from 13.8% for 2019 to 14.6% for 2020.

### ***SELLING AND DISTRIBUTION EXPENSES***

The Group’s selling and distribution expenses for 2020 decreased by 3.7% to RMB7,578.8 million from RMB7,868.7 million for 2019, attributable mainly to the decrease in the Group’s travel expenses and advertising expenses for the period. Selling and distribution expenses as a percentage of operating revenue decreased by 1.2 percentage points to 7.5%, compared to 8.7% for 2019.

### ***ADMINISTRATIVE EXPENSES***

Administrative expenses of the Group for 2020 increased by 3.3% to RMB5,463.5 million, as compared to RMB5,289.1 million for 2019. Administrative expenses as a percentage of operating revenue decreased by 0.4 percentage point to 5.4% as compared to 5.8% for 2019.

### ***IMPAIRMENT LOSS ON FINANCIAL ASSETS AND CONTRACT ASSETS, NET***

The Group’s net impairment loss on financial assets and contract assets for 2020 amounted to RMB503.4 million, decreasing by 77.4% compared to RMB2,228.4 million for 2019, which 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 AT AMORTISED COST***

The Group recorded loss on disposal of financial assets at amortised cost for 2020 amounting to RMB187.5 million, decreasing by 10.5% compared to RMB209.4 million for 2019, which 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, loss from fair-value change and loss on investment. Other expenses of the Group for 2020 was RMB887.5 million, representing a 9.0% decrease from RMB975.7 million for 2019, which was attributable primarily to the decrease in fair-value loss of shares in listed companies held by Shenzhen ZTE Capital Management Company Limited for the period.

### ***PROFIT FROM OPERATING ACTIVITIES***

The Group's profit from operating activities for 2020 amounted to RMB6,980.4 million, as compared to RMB9,555.5 million for 2019, while operating profit margin was 6.9%, attributable primarily to the recognition of relevant income for the same period last year by the Company as disclosed in the "UPDATE ON DISCLOSEABLE TRANSACTION SUPPLEMENTAL AGREEMENT TO THE FRAMEWORK AGREEMENT FOR ENTRUSTMENT OF DEVELOPMENT, CONSTRUCTION, SALES AND OPERATION" published on 11 July 2019.

### ***FINANCE COSTS***

Finance costs of the Group for 2020 amounted to RMB1,495.7 million, decreasing by 12.9% compared to RMB1,718.2 million for 2019, reflecting mainly the decrease in interest expenses in line with the decrease in financing of the Group and finance interest rate for the period.

### ***INCOME TAX EXPENSE***

The Group's income tax expense for 2020 was RMB342.5 million, decreasing by 75.3% compared to RMB1,385.0 million for 2019, reflecting mainly the Company's recognition of deferred income tax assets deductible against loss for the period.

### ***PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS***

The Group's profit attributable to non-controlling interests for 2020 amounted to RMB445.7 million, representing an increase of RMB165.5 million compared to RMB280.2 million for 2019, which was attributable mainly to the increase in profit reported by certain subsidiaries of the Group for the period.

## ***OTHER COMPREHENSIVE INCOME***

Other comprehensive income of the Group for 2020 amounted to RMB-295.3 million, compared to RMB49.4 million for 2019, which was attributable mainly to loss for the period on translation of the Group's statements denominated in foreign currencies owing to exchange rate fluctuations versus gain 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 2020 was 44.2%, decreasing by 6.1 percentage points as compared to 50.3% for 2019, reflecting mainly the increase in the Group's profit for and non-public issuance of A shares during the period.

## ***LIQUIDITY AND CAPITAL RESOURCES***

In 2020, the Group's development funds were financed mainly by cash generated from its operations and bank loans. The Group's cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other contingent cash requirements. The Group has adopted a prudent 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 2020 amounted to RMB31,403.1 million held mainly in RMB and to a smaller extent in USD, EUR, HKD and other currencies.

## ***CASH FLOW DATA***

	<i>Unit: RMB in millions</i>	
<b>Item</b>	<b>2020</b>	<b>2019</b>
Net cash inflow from operating activities	<b>4,701.0</b>	4,903.4
Net cash outflow from investing activities	<b>(4,501.4)</b>	(6,120.2)
Net cash inflow from financing activities	<b>2,661.0</b>	8,362.0
Net increase in cash and cash equivalents	<b>2,860.6</b>	7,145.2
Cash and cash equivalents at the end of the period	<b>31,403.1</b>	28,505.8

## ***OPERATING ACTIVITIES***

The Group's net cash inflow from operating activities was RMB4,701.0 million for 2020, compared to RMB4,903.4 million for 2019, reflecting mainly a year-on-year increase in cash received from sales of goods and provision of services by RMB19,157.6 million, decrease in tax refund received by RMB423.6 million, increase in cash paid for the purchase of goods and services by RMB15,697.1 million, increase in cash payments to and on behalf of employees by RMB3,190.0 million.

## ***INVESTING ACTIVITIES***

The Group's net cash outflow from investing activities was RMB4,501.4 million for 2020, compared to RMB6,120.2 million for 2019, reflecting mainly the decrease in pledged bank deposit for the period versus the increase in pledged bank deposit for the same period last year.

## ***FINANCING ACTIVITIES***

The Group's net cash inflow from financing activities was RMB2,661.0 million for 2020, compared to RMB8,362.0 million for 2019, reflecting mainly the payment of RMB6 billion perpetual instruments by the Group for the period.

## ***CAPITAL EXPENDITURE***

The Group's capital expenditure amounted to RMB8,471.3 million for 2020, compared to RMB5,501.7 million for 2019, which was mainly applied in the Nanjing Project, Shanghai R&D Centre Phase III, Xi'an Project and purchase of electronic equipment and machinery equipment.

## ***INDEBTEDNESS***

*Unit: RMB in millions*

<b>Item</b>	<b>31 December</b>	
	<b>2020</b>	<b>2019</b>
Secured bank loans	<b>452.4</b>	252.2
Unsecured bank loans	<b>34,372.6</b>	36,530.9

*Unit: RMB in millions*

<b>Item</b>	<b>31 December</b>	
	<b>2020</b>	<b>2019</b>
Short-term bank loans	<b>12,210.7</b>	26,738.0
Long-term bank loans	<b>22,614.3</b>	10,045.1

Credit facilities available to the Group included long-term and short-term bank loans, which were mainly used as working capital. The Group's RMB short-term and long-term bank loans subject to fixed interest rates amounted to RMB2,137.8 million and RMB653.7 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 RMB493.2 million and the remaining USD loans were subject to floating interest rates. The Group's borrowings were mainly denominated in USD and EUR, apart from certain RMB loans.

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates. With the foreign exchange risk management based on the whole process of business, the Group seeks to mitigate foreign exchange risks on its operations at source through the use of measures such as business strategic guidance, internal settlement management, financing mix optimisation, internal currency settlement and value-protected derivative products on exchange rates. The Group also strengthens liquidity risk management and facilitates RMB pricing and settlement for overseas projects to lower its exchange risks in the long term.

The Group's bank loans in 2020 decreased by RMB1,958.1 million as compared to 2019, reflecting repayment of short-term loans of the Company upon maturity.

### **CONTRACTUAL OBLIGATIONS**

*Unit: RMB in millions*

Item	Total	31 December 2020		
		Less than 1 year	2–5 years	More than 5 years
Bank loans	34,825.0	12,210.7	22,539.6	74.7

### **CONTINGENT LIABILITIES**

*Unit: RMB in millions*

Item	31 December	
	2020	2019
Guarantees given to banks in connection with borrowings to customers	—	—
Guarantees given to banks in respect of performance bonds	12,832.3	13,559.3
<b>Total</b>	<b>12,832.3</b>	<b>13,559.3</b>

## ***CAPITAL COMMITMENTS***

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

*Unit: RMB in millions*

<b>Item</b>	<b>31 December 2020</b>	<b>2019</b>
Land and buildings:		
Contracted, but not provided for	<b>2,837.2</b>	3,097.0
Investment in associates:		
Contracted, but not provided for	<b>13.0</b>	48.7

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

Details of the subsidiaries of the Group as at 31 December 2020 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 2020 are set out in Notes 19 and 20 to the financial statements prepared in accordance with HKFRSs.

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

Details of the acquisitions and disposals related to subsidiaries, associates and joint ventures of the Group in 2020 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 2020 are set out in the sections headed “Directors, Supervisors, Senior Management and Employees,” “Corporate Governance Structure” and “Material Matters — (VII) 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 2020 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 2020 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 2020**

Audited net profit attributable to holders of ordinary shares of the Company for the year 2020 calculated in accordance with PRC ASBEs amounted to approximately RMB2,723,601,000. Together with undistributed profit of approximately RMB4,208,836,000 carried forward at the beginning of the year, dividend distribution to shareholders for 2019 of approximately RMB922,687,000 and after provision for statutory surplus reserves of approximately RMB192,952,000, profit available for distribution to shareholders amounted to approximately RMB5,816,798,000.

Audited net profit attributable to holders of ordinary shares of the Company for the year 2020 calculated in accordance with HKFRSs amounted to approximately RMB3,132,041,000. Together with undistributed profit of approximately RMB3,315,404,000 carried forward at the beginning of the year, dividend distribution to shareholders for 2019 of approximately RMB922,687,000 and after provision of statutory surplus reserves of approximately RMB192,952,000, profit available for distribution to shareholders amounted to approximately RMB5,331,806,000.

In accordance with requirements of the Ministry of Finance of the PRC 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 RMB5,331,806,000. The Board of Directors of the Company has recommended:

The profit distribution proposal for 2020: 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 2020 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 2020 according to the existing proportion for distribution. The aforesaid matter is subject to consideration and approval at the general meeting.

The exact timing of payment of the Company's 2020 dividend depends on when the general meeting will be held and the progress of working relating to dividend distribution, and the distribution will be completed no later than 31 August 2021.

## **7.5 Business outlook of 2021 and risk exposures**

### ***7.5.1 Business outlook of 2021***

Global 5G development is expected to roll out in full gear in the next 5 years, underpinned by a rapidly maturing industry chain and vigorous supply of innovative applications driving a new boom for the communications industry. First of all, 5G will continue to benefit from the volume of mobile data to further enhance personal consumer experience, thereby sustaining growth in mobile data consumption. Second, the integration of infrastructure for the intelligent Internet of Everything built on the back of 5G will give rise to new businesses, models and growth opportunities in the ICT sector, driving robust development of the global digital economy.

In connection with carriers' networks, the Group will steadily enhance its product structure and market share in the domestic and international markets in adherence to its globalisation strategy. The Group will increase investment in core technologies such as chip, algorithm and network architecture to maintain its technological edge and facilitate the provision of end-to-end solutions that would enable carriers to build highly competitive premium 5G networks in a speedy manner.

In connection with the government and corporate business, the Group will continue to focus on the key market sectors of energy, transportation, government affair, finance, Internet and major corporation, among others, targeting at premium partners to incubate business channels and enhance customer satisfaction. The Group will further increase the competitiveness and market share of its wireless,

transmission, access and server products, seizing opportunities presented by the new infrastructure to expedite consolidation of the 5G business and assist in the digital transformation and upgrade of various sectors.

In connection with the consumer business, the Group will leverage opportunities in the markets for 5G terminals and data products. We will maintain prudent operations in the overseas market while increasing our investment in brand in the domestic market, expanding our offline channels and seizing opportunities to rise above the competition.

In 2021, the Group will continue to advance digital transformation and increase its effort to attract and incentivise core talents, while making improvements to the compliance and management regime by strengthening internal control governance and regulated operations, so as to foster a positive image in the international market and win greater trust among domestic and overseas clients as well as shareholders. We will consolidate our existing foundation and foster new strengths in order to attain qualitative growth.

## **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, "ZTE" or "ZTE中興", are all protected by trademark registration, and intellectual property right protection in various forms, including but not limited to application for patent right or copyright, has been adopted wherever possible in respect of such products and services. 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 avoided. 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 foreign exchange risk management based on the whole process of business 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 2020, 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, save for the deviation described in the below.

Code provision A.1.3 stipulates that a notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. Such requirement for the length of notice of meeting was waived, upon the unanimous approval of all Directors on the Board of Directors of the Company, in respect of the notice sent by the Company to the Directors on 15 April 2020 to convene the Sixteenth Meeting of the Eighth Session of the Board of Directors on 24 April 2020 for the purpose of considering and approving the first quarter 2020 results of the Group and its announcement. The Directors' attendance at the meeting has not been affected by the said waiver.

### **8.2 Securities transactions by Directors and Supervisors**

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

## **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 2020 and the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2020 prepared by the Group in accordance with PRC ASBEs and the consolidated and company statement of financial position at 31 December 2020 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 2020 prepared in accordance with HKFRSs.

## 9.2 Audit opinion

The consolidated and company balance sheets as at 31 December 2020, the consolidated and company income statements, statements of changes in equity and cash flow statements for the year ended 31 December 2020 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 (2021) 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 2020, 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 2020 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

## 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: tier-one subsidiaries Shenzhen Renxing Technology Company Limited and Zhongxing Terminal Company Limited.

The Company completed the acquisition of 28.43% equity interests in Nubia Technology Limited in December 2020 and Nubia Technology Limited has been included in the consolidated financial statements of the Group as from December 2020.

Subsidiaries deregistered during the period included: tier-one subsidiaries Shenzhen Zhongrui Detection Technology Co., Ltd; tier-two subsidiaries ZTE Albania sh.p.k, ZTE (Lithuania) Limited, Foshan Zhongxing Gaojian New Energy Technology Limited, Xi'an Zhongxing Jingcheng Communications (Hong Kong) Limited, ZTE PORTUGAL — TELECOMMUNICATIONS PROJECTS, UNIPERSONNEL LIMITED and ZTE Benin Sarl; tier-three subsidiaries ZTE Singapore Pte Ltd and ZICT (Nigeria) Limited; and a tier-five subsidiary NXT NETCARE SERVICES S.R.L..

Zhongxin New Energy Technology Company Limited (formerly known as Zhongxing New Energy Automobile Company Limited), a subsidiary of the Company, completed the disposal of 5.1% equity interests in Shenzhen Zhongxin New Energy Technology Company Limited on March 2020, and Shenzhen Zhongxin New Energy Technology Company Limited and its subsidiaries have been excluded from the consolidated financial statements of the Group as from March 2020. The Company disposed of 100% equity interests in Shenzhen Guoxin Electronics Development Company Limited in December 2020, and Shenzhen Guoxin Electronics Development Company Limited has been excluded from the consolidated financial statements of the Group as from December 2020.

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  
16 March 2021

*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, Gordon Ng, Zhuang Jiansheng.*

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

**CONSOLIDATED BALANCE SHEET**

*31 December 2020*

*RMB'000*

<b>Assets</b>	<b>31 December 2020</b>	31 December 2019
<b>Current assets</b>		
Cash	35,659,832	33,309,347
Trading financial assets	1,036,906	560,662
Derivative financial assets	36,118	106,065
Trade receivables	15,891,020	19,778,280
Receivable financing	1,970,624	2,430,389
Factored trade receivables	199,872	308,710
Prepayments	321,792	402,525
Other receivables	1,152,479	1,023,271
Inventories	33,689,306	27,688,508
Contract assets	8,926,411	9,537,850
Other current assets	<u>8,092,915</u>	<u>7,421,567</u>
<b>Total current assets</b>	<u><b>106,977,275</b></u>	<u>102,567,174</u>
<b>Non-current assets</b>		
Long-term receivables	2,679,578	2,819,606
Factored long-term receivables	347,920	200,671
Long-term equity investments	1,713,803	2,327,288
Other non-current financial assets	1,536,741	1,594,254
Investment properties	2,035,234	1,957,242
Fixed assets	11,913,942	9,383,488
Construction in progress	1,039,900	1,171,716
Right-of-use assets	1,047,210	1,063,781
Intangible assets	9,367,282	7,718,820
Development costs	2,072,857	1,876,409
Goodwill	186,206	186,206
Deferred tax assets	3,437,101	2,511,372
Other non-current assets	<u>6,279,857</u>	<u>5,824,108</u>
<b>Total non-current assets</b>	<u><b>43,657,631</b></u>	<u>38,634,961</u>
<b>TOTAL ASSETS</b>	<u><b>150,634,906</b></u>	<u>141,202,135</u>

**CONSOLIDATED BALANCE SHEET (CONTINUED)**

31 December 2020

RMB'000

<b>Liabilities</b>	<b>31 December 2020</b>	31 December 2019
<b>Current liabilities</b>		
Short-term loans	10,559,160	26,645,966
Bank advances on factored trade receivables	201,484	310,024
Derivative financial liabilities	153,961	126,223
Bills payable	11,364,056	9,372,940
Trade payables	17,151,733	18,355,610
Contract liabilities	14,998,172	14,517,057
Salary and welfare payables	10,545,495	8,954,005
Taxes payable	878,201	888,848
Other payables	4,352,802	4,621,118
Provisions	2,085,234	1,966,464
Non-current liabilities due within one year	<u>2,104,677</u>	<u>612,261</u>
<b>Total current liabilities</b>	<u>74,394,975</u>	<u>86,370,516</u>
<b>Non-current liabilities</b>		
Long-term loans	22,614,304	10,045,093
Bank advances on factored long-term trade receivables	353,446	200,858
Lease liabilities	718,186	645,294
Provision for retirement benefits	144,250	144,505
Deferred income	2,228,313	2,656,024
Deferred tax liabilities	134,317	172,060
Other non-current liabilities	<u>3,924,609</u>	<u>3,013,487</u>
<b>Total non-current liabilities</b>	<u>30,117,425</u>	<u>16,877,321</u>
<b>Total liabilities</b>	<u>104,512,400</u>	<u>103,247,837</u>

**CONSOLIDATED BALANCE SHEET (CONTINUED)***31 December 2020**RMB'000*

	<b>31 December 2020</b>	31 December 2019
<b>Shareholder's equity</b>		
<b>Shareholder's equity</b>		
Share capital	4,613,435	4,227,530
Capital reserves	23,275,810	12,144,432
Less: treasury stock	114,766	—
Other comprehensive income	(2,270,622)	(2,000,980)
Surplus reserve	2,968,473	2,775,521
Retained profits	<u>14,824,478</u>	<u>11,680,365</u>
Total equity attributable to holders of ordinary shares of the parent	<u><u>43,296,808</u></u>	<u><u>28,826,868</u></u>
Other equity instruments		
Including: perpetual capital instruments	—	6,252,364
Non-controlling interests	<u>2,825,698</u>	<u>2,875,066</u>
<b>Total shareholders' equity</b>	<u><u>46,122,506</u></u>	<u><u>37,954,298</u></u>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<u><u>150,634,906</u></u>	<u><u>141,202,135</u></u>

**Li Zixue**  
*Legal Representative*

**Li Ying**  
*Chief Financial Officer*

**Xu Jianrui**  
*Head of Finance Division*

**CONSOLIDATED INCOME STATEMENT**  
2020

RMB'000

	2020	2019
<b>Operating revenue</b>	<b>101,450,670</b>	90,736,582
Less: Operating costs	<b>69,379,215</b>	57,008,377
Taxes and surcharges	<b>684,617</b>	930,511
Selling and distribution costs	<b>7,578,837</b>	7,868,722
Administration expenses	<b>4,994,996</b>	4,772,823
Research and development costs	<b>14,797,025</b>	12,547,898
Finance costs	<b>420,537</b>	965,955
Including: Interest expense	<b>1,495,660</b>	1,718,187
Interest income	<b>1,238,753</b>	931,929
Add: Other income	<b>1,572,666</b>	1,695,878
Investment income	<b>906,406</b>	249,445
Including: Share of losses of associates and joint ventures	<b>(420,515)</b>	(675,616)
Losses from disposal of financial assets at amortised cost	<b>(187,525)</b>	(209,387)
Gain/(losses) from changes in fair values	<b>39,023</b>	(213,992)
Credit impairment losses	<b>(433,103)</b>	(1,933,779)
Asset impairment losses	<b>(209,715)</b>	(1,575,702)
Gains from asset disposals	<b>—</b>	2,688,036
<b>Operating profit</b>	<b>5,470,720</b>	7,552,182
Add: Non-operating income	<b>237,759</b>	183,700
Less: Non-operating expenses	<b>644,313</b>	574,212
<b>Total profit</b>	<b>5,064,166</b>	7,161,670
Less: Income tax	<b>342,474</b>	1,385,001
<b>Net profit</b>	<b>4,721,692</b>	5,776,669
<b>Analysed by continuity of operations</b>		
Net profit from continuing operations	<b>4,721,692</b>	5,776,669
<b>Analysed by ownership</b>		
Holders of ordinary shares of the parent	<b>4,259,752</b>	5,147,877
Holders of perpetual capital instruments	<b>16,236</b>	348,600
Non-controlling interests	<b>445,704</b>	280,192

**CONSOLIDATED INCOME STATEMENT (CONTINUED)**

2020

*RMB'000*

	2020	2019
Other comprehensive income, net of tax	<u>(295,330)</u>	<u>49,441</u>
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	<u>(269,642)</u>	<u>46,581</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>350</u>	<u>(7,599)</u>
	<u>350</u>	<u>(7,599)</u>
Other comprehensive income that will be reclassified to profit or loss		
Exchange differences on translation of foreign operations	<u>(269,992)</u>	<u>54,180</u>
	<u>(269,992)</u>	<u>54,180</u>
Other comprehensive income attributable to non-controlling interests, net of tax	<u>(25,688)</u>	<u>2,860</u>
<b>Total comprehensive income</b>	<b><u>4,426,362</u></b>	<b><u>5,826,110</u></b>
Attributable to:		
Holders of ordinary shares of the parent	<u>3,990,110</u>	<u>5,194,458</u>
Holders of perpetual capital instruments	<u>16,236</u>	<u>348,600</u>
Non-controlling interests	<u>420,016</u>	<u>283,052</u>
<b>Earnings per share (RMB/share)</b>		
Basic	<u>RMB0.92</u>	<u>RMB1.22</u>
Diluted	<u>RMB0.92</u>	<u>RMB1.22</u>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

2020

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	Less: treasury stocks	Other comprehensive income	Surplus reserve	Retained profits	Sub-total			Including: Perpetual capital instruments
I. Closing balance of previous year	4,227,530	12,144,432	—	(2,000,980)	2,775,521	11,680,365	28,826,868	6,252,364	2,875,066	37,954,298
II. Changes during the year										
(I) Total comprehensive income	—	—	—	(269,642)	—	4,259,752	3,990,110	16,236	420,016	4,426,362
(II) Shareholder's capital injection and capital reduction										
1. Ordinary share capital injection from shareholders	385,905	11,206,155	—	—	—	—	11,592,060	—	437,145	12,029,205
2. Share-based payment included in shareholders' equity	—	188,797	—	—	—	—	188,797	—	—	188,797
3. Capital reduction by shareholders	—	—	—	—	—	—	—	—	(384,274)	(384,274)
4. Acquisition of non-controlling interests	—	(458,009)	—	—	—	—	(458,009)	—	(288,333)	(746,342)
5. Redemption of perpetual instruments	—	(80,000)	—	—	—	—	(80,000)	(5,920,000)	—	(6,000,000)
6. Others	—	274,435	(114,766)	—	—	—	159,669	—	—	159,669
(III) Profit appropriation										
1. Surplus reserve	—	—	—	—	192,952	(192,952)	—	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(922,687)	(922,687)	(348,600)	(233,922)	(1,505,209)
III. Closing balance of the year	4,613,435	23,275,810	(114,766)	(2,270,622)	2,968,473	14,824,478	43,296,808	—	2,825,698	46,122,506

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

**CONSOLIDATED CASH FLOW STATEMENT**  
2020

*RMB'000*

	2020	2019
<b>I. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	114,716,078	95,558,437
Refunds of taxes	3,985,133	4,408,771
Cash received relating to other operating activities	<u>6,771,002</u>	<u>5,372,061</u>
<b>Sub-total of cash inflows</b>	<u>125,472,213</u>	<u>105,339,269</u>
Cash paid for goods and services	79,466,978	63,769,922
Cash paid to and on behalf of employees	18,795,464	15,605,420
Cash paid for various types of taxes	6,599,758	7,821,369
Cash paid relating to other operating activities	<u>10,377,362</u>	<u>10,696,004</u>
<b>Sub-total of cash outflows</b>	<u>115,239,562</u>	<u>97,892,715</u>
<b>Net cash flows from operating activities</b>	<u>10,232,651</u>	<u>7,446,554</u>
<b>II. Cash flows from investing activities</b>		
Cash received from sale of investments	6,509,874	1,956,504
Cash received from return on investment	273,809	210,091
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	9,398	1,883,702
Net cash received from the disposal of subsidiaries and other operating units	251,702	447,907
Other cash received in relation to investing activities	<u>—</u>	<u>65,000</u>
<b>Sub-total of cash inflows</b>	<u>7,044,783</u>	<u>4,563,204</u>
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	6,471,652	6,550,620
Cash paid for acquisition of investments	7,363,565	1,835,699
Other cash paid in relation to investing activities	34,009	2,200,000
Net cash received from the payment of subsidiaries and other operating units	<u>257,671</u>	<u>—</u>
<b>Sub-total of cash outflows</b>	<u>14,126,897</u>	<u>10,586,319</u>
<b>Net cash flows from investing activities</b>	<u>(7,082,114)</u>	<u>(6,023,115)</u>

**CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)**

2020

*RMB'000*

	2020	2019
<b>III. Cash flows from financing activities</b>		
Cash received from capital injection	14,166,524	590,720
Including: Capital injection into subsidiaries by minority shareholders	2,612,000	4,570
Cash received from borrowings	48,160,989	45,320,925
Other cash received in relation to financing activities	6,540	26,280
<b>Sub-total of cash inflows</b>	<u>62,334,053</u>	<u>45,937,925</u>
Cash repayment of borrowings	49,454,964	36,301,498
Cash payments for perpetual capital instruments	6,000,000	—
Cash payments for distribution of dividends, profits and for interest expenses	2,950,970	2,640,253
Including: Distribution of dividends, profits by subsidiaries to minority shareholders	259,200	480,581
Other cash paid relating to financing activities	4,218,024	1,274,456
<b>Sub-total of cash outflows</b>	<u>62,623,958</u>	<u>40,216,207</u>
<b>Net cash flows from financing activities</b>	<u>(289,905)</u>	<u>5,721,718</u>
<b>IV. Effect of changes in foreign exchange rate on cash and cash equivalents</b>	<u>36,624</u>	<u>226,532</u>
<b>V. Net increase in cash and cash equivalents</b>	2,897,256	7,371,689
Add: cash and cash equivalents at beginning of year	<u>28,505,800</u>	<u>21,134,111</u>
<b>VI. Net balance of cash and cash equivalents at the end of year</b>	<u><u>31,403,056</u></u>	<u><u>28,505,800</u></u>

**BALANCE SHEET**

31 December 2020

*RMB'000*

<b>Assets</b>	<b>31 December 2020</b>	31 December 2019
<b>Current assets</b>		
Cash	23,398,960	13,001,412
Derivative financial assets	35,995	103,889
Trade receivables	19,779,132	24,893,537
Receivable financing	1,864,477	1,980,798
Factored trade receivables	178,443	230,035
Prepayments	11,779	7,559
Other receivables	40,271,860	32,126,268
Inventories	18,444,527	19,692,914
Contract assets	5,180,041	4,460,977
Other current assets	<u>3,490,828</u>	<u>3,516,370</u>
<b>Total current assets</b>	<u><b>112,656,042</b></u>	<u>100,013,759</u>
<b>Non-current assets</b>		
Long-term trade receivables	6,439,012	7,736,877
Factored long-term trade receivables	305,062	200,671
Long-term equity investments	13,475,272	12,270,582
Other non-current financial assets	706,117	725,125
Investment properties	1,600,000	1,562,380
Fixed assets	6,056,830	5,717,601
Construction in progress	365,523	154,636
Right-of-use assets	372,162	534,988
Intangible assets	3,156,323	3,064,383
Development costs	314,854	479,320
Deferred tax assets	2,244,139	1,063,838
Other non-current assets	<u>4,983,901</u>	<u>4,749,554</u>
<b>Total non-current assets</b>	<u><b>40,019,195</b></u>	<u>38,259,955</u>
<b>TOTAL ASSETS</b>	<u><b>152,675,237</b></u>	<u><u>138,273,714</u></u>

**BALANCE SHEET (CONTINUED)**

31 December 2020

RMB'000

	31 December 2020	31 December 2019
<b>Liabilities and shareholders' equity</b>		
<b>Current liabilities</b>		
Short-term loans	7,590,608	11,729,902
Bank advances on factored trade receivables	180,055	230,323
Derivative financial liabilities	140,982	115,811
Bills payable	12,884,302	19,363,815
Trade payables	44,970,734	29,734,983
Contract liabilities	10,202,939	9,347,162
Salary and welfare payables	5,782,275	5,223,312
Taxes payable	131,279	97,735
Other payables	13,871,716	21,362,474
Provisions	1,568,818	1,786,167
Non-current liabilities due within one year	747,843	309,489
<b>Total current liabilities</b>	<b>98,071,551</b>	<b>99,301,173</b>
<b>Non-current liabilities</b>		
Long-term loans	16,931,479	7,550,990
Bank advances on factored long-term trade receivables	310,588	200,858
Lease liabilities	218,235	337,764
Provision for retirement benefits	144,250	144,505
Deferred income	293,675	849,320
Other non-current liabilities	1,798,324	2,393,468
<b>Total non-current liabilities</b>	<b>19,696,551</b>	<b>11,476,905</b>
<b>Total liabilities</b>	<b>117,768,102</b>	<b>110,778,078</b>
<b>Shareholders' equity</b>		
Share capital	4,613,435	4,227,530
Capital reserves	21,583,815	9,996,674
Less: treasury stock	114,766	—
Other comprehensive income	701,136	696,467
Surplus reserve	2,306,717	2,113,765
Retained profits	5,816,798	4,208,836
Shareholders' equity attributable to holders of ordinary shares	<b>34,907,135</b>	<b>21,243,272</b>
Other equity instruments		
Including: perpetual capital instruments	—	6,252,364
<b>Total shareholders' equity</b>	<b>34,907,135</b>	<b>27,495,636</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>152,675,237</b>	<b>138,273,714</b>

**INCOME STATEMENT**

2020

*RMB'000*

	2020	2019
<b>Operating revenue</b>	<b>94,147,280</b>	80,177,614
Less: Operating costs	<b>81,047,285</b>	65,054,578
Taxes and surcharges	<b>194,958</b>	446,433
Selling and distribution costs	<b>4,578,571</b>	4,498,782
Administrative expenses	<b>4,099,577</b>	3,917,938
Research and development costs	<b>3,371,221</b>	3,267,566
Finance costs	<b>885,257</b>	476,385
Including: Interest expense	<b>1,070,039</b>	994,596
Interest income	<b>737,628</b>	482,275
Add: Other income	<b>349,010</b>	236,919
Investment income	<b>2,065,939</b>	7,751,031
Including: Share of losses of associates and joint ventures	<b>(408,440)</b>	(159,135)
Losses from derecognition of financial assets at amortised cost	<b>(65,131)</b>	(95,861)
(Losses) from changes in fair values	<b>(41,334)</b>	(41,547)
Credit impairment losses	<b>65,556</b>	(2,464,932)
Asset impairment losses	<b>139,396</b>	(1,691,201)
Gains from asset disposals	<b>—</b>	2,662,740
<b>Operating profit</b>	<b>2,548,978</b>	8,968,942
Add: Non-operating income	<b>96,955</b>	109,566
Less: Non-operating expenses	<b>543,741</b>	430,876
<b>Total profit</b>	<b>2,102,192</b>	8,647,632
Less: Income tax	<b>(637,645)</b>	523,153
<b>Net profit</b>	<b>2,739,837</b>	8,124,479
Including: net profit from continuing operations	<b>2,739,837</b>	8,124,479
<b>Analysed by ownership</b>		
Attributable to holders of ordinary shares	<b>2,723,601</b>	7,775,879
Attributable to holders of perpetual capital instruments	<b>16,236</b>	348,600

**INCOME STATEMENT (CONTINUED)**

2020

*RMB'000*

	<b>2020</b>	2019
Other comprehensive income, net of tax	<u>4,669</u>	<u>(8,219)</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>350</u>	<u>(7,599)</u>
Other comprehensive income that will be reclassified to profit and loss		
Exchange differences on translation of foreign operations	<u>4,319</u>	<u>(620)</u>
<b>Total comprehensive income</b>	<b><u>2,744,506</u></b>	<b><u>8,116,260</u></b>
Attributable to:		
Holders of ordinary shares	<u>2,728,270</u>	<u>7,767,660</u>
Holders of perpetual capital instruments	<u>16,236</u>	<u>348,600</u>

# STATEMENT OF CHANGES IN EQUITY

## 2020

RMB'000

	Share capital	Capital reserves	Less: treasury stocks	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Other equity instruments — Perpetual capital instruments	Total shareholders' equity
I. Closing balance of previous year	4,227,530	9,996,674	—	696,467	2,113,765	4,208,836	21,243,272	6,252,364	27,495,636
II. Changes during the year									
(I) Total comprehensive income	—	—	—	4,669	—	2,723,601	2,728,270	16,236	2,744,506
(II) Shareholder's capital injection and capital reduction									
1. Shareholder's capital injection	385,905	11,203,909	—	—	—	—	11,589,814	—	11,589,814
2. Share-based payment included in shareholders' equity	—	188,797	—	—	—	—	188,797	—	188,797
3. Redemption of perpetual instruments	—	(80,000)	—	—	—	—	(80,000)	(5,920,000)	(6,000,000)
4. Others	—	274,435	(114,766)	—	—	—	159,669	—	159,669
(III) Profit appropriation									
1. Surplus reserve	—	—	—	—	192,952	(192,952)	—	—	—
2. Distribution to shareholders	—	—	—	—	—	(922,687)	(922,687)	(348,600)	(1,271,287)
III. Closing balance of the year	4,613,435	21,583,815	(114,766)	701,136	2,306,717	5,816,798	34,907,135	—	34,907,135

2019

RMB'000

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

## CASH FLOW STATEMENT

2020

RMB'000

	2020	2019
<b>I. Cash flows from operating activities</b>		
Cash received from sale of goods or rendering of services	106,663,870	87,512,224
Refunds of taxes	2,360,236	3,059,581
Cash received relating to other operating activities	1,591,760	1,678,287
<b>Sub-total of cash inflows</b>	<b>110,615,866</b>	<b>92,250,092</b>
Cash paid for goods and services	94,158,730	80,621,791
Cash paid to and on behalf of employees	5,930,104	4,587,041
Cash paid for various types of taxes	1,410,785	2,690,912
Cash paid relating to other operating activities	5,852,676	6,890,651
<b>Sub-total of cash outflows</b>	<b>107,352,295</b>	<b>94,790,395</b>
<b>Net cash flows from operating activities</b>	<b>3,263,571</b>	<b>(2,540,303)</b>
<b>II. Cash flows from investing activities</b>		
Cash received from sale of investments	3,028,230	750,421
Cash received from return on investments	4,332,809	4,152,616
Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	6,749	1,869,598
Net cash received from the disposal of subsidiaries	—	—
Other cash paid in relation to investing activities	6,385,000	65,000
<b>Sub-total of cash inflows</b>	<b>13,752,788</b>	<b>6,837,635</b>
Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	2,574,830	3,903,286
Cash paid for acquisition of investments	5,583,800	1,390,605
Other cash paid in relation to investing activities	7,590,000	2,200,000
<b>Sub-total of cash outflows</b>	<b>15,748,630</b>	<b>7,493,891</b>
<b>Net cash flows from investing activities</b>	<b>(1,995,842)</b>	<b>(656,256)</b>

**CASH FLOW STATEMENT (CONTINUED)**

2020

*RMB'000*

	2020	2019
<b>III. Cash flows from financing activities</b>		
Cash received from capital injection	11,554,524	586,150
Cash received from borrowings	<u>37,216,367</u>	<u>25,305,218</u>
<b>Sub-total of cash inflows from financing activities</b>	<u>48,770,891</u>	<u>25,891,368</u>
Cash repayment of borrowings	31,024,267	21,438,566
Cash payment for perpetual capital instruments	6,000,000	—
Cash payments for distribution of dividends and profits or for interest expenses	2,354,201	1,329,965
Other cash paid in relation to financing activities	<u>305,692</u>	<u>243,716</u>
<b>Sub-total of cash outflows</b>	<u>39,684,160</u>	<u>23,012,247</u>
<b>Net cash flows from financing activities</b>	<u>9,086,731</u>	<u>2,879,121</u>
<b>IV. Effect of changes in foreign exchange rate on cash and cash equivalents</b>	<u>(289,710)</u>	<u>202,184</u>
<b>V. Net increase/(decrease) in cash and cash equivalents</b>	10,064,750	(115,254)
Add: cash and cash equivalents at the beginning of the year	<u>10,032,692</u>	<u>10,147,946</u>
<b>VI. Net balance of cash and cash equivalents at the end of the year</b>	<u><u>20,097,442</u></u>	<u><u>10,032,692</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 2020

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>REVENUE</b>	<b>101,450,670</b>	90,736,582
Cost of sales	<u>(69,888,868)</u>	<u>(58,877,974)</u>
Gross profit	<b>31,561,802</b>	31,858,608
Other income and gains	<b>4,836,272</b>	6,816,147
Research and development costs	<b>(14,797,025)</b>	(12,547,898)
Selling and distribution expenses	<b>(7,578,837)</b>	(7,868,722)
Administrative expenses	<b>(5,463,478)</b>	(5,289,089)
Impairment losses on financial and contract assets, net	<b>(503,403)</b>	(2,228,411)
Loss on disposal of financial assets measured at amortised cost	<b>(187,525)</b>	(209,387)
Other expenses	<b>(887,465)</b>	(975,775)
Finance costs	<b>(1,495,660)</b>	(1,718,187)
Share of profits and losses of:		
Joint ventures	<b>(9,493)</b>	(17,001)
Associates	<u><b>(411,022)</b></u>	<u>(658,615)</u>
<b>PROFIT BEFORE TAX</b>	<b>5,064,166</b>	7,161,670
Income tax expense	<u><b>(342,474)</b></u>	<u>(1,385,001)</u>
<b>PROFIT FOR THE YEAR</b>	<u><b>4,721,692</b></u>	<u>5,776,669</u>
<b>Attributable to:</b>		
Ordinary equity holders of the parent	<b>4,259,752</b>	5,147,877
Perpetual capital instruments	<b>16,236</b>	348,600
Non-controlling interests	<u><b>445,704</b></u>	<u>280,192</u>
	<u><b>4,721,692</b></u>	<u>5,776,669</u>

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

(Prepared under Hong Kong Financial Reporting Standards)  
Year ended 31 December 2020

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>OTHER COMPREHENSIVE INCOME</b>		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Exchange differences on translation of foreign operations	<u>(295,680)</u>	<u>57,040</u>
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	<u>(295,680)</u>	<u>57,040</u>
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Actuarial income/(loss) on defined benefit plans	<u>350</u>	<u>(7,599)</u>
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	<u>350</u>	<u>(7,599)</u>
<b>OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX</b>	<u>(295,330)</u>	<u>49,441</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<u><u>4,426,362</u></u>	<u><u>5,826,110</u></u>
<b>Attributable to:</b>		
Ordinary equity holders of the parent	<b>3,990,110</b>	5,194,458
Perpetual capital instruments	<b>16,236</b>	348,600
Non-controlling interests	<u><b>420,016</b></u>	<u>283,052</u>
	<u><u>4,426,362</u></u>	<u><u>5,826,110</u></u>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>		
Basic	<u><u>RMB0.92</u></u>	<u><u>RMB1.22</u></u>
Diluted	<u><u>RMB0.92</u></u>	<u><u>RMB1.22</u></u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2020

	31 December 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
<b>NON-CURRENT ASSETS</b>		
Property, plant and equipment	12,953,842	10,555,204
Investment properties	2,035,234	1,957,242
Right-of-use assets	3,729,034	3,468,949
Goodwill	186,206	186,206
Other intangible assets	8,758,315	7,190,061
Investments in joint ventures	205,022	114,515
Investments in associates	1,508,781	2,212,773
Financial assets at fair value through profit or loss	1,536,741	1,594,254
Long-term trade receivables	2,679,578	2,819,606
Factored long-term trade receivables	347,920	200,671
Deferred tax assets	3,437,101	2,511,372
Pledged deposits	2,953,557	2,928,810
Long-term prepayments, deposits and other receivables	3,326,300	2,895,298
<b>Total non-current assets</b>	<b><u>43,657,631</u></b>	<b><u>38,634,961</u></b>
<b>CURRENT ASSETS</b>		
Inventories	33,689,306	27,688,508
Contract assets	8,926,411	9,537,850
Trade receivables	15,891,020	19,778,280
Debt investments at fair value through other comprehensive income	1,970,624	2,430,389
Factored trade receivables	199,872	308,710
Prepayments, other receivables and other assets	9,567,186	8,847,363
Financial assets at fair value through profit or loss	1,036,906	560,662
Derivative financial instruments	36,118	106,065
Pledged deposits	1,683,733	3,343,511
Time deposits with original maturity of over three months	2,573,043	1,460,036
Cash and cash equivalents	31,403,056	28,505,800
<b>Total current assets</b>	<b><u>106,977,275</u></b>	<b><u>102,567,174</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2020

	31 December 2020 <i>RMB'000</i>	31 December 2019 <i>RMB'000</i>
<b>CURRENT LIABILITIES</b>		
Trade and bills payables	28,515,789	27,728,550
Contract liabilities	14,998,172	14,517,057
Other payables and accruals	15,326,799	14,059,625
Derivative financial instruments	153,961	126,223
Interest-bearing bank borrowings	12,210,703	26,738,019
Lease liabilities	453,134	520,208
Bank advances on factored trade receivables	201,484	310,024
Tax payables	445,022	399,124
Dividend payables	4,677	5,222
Provision	2,085,234	1,966,464
<b>Total current liabilities</b>	<u>74,394,975</u>	<u>86,370,516</u>
<b>NET CURRENT ASSETS</b>	<u>32,582,300</u>	<u>16,196,658</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>	<u>76,239,931</u>	<u>54,831,619</u>
<b>NON-CURRENT LIABILITIES</b>		
Interest-bearing bank borrowings	22,614,304	10,045,093
Bank advances on factored long-term trade receivables	353,446	200,858
Deferred tax liabilities	134,317	172,060
Provision for retirement benefits	144,250	144,505
Lease liabilities	718,186	645,294
Other non-current liabilities	6,152,922	5,669,511
<b>Total non-current liabilities</b>	<u>30,117,425</u>	<u>16,877,321</u>
<b>Net assets</b>	<u>46,122,506</u>	<u>37,954,298</u>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

(Prepared under Hong Kong Financial Reporting Standards)

31 December 2020

	<b>31 December 2020 RMB'000</b>	31 December 2019 RMB'000
<b>EQUITY</b>		
<b>Equity attributable to ordinary equity holders of the parent</b>		
Issued capital	4,613,435	4,227,530
Treasury shares	(114,766)	—
Reserves	<u>38,798,139</u>	<u>24,599,338</u>
	<b>43,296,808</b>	28,826,868
<b>Perpetual capital instruments</b>	—	6,252,364
<b>Non-controlling interests</b>	<u>2,825,698</u>	<u>2,875,066</u>
<b>Total equity</b>	<u><u>46,122,506</u></u>	<u><u>37,954,298</u></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 2020. 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. 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 *Conceptual Framework for Financial Reporting 2018* and the following revised HKFRSs for the first time for the current year's financial statements.

Amendments to HKFRS 3	<i>Definition of a Business</i>
Amendments to HKFRS 9, HKAS 39 and HKFRS 7	<i>Interest Rate Benchmark Reform</i>
Amendment to HKFRS 16	<i>Covid-19-Related Rent Concessions</i> (early adopted)
Amendments to HKAS 1 and HKAS 8	<i>Definition of Material</i>

The nature and the impact of the *Conceptual Framework for Financial Reporting 2018* and the revised HKFRSs are described below:

- (a) *Conceptual Framework for Financial Reporting 2018* (the “Conceptual Framework”) sets out a comprehensive set of concepts for financial reporting and standard setting, and provides guidance for preparers of financial statements in developing consistent accounting policies and assistance to all parties to understand and interpret the standards. The Conceptual Framework includes new chapters on measurement and reporting financial performance, new guidance on the derecognition of assets and liabilities, and updated definitions and recognition criteria for assets and liabilities. It also clarifies the roles of stewardship, prudence and measurement uncertainty in financial reporting. The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The Conceptual Framework did not have any significant impact on the financial position and performance of the Group.
- (b) 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 has applied the amendments prospectively to transactions or other events that occurred on or after 1 January 2020. The amendments did not have any impact on the financial position and performance of the Group.

- (c) Amendments to HKFRS 9, HKAS 39 and HKFRS 7 address issues affecting financial reporting in the period before the replacement of an existing interest rate benchmark with an alternative risk-free rate (“RFR”). The amendments provide temporary reliefs which enable hedge accounting to continue during the period of uncertainty before the introduction of the alternative RFR. 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 did not have any impact on the financial position and performance of the Group as the Group does not have any interest rate hedging relationships.
- (d) Amendment to HKFRS 16 provides a practical expedient for lessees to elect not to apply lease modification accounting for rent concessions arising as a direct consequence of the covid-19 pandemic. The practical expedient applies only to rent concessions occurring as a direct consequence of the pandemic and only if (i) the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change; (ii) any reduction in lease payments affects only payments originally due on or before 30 June 2021; and (iii) there is no substantive change to other terms and conditions of the lease. The amendment is effective for annual periods beginning on or after 1 June 2020 with earlier application permitted and shall be applied retrospectively.
- (e) 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, or both. The amendments did not have any significant impact on the financial position and 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>Reference to the Conceptual Framework</i> <sup>2</sup>
Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16	<i>Interest Rate Benchmark Reform — Phase 2</i> <sup>1</sup>
Amendments to HKFRS 10 and HKAS 28 (2011)	<i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> <sup>4</sup>
HKFRS 17	<i>Insurance Contracts</i> <sup>3</sup>
Amendments to HKFRS 17	<i>Insurance Contracts</i> <sup>3, 6</sup>
Amendments to HKAS 1	<i>Classification of Liabilities as Current or Non-current</i> <sup>3, 5</sup>
Amendments to HKAS 16	<i>Property, Plant and Equipment: Proceeds before Intended Use</i> <sup>2</sup>
Amendments to HKAS 37	<i>Onerous Contracts — Cost of Fulfilling a Contract</i> <sup>2</sup>
<i>Annual Improvements to HKFRSs 2018–2020</i>	Amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41 <sup>2</sup>

1 Effective for annual periods beginning on or after 1 January 2021

2 Effective for annual periods beginning on or after 1 January 2022

3 Effective for annual periods beginning on or after 1 January 2023

4 No mandatory effective date yet determined but available for adoption

5 As a consequence of the amendments to HKAS 1, Hong Kong Interpretation 5 *Presentation of Financial Statements — Classification by the Borrower of a Term Loan that Contains a Repayment on Demand Clause* was revised in October 2020 to align the corresponding wording with no change in conclusion

6 As a consequence of the amendments to HKFRS 17 issued in October 2020, HKFRS 4 was amended to extend the temporary exemption that permits insurers to apply HKAS 39 rather than HKFRS 9 for annual periods beginning before 1 January 2023

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

Amendments to HKFRS 3 are intended to replace a reference to the previous Framework for the *Preparation and Presentation of Financial Statements* with a reference to the *Conceptual Framework for Financial Reporting* issued in June 2018 without significantly changing its requirements. The amendments also add to HKFRS 3 an exception to its recognition principle for an entity to refer to the Conceptual Framework to determine what constitutes an asset or a liability. The exception specifies that, for liabilities and contingent liabilities that would be within the scope of HKAS 37 or HK(IFRIC)-Int 21 if they were incurred separately rather than assumed in a business combination, an entity applying HKFRS 3 should refer to HKAS 37 or HK(IFRIC)-Int 21 respectively instead of the Conceptual Framework. Furthermore, the amendments clarify that contingent assets do not qualify for recognition at the acquisition date. The Group expects to adopt the amendments prospectively from 1 January 2022. Since the amendments apply prospectively to business combinations for which the acquisition date is 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, HKFRS 7, HKFRS 4 and HKFRS 16 address issues not dealt with in the previous amendments which affect financial reporting when an existing interest rate benchmark is replaced with an alternative RFR. The Phase 2 amendments provide a practical expedient to allow the effective interest rate to be updated without adjusting the carrying amount when accounting for changes in the basis for determining the contractual cash flows of financial assets and liabilities, if the change is a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the previous basis immediately preceding the change. In addition, the amendments permit changes required by the interest rate benchmark reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued. Any gains or losses that could arise on transition are dealt with through the normal requirements of HKFRS 9 to measure and recognise hedge ineffectiveness. The amendments also provide a temporary relief to entities from having to meet the separately identifiable requirement when an RFR is designated as a risk component. The relief allows an entity, upon designation of the hedge, to assume that the separately identifiable requirement is met, provided the entity reasonably expects the RFR risk component to become separately identifiable within the next 24 months. Furthermore, the amendments require an entity to disclose additional information to enable users of financial statements to understand the effect of interest rate benchmark reform on an entity's financial instruments and risk management strategy. The amendments are effective for annual periods beginning on or after 1 January 2021 and shall be applied retrospectively, but entities are not required to restate the comparative information.

The Group had certain interest-bearing bank and other borrowings denominated in Hong Kong dollars and foreign currencies based on the Hong Kong Interbank Offered Rate and the London Interbank Offered Rate (“LIBOR”) as at 31 December 2020. If the interest rates of these borrowings are replaced by RFRs in a future period, the Group will apply this practical expedient upon the modification of these borrowings when the “economically equivalent” criterion is met and expects that no significant modification gain or loss will arise as a result of applying the amendments to these changes.

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 clarify the requirements for classifying liabilities as current or non-current. The amendments specify that if an entity’s right to defer settlement of a liability is subject to the entity complying with specified conditions, the entity has a right to defer settlement of the liability at the end of the reporting period if it complies with those conditions at that date. Classification of a liability is unaffected by the likelihood that the entity will exercise its right to defer settlement of the liability. The amendments also clarify the situations that are considered a settlement of a liability. The amendments are effective for annual periods beginning on or after 1 January 2023 and shall be applied retrospectively. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group’s financial statements.

Amendments to HKAS 16 prohibit an entity from deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling any such items, and the cost of those items, in profit or loss. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied retrospectively only to items of property, plant and equipment made available for use on or after the beginning of the earliest

period presented in the financial statements in which the entity first applies the amendments. Earlier application is permitted. The amendments are not expected to have any significant impact on the Group's financial statements.

Amendments to HKAS 37 clarify that for the purpose of assessing whether a contract is onerous under HKAS 37, the cost of fulfilling the contract comprises the costs that relate directly to the contract. Costs that relate directly to a contract include both the incremental costs of fulfilling that contract (e.g., direct labour and materials) and an allocation of other costs that relate directly to fulfilling that contract (e.g., an allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract as well as contract management and supervision costs). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual periods beginning on or after 1 January 2022 and shall be applied to contracts for which an entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments. Earlier application is permitted. Any cumulative effect of initially applying the amendments shall be recognised as an adjustment to the opening equity at the date of initial application without restating the comparative information. The amendments are not expected to have any significant impact on the Group's financial statements.

*Annual Improvements to HKFRSs 2018–2020* sets out amendments to HKFRS 1, HKFRS 9, Illustrative Examples accompanying HKFRS 16, and HKAS 41. Details of the amendments that are expected to be applicable to the Group are as follows:

- *HKFRS 9 Financial Instruments*: clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual periods beginning on or after 1 January 2022. Earlier application is permitted. The amendment is not expected to have a significant impact on the Group's financial statements.
- *HKFRS 16 Leases*: removes the illustration of payments from the lessor relating to leasehold improvements in Illustrative Example 13 accompanying HKFRS 16. This removes potential confusion regarding the treatment of lease incentives when applying HKFRS 16.

#### 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has three reportable operating segments as follows:

- (a) The Carriers' Networks segment focuses on meeting the demands for carriers by providing wireless networks, wireline networks, core networks, telecommunications software systems and services and other innovative technologies and product solutions.
- (b) The Consumer Business segment focuses on bringing experience in smart devices to customers while also catering for the demands of industry and corporate clients through the development, production and sale of products such as smart phones, mobile broadband, family terminals, innovative fusion terminals, wearable devices, as well as the provision of related software application and value-added services.
- (c) The Government and Corporate Business segment focuses on meeting the demands of government and corporate clients, providing top-level design and consultation services as well as implementation, operation and maintenance of integrated information solutions for the government and corporate information projects through the application of Cloud Computing, communications networks, Internet of Things, Big Data technologies and other related products.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted profit before tax. The adjusted profit before tax is measured consistently with the Group's profit before tax except that interest income, non-lease-related finance costs, research and development costs, impairment losses, dividend income, share of profits and losses of associates and joint ventures, fair value gains/(losses) from the Group's financial instruments as well as head office and corporate expenses are excluded from the measurement.

Segment assets exclude derivative financial instruments, deferred tax assets, pledged deposits, cash and cash equivalents, investments in joint ventures and associates, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

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 2020	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>
<b>Segment revenue</b>				
Sales to external customers	74,018,198	16,160,267	11,134,141	101,312,606
Rental income	—	—	138,064	138,064
	<u>74,018,198</u>	<u>16,160,267</u>	<u>11,272,205</u>	<u>101,450,670</u>
<b>Segment results</b>	18,983,391	2,494,201	2,330,409	23,808,001
Bank and other interest income				1,238,753
Dividend income and unallocated gains				3,597,519
Corporate and other unallocated expenses				(21,663,932)
Finance costs				(1,495,660)
Share of profits or losses of associates and joint ventures				(420,515)
Profit before tax				<u>5,064,166</u>
<b>Segment assets</b>	47,217,457	9,296,544	7,190,730	63,704,731
Investments in joint ventures				205,022
Investments in associates				1,508,781
Corporate and other unallocated assets				<u>85,216,372</u>
Total assets				<u>150,634,906</u>
<b>Segment liabilities</b>	11,852,008	1,896,156	1,804,938	15,553,102
Corporate and other unallocated liabilities				<u>88,959,298</u>
Total liabilities				<u>104,512,400</u>
<b>Other segment information:</b>				
Impairment losses recognised in profit or loss, net	(468,999)	(102,396)	(71,423)	(642,818)
Depreciation and amortisation	2,897,450	632,595	441,252	3,971,297
Capital expenditure*	6,180,656	1,349,412	941,250	8,471,318

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

<b>Year ended 31 December 2019</b>	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>
<b>Segment revenue</b>				
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>
<b>Segment results</b>	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				<u>(675,616)</u>
Profit before tax				<u>7,161,670</u>
<b>Segment assets</b>	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				<u>76,110,833</u>
Total assets				<u>141,202,135</u>
<b>Segment liabilities</b>	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>
<b>Other segment information:</b>				
Impairment losses recognised in profit or loss, net	(2,575,330)	(580,065)	(354,086)	(3,509,481)
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

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

## Geographical information

### (a) Revenue from external customers

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
The PRC (place of domicile)	68,051,181	58,217,032
Asia (excluding the PRC)	14,729,300	13,180,258
Africa	4,822,622	5,316,090
Europe, Americas and Oceania	<u>13,847,567</u>	<u>14,023,202</u>
	<u><b>101,450,670</b></u>	<u><b>90,736,582</b></u>

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

### (b) Non-current assets

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
The PRC (place of domicile)	23,868,451	19,844,745
Asia (excluding the PRC)	1,903,610	1,651,432
Africa	543,826	562,167
Europe, Americas and Oceania	<u>113,328</u>	<u>49,331</u>
	<u><b>26,429,215</b></u>	<u><b>22,107,675</b></u>

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

## Information about major customers

Revenue from the Carriers' Networks and Consumer Business segments from one single customer accounted for more than 10% of the Group's consolidated revenue for 2020 in the amount of RMB31,153,932,000 (2019: one single customer accounted for more than 10% of the Group's consolidated revenue for 2019 in the amount of RMB26,285,650,000).

## 5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
Revenue from contracts with customers	<b>101,312,606</b>	90,607,883
Rental income	<b>138,064</b>	128,699
	<b><u>101,450,670</u></b>	<u>90,736,582</u>

### Revenue from contracts with customers

#### (i) *Disaggregated revenue information*

	<b>2020</b> <i>RMB'000</i>	2019 <i>RMB'000</i>
<b>Types of goods or services</b>		
Sale of goods	<b>26,183,343</b>	25,567,576
Sale of services	<b>11,158,807</b>	12,118,956
Telecommunications system construction contracts	<b>63,970,456</b>	52,921,351
	<b><u>101,312,606</u></b>	<u>90,607,883</u>
<b>Geographical markets</b>		
The PRC (place of domicile)	<b>67,913,117</b>	58,088,333
Asia (excluding the PRC)	<b>14,729,300</b>	13,180,258
Africa	<b>4,822,622</b>	5,316,090
Europe, Americas and Oceania	<b>13,847,567</b>	14,023,202
	<b><u>101,312,606</u></b>	<u>90,607,883</u>
<b>Timing of revenue recognition</b>		
Transferred at a point in time	<b>90,153,799</b>	77,193,824
Transferred over time	<b>11,158,807</b>	13,414,059
	<b><u>101,312,606</u></b>	<u>90,607,883</u>

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

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Revenue recognised that was included in contract liabilities at the beginning of the reporting period:	<b><u>13,664,562</u></b>	<u>10,463,823</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 customers.

*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.

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Other income</b>		
Bank interest income	<b>1,012,366</b>	685,584
Interest income arising from revenue contracts	<b>193,825</b>	219,398
Finance income on the net investment in a lease	<b>32,562</b>	26,947
VAT refunds and Individual Income Tax handling refunds <sup>#</sup>	<b>958,747</b>	1,257,975
Dividend income from equity investments at fair value through profit or loss	<b>24,146</b>	50,018
Others <sup>##</sup>	<b>851,678</b>	621,604
	<b><u>3,073,324</u></b>	<u>2,861,526</u>
<b>Gains</b>		
Gain on disposal of financial assets at fair value through profit or loss	<b>634,696</b>	921,281
Gain on disposal of derivative financial instruments	—	36,425
Gain on disposal of subsidiaries	<b>955,174</b>	126,724
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	<b>153,859</b>	157,961
Wealth management products	—	215
Fair value gains on investment properties	<b>1,758</b>	7,243
Foreign exchange gain	<b>17,461</b>	16,736
	<b><u>1,762,948</u></b>	<u>3,954,621</u>
	<b><u><u>4,836,272</u></u></b>	<u><u>6,816,147</u></u>

<sup>#</sup> Refunds of VAT on software products represent the refund upon payment of VAT with respect to the portion of any effective VAT rate in excess of 3% in respect of software product sales of the Group pursuant to the principles of the State Council document entitled “Certain Policies to Encourage the Development of Software Enterprises and the IC Industry” and the approval of the state taxation authorities.

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

## 6. PROFIT BEFORE TAX

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

	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
Cost of goods and services	<b>66,428,034</b>	53,594,953
Depreciation of property, plant and equipment	<b>1,464,921</b>	1,267,417
Depreciation of right-of-use assets charged to profit or loss	<b>443,808</b>	584,393
Amortisation of intangible assets other than deferred development costs	<b>467,526</b>	397,652
Research and development costs:		
Deferred development costs amortised	<b>1,595,042</b>	1,337,372
Current year expenditure	<b>15,444,333</b>	13,483,105
Less: Deferred capitalised development costs	<b>(2,242,350)</b>	<b>(2,272,579)</b>
	<b>14,797,025</b>	12,547,898
Fair value losses/(gains), net:*		
Derivative instruments*	<b>100,230</b>	162,150
Investment properties	<b>(1,758)</b>	(7,243)
Equity investments at fair value through profit or loss*	<b>(137,625)</b>	59,300
Wealth management products	<b>130</b>	(215)
Impairment of financial and contract assets, net:		
Impairment of trade receivables	<b>307,291</b>	1,817,629
Impairment of contract assets, net	<b>70,300</b>	294,632
Impairment of other receivables	<b>120,353</b>	121,143
Impairment of debt investments at fair value through other comprehensive income	<b>(497)</b>	(519)
Impairment of factored trade receivables	<b>617</b>	(2,565)
Impairment of factored long-term trade receivables	<b>5,339</b>	(1,909)
Dividend income from equity investments at fair value through profit or loss	<b>(24,146)</b>	(50,018)

	<b>2020</b>	2019
	<b>RMB'000</b>	<b>RMB'000</b>
Provision for onerous contracts**	<b>1,185,309</b>	1,730,893
Provision for warranties**	<b>127,260</b>	148,207
Provision for legal obligation*	<b>60,538</b>	16,586
Write-down of inventories to net realisable value**	<b>112,427</b>	1,260,865
Impairment of items of property, plant and equipment*	<b>7,048</b>	—
Impairment of intangible assets*	<b>12,205</b>	—
Impairment of investments in associates*	<b>7,735</b>	14,071
Impairment of investments in joint ventures*	—	6,134
Lease payments not included in the measurement of lease liabilities	<b>234,305</b>	330,496
Contingent rental income in respect of operating leases	<b>(1,367)</b>	(2,736)
Auditor's remuneration	<b>12,138</b>	11,202
Staff costs (including directors', chief executives' and supervisors' remuneration in note 9):		
Wages, salaries, bonuses, allowances and welfare	<b>17,462,215</b>	15,548,264
Equity-settled share option expense	<b>235,705</b>	191,790
Retirement benefit scheme contributions:		
Defined benefit pension scheme	<b>4,601</b>	4,338
Defined contribution pension schemes	<b>789,947</b>	1,203,191
	<b>18,492,468</b>	16,947,583
Foreign exchange gain	<b>(17,461)</b>	(16,736)
Gain on disposal of items of property, plant and equipment	—	(25,296)
Gain on derecognition of a right-of-use asset	—	(2,662,740)
Gain on disposal of subsidiaries	<b>(955,174)</b>	(126,724)
Loss/(gain) on disposal of derivative financial instruments*	<b>99,570</b>	(36,425)
Gain on disposal of financial assets at fair value through profit or loss	<b>(634,696)</b>	(921,281)
Loss on disposal of financial assets measured at amortised cost*	<b>187,525</b>	209,387

\* The fair value losses, the provision for legal obligations, the impairment of items of property, plant and equipment, the impairment of intangible assets, the impairment of goodwill, the impairment of investments in associates, the impairment of investments in joint ventures, the loss on disposal of derivative financial instruments and the loss on disposal of financial assets measured at amortised cost are included in “Other expenses” on the face of the consolidated statement of profit or loss and other comprehensive income.

\*\* The provision for onerous contracts, the provision for warranties and the 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

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Loss on disposal of financial assets measured at amortised cost	<b><u>187,525</u></b>	<u>209,387</u>

## 8. FINANCE COSTS

An analysis of finance costs is as follows:

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Interest on bank loans and other loans	<b>1,172,229</b>	1,280,980
Interest on other non-current liabilities	<b>26,169</b>	25,920
Interest on lease liabilities	<b><u>72,545</u></b>	<u>81,261</u>
Total interest expense on financial liabilities not at fair value through profit or loss	<b><u>1,270,943</u></b>	<u>1,388,161</u>
Other finance costs:		
Finance costs on bills discounted	<b><u>224,717</u></b>	<u>330,026</u>
	<b><u>1,495,660</u></b>	<u>1,718,187</u>

## 9. INCOME TAX

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Current — Hong Kong	<b>5,678</b>	8,833
Current — Mainland China		
Charge for the year	<b>823,594</b>	601,036
Underprovision in prior years	<b>9,314</b>	13,096
Current — Overseas		
Charge for the year	<b>319,141</b>	454,180
Underprovision in prior years	<b>20,072</b>	14,419
Deferred	<b>(835,325)</b>	293,437
Total tax charge for the year	<b><u>342,474</u></b>	<u>1,385,001</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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 at a rate of 15% for the years 2020 to 2022 as a national-grade hi-tech enterprise established in Shenzhen.

## 10. DIVIDEND

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Proposed final — RMB0.2 (2019: RMB0.2) per ordinary share	<b><u>922,687</u></b>	<u>922,687</u>

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

## 11. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The basic earnings per share amount is computed by dividing the profit for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares of 4,612,335,000 (2019: 4,205,702,000) in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise of all dilutive potential ordinary shares into ordinary shares.

The calculations of basic and diluted earnings per share are as follows:

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
<b>Earnings</b>		
Profit for the year attributable to ordinary equity holders of the parent	<u><b>4,259,752</b></u>	<u>5,147,877</u>
	<b>Number of shares</b>	
	<b>2020</b>	2019
	<b>'000</b>	<b>'000</b>
<b>Shares</b>		
Weighted average number of ordinary shares in issue during the year as used in the basic earnings per share calculation	<b>4,612,335</b>	4,205,702
Effect of dilution average number of ordinary shares:		
Share options	<u><b>21,153</b></u>	<u>18,349</u>
Adjusted weighted average number of ordinary shares in issue	<u><b>4,633,488</b></u>	<u>4,224,051</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 2020, 4,806,000 new ordinary shares had been issued to the scheme participants as a result of such exercise. The weighted average number of such shares is 2,804,000 after taking into account the duration of time for which such shares had been issued and outstanding.

## 12. TRADE AND BILLS RECEIVABLES/LONG-TERM TRADE RECEIVABLES

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Trade receivables	<b>28,316,939</b>	35,766,089
Impairment	<u><b>(9,746,341)</b></u>	<u>(13,168,203)</u>
	<b>18,570,598</b>	22,597,886
Current portion	<u><b>(15,891,020)</b></u>	<u>(19,778,280)</u>
Long-term portion	<u><b>2,679,578</b></u>	<u>2,819,606</u>

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

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

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Within 6 months	<b>16,139,416</b>	18,838,561
6 to 12 months	<b>1,106,378</b>	2,331,934
1 to 2 years	<b>1,192,777</b>	1,061,611
2 to 3 years	<b>132,027</b>	365,780
	<b>18,570,598</b>	22,597,886
Current portion of trade receivables	<b>(15,891,020)</b>	(19,778,280)
Long-term portion	<b>2,679,578</b>	2,819,606

The movements in the loss provision for impairment of trade receivables are as follows:

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
At beginning of year	<b>13,168,203</b>	12,412,280
Impairment losses, net	<b>307,291</b>	1,817,629
Amount written off as uncollectible	<b>(3,366,645)</b>	(1,359,859)
Fluctuation in exchange	<b>(362,508)</b>	298,153
At end of year	<b>9,746,341</b>	13,168,203

#### **Impairment under HKFRS 9 for the year ended 31 December 2020**

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, customer type and rating). 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 2020**

	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	7%	21%	41%	90%	100%	34%
Gross carrying amount	17,435,771	1,398,525	2,030,116	1,372,649	6,079,878	28,316,939
Expected credit losses	1,296,354	292,148	837,339	1,240,622	6,079,878	9,746,341

**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

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

	2020 <i>RMB'000</i>	2019 <i>RMB'000</i>
The controlling shareholder	—	33
Joint ventures	9,513	17,772
Entities controlled by the controlling shareholder	241	241
Associates	153,678	339,274
Other related companies	9,433	10,256
	<u>172,865</u>	<u>367,576</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 RMB15,860,000 to secure the bank borrowings (2019: RMB67,852,000).

### 13. TRADE AND BILLS PAYABLES

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date, is as follows:

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
Within 6 months	<b>27,768,161</b>	26,928,446
6 to 12 months	<b>371,996</b>	398,107
1 to 2 years	<b>181,788</b>	194,548
2 to 3 years	<b>155,278</b>	166,176
Over 3 years	<b>38,566</b>	41,273
	<b><u>28,515,789</u></b>	<u>27,728,550</u>

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

	<b>2020</b>	2019
	<b><i>RMB'000</i></b>	<i>RMB'000</i>
The controlling shareholder	—	6,494
Joint ventures	<b>217</b>	30
Entities controlled by the controlling shareholder	<b>147,788</b>	83,206
Associates	<b>909,655</b>	352,743
Other related companies	<b>49,606</b>	3,634
	<b><u>1,107,266</u></b>	<u>446,107</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

- (1) Pursuant to the Equity Transfer Agreement entered into between the Company and Beijing E-Town Semiconductor Industry Investment Centre (Limited Partnership) (北京屹唐半導體產業投資中心(有限合夥)) (“E-Town Semiconductor”) on 11 January 2021, the Company shall transfer its 90% equity interests in Caltta Technologies Co., Ltd. (北京中興高達通信技術有限公司) (“Caltta”) to E-Town Semiconductor for a consideration of RMB1,035,000,000 (“the Transaction”). Following the completion of the Transaction, the Company will cease to hold any equity interest in Caltta. The gain on disposal of Caltta (before taxation) amounts to approximately RMB774,000,000, and the exact amount shall be subject to the audited financial statements of the Company prepared thereafter.
- (2) On 16 March 2021, the Board recommended the 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 2020 but before its implementation, the total amount of distribution shall be readjusted according to law, based on the total share capital (including A shares and H shares) as at the record date for profit and dividend distribution for 2020 and the existing profit distribution proportion. The aforesaid matter is subject to consideration and approval at the general meeting.