中兴通讯股份有限公司
ZTE CORPORATION

stock code : 000063.SZ 763.HK

2023
INTERIM REPORT

Important

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

2. This report has been considered and approved at the Twelfth Meeting of the Ninth Session of the Board of Directors of the Company held on 18 August 2023. Director Ms. Fang Rong was unable to attend the meeting due to work reasons and has authorized Director Mr. Zhu Weimin to vote on her behalf.

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

4. The interim financial reports of the Group for 2023 were prepared under PRC ASBEs and were unaudited.

5. No profit distribution or conversion of capital reserves will be implemented in respect of the interim period of 2023.

6. This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. The attention of investors is drawn to the potential risks inherent in the operations of the Company described in this report and investors are asked to beware of investment risks.

7. All monetary amounts set out in this report are expressed in RMB unless otherwise stated.

8. This report has been prepared in Chinese and English respectively. In case of discrepancy in the interpretation of this report, the Chinese version shall prevail.

Contents

DEFINITIONS

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

Company or ZTE	ZTE Corporation, a limited company incorporated in China, the shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively
Group	ZTE and its subsidiaries
Board of Directors	The Board of Directors of the Company
Directors	Members of the Board of Directors of the Company
Supervisory Committee	The Supervisory Committee of the Company
Supervisors	Members of the Supervisory Committee of the Company
CSRC	China Securities Regulatory Commission
Shenzhen Stock Exchange	The Shenzhen Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Company Law	Company Law of the People's Republic of China
Securities Law	Securities Law of the People's Republic of China
Companies Ordinance	Companies Ordinance (Chapter 622 of the laws of Hong Kong)
SFO	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
Shenzhen Listing Rules	Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange
Hong Kong Listing Rules	Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
PRC ASBEs	PRC Accounting Standards for Business Enterprise (Generally accepted accounting principles in China)
Articles of Association	ZTE Corporation Articles of Association (April 2023)
The Reporting Period	1 January 2023 to 30 June 2023

GLOSSARY

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

Heterogeneous computing	A technology that allocates processing to accelerated hardware to reduce the burden of the Central Processing Unit, replacing software algorithm with hardware modules to achieve performance enhancement and cost optimisation. A computing structure that employs hardware acceleration is called heterogeneous computing.
Distributed database	A logically coherent database formed by the interconnection of multiple data storage units located in different physical locations using a high-speed computer network, so as to enable larger storage capacity and higher volume of simultaneous visits.
RRU	Radio Remote Unit. The base station separates into two parts: the radio server and radio remote unit (RRU), the latter of which is installed at the antenna end to process radio signals.
AAU	Active Antenna Unit, the principal equipment at a 5G base station mainly responsible for receiving and transmitting 5G radio frequency signals.
AI	Artificial Intelligence, the use of machine to aid or replace human in doing certain tasks by simulating the sight, hearing, senses and thinking of human.
PowerPilot	ZTE’s 5G green energy efficiency solution.
RIS	Reconfigurable Intelligent Surface, adjustment of signal phases passing through the RIS through reflective components constructed with ultra-materials so as to align/setoff signal phases on the other receiving ends of other links, in order to strengthen useful signals and weaken harmful ones.
NTN	Non-terrestrial Network, which facilitates 5G NR communication through satellites or high-altitude platform systems (HAPS). NTN could cover remote areas, such as mountains, deserts and oceans, that terrestrial networks could not reach, hence further enhancing the coverage of 5G networks.
Communication-sense-computing integration	Network with spatial sense, communication and computation capabilities at the same time which acquire senses of targets or the environment by analysing the transmission of wireless signals.
Integrated core network	Mobile network comprises a wireless access network and a core network, the latter of which provides services such as call control, billing and mobility. An integrated core network supports multi-modal core network functions on a simultaneous basis.
NEO	Native Enhanced-cloud Orchestration, the enhancement of the performance and security of the native cloud system through hardware enhancement, software coordination and full-system native design, supporting bare machine, virtual machine and container to provide supreme service experience in native cloud evolution.
TSN	Time Sensitive Networking, as defined by the Institute of Electrical and Electronics Engineers Association (IEEE), is a solution for the provision of definitive service based on standard ethernet technology which facilitates the completion of data packet transmission within a definite time latency to meet the rigid transmission requirements of the industrial sector.

GLOSSARY

UPF	User Plane Function, the function of 5G core network system relating to routing and forwarding of user data packet in the 5G core network.
CENI	China Environment for Network Innovation-Future Network, aiming to construct an advanced, open, flexible and sustainable large-scale general testing platform that meets the requirements for strategic, rudimentary and prospective innovative tests and verifications relating to next-generation Internet, cyberspace security, integrated space-terrestrial network, industrial Internet and integrated military-civil network, among others, as well as innovative requirements of new technologies, products and applications for the society in general.
HEC	Hyper-Edge Computing, the addition of computing units to installed bearer access equipment in existing networks to provide a deployment platform for applications such as edge computing, in order to facilitate flexible sedimentation of computing according to demand.
QPSK	Quadrature Phase Shift Keying, a form of digital modulation characterised by higher frequency utilisation rate and stronger counter-interference properties.
M-OTN	Metro-optimized OTN, the application of OSU (Optical Service Unit) technology capable of flexibly adjusting bandwidth to complement traditional OTN technology with its shortcoming in bearer efficiency for granular services, providing low-cost, low-latency and low-power consumption bearer solution for integrated services.
ULH	Ultra-Long Haul, wave division system with a transmission distance longer than 2000 km is a ULH transmission system.
PON	Passive Optical Network, a network that provides optical access services to users through the use of passive optical network technology and facilitates conservation of optical fibre resources on the main line through the adoption of a point-to-multipoint topological structure. It also offers flow management and security control functions.
FTTR	FTTR (Fiber to The Room) is a networking mode connecting different indoor AP with the indoor all-optical node through optical fibre to achieve a 1000M+ coverage throughout the house.
All-flash RAID	RAID storage system with full adoption of SSD flash storage and storage media, offering low-latency and high simultaneous IO compared to HDD.
vSTB	Virtualization Set Top Box, the upshifting of services traditionally processed in a physical set-top box to the cloud and the transmission of the processed data back to the set-top box by way of video stream, thereby reducing the requirement for set-top box upgrade and software compatibility.
vCDN	Virtualization Content Delivery Network, which migrates traditional server-based CDN systems to cloud based platforms, maintaining consistent system functionality. vCDN can improve resource utilization efficiency.

XR	A collective reference to AR (Augmented Reality), VR (Virtual Reality) and MR (Mixed Reality), which is an environment featuring the combination of reality and simulation and human-machine interaction enabled by computer technology and wearable device.
sPV	Smart Photovoltaic, a direct-current optical piling solution for sites, the power conversion unit of which could apply maximum power tracking technology to standalone solar battery panel component, with a view to achieving maximum power generation efficiency for the solar components and enhancing the flexibility of solar power deployment at the station sites.
Industrial site network — 5G private network	Corporate or industry wireless private networks build according to 5G standards which are separated from the public 5G networks of carriers.
Intrinsic safety base station	Mine intrinsic safety base station is an Internet access device that facilitates communication at critical locations in a coal mine well. It is suitable for use at a corrosive gas scene in coal mine wells where explosive mixtures such as methane and coal dust are present but where insulation is uncompromised. It does not require the addition of metal cases or fillings to avoid explosion, and the level of energy generated from sparks or thermal effect occurring during normal use or breakdown complies with national standards applicable to mines. The device is characterised by its small size, light weight and high safety level.
Differential protection	Protection for power transmission circuits and electrical equipment. In normal operation, the electric current entering the protected equipment is equivalent to that exiting the equipment, and the differential current equals to zero. When the differential current is higher than the default value set in the differential protection device, the circuit breaker on the sides of the protected equipment will be activated and power will be cut off from the malfunctioning equipment.
Line network	A road network formed by railway transport lines in a city.

I. CORPORATE INFORMATION AND SUMMARY OF MAJOR FINANCIAL DATA

1.1 Corporate Information

1	Legal name (in Chinese)	中興通訊股份有限公司
	Chinese abbreviation	中興通訊
	Legal name (in English)	ZTE Corporation
	English abbreviation	ZTE
2	Legal representative	Li Zixue
3	Authorised representative at Hong Kong Stock Exchange	Gu Junying, Ding Jianzhong
4	Secretary to the Board of Directors/ Company Secretary	Ding Jianzhong
	Securities affairs representative	Qian Yu
	Correspondence address	No. 55, Keji Road South, Shenzhen, Guangdong Province, The People's Republic of China
	Telephone	+86 755 26770282
	Facsimile	+86 755 26770286
	E-mail	IR@zte.com.cn
5	Registered and office address	ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District, Shenzhen, Guangdong Province, The People's Republic of China
	Postal code	518057
	Uniform social credit code	9144030027939873X7
	Website	http://www.zte.com.cn
	E-mail	IR@zte.com.cn
	Principal place of business in Hong Kong	31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay, Hong Kong
6	Media designated for information disclosure by the Company	China Securities Journal, Securities Times, Shanghai Securities News
	Authorised websites on which this report is made available	http://www.cninfo.com.cn http://www.hkexnews.hk
	Place where this report is available for inspection	No. 55, Keji Road South, Shenzhen, Guangdong Province, The People's Republic of China
7	Listing information	**A shares** Listed on the main board of the Shenzhen Stock Exchange in November 1997 Abbreviated name of stock: 中興通訊 Stock code: 000063 **H shares** Listed on the main board of the Hong Kong Stock Exchange in December 2004 Abbreviated name of stock: ZTE Stock code: 763
8	Hong Kong share registrar and transfer office	Computershare Hong Kong Investor Services Limited Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong

9	Legal advisers	
	As to Chinese law	Beijing Jun He Law Offices 20th Floor, China Resources Building, 8 Jianguomen North Street, Beijing, The People's Republic of China
	As to Hong Kong law	Paul Hastings 22/F, Bank of China Tower, 1 Garden Road, Hong Kong
10	Auditor	Ernst & Young Hua Ming LLP Level 16, Ernst & Young Tower, Oriental Plaza, No.1 East Chang An Avenue, Dongcheng District, Beijing, The People's Republic of China
11	Industry in which the Group operates	Communication equipment manufacturing
12	Principal operations	The Group owns complete end-to-end products and integrated solutions in the ICT industry, 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 for the first half of 2023.

1.2 SUMMARY OF MAJOR FINANCIAL DATA

1.2.1 ACCOUNTING STANDARDS ADOPTED

The Company prepares its financial report and discloses relevant financial information in accordance with PRC ASBEs. Hence there is no difference in accounting data arising from the adoption of both domestic and international accounting standards.

1.2.2 CHANGES IN ACCOUNTING POLICIES OR ACCOUNTING ESTIMATES AND RECTIFICATION OF ACCOUNTING ERRORS

☐ Applicable ✓N/A

I. CORPORATE INFORMATION AND SUMMARY OF MAJOR FINANCIAL DATA

1.2.3 MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP

Unit: RMB in thousands

Item	Six months ended 30 June 2023	Six months ended 30 June 2022	Year-on-year change
Operating results			
Operating revenue	**60,704,794**	59,818,300	1.48%
Net profit attributable to holders of ordinary shares of the listed company	**5,472,153**	4,565,826	19.85%
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	**4,909,329**	3,725,359	31.78%
Net cash flows from operating activities	**6,425,897**	3,499,634	83.62%

Size	30 June 2023	31 December 2022	Year-on-year change
Total assets	**186,187,171**	180,953,574	2.89%
Total liabilities	**122,091,375**	121,410,351	0.56%
Owners' equity attributable to holders of ordinary shares of the listed company	**63,567,319**	58,641,187	8.40%

Per share basis (RMB/share)	Six months ended 30 June 2023	Six months ended 30 June 2022	Year-on-year change
Basic earnings per share	**1.15**	0.96	19.79%
Diluted earnings per share Note	**1.15**	0.96	19.79%
Basic earnings per share after extraordinary items	**1.03**	0.79	30.38%
Net cash flows from operating activities per share	**1.35**	0.74	82.43%
Net asset per share attributable to holders of ordinary shares of the listed company	**13.31**	11.60	14.74%

Financial ratios (%)	Six months ended 30 June 2023	Six months ended 30 June 2022	Year-on-year change
Weighted average return on net assets	**8.93%**	8.56%	Increased by 0.37 percentage point
Weighted average return on net assets after extraordinary items	**8.01%**	6.98%	Increased by 1.03 percentage points
Gearing ratio	**65.57%**	68.44%	Decreased by 2.87 percentage points

Note: As share options granted by the Company have given rise to 0 and 107,742 potentially dilutive ordinary shares for the six months ended 30 June 2023 and six months ended 30 June 2022, respectively, diluted earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

1.2.4 EXTRAORDINARY GAINS OR LOSSES ITEMS AND AMOUNTS OF THE GROUP

Unit: RMB in thousands

Item	Six months ended 30 June 2023	Six months ended 30 June 2022
Gain from disposal of non-current assets	**16,462**	7,602
Investment gain from disposal of long-term equity investment	**(1,036)**	7,445
Gain/loss from fair-value change of derivative financial assets and derivative financial liabilities held and investment gain from disposal of derivative financial assets and derivative financial liabilities, excluding the effective value protection hedge business relating to the ordinary business of the Company	**(234,817)**	55,259
Write-back of provision for individually tested receivable impairment	**9,636**	72,905
Gain/loss from fair-value change of investment properties	**(1,650)**	(1,484)
Other gains other than income from software VAT rebate and income from refund of handling charge for withholding personal tax	**164,933**	163,823
Net of other non-operating income and expenditure other than the above	**(43,387)**	(55,295)
Other gains/losses falling under the definition of extraordinary gain/loss	**748,084**	739,772
Less: Effect of income tax	**98,734**	148,504
Effect of non-controlling interest (after tax)	**(3,333)**	1,056
Total	**562,824**	840,467

The Group recognised extraordinary items of gain or loss in accordance with provisions under the "Explanatory Announcement No. 1 for Information Disclosure by Public Issuer of Securities — Extraordinary Items" (CSRC Announcement [2008] No. 43). The following items, which are set out in the provisions as extraordinary items, have been categorised as recurring items:

Unit: RMB in thousands

Item	Six months ended 30 June 2023	Reasons
Income from VAT rebate for software products	**797,954**	Operational on an ongoing basis
Income from refund of handling charge for withholding personal tax	**31,030**	Operational on an ongoing basis
Gain from disposal of equity interests in ZTE Capital and gain/loss from fair-value change	**(32,921)**	Operating business

II. REPORT OF THE BOARD OF DIRECTORS

During the first half of 2023, the Group achieved stable growth as it persisted in R&D investment in ongoing improvement of its key technologies and product competitiveness to seize opportunities presented by the global trends of digitalisation and low-carbon green development while keeping business risks under control. The operation of the Group is founded on consistent investment in R&D. This chapter begins with a discussion of the innovation of the Group's core technologies in the first half of 2023, followed by a detailed account of its operating results for the first half of 2023 and business outlook for the second half of 2023.

2.1 INNOVATIONS IN CORE TECHNOLOGIES IN THE FIRST HALF OF 2023

Given digital and intelligent transformation as the dominant trend of the day, the digital economy has become one of the core pillars of qualitative economic development. In the meantime, increasing risks of uncertainty around the globe have also become a significant factor conversely obliging corporations and even the society in general to transform to digital and intelligent applications. More importantly, carbon neutrality has become a common value and goal for the world and humanity as a whole, and digital and intelligent transformation is one of the key pathways to rapid low-carbon development.

According to data published by IDC, the volume of global data flow in the past decade was growing at an average compound annual growth rate of close to 50%. With the dawning of the era of Internet of Everything, the growth curve is expected to get steeper. Meanwhile, the Moore's Law and Nielsen's Law remain relevant, though heading in opposite directions. In other words, the growth rate for Internet bandwidth has exceeded that of CPU speed. The overwhelming impact of data on terminal, edge and cloud has given rise to distributed computing and heterogeneous computing. Under this technological trend, there is closer associated and more blurred boundaries than ever in terms of computing and network and of software and hardware. The integration and evolution of multiple technologies will be critical to the enhancement of service quality and efficiency for the overall optimisation of benefits.

In line with the philosophy of being "customer-centred and ahead of the times" in technological development, the Group has been vigorously seizing significant opportunities presented by developments such as 5G, New Infrastructure, Digital and Intelligent Transformation, East-to-West Data Computing and Dual Carbon Economy, persisting in its objectives and leveraging its strengths as it sought to be a "path-builder for digital economy" that helps carriers and business partners to forge "connectivity + computing + capacity" as the efficient and green foundation of digital and intelligent operations and speed up the process of digital and intelligent transformation and upgrade for the society as a whole. We have continued to focus on the ascertained areas of ICT for ongoing explorations, including the further enhancement of frequency and spectrum efficiency, while accelerating the optimisation and autonomous evolution of the commercial functions of networks. Benefits under the Moore's Law have been extended on the back of domain specific architecture (DSA), seal packaging and architectural innovation, while we have continued to enhance our efforts in the software and hardware synergisation and optimisation for chip, computing and architecture. Meanwhile, in connection with uncertain areas such as the expansion of industrial digitalisation, we have enhanced the component-based and service-oriented features of our technical and segment competence, focusing on scenarios and key businesses to start with low-cost projects while ensuring fast generational upgrades and ongoing innovation.

These efforts have been rapidly enhancing the Group's competitiveness in a full range of ICT end-to-end products and digital solutions and contributed to steady growth in its market share and further optimisation of its market pattern.

(1) Mastering core technologies at base level through persistent long-term investment

In the chip sector, the Group has continued to increase investment in advanced process technique design, core IP, seal packaging and architectural design and digitalised efficient development platform on the back of close to 30 years' R&D build-up. We are an industry leader in terms of the ability to design the whole process of chip production. We have developed a solid foundation in the R&D of base-level technology for ICT chip. In the meantime, given the development of computing-network integration, the Group has constructed flexible and ultra-efficient full-stack computing network base pivoting on "data, computing and network". The creation of a product regime meeting the core requirements of the diversified scenarios of "cloud, edge, terminal" has supported our ongoing leading position in terms of competitiveness.

In connection with database, the Group has continued to make improvements to its proprietary GoldenDB (distributed database) in terms of functions, performance and security. In the domestic market, we have continued to explore industry markets such as the customs, transportation, energy and port, while being deeply engaged in the financial and carrier sectors. In the financial sector, our core industry service application has remained a leader, covering more than 50 financial institutions such as state-owned banks, joint-stock banks and leading securities houses in its customer base. New projects commissioned in the first half of 2023 included the core credit card service of Everbright Bank, core debit card service of Guangfa Bank and core account service of Shenzhen Rural Commercial Bank. In the carriers' market, we have maintained the largest shares in bids for procurements of China Mobile and China Unicom. Service conversion has commenced in more than 10 provinces with the completion of the core billing system of Shandong Mobile and BOSS account database of Zhejiang Mobile. In the first half of 2023, GoldenDB received a number of honours for innovative solutions awarded by MIIT and authoritative bodies under the People's Bank in recognition of its leading technology and extensive implementation in the industry.

In connection with operating systems, the Group has achieved a range of results in core technologies such as internal core, virtualisation and R&D tools, on the back of more than 20 years of proprietary R&D effort. Systems developed by us are at the forefront of the industry in terms of real-time performance, reliability and security, with a complete range of solutions for operating systems of equipment types such as built-in device, server, desk-top system and terminal. The products have been extensively used in the communication, automobile, electricity and railway transportation sectors, as more than 200 million sets have been delivered by far, providing solid and reliable base software platforms with robust functions to global customers. Our products have won the Class I Science and Technology Award of China Institute of Communications and the Fourth China Industry Award. Our automobile operating system products have attained the OSDL Telecom-grade Linux accreditation, Tier-four National Information System Security accreditation, China Network Security Examination and Accreditation Centre EAL4 enhanced accreditation, ISO 26262 ASIL-D management accreditation and product accreditation for auto electronics and POSIX PSE52 accreditation of IEEE.

(2) Ongoing enhancement in product competitiveness driven by technological innovation

In connection with wireless products, the Group delivers high-performance, intelligent, minimal and green mobile communication networks to carrier customers and industry customers. In connection with wireless base stations, we have facilitated network construction with supreme minimalism, speed and optimisation on the back of our strong capabilities at base level built around chip, algorithm and architecture. We have launched the 12-channel ultra-broadband RRU using the most powerful Super-N power magnification technology in the industry to achieve frequency module consolidation with ultra-high integration, which could reduce site leasing cost by 60% and energy consumption by more than 30% when deployed in coordination with other products in the multi-frequency and multi-fan series in contribution to the minimal conversion of sites. A number of first-of-its-kind products in the industry have been launched, such as 128TR AAU with a 10Gbps+ throughput volume, 1.6GHz bandwidth millimeter wave AAU with a 25Gbps+ throughput volume and medium-frequency pooling MiCell millimeter wave distributed mini-stations, to assist in the fast evolution of networks. We have also launched the industry's first "1.8G and 2.6G" dual-frequency RRU which facilitates precise matching of RRU signals with rail coaches with the pioneering "power tag-along" solution to achieve superbly optimal deployment for one-stop 4/5G coverage in high-speed rail scenarios without the need for antenna upgrade and conversion in the existing network. In line with its commitment to the creation of low-carbon green network, the Group has continued to procure evolution of its energy conservation solution PowerPilot with the introduction of the AAU automatic start/stop function which reduces AAU night-time energy consumption to a minimum of 5W or below, marking the lowest level in the industry. Large-scale commercial applications have commenced. Meanwhile, the Group has continued investigations and reported achievements in the evolution of future wireless technology with the launch of dynamic RIS2.0 which consumes 80% less power compared to the previous generation. We have also completed outfield verification of the industry's first 5G IoT NTN terminal for commercial application with direct satellite link and verification of the industry's first 5G NR NTN Laboratory in ongoing advancement of omnipresent mobile connection through air, space, terrestrial and undersea. We have completed outfield verification of our integrated communication, sensor, computing and control technologies and commenced the industry's first "5G-A integrated communication, sensor, computing and control" low-altitude drone scenario test, while launching the industry's first ultra-stable 5G internet of vehicles based on the new integrated computing-network architecture to facilitate the development of automated driving. In connection with core network, the Group's Common Core, a fully integrated core network solution, has simplified network complexity to the maximum extent to support smooth network evolution. The speed of the core network has been generally upgraded through software/hardware coordination of piled function cards. Our SmartNIC network card has increased forwarding performance by 2 times, while the NEO cloud card facilitates 20% conservation of CPU resources. Our TSN card, the first of its kind in the industry, enables nano-second grade high-precision clock synchronisation and jitter. We have also launched the industry's first R17 architecture-based smart green UPF, featuring CPU frequency adjustment and sleep mode based on augmented AI algorithm, more than 25% consolidated power conservation, millisecond service alert and zero loss. Elsewhere, we have launched Fit-it-all 5G private network products such as full-stack iCube, compact i5GC, Mini5GC and forward-mode Edge UPF to meet the diverse needs of large, medium and small private network scenarios. Four private net solutions for major typical scenarios, namely, the multi-branch interconnected private network, mining No. 1 private network, mobile vehicular private network and dual-domain private network, have been launched in an effort to create one network for each sector in contribution to the in-depth development of private networks for industries.

In the IP segment, the Group has launched a new high-end router product with high performance and ultra-large capacity supporting high-density 400GE to assist in the construction of novel high-performance smart IP network. A cross-domain network security test for the network 5.0 endogenic security system, the first of its kind in the nation, was completed on the back of future network testing facility CENI. We pioneered in the commercial application of 5G bearer granules in the railway transport, mining and power sectors to provide an integrated business bearer net with multiple applications service bearer. We were also the first supplier to complete trial runs of the HEC ultra-edge computing solution, achieving flexible as-needed deployment of computing in 5G bearer to provide carriers with a new business model of "leased line + computing". According to the IDC Report, we ranked among the top two in domestic router sales for the first quarter of 2023.

In connection with optical transmission, the Group teamed up with carriers to complete a number of 400G QPSK live network trials to drive the commercial application of 400G ultra-long distance transmission. The first trial commercial application of M-OTN in the industry was completed, as OTN network capacity was enhanced with the bearer granule leased line. The Group received the "Best 5G Transmission Equipment Supplier of the Year" Award at the NGON & 5G Transport Forum 2023, while our 400G ultra-long distance transmission system received the Lightwave Optical Transmission Annual Innovation Award 2023. ZXONE 9700 among our OTN flagship series has again been given the highest Leader rating by GlobalData. According to the Omdia Report, the Group ranked among the top two globally in 2022 in terms of dispatch volume for OTN 200G ports and first in terms of growth rate for market share. For the fourth quarter of 2022, the Group ranked first in terms of year-on-year growth rate for the dispatch volume of 400G long-distance port.

In fixed-line access, the Group has launched the industry's first 50G PON & 10G PON & GPON three-module Combo PON solution for the facilitation of smooth network upgrade. The 50G PON solution has been put to test runs at more than 20 carriers globally to accelerate mature commercial application. TITAN, our flagship product in optical access has been given a Leader rating by GlobalData for the third consecutive year, as it claims the largest capacity and highest level of integration among peers. We have also launched the industry's first WiFi 7 FTTR product to provide better support for the development of full-fiber home services. More than 2 million sets of our FTTR solutions were dispatched in the first half of 2023, representing the fastest growth rate in the domestic market. We have also ranked first in terms of global ONT dispatch for two consecutive years and among the top two in terms of global PON OLT dispatch.

In connection with computing infrastructure, the Group has enhanced its R&D of relevant infrastructure products to address new opportunities afforded by the AI large model. For server and storage, the Group's full-range servers support heterogeneous acceleration and liquid cooling, as the high-performance server R6500 is capable of supporting 20 acceleration engine for heterogeneous computing intelligence at maximum, standing at the industry forefront and meeting a variety of computing scenario requirements such as AI and high-performance computing. We also provide a combination of distributed RAID and all-flash RAID to cater to the requirements for both large-capacity storage and high performance. Through NEO smart card acceleration, the server is capable of single-node 800Gbps forwarding and microsecond time latency to facilitate breakthrough in the network bottleneck between nodes and realise cluster computing to the maximum extent. In connection with exchange, we have launched a new-generation high-performance 400GE/800GE data centre products supporting a 14.4T single slot with the adoption of intelligent lossless technology to facilitate zero packet loss and low latency with the benefit of green energy conservation, which would help customers to create a smart computing centre network with an optimal framework, full range of functions and high reliability. This product series has maintained the rating of "Very Strong" in the latest GlobalData 2023 rating, the highest among its domestic peers, while its hardware component has received the highest Leader rating. In connection with data centre, as a leader in green smart data centre, we have launched a new-generation data centre with high availability which is conducive to energy conservation, easy to fabricate, catered to smart management and safe and reliable. Innovative energy-saving products such as power modules and liquid cooling systems with a PUE level as low as 1.13 have been launched and put to application in Jiangsu and Guizhou. Meanwhile, in active support of the East-to-West Data Computing policy, we have launched a full range of solutions for the eight principal core node data centre, which have been successfully deployed in multiple nodes for Gansu Mobile and Ningxia Radio & Television Network Zhongwei Branch. Focused on the domestic market, we have completed deliveries of large-scale projects for the big-three domestic carriers. Meanwhile we have increased our effort in overseas market expansion and succeeded in making major breakthroughs in container piling solutions. Whilst continuing to explore the depth of the Philippines market, we have also expanded to markets in Ethiopia, Algeria and Indonesia to negotiate new breakthroughs in the international market.

In the video business, the Group teamed up with China Mobile to create a video computing network with ultra-low latency, high reliability and real-time interactivity. We have stepped up with the development of applications for our video relay on the back of our proprietary technologies in ultra-low latency coding and decoding, real-time audio and video network acceleration, delivering applications for video conferences, video monitoring and integrated video services in numerous provinces. The vCDN+ multi-video service tide modulation solution which facilitates dynamic adjustments according to busy or idle service status with a view to enhancing the rate of resource utilisation has been put to commercial application in numerous regions, helping carriers to reduce CAPEX by as much as 20%. In our XR product line, a lightweight AR camera system based on cloud rendering has been launched to support mot AR shooting in motion. An AR editor has also been launched to enable flexible customisation of AR contents through the editing of work orders and contents. We have rolled out comprehensive cooperation with the big three carriers in cultural tourism, industry and education, providing innovative metaverse services to assist in the digital innovation and transformation of industries. We have built a network AR smart maintenance system in collaboration with China Telecom Hangzhou to support maintenance work for major tournaments. In the media sector, we have deepened cooperation with customers such as CCTV, Xinhua News Agency and Dongfang Satellite TV, while the 5G cloud XR cultural art metaverse project delivered in association with Tang West Market and Shaanxi Mobile has garnered the 5G Industry Challenge Award under the GSMA Asia Mobile Awards 2023, as well as the Most Influential Enterprise of the Year Award under the Sixth Gold V Awards for Virtual and Augmented Reality Industries.

In connection with the smart home sector, the Group has maintained its leading position in the market, ranking first in the global dispatch of PON CPE, DSL CPE and IP set-top boxes, while reporting ongoing growth in market shares. In the international market, our Android TV set-top box products have continued to be dispatched in large volumes to carriers in major nations in the Asia Pacific, Europe and South America, while we have also maintained top position since 2021 in terms of new customers for Android TV. We have teamed up with China Mobile to forge an inroad into the home segments of the market for smart medium screens and pioneered in the development of three major segments, namely, health and retirement care contents for smart homes, house-wide smart features and home security. Currently, pilot operations have been set up in Fujian, Yunan and Guangdong with large-scale commercial application of smart medium-screen series. The products have been deployed in the market segment of the secondary screen of the home, becoming a brand new home media offering the threefold functions of contents supply, control and security. For the e-commerce market targeted at personal customers, we have launched the industry's first sunny wall-mount router featuring flexible installation in a breakthrough in terms of product shape. The product has ranked first among peers of similar specifications in public assessment. Sales of our home router products grew by over 200%, year-on-year.

In connection with cloudified terminal, the Group owns a full range of cloud computers featuring Yufeng, Fuyao and Linglong that meet the computer cloud requirements of users in the financial, corporate, education, medical and home sectors with the provision of full-stack secure and controllable services, facilitating transmission of high-definition graphics based on private RAP supporting low code rate for a more stable experience of high quality, while simultaneous transmission to 100,000 users is supported by the distributed architecture system. In the first half of 2023, we launched the world's 5G cloud notebook "Yufeng 2" which supports a number of connection modes such as 5G card, WiFi, blue tooth, wireline network and affords high speed communication over the entire network. The product has been named as an "Exemplary Case in 5G New-format Terminal Innovation" in GSMA 2003. In the carrier market, ZTE cloud computers worked with China Mobile and China Telecom to achieve large-scale sales, selling more than 200,000 sets in the first half of 2023, including more than 100,000 sets of cloud notebooks, ranking first in the domestic carrier market. In the government and corporate market. We have provided cloud computer office security solutions to a number of financial and large corporate customers to assist in the digital transformation of enterprises. In connection with cloudified set-top box, a full set-top box cloudification solution has been launched to extend the life cycle of set top boxes by lowering the performance requirements of set-top boxes through the cloudification of services, and the solution has been put to trial runs on China Mobile's operational networks. The swift adaptation and connection of metaverse and other immersive low-latency services to various types of terminals has been supported with innovative means to lower the threshold of use for new services. We have continued to deepen strategic cooperation with China Mobile with the creation of the "Cloud Magic 100" product series, which have been signed up by 19 million users.

In connection with terminal, the Group has debuted a variety of innovative new products in innovative terminal, including nubia Z50 Ultra, a personalised image flagship handset equipped with fourth-generation under-screen camera, nubia Pad 3D the world's first AI bare-eye 3D tablet, and nubia Neo Air, the world's first consumer-grade GPT wireless AR smart glasses. Red Magic has launched new products for the e-game universe such as the Xiaolong 8 Gen2 advanced version Red Magic 8S Pro series, e-Game tablet and OLED e-game monitor, in an ongoing effort to explore and establish itself in the e-game market. In connection with mobile Internet, the fifth generation FWA new products have been launched in support of WiFi 7 ahead of its peers. The MC888 Pro green energy-saving version FWA is made of 95% PCR renewable materials with 10% less consolidated energy consumption. The Group's 5G FWA has made successful breakthroughs with numerous big Ts in Europe, while the second-generation 5G FWA, customised for Japanese carrier KDDI, has also been launched and marketed in a further enhancement of the influence of the Company's mobile Internet products in Japan's 5G market. As a leader in 5G mobile broadband terminal, the Group will continue to press forward towards broader dimensions in line with the call to be "green, smart and safe."

In connection with vehicular electronics, the Group has persisted in the innovation of fundamental technologies and has, on the back of its strengths in chip, operating system, software engineering, digital transformation and software/hardware coordination as well as competence in supply chain assurance, facilitated the deep integration of digital and intelligent technologies with scenarios of the auto industry for the enhancement of total factor productivity. In connection with software, we cooperated with leading auto manufacturers such as Changan Automobile, Dongfeng Motor and FAW with the supply of our vehicular operating system to conduct verification and ascertain massive production level under smart driving scenarios. In connection with terminals, the Group leverages the combination of its strengths in software, hardware and supply chain and its fundamental advantage in digital transformation to provide equipment and solutions such as 4G modules, 5G modules and smart modules to serve the interconnection and intelligentisation of vehicle networks in an efficient manner. The vehicular specification grade 5G R16 module created on the basis of our full-stack proprietary chip platform, the first of its kind in China, will be installed in mass volume as part of the vehicular communication terminal platform project of GAC R&D Center. We have forged intensive strategic cooperation with SAIC and DIAC in relation to the ZTE full-stack proprietary 4G vehicular specification grade module. In future, ZTE will remain engaged in joint technological innovation with partners within the industry chain ecosystem to assist in the qualitative development of new-energy vehicle.

In connection with the energy sector, the Group has launched the "zero-carbon" energy net solution V2.0 focused on minimal site, green machine room, green industrial complex and energy cloud management, among others, in a transition from the mere concern for network energy consumption to broader concerns for green power application, network energy efficiency and smart maintenance, with a view to assisting in the digital and intelligent transformation of the energy infrastructure of the ICT industry. As a world-leading supplier of communications energy, the Group has completed large-scale deployment of 5G power source and minimal site solutions to safeguard power supply for 610,000 5G base stations worldwide. We have also launched the sPV solar energy power supply solution that enables smooth overlay at sites to facilitate low-carbon development of carriers' networks. In recent years, the Group has continued to make intensive efforts in the development of communication energy storage and proposed the new idea of "tiered intelligentisation of communication energy storage, as we have launched the world-leading L3 intelligent lithium battery products, which have been adopted for large-scale application.

In connection with the security segment, the Group has launched the amalgamated security gateway, integrating network security, switch router and computing storage capacity to construct an integrated infrastructure for cloud, network and security that safeguards the digital of corporate users. Our proprietary ZChain blockchain platform has passed the "Trustworthy Blockchain Assessment" of CAICT to become the first domestic blockchain product passing tests on proprietary code ratio and domestic production compatibility. A data security solution based on privacy computing has also been launched, whilst we undertook the research project on "Data security technology based on 5G industrial Internet scenarios" commissioned by MIIT. A joint 5G security laboratory has been built in collaboration with CAICT to drive the implementation of security technology. Our quantum integrated encryption key system has assisted in the construction of the novel integrated encryption key management system and password application platform and received the CEPREI Outstanding Solution Award.

(3) Enabling industrial transformation in a joint effort with industries to add value

Pivoting on digital-physical integration, the Group launched the digital star cloud 2.0 in a full upgrade in the three factors of data, algorithm and computing to provide swift and flexible solution customisation for the digital transformation of enterprises. Our first batch of smart operation centres based on digital star cloud have 100% passed the corporate smart operation service competence assessment conducted by CAICT. The Group has provided top-level design for digital transformation to large companies such as CITIC Offshore Helicopter and Nanjing Port Group, while teaming up with partners in 15 sectors, including industrial manufacturing, steel and metallurgy, mining, power, transport, government affairs and large corporations, to launch more than one hundred innovative applications for digital transformation, creating a series of benchmark projects snatching up more than half of the class one awards or benchmark gold awards in the MIIT Blooming Cup, in addition to GSMA 2023 Awards and the United Nations WSIS Champions Award.

On the industrial front, the Group has implemented the concept of “manufacturing 5G with 5G”, as the 5G intelligent manufacturing base in Binjiang, Nanjing has delivered 24 main types and more than 110 5G+ integrated industrial innovative applications, as well as undertaken projects from the AII-Alliance such as “5G+ Industrial Certainty Network Laboratory” and “5G+ Industrial Internet Security Laboratory” for the incubation of replicable applications and solutions. The solar energy manufacturing sector exemplar successfully built in collaboration with JA Solar Qujing Base has been included in the “Fortune League of Most Influential IoT Innovation 2022”. Elsewhere, we have continued to assist in the corporate empowerment of companies such as Maotai Group, China Resources Cement, Chongqing Changan Automobile, Deli Group and Huifeng Petrochemical.

In connection with metallurgical smelting, the Group has facilitated precise matching of business scenario requirements for factory-grade, workshop-grade and production line-grade to achieve the innovative integration of CT+IT+OT on the back of 5G industrial control computing base components such as industrial site network, 5G centralised control edge cloud and industrial control cloud computer and a fully-connected factory solution. Subset solutions such as integrated metallurgical smelting control, energy and environmental protection, safe production, digital mobile maintenance and smart testing have been developed. We have continued to offer services to industry giants such as Baowu Group, Ansteel Group, State Power Investment Corporation, Jinchuang Group and Yunnan Shenhuo with 50+ projects implemented to assist in the digital and intelligent transformation of the metallurgical smelting industry.

On the mining front, the Group is committed to the building of a mining-friendly network with the rapid construction of a smart mining system under the industrial Internet platform architecture. We have launched the 2.1GHz intrinsic safety base station and created the world’s first 5G integration sub-station in collaboration with our partners in the business ecosystem to support one-stop deployment of 4G, 5G and UWB. Unmanned waste rock selection and remote control for coal preparation plants was achieved on the back of the digital star cloud platform. We have teamed up with 40+ partners and 30+ industry-leading customers in the implementation of 200+ projects in Shaanxi, Shanxi, Inner Mongolia and Henan and assisted in the creation of a number of exemplary projects for industry leaders such as China Energy Investment, Pingdingshan Coal Group, Shandong Energy Group, Shaanxi Coal Group, CCTEG and China Coal Energy Group.

In connection with electricity, the Group has teamed up with Southern Power Grid and China Mobile to build a China's first 5G+ digital power grid demonstration zone and completed verification of 54 scenarios in end-to-end commercial applications covering the full process of power supply. We have commissioned the industry's first 5G differential protection service, for which we have received honours such as the "BRICS Sustainability Solution Contest 2022 — MasterPiece Award" and ""ICT China Case Study 2022 — Excellence in Innovative Application Award". We have also assisted State Grid Shandong Electric in the construction of China's first provincial 5G demonstration power grid, which is currently the nation's largest 5G power virtual private network. As one of the first companies in the industry to have passed the 5G commercial system security test and assessment conducted by the Information Security Rating and Protection Assessment Centre under the Ministry of Public Security, we have assisted in the implementation of 300,000 5G power terminals and jointly introduced innovative 5G power applications with more than 20 leading power companies including China Energy Investment, State Power Investment and China Huaneng, delivering new benchmarks such as fully-connected 5G power plants and smart power plants focused on clean power generation and safe maintenance, among others.

In connection with transportation, the full-scenario smart city rail created by the Group based on the "city rail cloud + city rail digital smart platform" has provided an advanced cloud platform and line network-grade big-data platform supporting full decoupling and full compatibility for Qingdao City Rail. The Group has also been engaged in cooperation with Hangzhou Metro Line, Guangzhou Metro Line and Shentong Metro, as the "Guangzhou 5G Smart Metro" project has received the GSMA 2023 Award. We have also collaborated with the metro bureaus of Beijing, Shanghai and Shenyang to assist in smart rail operation through system cloudification and network automation for substantial enhancement in communication efficiency and reliability. We have continued to facilitate port automation in collaboration with China Unicom Tianjin and other partners, as 5G quayside gantry remote control has been put to large-scale commercial application at Tianjin Container Port. We have entered into full strategic cooperation with Jiangsu Port Group, while providing Nanjing Port Group with services in relation to digital transformation.

In connection with government and large corporate business, we have launched the large corporation digital transformation solution 2.0, providing consultation service to CITIC Offshore Helicopter on corporate digital transformation and participating in the construction of fundamental computing network for large-scale central state-owned enterprises such as China Merchants Group, China Energy Engineering and Three Gorges Group. We have also launched the city lifeline solution aimed at protecting urban safety. The digital twin smart water conservancy solution has been launched to assist in the construction of a smart water conservancy regime with "warning, reporting, drill and contingency planning" functions. The provincial government cloud for Hunan covering three locations and four centres, the first of its kind in China, serves 276 business systems of 70+ departments under the provincial government and provides data services across different levels, regions and departments.

(4) Extensive participation in standard formulation work while gaining highly valuable patents

The Group is positioned within the first quadrant in terms of global patents as a major contributor and participant in the research and standard formulation for global 5G technology. As at 30 June 2023, the Group had filed applications for approximately 86,500 patents globally, among which approximately 44,000 patents had been licensed over the years. The Group continued to disclose 5G standard essential patents to ETSI as it ranked fourth globally in terms of the number of valid declarations. The Group has by far garnered 10 gold awards, 3 silver awards and 38 excellence awards in the China Patent Awards and 27 awards in the Guangdong Provincial Patent Awards.

The Group is a member of more than 200 international standardisation organisations, industry alliances, scientific associations and open-source communities, such as ITU (International Telecommunication Union), 3GPP (third generation partnership programme), ETSI (European Telecommunications Standards Institute), NGMN (The Next Generation Mobile Networks), IEEE (Institute of Electrical and Electronics Engineers), CCSA (The China Communications Standards Association), 5GAIA (5G Applications Industry Array) and AII (Alliance of Industrial Internet) and a board member of numerous organisations such as GSA (Global Suppliers' Alliance) and ETSI, while more than 100 specialists has been serving in key roles such as chairman/vice chairman and reporter of leading international standardisation organisations, industry alliances, scientific associations and open-source communities, having submitted more than 100,000 propositions and research papers for international or domestic standardisation by far.

2.2 BUSINESS REVIEW FOR THE FIRST HALF OF 2023

2.2.1 Industry development

(1) Domestic market

In 2023, the commencing year for the full advancement of the nation's "General Planning for Digital China Construction", positive results have been noted in the development of digital economy, while the advantage in novel infrastructure construction has been further fortified. Year 2023 has also been a year of breakthrough for AIGC (AI-Generate Contents), as the emergence of large model training and induction as represented by ChatGPT which requires the support of formidable computing power has driven the rapid development of relevant industry chains.

In the communication infrastructure sector, stable growth for the industry as a whole has been noted. For the six months ended 30 June 2023, the domestic telecommunications business reported revenue of RMB868.8 billion, representing year-on-year growth of 6.2%. As at 30 June 2023, there were 2,937,000 5G base stations in the country, accounting for 26% of the total number of mobile base stations. There were 20.29 million 10G PON ports capable of GB-grade network servicing, a net increase by 5,065,000 ports compared to the end of the previous year. Meanwhile, carriers were actively pursuing novel businesses such as IPTV, Internet Data Centre, Big Data, Cloud Computing and Internet of Things, achieving revenue of RMB188.0 billion, representing year-on-year growth of 19.2% and accounting for 21.6% of the total revenue of the telecommunications sector in ongoing support of stable revenue growth for the telecommunications sector. Driven by AIGC, carriers and Internet companies have been vigorously investing in the computing sector, as China currently ranks second in the world in terms of total computing capacity.

In the digital-real economy integration sector, digital transformation has taken on a path of high-end, intelligent, eco-friendly and integrated development. Currently. The digitalisation ratio for critical processes at key industrial enterprises has reached 59.4%, as more than 1,700 digital workshops and intelligent factories have been developed nationwide.

In the consumer terminal sector, the number of 5G mobile phone users reached 676 million for the six months ended 30 June 2023, a net increase by 115 million versus the end of the previous year and accounting for 39.5% of the nation's mobile phone. A total of 128 million users subscribed for fixed broadband access with a rate of GB-grade or above, a net increase of 36.12 million compared to the end of last year and accounting for 20.8% of the total user population. Meanwhile, carriers have increased their investment in FTTR (Fiber to the Room), while a variety of smart terminals have been extensively applied in sectors such as Public Services, Internet of Vehicles, Smart Retail and Smart Home, among others.

(2) International market

In 2023, global economic growth was under pressure and consumers were spending less on telecommunications. Nevertheless, the telecommunications industry sustained positive development by introducing innovative services and products. In connection with wireless network, as at June 2023, 533 telecom carriers worldwide had invested in 5G and commenced 255 commercial 5G projects, while more than 1,950 models of 5G equipment had been launched, among which more than 1,575 models had been put to commercial application. In connection with fixed-line broadband, rapid development of the home broadband market continued to drive optical conversion of the global broadband network, driving in turn the growth in demand for fixed-line access equipment and home terminals.

Source: PRC Ministry of Industrial and Information Technology, CAICT, GSA (Global Mobile Suppliers Association)

2.2.2 Analysis of the Group's business

The first half of 2023 was marked by a persistently complicated and volatile external environment which presented challenges to corporate operations. The Group report a 1.48% year-on-year growth in revenue to RMB60.70 billion as it actively seized development opportunities arising from digital economy, artificial intelligence and low-carbon green development on the back of precise business positioning, efficient placement of resources and ongoing optimisation of processes in adherence to the operating strategy of "stable growth through precision and pragmatism". The Group's net profit attributable to the holders of ordinary shares of the listed company for the first half of 2023 amounted to RMB5.47 billion, increasing by 19.85%, year-on-year. Net profit attributable to the holders of ordinary shares of the listed company after extraordinary items amounted to RMB4.91 billion, increasing by 31.78%, year-on-year. Basic earnings per share was RMB1.15.

(1) By market

For the first half of 2023, the Group's operating revenue from the domestic market and international market amounted to RMB43.11 billion and RMB17.59 billion, respectively, accounting for 71.02% and 28.98%, respectively, of total operating revenue.

The domestic market

For the first half of 2023, in the domestic market, the Company constructed comprehensive and efficient digital bases for customers focused on network, computing and cloud-net integration on the back of its full-stack core ICT capabilities forged over the years. For carrier customers, the Company continued to increase its market share and optimise its market pattern, while pursuing deep involvement in domestic East-to-West Computing projects and computing network construction to maintain its growth momentum. In connection with customers in the government and corporate sector, we were deeply engaged in the Internet, finance, power and transportation sectors with a special focus on industrial leaders and core products, in an ongoing effort to optimise our market presence and brand influence.

The international market

In the international market, the Company actively addressed challenges in the external environment during the first half of 2023, staying focused on big Ts and large networks and major nations in the exploration of key markets for wireless and wireline networks. We also seized the opportunity presented by the construction of home optical network to vigorously promote home terminals, while actively seeking opportunities in the energy market. In the meantime, we have facilitated healthy operations with improvements in quality thanks to digital transformation initiatives.

(2) By business segment

In the first half of 2023, the Group's carriers' networks, government and corporate business and consumer business reported operating revenue of RMB40.81 billion, RMB5.87 billion and RMB14.02 billion, respectively, accounting for 67.23%, 9.68% and 23.09%, respectively, of total operating revenue.

Carriers' networks

The Company has continued to enhance its product competitiveness on the back of its ICT end-to-end full-stack core capabilities, including capabilities in chip, hardware, operating system, database and digital star cloud, providing carriers with optimally matched products and solutions in relation to connectivity (CT technology) and computing (IT technology).

For the traditional networks of carriers, the Company was committed to directing instead of meeting demands and leading instead of following market trends. In connection with wireless products, the Company has launched 5G products covering all scenarios and all frequency bands, offering coverage for special scenarios such as aviation in air and ultra-high speed magnetic suspension on ground in addition to conventional scenarios such as macro-coverage, indoors, street hotpots and high-speed rail tunnels, in a bid to create for carriers 5G networks promising superior cost efficiency and capable of smooth evolution. According to the Omida rating report, the Company's RAN products have entered the Leader quadrant. In connection with wireline products, in the fixed-line network segment, the Company has enhanced its market position by seizing opportunities presented by the global trend of fibrelisation in broadband access, while becoming the first industry player to launch the precision 50G PON technology which has accelerated the advancement of relevant industry chains. In the optical transmission segment, we have launched the Real 400G optical transmission solution and completed the world's first 400G QPSK trial run in an operating network for a record-breaking transmission distance, in an effort to drive the construction of 400G backbone networks in China. In the router segment, the Company ranked first in terms of growth rate of market share and second in terms of market size in the domestic market for routers, as its core routers were deployed in scenarios of domestic carriers such as backbone, city domain, Internet gateway and data centre.

For the cloud network of carriers, the Company has strengthened its R&D and innovation in software and hardware products relating to computing infrastructure, capitalising on opportunities arising from increased investment in cloud network and computing network by domestic carriers to facilitate swift development of computing products. In connection with server and storage, the Company launched the G5 server series in early 2023. This product supports liquid cooling and boasts features such as high-density computing, flexibility scalability, heterogeneous computing, massive storage and reliable stability. We maintained our leading position in the domestic carrier market for servers in terms of dispatch volume in the first half of the year. In connection with data centre exchange and novel data centre, the Company has launched the new-generation 400GE/800GE data centre exchange which supports 14.4T with a single slot to assist customers in the building of intelligent computing centre networks underpinned by optimal architecture, full functions and superb reliability. A novel data centre product has also been launched as a data centre with high availability with a special emphasis on four aspects: green energy conservation, swift and easy fabrication, smart management and reliable security. Innovative energy conservation products such as power module and liquid cooling system with PUE as low as 1.13 have been launched in full support of domestic East-to-West Computing projects.

Government and corporate business

During the first half of 2023, investment for government and corporate business in the domestic market was subject to pressure and the Company's government and corporate business was also facing challenges. Nevertheless, the Company remained firmly confident in the development trend of digitalisation, intelligentisation and low carbon operation in industries, as it resolutely sought diversification from CT technologies for traditional networks to IT technologies on the back of core base technologies such as chip, database and operating system and seized opportunities to expand in the domestic government and corporate business market with resolute efforts on the back of competitive products.

In the past two years, the Company has been making intensive efforts to expand in the Internet and finance sectors, while server and storage has become a key growth engine for the Company's government and corporate business in the domestic market. Meanwhile, with the rapid rise of AI, the Company has also focused on investment in the AI sector to enhance R&D on the latest platform AI server that could support large model training as well as integrated intelligent computing infrastructure solutions, with a view to providing a robust computing infrastructure for the development of the digital economy. The three products of data centre exchange, novel data centre and database have also gradually grown into mainstay products for the Company's development in the domestic market for government and corporate business. In connection with the integration of digital-real economy, on the back of the 5G+ digital star cloud structure, the Company has developed more than 500 partners in 15 sectors such as manufacturing, metallurgy and steel, transportation, mining, digital city, cultural tourism and media, assisting in the upgrade of industry chains with the large-scale application of industry park construction, fully-connected factory and mining and metallurgy.

Consumer business

During the first half of 2023, global handset dispatch decreased by over 10% on a year-on-year basis. Under the current circumstances, the Company's consumer business faced pressure in its pursuit of growth. Nevertheless, the Company persisted in product innovation and prudent operation. In connection with handsets, the Company achieved seamless connectivity among different equipment based on the MyOS operating system as it continued to devote strong efforts to the construction of full-scenario smart life 2.0 with launch of numerous debut products, such as nubia Z50 Ultra, a personalised image flagship handset equipped with fourth-generation under-screen camera, nubia Pad 3D the world's first AI bare-eye 3D tablet, and nubia Neo Air, the world's first consumer-grade GPT wireless AR smart glasses. In connection with mobile Internet, the Company maintained its global leading position in 5G MBB & FWA in terms of dispatch volume. In home information terminal, on top of maintaining our leading positions in the world markets for PON CPE and set-top box, we also launched the industry's first WiFi 7 FTTR product and introduced the Qingtian Wall-mounted Router (晴天牆面路由器) in an ongoing effort to enrich our product matrix.

Source: Omdia, IDC, Canalys, TSR (Techno Systems Research)

2.2.3 Financial analysis of the Group

2.2.3.1 Income, cost and gross profit

Breakdown of indicators by industry, business segment and region:

Unit: RMB in thousands

Revenue mix	Operating revenue for the Reporting Period	As a percentage of operating revenue	Operating costs for the Reporting Period	Gross profit margin for the Reporting Period	Year-on-year increase/ decrease in operating revenue	Year-on-year increase/ decrease in operating costs	Year-on-year increase/ decrease in gross profit margin (percentage points)
I. By industry							
Manufacturing of communication equipment	60,704,794	100%	34,469,210	43.22%	1.48%	(8.48%)	6.18
Total	**60,704,794**	**100%**	**34,469,210**	**43.22%**	**1.48%**	**(8.48%)**	**6.18**
II. By business							
Carriers' networks	40,811,506	67.23%	18,689,672	54.20%	5.40%	(11.74%)	8.89
Government and corporate business	5,875,777	9.68%	4,259,421	27.51%	(12.37%)	(12.55%)	0.15
Consumer business	14,017,511	23.09%	11,520,117	17.82%	(2.60%)	(0.83%)	(1.47)
Total	**60,704,794**	**100%**	**34,469,210**	**43.22%**	**1.48%**	**(8.48%)**	**6.18**
III. By region							
The PRC	43,115,530	71.02%	22,751,444	47.23%	6.19%	(7.76%)	7.98
Asia (excluding the PRC)	6,139,353	10.11%	4,214,925	31.35%	(22.28%)	(17.43%)	(4.03)
Africa	2,870,199	4.73%	1,297,683	54.79%	14.32%	2.01%	5.46
Europe, Americas and Oceania	8,579,712	14.14%	6,205,158	27.68%	(2.57%)	(6.26%)	2.86
Total	**60,704,794**	**100%**	**34,469,210**	**43.22%**	**1.48%**	**(8.48%)**	**6.18**

Analysis of change in revenue

The Group reported RMB60,704,794 thousand in operating revenue for the first half of 2023, increasing by 1.48% as compared with the same period last year. Operating revenue generated from the domestic market amounted to RMB43,115,530 thousand, increasing by 6.19%, while operating revenue generated from the international market decreased by 8.47% to RMB17,589,264 thousand, as compared with the same period last year.

Growth in the Group's operating revenue for the first half of 2023 was mainly attributed to the year-on-year growth in revenue from the carriers' networks. Analysed by business segment, the carriers' networks reported 5.40% year-on-year increase in operating revenue, reflecting mainly the year-on-year increase in revenue from fixed-line and bearer products; government and corporate business reported 12.37% year-on-year decrease in operating revenue, reflecting mainly the year-on-year decrease in revenue from domestic integration projects and from the international market; consumer business reported 2.60% decrease in operating revenue, reflecting mainly the year-on-year decrease in revenue from international handset products.

Analysis of operating cost and gross profit

Operating cost of the Group for the first half of 2023 decreased by 8.48%, year-on-year, to RMB34,469,210 thousand.

The Group's overall gross profit margin increased by 6.18 percentage points, year-on-year, to 43.22% for the first half of 2023, which was attributable mainly to the growth in gross profit margin for carriers' networks. Analysed by business segment, gross profit margin for carriers' networks increased by 8.89 percentage points to 54.20%, compared to 45.31% for the same period last year, reflecting mainly changes in the revenue mix and its ongoing cost optimisation efforts. The gross profit margin for government and corporate business was 27.51%, a slight increase versus 27.36% for the same period last year. The gross profit margin for consumer business was 17.82%, decreasing by 1.47 percentage points compared to 19.29% for the same period last year, attributable mainly to the decrease in gross profit margin for domestic home information terminal products.

2.2.3.2 Expenses

Unit: RMB in thousands

Item	Six months ended 30 June 2023	Six months ended 30 June 2022	Year-on-year increase/ decrease
R&D expenses	**12,791,032**	10,151,500	26.00%
Selling and distribution expenses	**4,616,237**	4,423,548	4.36%
Administrative expenses	**2,515,771**	2,532,696	(0.67%)
Finance expenses	**(813,752)**	303,745	(367.91%)
Income tax	**667,086**	665,057	0.31%

The Group's research and development expenses for the first half of 2023 amounted to RMB12,791,032 thousand, increasing by 26.00% year-on-year. Research and development expenses as a percentage of operating revenue increased by 4.10 percentage points to 21.07%, which was attributable mainly to the Group's ongoing investments in technologies for 5G-related products, chip, server and storage and innovative business.

The Group's selling and distribution expenses for the first half of 2023 amounted to RMB4,616,237 thousand, increasing year-on-year by 4.36% and accounting for 7.60% of the operating revenue, an increase by 0.21 percentage point year-on-year attributable mainly to the increase in marketing expenses.

The Group's administrative expenses for the first half of 2023 amounted to RMB2,515,771 thousand, which was basically the same compared to the same period last year and accounted for 4.14% of operating revenue, a decrease by 0.09 percentage point year-on-year attributable mainly to management efficiency enhancement.

The Group's finance expenses for the first half of 2023 amounted to RMB-813,752 thousand, decreasing year-on-year by 367.91%, which reflected mainly exchange gain from exchange rate movements for the period of RMB735,447 thousand versus loss of RMB405,233 thousand for the same period last year.

The Group's income tax for the first half of 2023 amounted to RMB667,086 thousand, which was basically the same compared to the same period last year.

2.2.3.3 Investment in research and development

Unit: RMB in thousands

Item	**Six months ended 30 June 2023**	Six months ended 30 June 2022	Year-on-year increase/ decrease
Amount of R&D expense	**12,791,032**	10,151,500	26.00%
R&D expense as a percentage of operating revenue	**21.07%**	16.97%	Increased by 4.10 percentage points
Amount of capitalized R&D expense	**768,772**	840,025	(8.48%)
Capitalised R&D expense as a percentage of R&D expense	**6.01%**	8.27%	Decreased by 2.26 percentage points

2.2.3.4 Other components in the profit mix

Unit: RMB in thousands

Item	**Six months ended 30 June 2023**	Six months ended 30 June 2022	Year-on-year increase/ decrease
Other income	**993,917**	901,586	10.24%
Investment income	**(464,257)**	671,223	(169.17%)
Gains and losses from changes in fair value	**(430,990)**	(392,234)	(9.88%)
Credit impairment loss (loss indicated as a negative value)	**(178,168)**	(116,912)	52.39%
Asset impairment loss (loss indicated as a negative value)	**(277,146)**	(160,771)	72.39%
Gains from asset disposal	**16,462**	7,602	116.55%

The Group's other income for the first half of 2023 amounted to RMB993,917 thousand, increasing by 10.24% year-on-year which was attributable mainly to the increase in deferred income received and qualified for recognition.

The Group's investment income for the first half of 2023 amounted to RMB-464,257 thousand, decreasing by 169.17% year-on-year which was attributable mainly to loss of RMB548,439 thousand incurred in disposal of derivative investment for the period versus gain of RMB328,675 thousand for the same period last year.

The Group's loss from changes in fair value for the first half of 2023 amounted to RMB430,990 thousand, increasing by 9.88% year-on-year which was attributable mainly to loss from end-of-period fair-value remeasurement of derivative investments for the period of RMB218,166 thousand versus gain of RMB54,603 thousand for the same period last year.

The Group's credit impairment loss for the first half of 2023 amounted to RMB178,168 thousand, increasing by 52.39% year-on-year which was attributable mainly to the increase in impairment provision for trade receivables. The Group's asset impairment loss for the first half of 2023 amounted to RMB277,146 thousand, increasing by 72.39% year-on-year which was attributable mainly to the increase in inventory impairment provision.

The Group's gain from asset disposal for the first half of 2023 amounted to RMB16,462 thousand, increasing by 116.55% year-on-year which was attributable mainly to the increase in income from disposal of non-current assets.

2.2.3.5 Cash flow

Unit: RMB in thousands

Item	**Six months ended 30 June 2023**	Six months ended 30 June 2022	Year-on-year increase/ decrease
Sub-total of cash inflows from operating activities	**73,840,879**	74,376,587	(0.72%)
Sub-total of cash outflows from operating activities	**67,414,982**	70,876,953	(4.88%)
Net cash flows from operating activities	**6,425,897**	3,499,634	83.62%
Sub-total of cash inflows from investing activities	**7,547,981**	6,481,556	16.45%
Sub-total of cash outflows from investing activities	**9,054,418**	7,443,826	21.64%
Net cash flows from investing activities	**(1,506,437)**	(962,270)	(56.55%)
Sub-total of cash inflows from financing activities	**135,049,694**	61,062,615	121.17%
Sub-total of cash outflows from financing activities	**132,331,646**	58,870,046	124.79%
Net cash flows from financing activities	**2,718,048**	2,192,569	23.97%
Net increase in cash and cash equivalents	**7,874,569**	5,010,582	57.16%

The Group's net cash flows from operating activities for the first half of 2023 increased year-on-year, reflecting mainly the decrease in cash paid for the purchase of commodities and services for the period. For the reasons underlying the difference between the net cash flow and net profit generated by the Group's operating activities for the first half of 2023, please refer to "Note V. 55 Notes to major items in cash flow statement to the Financial Statements" in this report.

The Group's net cash flows from investing activities for the first half of 2023 decreased year-on-year, reflecting mainly the increase in cash paid for investment during the period.

The Group's net cash flows from financing activities for the first half of 2023 increased year-on-year, reflecting mainly the increase in net borrowings for the period.

Cash and cash equivalents of the Group as of 30 June 2023 amounted to RMB54,946,298 thousand held mainly in RMB, with the remaining held in USD, EUR, JPN and other currencies.

II. REPORT OF THE BOARD OF DIRECTORS

2.2.3.6 Assets and liabilities

(1) Change in major assets and liabilities

Unit: RMB in thousands

Item	30 June 2023 Amount	30 June 2023 As a percentage of total assets	31 December 2022 Amount	31 December 2022 As a percentage of total assets	Year-on-year increase/ decrease in percentage of total assets (percentage points)
Total assets	**186,187,171**	**100.00%**	180,953,574	100.00%	—
Cash	**63,333,440**	**34.02%**	56,346,367	31.14%	2.88
Trade receivables	**16,664,839**	**8.95%**	17,751,390	9.81%	(0.86)
Contract assets	**4,612,455**	**2.48%**	4,851,066	2.68%	(0.20)
Inventories	**45,822,229**	**24.61%**	45,234,990	25.00%	(0.39)
Investment properties	**2,008,977**	**1.08%**	2,010,627	1.11%	(0.03)
Long-term equity investments	**1,871,972**	**1.01%**	1,754,030	0.97%	0.04
Fixed assets	**12,616,579**	**6.78%**	12,913,313	7.14%	(0.36)
Construction in progress	**1,210,942**	**0.65%**	964,004	0.53%	0.12
Right-of-use assets	**1,043,875**	**0.56%**	1,079,521	0.60%	(0.04)
Short-term loans	**8,842,030**	**4.75%**	9,962,315	5.51%	(0.76)
Contract liabilities	**14,789,318**	**7.94%**	17,699,861	9.78%	(1.84)
Long-term loans due within one year	**1,289,836**	**0.69%**	661,744	0.37%	0.32
Long-term loans	**39,853,006**	**21.40%**	35,125,988	19.41%	1.99
Lease liabilities	**730,024**	**0.39%**	788,649	0.44%	(0.05)

For details of the Group's assets subject to restricted ownership or right of use as at 30 June 2023, please refer to "Note V.56 Assets subject to restricted ownership or right-of-use to Financial Statements" in this report.

(2) Change in fixed assets

As at 30 June 2023, the carrying value of the Group's fixed assets was RMB12,616,579 thousand, representing a 2.3% decrease compared to the end of last year. Details of changes in fixed assets are set out in "Note V.13 Fixed assets to the Financial Statements" in this report.

(3) Assets and liabilities at fair value

Assets of the Group are stated at historical costs, except for derivative financial instruments, equity and debt investments at fair value through profit or loss, investment properties and receivables at fair value through other comprehensive income, which are measured at fair value. There was no material change to the measurement attributes of the principal assets of the Company during the first half of 2023.

Unit: RMB in thousands

Item	Opening balance	Gains/losses arising from fair value change for the Reporting Period	Cumulative fair value change dealt with in equity	Impairment charge for the Reporting Period	Amount purchased for the Reporting Period	Amount disposed of for the Reporting Period	Other change	Closing balance
Financial assets								
Including: 1. Trading financial assets (excluding derivative financial assets)	513,784	(70,041)	–	–	–	149,175	–	424,451
2. Derivative financial assets	132,125	(38,954)	11,111	–	–	–	(483)	103,799
3. Receivable financing	3,712,142	–	–	(1,465)	9,000,553	11,089,116	–	1,625,044
4. Other non-current financial assets	1,028,262	(141,133)	–	–	1,800	121,508	735	864,463
Sub-total of financial assets	5,386,313	(250,128)	11,111	(1,465)	9,002,353	11,359,799	252	3,017,757
Investment properties	2,010,627	(1,650)	–	–	–	–	–	2,008,977
Total	**7,396,940**	**(251,778)**	**11,111**	**(1,465)**	**9,002,353**	**11,359,799**	**252**	**5,026,734**
Financial liabilities	234,081	179,212	–	–	–	–	(229)	413,064

(4) Major overseas assets

☐Applicable ✓N/A

(5) Charges on assets

As at 30 June 2023, the carrying value of the Group's assets under charge was RMB609,880 thousand, which was applied mainly to acquire bank loans. For details, please refer to "Note V. 31 Long-term loans to the Financial Statements" in this report.

(6) Contingent liabilities

For details of the Group's contingent liabilities as at 30 June 2023 required to be disclosed under the Hong Kong Listing Rules, please refer to "Note XII. 2 Contingent events to the Financial Statements".

2.2.3.7 Liquidity and capital structure

(1) Source and application of capital

In the first half of 2023, the Group's development funds were financed mainly by cash generated from its operations, bank loans and super short-term commercial papers ("SCPs"). 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.

(2) 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 as at 30 June 2023 was 45.14%, increasing by 1.12 percentage points as compared to 44.02% as at the end of last year, attributable mainly to the increase in interest-bearing liabilities.

(3) Analysis of debt

For the first half of 2023, the Group's debt comprised primarily long-term and short-term bank loans and SCPs mainly settled in RMB, USD and EUR without any notable seasonality. As at 30 June 2023, the Group's bank loans amounted to RMB49,539,359 thousand in aggregate and outstanding balance of SCPs amounted to RMB2,000,000 thousand in aggregate, which were applied mainly as working capital. All due debts had been settled. Bank loans and SCPs subject to interests at fixed rates amounted to approximately RMB9,729,050 thousand, while the remaining portion was subject to floating interest rates, the main details of which are as follows:

Analysed by short-term/long-term

Unit: RMB in thousands

Item	**30 June 2023**	31 December 2022
Bank loan		
Short-term bank loans	**9,686,353**	10,232,520
Long-term bank loans	**39,853,006**	35,125,988
SCPs	**2,000,000**	—
Total	**51,539,359**	45,358,508

Short-term bank loans included short-term borrowings and long-term borrowings due within one year.

Analysed by security

Unit: RMB in thousands

Item	**30 June 2023**	31 December 2022
Bank loan		
Secured bank loans	**131,206**	137,563
Unsecured bank loans	**49,408,153**	45,220,945
Unsecured SCPs	**2,000,000**	—
Total	**51,539,359**	45,358,508

For details of the Group's debt as at 30 June 2023, please refer to "Note V. 21 Short-term loans, 29 Short-term bond payable, 30 Non-current liabilities due within one year and 31 Long-term loans to the Financial Statements" in this report.

(4) Contractual obligations

As at 30 June 2023, the Group's total bank loans amounted to RMB49,539,359 thousand, increasing by RMB4,180,851 thousand compared to RMB45,358,508 thousand as at the end of last year, which was mainly applied towards working capital.

Unit: RMB in thousands

Item	30 June 2023	31 December 2022
Less than one year	**9,686,353**	10,232,520
Less than two years	**9,561,018**	7,437,773
Three to five years	**30,291,988**	27,688,215
Beyond five years	**—**	—
Total	**49,539,359**	45,358,508

(5) Capital expenditure

For the first half of 2023, the Group's capital expenditure, used mainly for purchase of equipment assets, capitalisation of R&D investment and construction of office buildings for its own use, amounted to RMB2,083,643 thousand, compared to RMB2,488,136 thousand for the same period last year.

(6) Capital commitment

Capital commitment represented mainly contract amounts under the Group's contracts for acquisition and construction of long-term assets or investment in and establishment of associates or joint ventures of which performance had not yet completed and which were not recognised in the financial statements.

Unit: RMB in thousands

Item	30 June 2023	31 December 2022
Contracted but not provided for		
Capital expenditure commitment	**2,233,784**	2,290,979
Investment commitment	**141,347**	191,347
Total	**2,375,131**	2,482,326

2.2.3.8 Shares

(1) Share capital and change

As at 30 June 2023, the total share capital of the Company was 4,775,316,231 shares (including 4,019,813,697 A shares and 755,502,534 H shares), increasing by 39,203,723 shares versus the previous year-end mainly as a result of the exercise of share options by participants under the 2020 Share Option Incentive Scheme.

(2) Repurchase, sale and redemption of securities

Neither the Company nor its subsidiaries repurchased, sold or redeemed any listed securities of the Company during the Reporting Period.

2.2.3.9 Subsequent events

There were no subsequent events after the Reporting Period.

2.2.4 Investment of the Group

As at 30 June 2023, the Company's long-term equity investments amounted to approximately RMB1,871,972 thousand, representing increase of 6.72% compared to approximately RMB1,754,030 thousand as at the previous year-end. Other third-party investments amounted to approximately RMB1,288,914 thousand, representing decrease of 16.42% compared to approximately RMB1,542,046 thousand as at the previous year-end. The change was attributable mainly to the disposal of equities held by a subsidiary fund partnership enterprise of Shenzhen ZTE Capital Management Company Limited ("ZTE Capital").

(1) The Group did not acquire any material equity investments in subsidiaries, associates or joint ventures or conduct any material non-equity investments in the first half of 2023.

(2) Principal subsidiaries and investee companies

For the first half of 2023, net profit of Shenzhen Zhongxing Software Company Limited ("Zhongxing Software") accounted for more than 10% of net profit on the face of the Group's consolidated income statement.

Unit: RMB in thousands

Name of company	Corporate type	Principal operations	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Software development	51,080	14,532,580	3,991,573	12,350,763	1,084,322	1,090,854

For details of other subsidiaries, associates and joint ventures of the Group, please refer to "Note VII. INTERESTS IN OTHER ENTITIES and Note XIV.4 Long-term equity investment to the Financial Statements" in this report. For details of changes in the Group's subsidiaries in the first half of 2023 and its impact please refer to "Note VI. CHANGE IN SCOPE OF CONSOLIDATION to the Financial Statements" in this report.

(3) Structured entities under the control of the Company

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

(4) Investment in securities

Details of shares in other listed companies held by the Group are as follows:

Unit: RMB in ten thousands

Stock code	Stock name	Initial investment	Book value at the beginning of the period	Gain/loss arising from fair value change for the period	Cumulative fair value change accounted for in equity	Amount purchased during the period	Amount disposed of during the period	Gain/loss for the period	Book value at the end of the period	Shareholding at the end of the period (10,000 shares)	Shareholding percentage at the end of the period
002579	China Eagle Electronic Note 1	365.6	343.8	21.8	–	–	422.8	79.0	–	–	–
835237	Lijia Technology Note 1	1,000.0	2,988.0	(915.2)	–	–	479.3	(612.0)	1,896.7	164.8	3.20%
688019	Anji Technology Note 1	434.9	5,831.0	1,110.5	–	–	–	1,058.4	6,941.4	42.1	0.43%
688630	Circuit Fabology Note 1	1,303.8	27,197.3	(9,477.4)	–	–	11,062.4	516.3	17,236.7	205.1	1.70%
301160	Xianglou New Material Note 1	1,350.0	3,323.6	191.4	–	–	–	221.4	3,515.0	100.0	1.34%
301319	Vital New Material Note 1	1,080.0	6,314.6	451.1	–	–	–	535.1	6,765.7	120.0	2.05%
301000	Hajime Note 1	1,809.8	5,380.1	(974.9)	–	–	2,953.0	1,048.0	3,500.9	190.9	1.10%
600734	ST Start Note 2	–	–	2,588.7	–	–	–	2,588.7	2,588.7	948.2	0.44%
ENA:TSV	Enablence Technologies Note 3	3,583.3	731.8	(2.7)	–	–	–	(2.7)	729.1	79.2	4.26%
Total		**10,927.4**	**52,110.2**	**(7,006.7)**	**–**	**–**	**14,917.5**	**5,432.2**	**43,174.2**	**–**	**–**

Note 1: The Company and Jiaxing Xinghe Venture Investment Management Company Limited, a wholly-owned subsidiary of ZTE Capital, held in aggregate 31.79% equity interests in Jiaxing Xinghe Equity Investment Partnership (Limited Partnership) ("Jiaxing Fund"). The Company and Changshu Changxing Capital Management Company Limited, a wholly-owned subsidiary of ZTE Capital, held in aggregate 25.83% equity interests in Suzhou Zhonghe Chunsheng Partnership Investment Fund III (Limited Partnership) ("Zhonghe Chunsheng Fund III"). Jiaxing Fund and Zhonghe Chunsheng Fund III are both partnerships reported in the consolidated financial statements of the Company. Figures corresponding to China Eagle Electronic and Lijia Technology are provided with Jiaxing Fund as the accounting subject. Figures corresponding to Anji Technology, Circuit Fabology, Xianglou New Material and Vital New Material are provided with Zhonghe Chunsheng Fund III as the accounting subject. Figures corresponding to Hajime are provided with Jiaxing Fund and Zhonghe Chunsheng Fund III as the accounting subjects. The aforesaid shareholdings were measure at fair value and accounted for as trading financial assets. Investments in the aforesaid securities were funded by issue proceeds.

Note 2: Shenzhen Xingfei Technology Company Limited ("Xingfei") had been an investee company of the Company in which the Company had a 4.9% shareholding. In August 2015, Fujian Start Group Co., Ltd. ("Start Group") acquired the entire equity interests in Xingfei by way of cash and share issuance, in connection with which the Company received a consideration of RMB10 million in cash and 9,482,218 shares in Start Group, which was unlocked for listing on 14 June 2023. Such shares were measured at fair value and accounted for as trading financial assets.

Note 3: ZTE (H.K.) Limited ("ZTE HK"), a wholly-owned subsidiary of the Company, acquired a total of 95 million shares in Enablence Technologies on January 2015 and February 2016. Following the asset reorganisation and share consolidation of Enablence Technologies in 2021, ZTE HK held 791,700 shares in Enablence Technologies. Such shareholdings were measure at fair value and accounted for as other non-current financial assets. Investments in the aforesaid securities were funded by internal resources.

(5) Derivative trading

Exchange volatility risk and related hedge

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. Through ongoing enhancement of end-to-end exchange risk management throughout its business processes, the Group seeks to reduce the impact of exchange rate volatility on the Group's operations at source through the use of measures such as business strategic guidance, internal settlement management, financing mix optimisation and value-protected derivative products on exchange rates. The Group also strengthens liquidity risk management in countries practicing exchange control and facilitates RMB pricing and settlement for overseas projects to lower its exchange risks in the long term.

Derivative trading for the purpose of value protection

As considered and passed at the tenth Meeting of the Ninth Session of the Board of Directors of the Company and the 2022 Annual General Meeting held on 10 March 2023 and 6 April 2023, respectively, the Group has conducted derivative trading in foreign exchange derivatives for value-protection hedging purposes with its internal funds during the first half of 2023. Details are as follows:

Unit: RMB ten thousands

Type of derivative trading	Initial investment amount	Fair-value gain/ loss for the period	Cumulative fair-value change included in equity	Investment gain	Amount purchased during the period	Amount disposed of during the period	Closing balance	Closing balance as a percentage of net assets at the end of the period
Foreign exchange derivative	1,730,850.0	(21,816.6)	1,111.1	(54,843.9)	6,490,571.6	6,459,278.1	1,762,143.5	27.72%

Items	Statement
Accounting policy and accounting audit principles	The Group's derivative trading is recognised in accordance with ASBE 22 — Recognition and Measurement of Financial Instruments and ASBE 24 — Hedge Accounting.
Actual gain/loss for the first half of 2023 and effectiveness of value-protection hedging	The Company has recognised gains/losses from investments in derivatives for the first half of 2023. Total loss recognised amounted to RMB767 million, comprising loss from fair-value change of RMB218 million and investment loss of RMB549 million. The hedged items incurred gain of RMB749 million for the first half of 2023 owing to the exchange rate movements. In summary, the Group recorded net loss of RMB18 million for the first half of 2023 on aggregation of value movements of the derivative hedge instruments and hedged items. All derivative trades of the Group were aimed at hedging and value protection. The hedged items such as foreign exchange assets, liabilities and hedging instruments were foreign exchange derivatives hex. The value movements in the hedge instruments effectively hedged the risk of value movements in the hedged item and basically achieved the expected goals in risk management.

Items	Statement
Risk analysis and control measures	1. Analysis of major risks: (1) Market risks: Gains or losses arising from the difference between the exchange rate for settlement of derivative trading contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the derivative. Effective gains or losses shall be represented by the cumulative gains or losses on revaluation on the maturity date; movements in the fair value of trade contracts provides a hedge against movements in the value of the corresponding risk assets, although there is still possibility that loss will be incurred; (2) Liquidity risks: The derivative trading was based on the budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on current assets was insignificant; (3) Credit risks: The counterparties of the derivative trading of the Group are financial institutions with sound credit ratings and long-standing business relationships with the Group therefore the transactions were basically free from performance risks; (4) Other risks: Failure of personnel in charge to operate derivative trading in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; obscure terms in the trade contract may result in legal risks. 2. Control measures adopted for risk prevention The Group addressed legal risks by entering into contracts with clear and precise terms with counterparty financial institutions and strictly enforcing its risk management system. The Group has formulated the "Risk Control and Information Disclosure System relating to Investments in Derivatives" that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.

Items	Statement
Specific opinion of Independent Non-executive Directors on the Company's derivative trading and risk control	The Group has conducted trading in hedging value-protection derivative by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Group has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Group has entered into contracts for derivative trading are organisations with sound operations and good credit standing. The derivative trades made by the Group have been closely related to their day-to-day operational requirements and the internal review procedures performed have been in compliance with the provisions of relevant laws and regulations and of the Articles of Association.

(6) Subscription for fund units by the Company

ZTE Zhongchuang (Xi'an) Investment Management Company Limited, a wholly-owned subsidiary of the Company, has subscribed for Shaanxi Zhongtou Zhanlu Tranche II Equity Investment Partnership Enterprise (Limited Partnership) ("Zhongtou Zhanlu Fund Tranche II") as general partner with a capital contribution of RMB2.50 million. The Company has subscribed for Zhongtou Zhanlu Fund Tranche II as limited partner with a capital contribution of RMB78 million. The fund size of Zhongtou Zhanlu Fund Tranche II was RMB200 million. Zhongtou Zhanlu Fund Tranche II has completed industrial and commercial registration and filing and registration as a private equity investment fund. For details, please refer to the "Overseas Regulatory Announcement Announcement on the subscription for Zhongtou Zhanlu Fund Tranche II" and "Overseas Regulatory Announcement Announcement on the completion of filing and registration of Zhongtou Zhanlu Fund Tranche II that participates in subscription" published by the Company on 15 December 2022 and 16 January 2023, respectively.

(7) Use of proceeds

☐Applicable ✓N/A

(8) Plans for material investments or acquisition of capital assets

During the first half of 2023, the Group did not conduct material investment or acquisition of capital assets. The performance and prospects of the Group's external investments have been disclosed in this chapter. The Group will arrange future plans for investment or acquisition of capital assets according to its strategic planning and the actual conditions of its operations.

(9) Material asset and equity disposal

The Group did not conduct any material equity disposal of subsidiaries, associates or joint ventures or material asset disposal during the first half of 2023.

2.2.5 Save as disclosed herein, there has been no material change in information disclosed in the interim report from the information disclosed in the 2022 Annual Report of the Company in relation to matters set out in Appendix 16 of the Hong Kong Listing Rules. There were no other matters required to be disclosed in this report.

2.3 BUSINESS OUTLOOK OF THE SECOND HALF OF 2023 AND RISK EXPOSURES

The business outlook and risk exposures for the second half of 2023 of the Group are as follows:

2.3.1 Business outlook for the second half of 2023

Looking to the second half of 2023, global political and economic landscape will remain subject to uncertainties, although the digital economy should enjoy thriving development, and efficient digital infrastructure should become the core fundamental capability of a digital society as the human world undergoes transformation towards digitalisation and intelligentisation. In China particularly, the digital economy will provide the engine for the qualitative social as well as economic development, as the deep integration between the digital industry and the real economy is taking place. The CT market segment represented by 5G and full-optical networks and the IT market segment represented by computing are also undergoing deep integration. As the "path-builder for digital economy", the Company will vigorously invest in the R&D of prospective technologies such as 5G-Advanced, 6G, AI large model and vertical model to reinforce the base of information infrastructure, whilst persisting in an approach of precision and pragmatism as it seizes opportunities in digital economy and AI in the domestic market and seeks sound operation in the international market focused on Big Ts and large networks in major nations.

In connection with carriers' networks, we will seize opportunities arising from the ongoing construction of traditional networks by carriers, focusing on customer value and striving for ongoing innovation and breakthrough in a bid to secure higher market shares and a more optimal market pattern to facilitate the transformation of its strategic position. Next, we will seize the opportunities presented by increased investment by carriers in the construction of cloud network and computing network to accelerate the development of computing products as represented by server and storage, data centre exchange, novel data centre and cloud computer. In the second half of the year, the Company expects to launch the latest platform AI server supporting large model training, distributed document and high-end multi-control RAID storage products. Finally, we will seize opportunities presented by the strategic transformation of carriers and explore opportunities for cooperation in more areas in a joint effort for deep innovation.

In connection with government and corporate business, the Company will seize opportunities in the markets of digitalisation, intelligentisation and low carbon operation to strengthen its diversification from CT technologies for traditional networks to IT technologies, as it continues to procure deep involvement with customers who are leading players in the Internet, finance, power and transportation sectors, among others, with a special emphasis on core products such as server and storage, data centre exchange, novel data centre and database, pursuing progress according to stated objectives.

In connection with the consumer business, the Company will persist in prudent development and enhance differentiated innovation to offer consumers with the experience of full-scenario intelligent life. In connection with handsets, our ongoing advancement in product innovation will be focused on mobile image and display experience. In connection with mobile Internet products, we will maintain our leading position in market share. In connection with home information terminal, on top of maintaining competitiveness in products in which we currently claim an edge, we will seek rapid development in smart home applications such as intelligent ubiquitous video, intelligent home security, intelligent light sensor and intelligent home appliance on the back of intelligent connectivity (such as FTTR, MESH, WiFi 7).

Facing challenges in the external environment, the Company will actively work in tandem with the dominant trend of digital economy and accelerate its expansion from CT sectors to IT sectors on the back of ongoing breakthroughs in fundamental core technologies, as it pursues transformation from a full-connectivity player to a computing player in a bid to procure long-term development.

2.3.2 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 with differences in macro-economy, policy and regulation and political and social backgrounds, the Group will continue to be exposed to risks relating to laws and regulations, taxation, exchange rates and political developments (such as war and domestic unrest), which might affect the operations of the Group. For the possible impact of risks relating to compliance on the operation of the Group, please refer to "Note XII. COMMITMENTS AND CONTINGENT EVENTS 2. Contingent events 2.5 to the Financial Statements" in this report. The Group ensures compliance primarily through the establishment of a complete compliance management regime to identify and comply with the laws and regulations and trade and taxation policy requirements in these countries.

(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 covering the entire business process 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 through control over the total amount and structured management of its interest-bearing liabilities. The total amount of interest-bearing liabilities is matched with the funding requirements of the Group's operational development. 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 by way of comprehensive control of interest rate risks through a mixed portfolio of long-term/short-term domestic and overseas loans denominated in RMB or foreign currencies with fixed 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.

III. CORPORATE GOVERNANCE

The Company improves its corporate governance systems and regimes and enhances the standard of regulated operations on an ongoing basis in accordance with requirements of the Company Law, Corporate Governance Standards for Listed Companies, Shenzhen Listing Rules, Hong Kong Listing Rules and other regulations. The General Meeting, Board of Directors, Supervisory Committee and management fulfil their respective roles with independent, efficient and transparent decision making. A strong emphasis is placed on shareholders' rights in a bid to actively reward the shareholders. Long-term incentive mechanisms, such as share option schemes, have been established to lay a foundation for the Company's long-term development in terms of talents.

3.1 SHAREHOLDERS AND GENERAL MEETINGS

3.1.1 Shareholders

(1) Total number of shareholders

As at 30 June 2023, there were 256,086 shareholders (comprising 255,780 holders of A shares and 306 holders of H shares).

(2) Shareholdings of top 10 shareholders and top 10 shareholders that were not subject to lock-up

As at 30 June 2023, all shares held by the top 10 shareholders of the Company were shares not subject to lock-up, namely the shareholdings of the top 10 shareholders not subject to lock-up and the shareholdings of the top 10 shareholders are identical, the details of which are as follows:

Unit: Share

Name of shareholders	Nature of shareholders	Percentage of shareholdings	Total number of shares held as at the end of the Reporting Period	Class of shares	Increase/decrease during the Reporting Period	Number of shares held subject to lock-up	Number of shares pledged, marked or frozen
Zhongxingxin Telecom Company Limited ("Zhongxingxin") Note1	Domestic general corporation	20.12%	958,940,400 2,038,000	A share H share	−46,900,000 –	–	Nil
HKSCC Nominees Limited Note2	Foreign shareholder	15.75%	752,324,215	H share	−36,789	–	Unknown
Hong Kong Securities Clearing Company Limited Note3	Foreign corporation	2.33%	111,247,562	A share	−1,373,842	–	Nil
NSF Portfolio #113	Others	0.99%	47,040,512	A share	−20,439,513	–	Nil
Central Huijin Asset Management Co., Ltd.	State-owned corporation	0.88%	42,171,534	A share	–	–	Nil
Hunan Nantian (Group) Co., Ltd.	State-owned corporation	0.87%	41,516,065	A share	–	–	Nil
Basic Pension Fund Portfolio #802	Others	0.76%	36,456,925	A share	−11,347,900	–	Nil
China Merchants Bank Co., Ltd. – Xingquan Herun Hybrid Securities Fund	Others	0.63%	30,144,233	A share	19,775,058	–	Nil
Basic Pension Fund Portfolio #15012	Others	0.56%	26,944,000	A share	–	–	Nil
NSF Portfolio #112	Others	0.55%	26,280,523	A share	−12,608,000	–	Nil
Descriptions of any connected party relationships or concerted actions among the above shareholders	Zhongxingxin was neither a connected party nor a party of concerted action of any of the top 10 shareholders. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top 10 shareholders.						
Description of the above-mentioned shareholders' delegated/entrusted voting rights and waiver of voting rights	N/A						
Strategic investor or general corporation becoming a top 10 shareholder as a result of new share placing (if any)	N/A						
Special description for the existence of special repurchase account among the top 10 shareholders (if any)	N/A						
Top 10 shareholders conducting any agreed repurchases during the Reporting Period	No						
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 shares.

Note 2: 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.

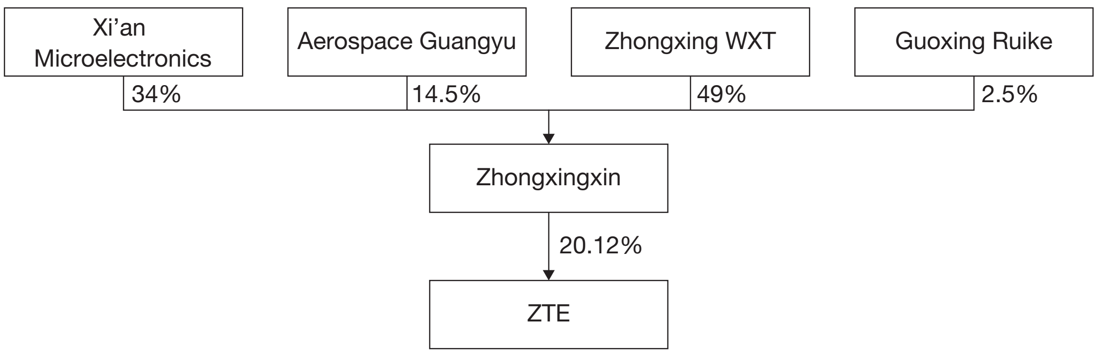
Note 3: Shares held by Hong Kong Securities Clearing Company Limited represented the sum of A shares in the Company purchased through Shenzhen Hong Kong Stock Connect (Northbound).

Note 4: Save as disclosed above, the Company had no longer corporate shareholders holding 10% or above of the Company's shares.

(3) Controlling shareholder

Zhongxingxin is the controlling shareholder of the Company and there was no change during the Reporting Period.

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") and Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership) ("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. The following diagram shows the shareholding relationship between the aforesaid entities and the Company as at 30 June 2023.



(4) Interests of substantial shareholders of the Company in shares and underlying shares required to be disclosed under the SFO and Hong Kong Listing Rules

As at 30 June 2023, the following shareholders held interests or short positions in 5% or more in various classes of the issued share capital of the Company, as shown in the share register maintained by the Company in accordance with Section 336 of the SFO:

Name	Capacity	Number of shares held	Shareholding as an approximate percentage (%) of Note: Total share capital	Class shares
Zhongxingxin	Beneficial owner	958,940,400 A shares (L)	20.08%	23.86%
Zhongxing WXT	Interests of corporate controlled by you	958,940,400 A shares (L)	20.08%	23.86%
Xi'an Microelectronics	Interests of corporate controlled by you	958,940,400 A shares (L)	20.08%	23.86%
China Aerospace Electronics Technology Research Institute	Interests of corporate controlled by you	958,940,400 A shares (L)	20.08%	23.86%
China Aerospace Science and Technology Corporation	Interests of corporate controlled by you	958,940,400 A shares (L)	20.08%	23.86%
BlackRock, Inc.	Interests of corporate controlled by you	65,122,036 H shares (L) 194,600 H shares (S)	1.36% 0.00%	8.62% 0.03%
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.80%	5.08%

(L) — Long position; (S) — Short position

Note: Shareholdings as percentage of total share capital and relevant class of shares was calculated on the basis of the Company's total share capital of 4,775,316,231 shares, comprising 4,019,813,697 A shares and 755,502,534 H shares, as at 30 June 2023.

For details of shares or debentures held by the Directors, Supervisors and chief executive of the Company as at 30 June 2023, please refer to the section headed "3.3.1 Shareholdings by Directors, Supervisors and senior management" in this report. Save as disclosed above, as at 30 June 2023, so far as the Directors, Supervisors and chief executive of the Company are aware, no other person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

3.1.2 Shares

(1) Changes in Shareholdings

Unit: shares

Type of shares	31 December 2022 Number of shares	31 December 2022 Percentage	Increase/decrease as a result of the change during the Reporting Period (+, -) New issue [Note]	Bonus issue	Transfer from capital reserve	Others	Sub-total	30 June 2023 Number of shares	30 June 2023 Percentage
I. Shares subject to lock-up	**728,243**	**0.02%**	**–**	**–**	**–**	**–**	**–**	**728,243**	**0.02%**
1. State-owned shares	–	–	–	–	–	–	–	–	–
2. State-owned corporate shares	–	–	–	–	–	–	–	–	–
3. Other domestic shares	–	–	–	–	–	–	–	–	–
Comprising: Domestic non-state-owned corporate shares	–	–	–	–	–	–	–	–	–
Domestic natural person shares	–	–	–	–	–	–	–	–	–
4. Foreign shares	–	–	–	–	–	–	–	–	–
Comprising: Foreign corporate shares	–	–	–	–	–	–	–	–	–
Foreign natural person shares	–	–	–	–	–	–	–	–	–
5. Shares held by Directors, Supervisors and senior management subject to lock-up	728,243	0.02%	–	–	–	–	–	728,243	0.02%
II. Shares not subject to lock-up	**4,735,384,265**	**99.98%**	**39,203,723**	**–**	**–**	**–**	**39,203,723**	**4,774,587,988**	**99.98%**
1. RMB ordinary shares	3,979,881,731	84.03%	39,203,723	–	–	–	39,203,723	4,019,085,454	84.16%
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H shares)	755,502,534	15.95%	–	–	–	–	–	755,502,534	15.82%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**4,736,112,508**	**100.00%**	**39,203,723**	**–**	**–**	**–**	**39,203,723**	**4,775,316,231**	**100.00%**

Note: The Company's total share capital was increased by 39,203,723 shares following the exercise of a total of 39,203,723 A share options by the participants under the 2020 Share Option Incentive Scheme of the Company during the first half of 2023.

(2) Changes in shares subject to lock-up during the Reporting Period

Unit: shares

No.	Name of shareholders subject to lock-up	Number of A shares subject to lock-up as at 31 December 2022	Number of A shares unlocked during the Reporting Period	Increase in the number of A shares subject to lock-up during the Reporting Period	Number of A shares subject to lock-up as at 30 June 2023	Reason for lock-up	Date of unlocking
1	Xie Daxiong	278,927	–	–	278,927	Shares held by Directors, Supervisors and senior management subject to lock-up	In accordance with Shenzhen Stock Exchange Self-disciplinary Regulatory Guide for Listed Companies No. 10 — Administration of Movements in Shares.
2	Xu Ziyang	126,000	–	–	126,000		
3	Wang Xiyu	104,275	–	–	104,275		
4	Xie Junshi	84,351	–	–	84,351		
5	Li Ying	71,625	–	–	71,625		
6	Xia Xiaoyue	38,195	–	–	38,195		
7	Ding Jianzhong	24,870	–	–	24,870		
	Total	**728,243**	**–**	**–**	**728,243**	**–**	**–**

(3) Issuance and listing of securities during the Reporting Period

The Company's total share capital increased by 39,203,723 shares following the exercise of a total of 39,203,723 A share options by the participants under the 2020 Share Option Incentive Scheme of the Company during the Reporting Period.

For details of the Company's issuance of SCPs during the Reporting Period, please refer to the section headed "6.1 BASIC INFORMATION ON DEBT FINANCING INSTRUMENTS OF NON-FINANCIAL ENTERPRISES" in this report.

The Company had no employees' shares or preferential shares.

3.1.3 Convening of General Meetings

On 6 April 2023, the Company convened the 2022 Annual General Meeting by way of a combination of on-site and online voting. Shareholders (proxy) representing 33.89% of the total number of shares of the Company entitled to vote at the meeting attended the meeting. Resolutions considered and approved at the meeting included, among others, "2022 Annual Report" and "Proposal for Profit Distribution for 2022". For details, please refer to the "Announcement on Resolutions of the 2022 Annual General Meeting" published by the Company on 6 April 2023.

3.1.4 Implementation of profit distribution

The "Profit Distribution Proposal for 2022" was considered and approved at the 2022 Annual General Meeting of the Company held on 6 April 2023. A dividend of RMB4 in cash (before tax) for every 10 shares was distributed based on the total share capital in issue of 4,739,624,618 shares as at the record date for profit distribution and dividend payment, equivalent to a total distribution amount of RMB1,895,849,847.2 (before tax). The dividend payment was completed in May 2023.

The aggregate profit distribution of the Company in the form of cash in 2020–2022 of RMB4,360 million accounted for 68.34% of the annual average net profit attributable to the holders of ordinary shares of the listed company in the past three years of RMB6,380 million, in compliance with Article 232 of the Articles of Association which states that "the aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years."

The Company did not conduct any adjustments or changes to its profit distribution policy during the Reporting Period.

The Company does not propose any profit distribution or conversion of capital reserve to share capital for the six months ended 30 June 2023.

3.1.5 Reception of investors

Details of reception of investors by the Company in the first half of 2023:

Nature	Time	Location	Mode	Audience received	Key contents discussed	Information furnished
Results presentation	April 2023	Shenzhen	Live Internet video broadcast + on-site meeting	Investors and securities analysts including Dacheng Fund, Guangfa Securities, Haitong Securities, Huatai Securities, Lianbo Fund, Minsheng Securities, Southern Fund, Credit Suisse, Tianfeng Securities, Western Securities, Xingquan Fund, Nomura Securities, E Fund, China Merchants Securities, Zheshang Securities, ZO Fund, CITIC Securities and China Securities Investor Services Center	Annual results and operating conditions of the Company	Published announcements and periodic reports
External meeting	January to June 2023	Shenzhen Shanghai Beijing Zhuhai Hangzhou Changsha	Telephone conference On-site meeting	Customers of Morgan Stanley, Founder Securities, USB, Guolian Securities, Guotai Jun'an Securities, Western Securities, CSC Financial, CITIC Securities, Guosen Securities, Cinda Securities, China Industrial Securities, Tianfeng Securities, Guangfa Securities and Guosheng Securities	Day-to-day operations of the Company	Published announcements and periodic reports

3.2 BOARD OF DIRECTORS

The Ninth Session of the Board of Directors of the Company comprised nine Directors, including three Executive Directors: Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying. Mr. Li Zixue is Chairman; three Non-executive Directors: Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong; and three Independent Non-executive Directors: Ms. Cai Manli, Mr. Gordon Ng and Mr. Zhuang Jiansheng. The current Board of the Company comprised two female members and the number of Independent Non-executive Directors was not less than one-third of the total number of Directors, bringing professional qualifications in finance, treasury, law and compliance. The diversified mix of the Board has brought us broad vision and high-standard professional experience. The composition of the Board of Directors was in compliance with the pertinent provisions of the Shenzhen Listing Rules and Rule 3.10 (1) and (2) of the Hong Kong Listing Rules.

The Audit Committee, Nomination Committee, Remuneration and Evaluation Committee and Export Compliance Committee have been formed under the Board of Directors of the Company. The Audit Committee of the Ninth Session of the Board of Directors of the Company comprised five members, including three Independent Non-executive Directors Ms. Cai Manli, Mr. Gordon Ng and Mr. Zhuang Jiansheng, and two Non-executive Directors Mr. Li Buqing and Mr. Zhu Weimin. The convenor of the Audit Committee is Ms. Cai Manli. The composition of the Audit Committee was in compliance with the Shenzhen Listing Rules and the provisions of Rule 3.21 of the Hong Kong Listing Rules.

The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also reviewed this report and the interim financial report for 2023 of the Group.

III. CORPORATE GOVERNANCE

3.3 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

3.3.1 Shareholdings by Directors, Supervisors and senior management

Name	Gender	Age	Title	Status of office	Term of office commencing on Note 1	Term of office ending on Note 1	Number of shares held at beginning of the Reporting Period (shares)	Increase in the number of shares held during the Reporting Period (shares)	Decrease in the number of shares held during the Reporting Period (shares)	Number of shares held at the end of the Reporting Period (shares)
Li Zixue	Male	59	Chairman	Incumbent	3/2022	3/2025	–	–	–	–
Xu Ziyang	Male	50	Director and President	Incumbent	3/2022	3/2025	168,000	–	–	168,000
Li Buqing	Male	50	Director	Incumbent	3/2022	3/2025	–	–	–	–
Gu Junying	Male	56	Director and Executive Vice President	Incumbent	3/2022	3/2025	–	–	–	–
Zhu Weimin	Male	57	Director	Incumbent	3/2022	3/2025	–	–	–	–
Fang Rong	Female	58	Director	Incumbent	3/2022	3/2025	–	–	–	–
Cai Manli	Female	49	Independent Non-executive Director	Incumbent	3/2022	6/2024	–	–	–	–
Gordon Ng	Male	58	Independent Non-executive Director	Incumbent	3/2022	6/2024	–	–	–	–
Zhuang Jiansheng	Male	57	Independent Non-executive Director	Incumbent	3/2022	3/2025	–	–	–	–
Xie Daxiong	Male	60	Chairman of Supervisory Committee	Incumbent	3/2022	3/2025	371,903	–	92,800	279,103
Xia Xiaoyue	Female	48	Supervisor	Incumbent	3/2022	3/2025	50,927	–	–	50,927
Li Miaona	Female	48	Supervisor	Incumbent	3/2022	3/2025	–	–	–	–
Jiang Mihua	Female	46	Supervisor	Incumbent	3/2022	3/2025	–	–	–	–
Hao Bo	Male	34	Supervisor	Incumbent	3/2022	3/2025	–	–	–	–
Wang Xiyu	Male	48	Executive Vice President	Incumbent	3/2022	3/2025	139,034	–	–	139,034
Li Ying	Female	45	Executive Vice President and Chief Financial Officer	Incumbent	3/2022	3/2025	95,500	–	–	95,500
Xie Junshi	Male	47	Executive Vice President	Incumbent	3/2022	3/2025	112,468	–	–	112,468
Ding Jianzhong	Male	46	Secretary to the Board of Directors	Incumbent	3/2022	3/2025	33,160	–	–	33,160
Total	**–**	**–**	**–**	**–**	**–**	**–**	**970,992**	**–**	**92,800**	**878,192**

Note 1: The term of appointment of the incumbent Directors, Supervisors and senior management commences and ends concurrently with the term of appointment of the Company's Directors and Supervisors with the Ninth Session of the Board of Directors and Ninth Session of the Supervisory Committee of the Company, and the term of appointment of the Company's senior management under the Ninth Session of the Board of Directors.

Note 2: All shares in the Company held by the Directors, Supervisors and senior management personnel of the Company in office were A shares and none of them held any H shares. The Supervisor of the Company sold down A shares in accordance with regulatory rules during the Reporting Period.

The Directors, Supervisors and senior management of the Company did not hold any equity interests in the subsidiaries of the Company.

Note 3: As at 30 June 2023, Mr. Zhang Changling, the spouse of Ms. Li Ying, held 13,334 2020 A shares options of the Company. Such share options have been recorded in the register required to be kept under the SFO.

Note 4: There was no financial, business, family or other material/connected relationships among the Directors, Supervisors and senior management of the Company.

For details of the A share options of the Company held by the Directors and Senior management of the Company, please refer to the section headed "3.5 SHARE SCHEME" in this report.

Save as disclosed above, as at 30 June 2023, 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 30 June 2023, 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.

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

3.3.2 Bases for determination of remuneration for Directors, Supervisors and senior management

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

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

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

3.3.3 Offices held by Directors, Supervisors and senior management

(1) Position held at shareholder unit

Name	Name of shareholder	Position with the shareholder	Commencement of term of office	Conclusion of term of office
Zhu Weimin	Zhongxingxin	Director	August 2021	August 2024
Jiang Mihua	Zhongxingxin	Supervisor	February 2022	August 2024
Hao Bo	Zhongxingxin	Deputy general manager	February 2023	August 2024

Note: Mr. Zhu Weimin's term of appointment commences and ends concurrently with the tenth session of the board of directors of Zhongxingxin. Ms. Jiang Mihua was appointed as supervisor of the tenth session of the supervisory committee of Zhongxingxin in February 2022. The term of her appointment will end concurrently with the term of the tenth session of the supervisory committee of Zhongxingxin. Mr. Hao Bo was appointed as deputy general manager of Zhongxingxin in February 2023.

(2) Positions held at other entities

Name	Name of other entities	Position in other entities
Li Buqing	Henan Aerospace Industry Company Limited	Chief accountant
	CASIC Shenzhen (Group) Company Limited	Director, chief accountant
	Shenzhen Aerospace Property Management Co., Ltd.	Director
	Shenzhen Aerospace Liye Industry Development Co., Ltd.	Chairman
	Shenzhen Zhongxing Information Company Limited	Director
	Shenzhen Hangxin Property Management Co., Ltd.	Director
Gu Junying	JINZHUAN Information Technology Co., Ltd.	Chairman, general manager
	Nanjing Zhongxing Jinyi Digital Technology Company Limited	Chairman
Zhu Weimin	Shenzhen ZTE International Investment Limited	Chairman
	Held positions in 4 subsidiaries of Shenzhen ZTE International Investment Limited including Beijing United ZTE International Investment Limited	Chairman/director
	Shenzhen Zhongxing WXT Company Limited	Director
	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	Director
	Hainan Xinghang Technology Co., Ltd.	Director
Fang Rong	Zhongxing Development Company Limited	Director, executive vice president
	Held positions in 8 subsidiaries or investees of Zhongxing Development Company Limited including Xiazhi Technology Company Limited	Chairman/director
	Shenzhen ZTE International Investment Limited	Director
	Beijing United ZTE International Investment Limited	Director
Cai Manli	Beijing King & Wood Mallesons	Senior consultant
	Shanghai Flyco Electrical Appliance Co., Ltd.	Independent director
	New Hope Liuhe Co., Ltd.	Independent director
	Kuangshi Technology Co., Ltd.	Independent director
	Lianchu Securities Co., Ltd.	Independent director
	Allmed Medical Products Co., Ltd.	Independent director
	China Communications Services Corporation Limited	Supervisor
Gordon Ng	Dentons Hong Kong LLP	Partner
	China Energine International (Holdings) Limited	Independent non-executive Director
	Mainland Headwear Holdings Limited	Independent non-executive Director
Zhuang Jiansheng	Shanghai Huiyue Law Firm	Partner
Xie Daxiong	Guangdong Newstart Technology & Service Company Limited	Chairman
	Guangzhou Huijian Testing Technology Company Limited	Chairman
Li Miaona	深圳市中興宜和投資發展有限公司	Chairman
Jiang Mihua	Shenzhen Aerospace Industrial Technology Research Institute Limited	Deputy head of finance department
	Shenzhen Aerospace Guangyu Industrial Company Limited	Director
	Aerospace Yinshan Electrical Company Limited	Director
Hao Bo	Held positions in 4 subsidiaries of Zhongxingxin including Pylon Technologies Co., Ltd.	Chairman of supervisory committee/director/supervisor
	Hainan Xinglian Private Equity Investment Fund Management Company Limited	Executive director, general manager
Wang Xiyu	Sanechips Technology Co., Ltd.	Chairman
	ZTE Optoelectronics Technology Company Limited	Chairman
	JINZHUAN Information Technology Co., Ltd.	Vice-chairman
Li Ying	ZTE Group Finance Company Limited	Chairman
	ZTE (H.K.) Limited	Chairman
	Shenzhen ZTE Jinkong Commercial Factoring Company Limited	Chairman
	Sanechips Technology Co., Ltd.	Director

Note 1: Change in positions held by Directors:

Mr. Li Buqing has ceased to be chief accountant of Shenzhen Aerospace Industrial Technology Research Institute Limited as from June 2023 and has been appointed chief accountant of Henan Aerospace Industry Company Limited with effect from June 2023.

Mr. Zhu Weimin has ceased to be chairman of Sanya Zhongxing Zhiyuan Technology Co., Ltd. and director of Shenzhen Techaser Technologies Co., Ltd. as from February 2023.

Ms. Fang Rong has ceased to be director of Jingmen Zhongxing Real Estate Co., Ltd. as from March 2023.

Ms. Cai Manli has ceased to be independent director of Guangzhou Jifei Technology Co., Ltd. as from April 2023 and external supervisor of Sichuan Xinwang Bank Co., Ltd. as from June 2023.

Note 2: Change in positions held by Supervisors:

Mr. Hao Bo has ceased to be executive director of Shenzhen Haina Jingying Management Consultant Company Limited as from April 2023 and director of Shenzhen Xinglian Digital Technology Company Limited as from June 2023.

3.4 STAFF OF THE GROUP

As at 30 June 2023, the Group had 72,736 employees. For the Reporting Period, the aggregate amount of the Group's staff remuneration was approximately RMB16.6 billion. The remuneration package for the Group's employees includes salary, bonuses and allowances. Our employees are also entitled to accident insurance, business travel insurance, housing allowance, retirement and other benefits. In accordance with relevant regulations of countries where the employees are located, the Group also participates in social insurance plans organised by the relevant government authorities, under which the Group makes contributions towards each employee's social insurance fund in an amount equivalent to a specified percentage of his/her monthly salaries. Meanwhile, to develop a long-term incentive and check mechanism, the Group has adopted share option incentive schemes in a timely manner. For details of the schemes, please of refer to "3.5 SHARE SCHEME" in this report.

Staff training provided by the Group includes induction training, general vocational aptitude training, job-specific business skill training, compliance training for all and leadership training. Such training sessions are conducted in the forms of job credits system, online learning programmes, class lessons, public lectures, shared book studies, case discussion, themed seminars, sand table drilling and project assignments, as well as online learning or remote learning via ZTE Digital Learning Platform. Training programmes, categorised into Levels I/II/III, will be arranged for new employees upon their induction according to their job positions, and instructors will be assigned to provide supervision. In-service staff may take part in group training, workshops or project assignment organised by the Group based on their job requirements, qualifications required for various positions and aptitude assessment results, or conduct online and offline self-learning based on their personal career planning. For management officers, the Group provides a combination of online and offline training comprising reading classes, close-ended training, guided reading, online learning and mission challenge.

3.5 SHARE SCHEME

The A share schemes implemented by the Company is the 2020 Share Option Incentive Scheme. The Company has not implemented any H share scheme. The subsidiaries of the Company do not operate any share scheme falling to be disclosed under Chapter 17 of the Hong Kong Listing Rules.

3.5.1 Summary of the 2020 Share Option Incentive Scheme

(1) Objective

The 2020 Share Option Incentive Scheme was aimed at improving the incentive systems of the Company, enhance the sense of responsibility and mission of the management and key business employees of the Company for the sound and sustainable development of the Company and safeguard the realisation of development targets of the Company.

(2) Participants and maximum limit of share options to be granted

Under the 2020 Share Option Incentive Scheme, 158,472,000 share options, accounting for approximately 3.31% of the Company's total share capital in issue and approximately 3.93% of the Company's total A share capital in issue as at the date of the publication of this report, under the initial grant was granted to 6,123 participants (including Directors, senior management of the Company and key employees of the Company but excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses, parents and children). The initial exercise price of the share options was RMB34.47 per A share.

Under the 2020 Share Option Incentive Scheme, 5,000,000 share options, accounting for approximately 0.10% of the Company's total share capital in issue and approximately 0.12% of the Company's total A share capital in issue as at the date of the publication of this report, under the reserved grant was granted to 410 participants who were key employees of the Company (excluding Directors, Supervisors, senior management, and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses, parents and children). The initial exercise price of the share options was RMB34.92 per A share.

The source of shares under the 2020 Share Option Incentive Scheme comprises A shares of the Company issued to the scheme participants by the Company by way of placing. Participants were not required to pay any consideration to the Company on application or acceptance of the share options. Under the 2020 Share Option Incentive Scheme, to the extent that the offer to grant an option is not accepted within 7 days from the date upon which it is made, it shall be deemed to have been irrevocably declined and lapsed automatically.

The number of A shares granted to a scheme participant upon exercise of his or her share options under the 2020 Share Option Incentive Scheme and other effective share schemes of the Company at any time must not exceed 1% of the Company's total A share capital in issue, and the maximum entitlement which may be granted to a scheme participant (including exercised, cancelled and unexercised share options) and awards within any 12-month period shall not exceed 0.1% of the Company's total A share capital in issue.

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

A. Share options under the initial grant

The initial grant of 2020 Share Option Incentive Scheme shall remain in force for 4 years from the date of grant of the initial grant (i.e. 6 November 2020). The valid period shall be from 6 November 2020 to 5 November 2024. The closing price of the Company's A shares on the trading date which is 1 day prior to the date of grant was RMB34.80 per share. There shall be a waiting period of 1 year from the date of grant, after which share options may be exercised in 3 exercise periods subject to fulfilment of the exercise conditions. The period from the date of grant up to the exercise date of the share options is the vesting period for the initial grant which has a duration of 12 months, 24 months or 36 months from the date of grant.

The share options may be exercised according to the following ratios if the exercise conditions have been fulfilled:

Exercise period	Duration	Exercisable share options as a percentage of the total number of share options granted
First exercise period	Commencing from the first trading day after expiry of the 12-month period from the date of initial grant and ending on the last trading day of the 24-month period from the date of initial grant	1/3
Second exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of initial grant and ending on the last trading day of the 36-month period from the date of initial grant	1/3
Third exercise period	Commencing from the first trading day after expiry of the 36-month period from the date of initial grant and ending on the last trading day of the 48-month period from the date of initial grant	1/3

The exercise conditions for the first exercise period under the initial grant of the 2020 Share Option Incentive Scheme were fulfilled and the vesting of 51,442,763 share options was completed on 17 November 2021. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB31.70 per share. The exercise conditions for the second exercise period under the initial grant were fulfilled and the vesting of 50,190,495 share options was completed on 29 November 2022. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB23.94 per share. As at the end of the Reporting Period, there were 50,317,018 unvested share options under the initial grant of the 2020 Share Option Incentive Scheme.

B. Share options under the reserved grant

The reserved grant of 2020 Share Option Incentive Scheme of the Company shall remain in force for 3 years from the date of grant of the reserved grant (i.e. 23 September 2021). The valid period shall be from 23 September 2021 to 22 September 2024. The closing price of the Company's A shares on the trading date which is 1 day prior to the date of grant was RMB33.80 per share. There shall be a waiting period of 1 year from the date of grant, after which share options may be exercised in 2 exercise periods subject to fulfilment of the exercise conditions. The period from the date of grant up to the exercise date of the share options is the vesting period for the reserved grant which has a duration of 12 months or 24 months from the date of grant.

The share options may be exercised according to the following ratios if the exercise conditions have been fulfilled:

Exercise period	Duration	Exercisable share options as a percentage of the total number of share options granted
First exercise period	Commencing from the first trading day after expiry of the 12-month period from the date of reserved grant and ending on the last trading day of the 24-month period from the date of reserved grant	1/2
Second exercise period	Commencing from the first trading day after expiry of the 24-month period from the date of reserved grant and ending on the last trading day of the 36-month period from the date of reserved grant	1/2

The exercise conditions for the first exercise period under the reserved grant of the 2020 Share Option Incentive Scheme were fulfilled and the vesting of 2,454,500 share options was completed on 13 October 2022. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB21.27 per share. As at the end of the Reporting Period, there were 2,454,500 unvested share options under the reserved grant of the 2020 Share Option Incentive Scheme.

(4) Volume of share options and adjustments

The volume of the initial grant under the 2020 Share Option Incentive Scheme was 158,472,000 share options:

Prior to the commencement of the first exercise period, in August and November 2021, the Company cancelled 3,796,661 share options previously granted to participants who were no longer qualified as such or share options for which exercise conditions under the first exercise period had not been fulfilled.

The first exercise period comprised the exercise dates within the period from 17 November 2021 to 5 November 2022, during which 67,411 share options were exercised out of a total of 51,442,763 share options exercisable by 5,956 participants (as adjusted). The 51,375,352 unexercised options as at the end of the exercisable period under the first exercise period were cancelled in November 2022.

Prior to the commencement of the second exercise period, in November 2022, the Company cancelled 2,725,063 share options previously granted to participants who were no longer qualified as such or share options for which exercise conditions under the second exercise period had not been fulfilled.

The second exercise period comprised the exercise dates within the period from 29 November 2022 to 3 November 2023, during which 50,190,495 share options are exercisable by 5,816 participants (as adjusted).

The volume of the reserved grant under the 2020 Share Option Incentive Scheme was 5,000,000 share options:

Prior to the commencement of the first exercise period, in September 2022, the Company cancelled 91,000 share options previously granted to participants who were no longer qualified as such.

The first exercise period comprised the exercise dates within the period from 13 October 2022 to 22 September 2023, during which 2,454,500 share options are exercisable by 402 participants (as adjusted).

The exercise price of the aforesaid cancelled options was RMB0.

3.5.2 Share options held and exercised by participants during the Reporting Period

The share options under the 2020 Share Option Incentive Scheme of the Company shall be exercised on a voluntary basis. During the Reporting Period, 52,644,995 A shares were issuable by the Company in respect of the 2020 Share Option Incentive Scheme, accounting for 1.31% of the weighted average A share capital of the Company in issue for the Reporting Period. A total of 37,575,023 share options were exercised during the second exercise period under the initial grant and the number of the Company's A shares increased by 37,575,023 shares accordingly. The exercise price was RMB34.47 per share. A total of 1,628,700 share options were exercised during the first exercise period under the reserved grant and the number of the Company's A shares increased by 1,628,700 shares accordingly. The exercise price was RMB34.92 per share. Funds required for the exercise of options were paid on the date on which the participants exercise the share options and were financed by the participants on their own. The Company would not provide any loans or any other forms of financial assistance to the participants for exercising the options. The proceeds received were placed in a designated account of the Company for use as supplementary working capital. The closing price of the Company's A shares on 30 June 2023 was RMB45.54 per share. Details of the holding and exercise of share options by participants during the Reporting Period are set out in the table below:

Name of participant	Position of participant	Number of unexercised options at the beginning of the Reporting Period	Number of options granted during the Reporting Period	Number of options exercisable during the Reporting Period	Number of options exercised during the Reporting Period	Number of options cancelled during the Reporting Period	Number of options lapsed during the Reporting Period	Number of unexercised options at the end of the Reporting Period	Weighted average closing price (RMB/share) Note 1
1. Share options under the initial grant									
Li Zixue	Chairman	120,000	0	60,000	0	0	0	120,000	N/A
Xu Ziyang	Director and President	120,000	0	60,000	0	0	0	120,000	N/A
Li Buqing	Director	33,334	0	16,666	0	0	0	33,334	N/A
Gu Junying	Director and Executive Vice President	120,000	0	60,000	0	0	0	120,000	N/A
Zhu Weimin	Director	33,334	0	16,666	0	0	0	33,334	N/A
Fang Rong	Director	33,334	0	16,666	0	0	0	33,334	N/A
Sub-total of Directors Note 2		**460,002**	**0**	**229,998**	**0**	**0**	**0**	**460,002**	**N/A**
Wang Xiyu	Executive Vice President	120,000	0	60,000	0	0	0	120,000	N/A
Li Ying	Executive Vice President and Chief Financial Officer	120,000	0	60,000	0	0	0	120,000	N/A
Xie Junshi	Executive Vice President	120,000	0	60,000	0	0	0	120,000	N/A
Ding Jianzhong	Secretary to the Board of Directors and Company Secretary	80,000	0	40,000	0	0	0	80,000	N/A
Sub-total of senior management		**440,000**	**0**	**220,000**	**0**	**0**	**0**	**440,000**	**N/A**
Other key employees of the Company		99,607,511	0	49,740,497	37,575,023	0	0	62,032,488	40.37
Total		**100,507,513**	**0**	**50,190,495**	**37,575,023**	**0**	**0**	**62,932,490**	**40.37**
2. Share options under reserved grant									
Other key employees of the Company		4,909,000	0	2,454,500	1,628,700	0	0	3,280,300	40.73
Total		**4,909,000**	**0**	**2,454,500**	**1,628,700**	**0**	**0**	**3,280,300**	**40.73**

Note 1: The weighted average closing price of the A shares of the Company on the trading day immediately preceding the date of exercise.

Note 2: To avoid repetition in counting, the number of share options granted to Mr. Xu Ziyang, Director and President and Mr. Gu Junying, Director and Executive Vice President, was included in the sub-total for Directors.

The grants of share options under the initial grant and reserved grant of the 2020 Share Option Incentive Scheme to participants were completed on 6 November 2020 and 23 September 2021 and no share options were granted to the participants during the Reporting Period. There were no outstanding ungranted options as at the beginning and the end of the Reporting Period.

Subsequent to the end of the Reporting Period up to the date of publication of this report, a total of 7,375,292 options for the second exercise period under the initial grant and 497,500 options for the first exercise period under the reserved grant of the 2020 Share Option Incentive Scheme were exercised. As at the date of publication of this report, a total of 55,557,198 A share options are unexercised under the initial grant of the 2020 Share Option Incentive Scheme of the Company, accounting for approximately 1.16% of the Company's total share capital in issue and 1.38% of the Company's A shares in issue. A total of 2,782,800 A share options are unexercised under the reserved grant, accounting for approximately 0.06% of the Company's total share capital in issue and 0.07% of the Company's A shares in issue. As at the date of publication of this report, the total number of shares available for issue under the 2020 Share Option Incentive Scheme is 58,339,998 shares, accounting for approximately 1.22% of the Company's total share capital in issue and 1.45% of the Company's A shares in issue.

3.5.3 Valuation of share options and related accounting policy, accounting treatment and financial impact

The Company has adopted the Binomial Tree model to calculate the value of share options under the 2020 Share Option Incentive Scheme. The estimated valuations of share options under the initial grant and share options under the reserved grant are RMB9.12 per A share and RMB7.22 per A share, respectively.

Specific accounting treatments of share options are set out in "Note III.18 Share-based payment to the Financial Statements" in this report. Accounting treatment and its impact on the financial conditions and operating results of the Company for the Reporting Period are set out in "Note XI Share-based payment to the Financial Statements" in this report.

3.6 COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Save as disclosed hereinafter, the Company was in compliance with other code provisions of the Corporate Governance Code set out in Appendix 14 of the Hong Kong Listing Rules during the Reporting Period.

In accordance with Code F.2.2 of the Corporate Governance Code, the Chairman of the Board is required to attend, and invite the chairmen of the Audit Committee, Remuneration Committee, Nomination Committee and any other committees to attend, the Annual General Meeting. Mr. Li Zixue, Chairman of the Company, was unable to attend and preside over the 2022 Annual General Meeting for work reasons. In accordance with pertinent provisions of the Articles of Association, the Directors unanimously elected Mr. Xu Ziyang, Director and President, to preside over the 2022 Annual General Meeting.

IV. ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

ZTE persists in the adherence to sustainability principles and actively implements "Dual Carbon" green development in genuine fulfilment of its corporate social responsibility to facilitate harmony and co-existence of the environment, community and stakeholders.

4.1 ENVIRONMENTAL INFORMATION

4.1.1 Pollution discharge

During the first half of 2023, ZTE and ZTE (Nanjing) Company Limited ("ZTE Nanjing"), a subsidiary of the Company, are the major environmental risk control units announced by environmental protection authorities. ZTE and ZTE Nanjing have adopted effective measures to ensure compliance of production operations with pertinent environmental laws and regulations, the details of which are as follows.

(1) Type of discharge: hazardous waste

(2) Name of major pollutants, total discharge volume, and approved total discharge volume:

Name of company	Name of major pollutants	Total discharge volume	Approved total discharge volume	Discharge exceeding limits
ZTE	Waste organic solvent and waste containing organic solvent	4.2855t	35.7795t	Compliant
	Waste mineral oil and waste containing mineral oil	1.198t	4.623t	Compliant
	Oil/water, hydrocarbon/hydro-mixture or emulsifier	8.2395t	40.845t	Compliant
	Organic resin waste	1.316505t	7.0575t	Compliant
	Waste containing mercury	0.7975t	3.123t	Compliant
	Waste containing lead	36.5624t	78t	Compliant
	Waste acid	0.011t	0.129t	Compliant
	Other waste	107.628265t	298.9965t	Compliant
ZTE Nanjing	Waste box containing lead and tin	1.6655t	4t	Compliant
	Waste empty container	15.5715t	35t	Compliant
	Waste circuit board	49.272t	150t	Compliant
	Waste bonding agent and sealant	4.144t	15t	Compliant
	Waste liquid containing solvent	145.5325t	476t	Compliant

(3) Mode of discharge: disposal by appointed parties

(4) Distribution of discharge outlets: production lines

(5) Applicable pollutant discharge standards: Pollution Control Standards for Hazardous Waste Storage

4.1.2 Environmental protection and related treatments

(1) Laws, regulations and industry standards pertaining to environmental protection

ZTE and ZTE Nanjing conduct its production activities in the course of its operation in strict compliance with national environmental laws and regulations and industry standards, including the Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Environmental Pollution by Solid Waste, National Catalogue of Hazardous Wastes, Pollution Control Standards for General Industrial Solid Waste Storage and Disposal Grounds, Pollution Control Standards for Hazardous Waste Storage.

(2) Pertinent environmental administrative permits

ZTE and ZTE Nanjing have conducted environmental impact assessments for construction projects in accordance with environmental laws and regulations and obtained environmental assessment approval documents from the environmental authorities and obtained relevant permits in accordance with environmental laws and regulations.

(3) Construction and operation of pollution prevention and treatment facilities

ZTE and ZTE Nanjing have installed independent hazardous waste warehouses handled by duly qualified suppliers in accordance with environmental protection requirements. Administrative systems and contingency plans have been formulated to improve their abilities to prevent and deal with environmental incidents and regular safety inspections are being conducted. All systems and facilities have been operating in good conditions.

(4) Environmental self-monitoring plan

ZTE and ZTE Nanjing have appointed qualified third-party environmental monitoring institutions to conduct tests on a regular basis to ensure compliance in the discharge of various pollutants.

(5) Contingency plans for unforeseen environmental incidents

ZTE and ZTE Nanjing have organised identification and assessment of environmental risks and formulated risk-specific preventive and improvement measures. Respective "Contingency Plans for Environmental Emergencies" formulated and announced have passed the assessment by experts and completed filing with the environmental authorities and drills have been organised regularly.

(6) Investment in environmental treatment and protection and payment of environmental tax

In the first half of 2023, the Group's total expenditure in environmental treatment and protection amounted to approximately RMB32.11 million, which has been applied in the handling of exhaust gas, sewage, hazardous waste and garbage, installation of environmental monitoring equipment, energy-saving conversion through R&D, production and administration, and green landscape in the plant areas. In the first half of 2023, the Group paid environmental taxes with an approximate amount of RMB310 thousand.

(7) Administrative punishments relating to environmental issues

The Group was not subjected to any administrative punishment relating to environmental issues in the first half of 2023.

(8) Measures and achievements in carbon reduction during the Reporting Period

As a company actively practising green development, the Group takes heed of the impact of its operations on the environment and has streamlined and improved the environmental management system in relation to its production and operation. In active fulfillment of its environmental duties, we give full consideration to the environmental effect of all operating segments. From the selection of product materials through R&D, manufacturing, sales, maintenance and retirement and recycling, stringent control is exercised at every step in an effort to minimise the environmental impact throughout the life cycle of our products, such that a green strategy is underpinning all business segments of the Company.

Meanwhile, as a path-builder for the digital economy, the Group persists in enhancing technological innovation to improve the energy efficiency of products and actively empower energy conservation and carbon reduction across the board in addition to consistently reducing the carbon emissions of its own operations, with a view to building a "shaded pathway for digital economy" for sustainable development on a global basis characterised by green and low-carbon features and contributing to the attainment of the dual carbon goal.

4.2 SOCIAL RESPONSIBILITY

In the first half of 2023, ZTE persisted in community welfare projects in education assistance, medical aid and environmental protection, among others, in active response to the call of national policies and organised its employees to participate in 142 sessions of voluntary service. In connection with the bid to consolidate achievements in poverty alleviation and assist in the rural revitalisation strategy, ZTE Charity Foundation has been included in the "List of National Social Organisations, Social Organisations in Eastern Provinces (Municipalities) and 160 Counties Entitled for Key National Assistance in Rural Revitalisation Named for Paired Assistance" published by the Ministry of Civil Affairs and National Rural Revitalization Administration, and has continued to launch initiatives in rural revitalisation, the details of which are as follows:

(1) In connection with educational assistance, we continued to improve the quality of our educational aid through both financial assistance and growth support. Financial assistance was provided to 1,100 underprivileged senior high school students from 12 schools in the five provinces of Gansu, Qinghai, Guangxi, Guizhou and Jiangxi through two projects: "ZTE Education Assistance for China" and "ZTE Angel Education Assistance Programme". Site selection research in Anhui and Jiangxi has been completed and educational aid programmes will commence at five schools, including Jinzhai Nanxi Secondary School, in the second half of the year. Meanwhile, we started general science education lessons at schools to introduce technology to 3,800 students, while sending 1,185 letters to students under the "Echo Programme" in an active response to the needs of students in growth.

(2) In connection with medical relief, we offered relief and support for crucial medical service in close tracking of the needs of patients. In the first half of the year, our initiative in providing relief based on disease types continued to contribute value, serving 71 pediatric patients suffering from three specific diseases: retinopathy of prematurity (ROP), primary immunodeficiency and refractory nephrotic syndrome. Through Vcare, we provided relief services to the families of 3,029 chronically hospitalised pediatric patients. In the meantime, precise assistance service was provided in a timely manner according to project needs, as "Light Passage", a service for subsidising ambulance transits for ROP pediatric patients in Guangdong Province, was subsequently introduced with an extended geographic scope of service in order to offer help to more pediatric patients in distress.

(3) In connection with rural revitalisation, we supported rural development through a variety of locally customised initiatives in poverty aid via job offers, digital village and infrastructure building, among others, in active response to fulfill the needs of rural areas. We launched the construction of digital villages, concrete roads and communal facilities for villagers in Linxia of Gansu, Kashgar of Xinjiang, Xiuwen of Guizhou and Baise of Guangxi to speed up the filling of gaps in rural development and livelihood, with a view to enhancing the sense of fulfilment, happiness and security for the people.

V. MATERIAL MATTERS

The Group's material matters during the first half of 2023 included litigation and arbitration, connection transactions, third-party guarantees and performance of undertakings, the details of which are set out as follows:

5.1 MATERIAL LITIGATION AND ARBITRATION

In first half of 2023, the Group did not incur any material litigation or arbitration as defined under the Shenzhen Listing Rules and Hong Kong Listing Rules. For the benefit of sufficiency in information disclosure. the Group's non-material litigation and arbitration proceedings are set out as follows for reference:

1. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB47,221,800). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand a compensation amount of BRL31,224,300 (equivalent to approximately RMB47,026,900) together with accrued interests and legal fees payable immediately by the Brazilian company (the "Primary Case"). In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional enforcement procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

   On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court (the "Sued Case") alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB125 million). The Company has appointed an attorney for active defense against the case.

   On 18 March 2022, the presiding judge of the Primary Case ruled that the valid period for the execution of the credit rights ruled in favour of ZTE Brazil expired on 13 June 2022. On 1 April 2022, ZTE Brazil filed an appeal against such ruling. Pursuant to Brazilian law, the valid period for an execution will not be suspended because of an appeal. Therefore, on 8 June 2022, ZTE Brazil applied to the Court of Brasilia, the court for the Primary Case, to request deliberation between the Court of Brasilia and Civil Court No. 15 of Sao Paulo City, Brazil, the court for the Sued Case, in support of the Brazilian subsidiary's application for the set-off of the credit rights ruled in favour in the Primary Case against any liabilities that may materialise in the event of an unfavourable ruling under the Sued Case. On 19 July 2022, the Court of Brasilia ruled in favour of the aforesaid application for set-off, confirming that, in the event of an unfavourable ruling against ZTE Brazil under the Sued Case, ZTE Brazil will be allowed to set off a compensation amount of BRL176,997,100 (as at the date of ruling, subject to inflationary adjustments as at the date of actual set-off) (equivalent to approximately RMB267 million).

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

   Note: The exchange rates are based on the book exchange rates of the Company as at 30 June 2023 where BRL amounts are translated at the exchange rate of BRL1: RMB1.5061.

2. In August 2020, China MCC20 Group Corporation ("MCC20") filed a litigation with the People's Court of Jinwan District, Zhuhai, Guangdong Province demanding progress payment together with outstanding interests in the amount of RMB12,307,000 in aggregate from ZTE Smart Auto. The People's Court of Jinwan District, Zhuhai, Guangdong Province ruled to freeze ZTE Smart Auto's cash at bank amounting to RMB12,307,000. ZTE Smart Auto has appointed an attorney for active response to the case.

   In September 2020, ZTE Smart Auto filed a counter-claim for a total amount of RMB17,958,000 and application for preservation with the court on the grounds that the work project involved in the case had been grossly overdue, the construction process had been subject to numerous penalties and a number of work items had required repair because of quality issues.

   In October 2020, MCC20 applied for change of its litigation claim, demanding ZTE Smart Auto to settle project work payment and related outstanding interests amounting in aggregate to RMB188 million, and the case was referred to Zhuhai Intermediate People's Court ("Zhuhai Intermediate Court").

   In December 2020, Zhuhai Intermediate Court ruled to freeze funds in ZTE Smart Auto's account with an amount of RMB15,865,000 and seize the land use rights of two sites under the name of ZTE Smart Auto.

   In January 2021, ZTE Smart Auto filed an application to increase the amount of counter-claim to RMB72,548,000 on the grounds that MCC20 had not applied for relevant certificates in a timely manner and the project work under the case had not passed the delivery inspection in one instance. Application was also made to the court for property preservation in relation to the additional amount of counter-claim.

   In November 2021, Zhuhai Intermediate Court ruled to approve the replacement of the aforesaid frozen and seized account funds and land use rights of two sites with RMB80 million and production equipment by ZTE Smart Auto.

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

3. On 2 August 2021, Xi'an Zhongxing New Software Company Limited ("Xi'an Zhongxing Software") filed litigation at Xi'an Intermediary People's Court against China Construction No. 8 Engineering Bureau Company Limited ("China Construction No. 8 Bureau") on the grounds that China Construction No. 8 Bureau had not completed and delivered project work within the agreed timeframe, demanding payment of delay penalty, rental loss and construction penalty with an aggregate amount of approximately RMB257 million to Xi'an Zhongxing Software by China Construction No. 8 Bureau.

   On 8 November 2021, China Construction No. 8 Bureau filed a counter-claim against Xi'an Zhongxing Software on the grounds that Xi'an Zhongxing Software had repeatedly made variations to its requirements, failed to honour payments in a timely manner and caused delay in work schedules owing to force majeure resulting in substantial loss for China Construction No. 8 Bureau, and demanded payment of project work amounts and work suspension and stalling loss with an aggregate amount of approximately RMB400 million by Xi'an Zhongxing Software to China Construction No. 8 Bureau.

   On 30 November 2021, Xi'an Intermediary People's Court held the first session of the first trial, at which the two parties exchanged evidence.

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

4. On 21 February 2022, 山東興濟置業有限公司 ("興濟置業") filed an litigation with Jining City Rencheng District People's Court ("Rencheng Court") against Shenzhen Zhongxing ICT Company Limited ("Shenzhen ICT") and Shandong Zhongxing ICT Company Limited ("Shandong ICT") on the grounds that the latter two had not fulfilled contractual agreements, demanding: (1) compensation for loss caused by default with a provisional amount of RMB90,499,085.06 to be paid by Shenzhen ICT and Shandong ICT in accordance with the law; (2) the assumption by Shenzhen ICT and Shandong ICT of agency fees, litigation fees and preservation fees incurred by 興濟置業 in connection with the case.

   On 29 April 2022, Shandong ICT received the civil case verdict for property preservation from Rencheng Court and civil litigation petition of 興濟置業. Rencheng Court ruled to freeze in aggregate RMB95 million bank deposits or seal properties with the corresponding value of Shenzhen ICT and Shandong ICT.

   On 26 May 2022, Shandong ICT received a writ of summons from Rencheng Court and an application for modification of litigation petition from 興濟置業, who had modified the litigation claim amount from RMB90,499,085.06 to RMB94,148,627.01.

   On 18 July 2022, the first trial commenced at Rencheng Court. No judgement has been passed down yet.

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

5.2 MATERIAL CONNECTED TRANSACTIONS

Material connected transactions of the Group as defined under Shenzhen Listing Rules are set out as follows:

(1) Connected transactions in the ordinary course of business

In the first half of 2023, the Group did not enter into any material connected transactions with a single connected party with an aggregate transaction amount of over RMB30 million and representing more than 5% of the Company's net assets as at 30 June 2023. Details of the Group's connected transactions with connected parties as considered and approved by the Board are set out as follows:

Unit: RMB in ten thousands

Counterparty	Nature of connection	Subject matter	Price	Transaction limit for 2023 approved by the Board	Transaction amount in first half of 2023	As a percentage of similar transactions (%)
Zhongxingxin and its subsidiaries and companies in which it held equity interests of 30% or above	Controlling shareholder of the Company and its subsidiaries and companies in which it held equity interests of 30% or above	Purchase of raw materials by the Company from the connected party	Cabinets and related accessories: RMB1-RMB50,000 per unit; antenna poles: RMB200–2,000 per piece; metallurgical press tools and moulds: RMB0.5–45,000 per set; FPC, R-FPC and components: RMB0.5–100 per piece; LiFePO4 battery: RMB8,500 per unit; battery accessories: RMB500–1,000 per unit; wiring equipment: RMB50–400 per unit; optical patch cord: RMB0–3,000 per unit; optical cable components: RMB0–500 per unit; machining tools, moulds and radiator: RMB40–9,000 per set; robot: RMB10,000–300,000 per set; industrial cameras: RMB5,000–200,000 per unit; industrial light source: RMB1,000–100,000 per set; graphic processing controllers: RMB500–150,000 per set; industrial light source controller: RMB500–50,000 per set; visual processing system: RMB2,000–600,000 per set; motion control system: RMB2,000–200,000 per set; industrial temperature test system: RMB10,000–200,000 per set; data collection system: RMB50,000–5,000,000 per set; smart patrolling system: RMB50,000–1,000,000 per set; smart factory construction sub-system: RMB100,000–1,000,000 per set; edge controller: RMB2,000–50,000 per set; intelligent quality management cloud platform: RMB100,000–1,000,000 per set. Actual prices are dependent on measurement, level of sophistication, materials used and functional features.	55,000	12,823.4	0.36%

V. MATERIAL MATTERS

Counterparty	Nature of connection	Subject matter	Price	Transaction limit for 2023 approved by the Board	Transaction amount in first half of 2023	As a percentage of similar transactions (%)
航天歐華信息技術有限公司	Subsidiary of a company for which a connected natural person of the Company held the office of chief accountant	Sale of full range of government and enterprise products by the Company to the connected party	Based on market prices and not lower than prices at which similar products of similar quantities were purchased by third parties from the Company, taking into consideration factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs.	130,000	39,130.5	0.64%
Huatong Technology Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of personnel hiring and project outsourcing services by the Company from the connected party	Special-grade engineer at a price ranging from RMB730–1,520 per head/day; Supervisory engineer at a price ranging from RMB560–1,150 per head/day; Senior engineer at a price ranging from RMB420–900 per head/day; Common engineer at a price ranging from RMB300–670 per head/day; Technician at a price ranging from RMB250–500 per head/day.	8,500	2,072.4	0.06%
ZTE Software Technology (Nanchang) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president	Purchase of personnel hiring and project outsourcing services by the Company from the connected party	Special-grade engineer at a price ranging from RMB730–1,520 per head/day; Supervisory engineer at a price ranging from RMB560–1,150 per head/day; Senior engineer at a price ranging from RMB420–900 per head/day; Common engineer at a price ranging from RMB300–670 per head/day; Technician at a price ranging from RMB250–500 per head/day.	8,500	2,348.0	0.07%
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited ("Zhongxing Hetai") or its subsidiaries	Subsidiary of a company for which a connected natural person of the Company acted as director and its subsidiaries	Purchase of hotel services by the Company from the connected party	Purchase price not higher than prices at which Zhongxing Hetai sells products (or services) to other customers purchasing similar products (or services) in similar amounts, subject to the actual agreement signed by the two parties. Hotel services purchased by the Group from Zhongxing Hetai included mainly hotel accommodation and conference and training venue. The purchase price of hotel accommodation ranged from RMB350–800/room/day, with variation depending on factors such as room type, seasonality and the number of breakfast included. The purchase price for conference and training venue ranged from RMB1,100–10,000/room/day, depending on factors such as size and capacity of the conference room.	4,800	2,578.9	0.07%
Zhongxing Hetai or its subsidiaries	Subsidiary of a company for which a connected natural person of the Company acted as director and its subsidiaries	Lease of property and related equipment and facilities by the Company to the connected party	In 2022–2023, the rental fee was RMB60/sq.m./month for hotel properties in Dameisha in Shenzhen; RMB53/sq.m./month for hotel properties in Nanjing; RMB72/sq.m./month for hotel properties in Shanghai; RMB41/sq.m./month for hotel properties in Xi'an. The rental fee for related equipment and facilities required by the hotel operations in Shenzhen, Shanghai, Nanjing and Xi'an was 1,050,000/year.	5,754	2,735.9	15.2%

The aforesaid connected parties were able to manufacture products required by the Group and provide quality products and services at competitive prices. The Company considers trustworthy and cooperative partners as very important and beneficial to the Group's operations. The Group was not dependent on the connected parties and the connected transactions would not affect the independence of the Group.

Connected parties from which the Company made purchases were selected through the Company's accreditation and bidding or negotiation procedures. Prices at which the purchase orders were entered into by the two parties were determined through arm's length negotiations and on the basis of normal commercial terms. Transaction prices at which products were sold by the Group to connected parties were based on market prices and were not lower than prices at which similar products and services of similar quantities were purchased by third parties from the Group, taking into consideration of factors relating to the specific transactions such as conditions of the projects, size of transaction and product costs. The prices of properties leased to connected parties by the Group were determined through arm's length negotiations based on normal commercial terms by reference to valuation of lease prices of properties and equipment facilities assessed by professional property values.

(2) Other connected transactions

In the first half of 2023, the Group had no connected transactions arising from acquisitions or disposals of assets or equity interests, nor connected transactions involving joint investment in third parties, nor creditors or debtors with connected parties, nor any connected financial companies. In the first half of 2023, there was no deposit, lending, credit facilities or other financial transactions between the financial company controlled by the Company and connected parties.

5.3 MATERIAL CONTRACTS AND THEIR PERFORMANCE

In the first half of 2023, the Group did not have any trust, contract management or lease of a material nature, entrusted wealth management, entrusted loans, loans to third parties or financial assistance or guarantee for associates or joint ventures. Third-party guarantees provided by the Group in the first half of 2023, are as follows:

(1) Overview of guarantee for third parties

As at 30 June 2023, the balance of the Group's third-party guarantee amounted to approximately RMB1,436,152,400, accounting for 2.26% of the Company's net assets as at 30 June 2023. Guarantee provided for parties with a gearing ratio of over 70% amounted to RMB1,302,222,900. There was no guarantee for connected third parties nor guarantee in violation of regulations. An overview of the third-party guarantees is set out as follows:

Unit: RMB in ten thousands

	Guarantee approved during the Reporting Period	Guarantee incurred during the Reporting Period	Guarantee approved at the end of the Reporting Period	Balance of actual guarantee at the end of the Reporting Period
Provide to third parties outside the Group	—	—	—	—
Provided by the Company on behalf of subsidiaries and vice versa	237,737.00	63,349.38	857,607.77	112,127.31
Provided by subsidiaries on behalf of fellow subsidiaries	87,094.80	23,014.15	97,131.42	31,487.93
Total	**324,831.80**	**86,363.53**	**954,739.19**	**143,615.24**

(2) Details of third-party guarantee

Guaranteed party	Date of domestic announcement	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Duration	Whether completed
1. Guarantee provided to third parties outside the Group: Nil							
2. Provided by the Company on behalf of subsidiaries and vice versa							
ZTE (H.K.) Limited Note 1	16 March 2018	USD100 million	–	–	Joint liability assurance	Not more than 66 months (from the date of effectiveness of any one debt financing agreement)	N/A
ZTE France SASU	14 December 2011	EUR10 million	N/A	–	Assurance	From maturity to the date on which performance of obligations of ZTE France under the "SMS Contract" and "PATES Contract" expires or terminates (whichever is later)	N/A
PT. ZTE Indonesia	19 February 2021	USD40 million	30 June 2021	USD40 million	Joint liability	Commencing on the date of issuance of the guarantee letter of the Company and ending upon the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed	No
		IDR400 billion	30 June 2021	IDR400 billion	Joint liability	Effective term of 3 years and 6 months or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed, whichever is later	No
PT. ZTE Indonesia	11 October 2022	IDR8,100 million	4 November 2022	IDR8,100 million	Joint liability	Commencing on the date of issuance of the guarantee letter of the Company and ending upon the date on which performance of obligations of PT. ZTE Indonesia under the "Private Network Equipment Purchase and Technical Support Contract" and "Agricultural Network Equipment Purchase and Technical Support Contract" are completed	No
11 overseas subsidiaries involved in the MTN Group project	17 March 2021	USD160 million	N/A	–	Joint liability	Commencing on the date of issuance of the guarantee certificate to MTN Group by the Company and ending upon the date of expiry of the "Framework Agreement", in any case not later than 5 years after the effective date of the "Framework Agreement"	N/A
		USD16 million	N/A	–	Joint liability	Commencing on the date of issuance of the performance bond and ending upon the date on which performance of obligations under the "Framework Agreement" and its subsidiary contract is completed	N/A
Xi'an Cris Semiconductor Technology Company Limited	25 June 2022	USD500 million	27 June 2022	USD79,829,400	Joint liability assurance	Commencing on the date on which the letter of guarantee comes into effect and ending upon on the conclusion of a consecutive 2-year period during which Cris has not ordered any manufacturing service from the supplier provided that no debt payment is due and outstanding	No
JINZHUAN Information Technology Co., Ltd. Note 2	22 April 2023	RMB200 million	27 April 2023	RMB54.10 million	Joint liability assurance	Three years from the maturity of the repayment period of the guaranteed debt	No
3. Provided by subsidiaries on behalf of fellow subsidiaries							
Netaş Bilişim Teknolojileri A.Ş.	N/A	USD2,153,300	14 November 2012	–	Joint liability	Commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which performance of the obligations of Netas Bilişim under the "Systems Integration Agreement" is completed.	No
BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş.	N/A	EUR10,753,800	5 May 2017	EUR10,753,800	Joint liability	Commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed	No
Netaş BiliŞim Teknolojileri A.Ş Note 3	11 March 2023	USD65 million	Note 3	USD22,269,500	Joint liability	Ending on the date on which the repayment of debt relating to the guarantee is completed	No
BDH BiliŞim Destek Hizmetleri Sanayi ve Ticaret.A.Ş. Note 3	11 March 2023	USD15 million	Note 3	USD1,428,900	Joint liability	Ending on the date on which the repayment of debt relating to the guarantee is completed	No
NETAŞ TELEKOMÜNŞKASYON A.Ş. Note 3	11 March 2023	USD30 million	Note 3	USD6,573,300	Joint liability	Ending on the date on which the repayment of debt relating to the guarantee is completed	No
Netaş Telecom Limited Liability Partnership Note 3	11 March 2023	USD10 million	Note 3	USD1,437,400	Joint liability	Ending on the date on which the repayment of debt relating to the guarantee is completed	No

Note 1: The Company sought medium/long-term debt financing (including but not limited to syndicate loans, bank facilities and the issue of corporate bonds) in Hong Kong, with ZTE HK, a wholly-owned subsidiary of the Company, as the principal. The Company provided guarantee by way of joint liability assurance for an amount of not more than USD600 million. The aforesaid guarantee was considered and passed at the Twenty-eighth Meeting of the Seventh Session of the Board of Directors and the 2017 Annual General Meeting of the Company. Out of the aforesaid guarantee limit, USD500 million had been utilised with a remainder of USD100 million.

Note 2: As considered and approved at the Eleventh Meeting of the Ninth Session of the Board of Directors of the Company, it was approved that a guarantee by way of joint-liability assurance would be provided in respect of a RMB200 million loan extended to subsidiary JINZHUAN Information Technology Co., Ltd. by the Beijing Bank. The aforesaid guarantee agreement was executed 27 April 2023. As at the end of the Reporting Period, the actual guarantee amount was RMB54.10 million.

Note 3: As considered and approved at the Tenth Meeting of the Ninth Session of the Board of Directors of the Company, the 2022 Annual General Meeting and the Netaş board of directors of NETAŞ TELEKOMÜNŞKASYON A.Ş. ("Netaş"), it was approved that a reciprocal joint-liability guarantee would be effected among Netaş and its subsidiaries in respect of composite credit facilities sought from financial institutions for an amount of not more than USD120 million. Netaş and BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ("BDH") shall provide credit guarantee for Netaş Bilişim Teknolojileri A.Ş. ("Netaş BiliŞim") within the guarantee limit. As at 30 June 2023, the balance of actual guarantee was USD22,269,500. Netaş and Netaş Bilişim shall provide credit loan guarantee for BDH within the guarantee limit. As at 30 June 2023, the balance of actual guarantee was USD1,428,900. Netaş Bilişim shall provide credit loan guarantee for Netaş within the guarantee limit. As at 30 June 2023, the balance of actual guarantee was USD6,573,300. Netaş shall provide credit loan guarantee for Netaş Telecom Limited Liability Partnership within the guarantee limit. As at 30 June 2023, the balance of actual guarantee was USD1,437,400.

Note 4: As considered and approved at the Tenth Meeting of the Ninth Session of the Board of Directors of the Company and the 2022 Annual General Meeting, the provision of performance guarantee amount of no more than USD300 million in aggregate for 4 subsidiaries was approved. The computations of the total amount of guarantee on behalf of subsidiaries approved for the Reporting Period and the total amount of guarantee on behalf of subsidiaries approved as at the end of the Reporting Period included a USD300 million guarantee provided for the 4 subsidiaries. As at 30 June 2023, the aforesaid guarantee amount had yet to be applied.

Note 5: No guarantee liability or potential joint repayment liability has been incurred during the Reporting Period in relation to the outstanding guarantees.

Note 6: The guarantee amounts were translated at the book exchange rates of the Company as at 30 June 2023: USD1: RMB7.2579; EUR1: RMB7.8798; IDR1: RMB0.00048386.

(3) Opinion of Independent Non-Executive Directors

For the special statement and independent opinion on the fund transfers between the Company and connected parties and third-party guarantees of the Company furnished by the Independent Non-Executive Directors of the Company, please refer to the "Overseas Regulatory Announcement" published by the Company on the same date as this report.

5.4 PERFORMANCE OF UNDERTAKINGS

Undertakings of the controlling shareholder of the Company are set out as follows:

(1) Undertaking to avoid competition in same business

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

During the first half of 2023, the undertaking was under normal performance and there was no instance of non-completion of the performance of undertaking after the end of the relevant period.

(2) Undertaking to disclose sell-down of shares

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

During the first half of 2023, the aforesaid undertaking was under normal performance and there was no instance of non-completion of the performance of undertaking after the end of the relevant period.

5.5 APPROPRIATION AND REPAYMENT OF NON-OPERATING FUNDS AND CREDIBILITY

During the first half of 2023, there was no appropriation of non-operating capital of the Company by the controlling shareholder and other connected parties. The Company and its controlling shareholder had no unfulfilled obligation ascertained by valid legal documents issued by the court or due and outstanding debt of a substantial amount.

5.6 PUNISHMENT AND RECTIFICATION

During the first half of 2023, there was no enforcement and criminal punishment in accordance with the law on alleged crimes, case investigation by CSRC or administrative penalty by CSRC or material administrative penalty by other competent authorities for alleged violations of laws and regulations, detainment for alleged material violations of discipline and law or crime in office by disciplinary authorities affecting the performance of their duties, or enforcement by other competent authorities for alleged violation of laws and regulations affecting the performance of their duties against the Company, its Directors, Supervisors, senior management or controlling shareholder.

5.7 OTHER MATERIAL MATTERS

The 2022 financial report of the Group has been audited by Ernst & Young Huaming LLP, who has furnished a standard audit report without qualified opinion. The interim financial report for 2023 was unaudited. Therefore the Board of Directors, the Supervisory Committee and the Independent Non-executive Directors are not required to furnish any statement pertaining thereto.

During the first half of 2023, the Company did not dismiss or change its accounting firm. As designated by Ernst & Young Huaming LLP, the previous signing certified accountant Ms. Zeng Cihua was replaced by Ms. Zhu Ting as a result of job reassignment. Ms. Zhu Ting qualified as a registered accountant in 2014 and has practised with Ernst & Young Huaming LLP since 2006. She started to provide audit service to the Company in 2023. She has over 15 years' extensive experience in the practices of reporting and auditing for listed companies and annual report auditing for listed companies.

During the first half of 2023, the Company was not subject to bankruptcy or reorganisation.

During the first half of 2023, save as matters disclosed in this report, there were no other discloseable material matters occurring to the Company or its subsidiaries that remained undisclosed.

VI. DEBT FINANCING INSTRUMENTS OF NON-FINANCIAL ENTERPRISES

The Company did not issue any enterprise bonds, corporate bonds and convertible bonds during the Reporting Period. Details of the non-financial corporate debt financing instruments issued by the Company are set out as follows:

6.1 BASIC INFORMATION ON DEBT FINANCING INSTRUMENTS OF NON-FINANCIAL ENTERPRISES

As considered and approved at the general meeting of the Company, it was approved that the Company would seek the consolidated registration with the National Association of Financial Market Institutional Investors ("NAFMII") for issuance of multiple types of debt financing instruments, including SCPs, short-term commercial paper, medium term note, perpetual note and asset-backed note. NAFMII has accepted the Company's registration of multiple types of debt financing instruments as aforesaid. The Company has issued SCPs during the effective term of registration without further application.

As at 30 June 2023, 48 tranches of SCPs issued by the Company for an aggregate issue amount of RMB54 billion had been repaid upon maturity. Information on the Company's SCPs issued and outstanding as at the date of this report is set out as follows:

Unit: RMB100 million

			2023				
Bond name	Bond abbreviation	Bond code	Issue date	Accrual date	Maturity date	Bond balance	Interest rate
2023 Tranche XLIX SCPs	23中興通訊SCP049	012382418	27 June	28 June	28 September	10	2.08%
2023 Tranche L SCPs	23中興通訊SCP050	012382417	27 June	28 June	28 September	10	2.08%
2023 Tranche LI SCPs	23中興通訊SCP051	012382500	30 June	3 July	28 September	20	2.35%
2023 Tranche LII SCPs	23中興通訊SCP052	012382501	30 June	3 July	28 September	10	2.35%
2023 Tranche LIII SCPs	23中興通訊SCP053	012382502	30 June	3 July	28 September	15	2.35%
2023 Tranche LIV SCPs	23中興通訊SCP054	012382503	30 June	3 July	28 September	10	2.35%
2023 Tranche LV SCPs	23中興通訊SCP055	012382504	30 June	3 July	28 September	10	2.35%
2023 Tranche LVI SCPs	23中興通訊SCP056	012382505	30 June	3 July	28 September	15	2.35%
2023 Tranche LVII SCPs	23中興通訊SCP057	012382506	30 June	3 July	28 September	25	2.35%
2023 Tranche LVIII SCPs	23中興通訊SCP058	012382639	13 July	14 July	28 September	10	2.17%
2023 Tranche LIX SCPs	23中興通訊SCP059	012382654	13 July	14 July	28 September	20	2.17%
2023 Tranche LX SCPs	23中興通訊SCP060	012382651	13 July	14 July	28 September	10	2.17%
2023 Tranche LXI SCPs	23中興通訊SCP061	012382643	13 July	14 July	28 September	10	2.17%
2023 Tranche LXII SCPs	23中興通訊SCP062	012382648	13 July	14 July	28 September	10	2.17%
2023 Tranche LXIII SCPs	23中興通訊SCP063	012382653	13 July	14 July	28 September	20	2.17%
2023 Tranche LXIV SCPs	23中興通訊SCP064	012382635	13 July	14 July	28 September	10	2.17%
2023 Tranche LXV SCPs	23中興通訊SCP065	012382729	20 July	21 July	28 September	20	2.16%
2023 Tranche LXVI SCPs	23中興通訊SCP066	012382730	20 July	21 July	28 September	20	2.16%
2023 Tranche LXVII SCPs	23中興通訊SCP067	012382750	21 July	24 July	28 September	10	2.16%
2023 Tranche LXVIII SCPs	23中興通訊SCP068	012382752	21 July	24 July	28 September	5	2.16%
2023 Tranche LXIX SCPs	23中興通訊SCP069	012382751	21 July	24 July	28 September	10	2.14%
2023 Tranche LXX SCPs (Scientific Innovation Notes)	23中興通訊SCP070 (Scientific Innovation Notes)	012382856	28 July	31 July	28 September	10	2.18%
Total	–	–	–	–	–	**290**	–

The SCPs issued by the Company were traded on the inter-bank bond market and subject to the inter-bank bond market trading mechanism. There was no risk of termination of listing and trading.

During the first half of 2023, there was no adjustment of ratings by credit rating agencies, no trigger or execution of issuer or investor option clause or investor protection clause. All SCPs issued by the Company had been repaid as due in one-off payments of principal and interest and there were no overdue bonds triggering guarantees, debt repayment schemes and other debt repayment assurance measures.

6.2 KEY ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP FOR THE PAST TWO YEARS

Item	30 June 2023	31 December 2022	Year-on-year increase/decrease
Current ratio	**1.96**	1.76	11.36%
Quick ratio	**1.34**	1.18	13.56%
Gearing ratio	**65.57%**	67.09%	Decreased by 1.52 percentage points

Item	Six months ended 30 June 2023	Six months ended 30 June 2022	Year-on-year increase/decrease
Net profit after extraordinary gain/loss attributable to holders of ordinary shares of the listed company (RMB in thousands)	**4,909,329**	3,725,359	31.78%
Debt-to-EBITDA ratio	**15.15%**	13.67%	Increased by 1.48 percentage points
Interest coverage ratio	**4.68**	6.49	(27.89%)
Cash interest coverage ratio	**6.94**	5.82	19.24%
EBITDA interest coverage ratio	**6.12**	8.74	(29.98%)
Loan repayment ratio	**100.00%**	100.00%	—
Interest repayment ratio	**100.00%**	100.00%	—

6.3 OTHER INFORMATION

There was no violation of rules and regulations by the Company during the first half of 2023, nor loss reported in consolidated statement for the year exceeding 10% of net assets at the end of last year.

VII. FINANCIAL REPORTS

Consolidated Balance Sheet

30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

Assets	Note V	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Current assets			
Cash	1	63,333,440	56,346,367
Trading financial assets	2	424,451	513,784
Derivative financial assets	3	103,799	132,125
Trade receivables	4A	16,664,839	17,751,390
Factored trade receivables	4A	24,252	81,525
Receivable financing	4B	1,625,044	3,712,142
Prepayments	5	156,780	278,724
Other receivables	6	2,438,058	1,346,935
Inventories	7	45,822,229	45,234,990
Contract assets	8	4,612,455	4,851,066
Other current assets	20	9,793,835	7,624,795
Total current assets		144,999,182	137,873,843
Non-current assets			
Long-term receivables	9	811,195	2,562,213
Factored long-term receivables	9	761	186,025
Long-term equity investments	10	1,871,972	1,754,030
Other non-current financial assets	11	864,463	1,028,262
Investment properties	12	2,008,977	2,010,627
Fixed assets	13	12,616,579	12,913,313
Construction in progress	14	1,210,942	964,004
Right-of-use assets	15	1,043,875	1,079,521
Intangible assets	16	7,648,264	7,341,866
Development costs	17	1,875,299	2,584,570
Goodwill	18	—	—
Deferred tax assets	19	3,716,413	3,718,544
Other non-current assets	20	7,519,249	6,936,756
Total non-current assets		41,187,989	43,079,731
TOTAL ASSETS		186,187,171	180,953,574

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

Consolidated Balance Sheet

30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

Liabilities	Note V	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Current liabilities			
Short-term loans	21	8,842,030	9,962,315
Bank advances on factored trade receivables	4A	25,444	84,550
Derivative financial liabilities	22	380,700	201,717
Bills payable	23A	9,426,622	10,629,852
Trade payables	23B	19,280,407	19,074,746
Contract liabilities	24	14,789,318	17,699,861
Taxes payable	25	1,269,252	1,447,082
Other payables	26	2,978,455	2,889,964
Salary and welfare payables	27	12,349,963	13,222,179
Provisions	28	1,469,642	2,549,490
Short-term bond payable	29	2,000,000	—
Non-current liabilities due within one year	30	1,289,836	661,744
Total current liabilities		74,101,669	78,423,500
Non-current liabilities			
Long-term loans	31	39,853,006	35,125,988
Bank advances on factored long-term trade receivables	9	761	195,210
Lease liabilities	15	730,024	788,649
Provision for retirement benefits	27	141,995	144,874
Deferred income		3,005,552	2,322,076
Deferred tax liabilities	19	84,705	87,144
Other non-current liabilities	32	4,173,663	4,322,910
Total non-current liabilities		47,989,706	42,986,851
Total liabilities		122,091,375	121,410,351

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

Consolidated Balance Sheet

30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

Shareholder's equity	Note V	**30 June 2023 (Unaudited)**	31 December 2022 (Audited)
Shareholder's equity			
Share capital	33	**4,775,316**	4,736,113
Capital reserves	34	**27,225,946**	25,892,832
Other comprehensive income	35	**(2,400,900)**	(2,352,743)
Surplus reserve	36	**3,029,811**	3,029,811
Special reserve	37	**52,222**	26,553
Retained profits	38	**30,884,924**	27,308,621
Total equity attributable to holders of ordinary shares of the parent		**63,567,319**	58,641,187
Non-controlling interests		**528,477**	902,036
Total shareholders' equity		**64,095,796**	59,543,223
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**186,187,171**	180,953,574

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

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

Consolidated Income Statement

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

	Note V	Six months ended 30 June 2023 (Unaudited)	Six months ended 30 June 2022 (Unaudited)
Operating revenue	39	60,704,794	59,818,300
Less: Operating costs	39	34,469,210	37,662,894
Taxes and surcharges	40	683,389	387,407
Selling and distribution costs	41	4,616,237	4,423,548
Administrative expenses	42	2,515,771	2,532,696
Research and development costs	43	12,791,032	10,151,500
Finance costs	45	(813,752)	303,745
Including: Interest expense		1,648,613	949,580
Interest income		1,839,701	1,141,487
Add: Other income	46	993,917	901,586
Investment income	47	(464,257)	671,223
Including: Gains from investment in associates and joint ventures		75,367	(56,564)
Losses from derecognition of financial assets at amortised cost		(106,780)	(108,165)
Gains/losses from changes in fair values	48	(430,990)	(392,234)
Credit impairment losses	49	(178,168)	(116,912)
Asset impairment losses	50	(277,146)	(160,771)
Gains from asset disposal	51	16,462	7,602
Operating profit		6,102,725	5,267,004
Add: Non-operating income	52	75,603	99,313
Less: Non-operating expenses	52	118,990	154,608
Total profit		6,059,338	5,211,709
Less: Income tax	53	667,086	665,057
Net profit		5,392,252	4,546,652
Analysed by continuity of operations			
Net profit from continuing operations		5,392,252	4,546,652
Analysed by ownership			
Holders of ordinary shares of the parent		5,472,153	4,565,826
Non-controlling interests		(79,901)	(19,174)
Other comprehensive income, net of tax		(51,431)	(4,457)
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	35	(48,157)	(2,646)
Other comprehensive income that will be reclassified to profit or loss			
Effective portion of hedge instruments		9,445	—
Exchange differences on translation of foreign operations		(57,602)	(2,646)
		(48,157)	(2,646)
Other comprehensive income attributable to non-controlling interests, net of tax		(3,274)	(1,811)
Total comprehensive income		5,340,821	4,542,195
Attributable to:			
Holders of ordinary shares of the parent		5,423,996	4,563,180
Non-controlling interests		(83,175)	(20,985)
Earnings per share (RMB/share)			
Basic	54	RMB1.15	RMB0.96
Diluted	54	RMB1.15	RMB0.96

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

Consolidated Statement of Changes in Equity

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

	Six months ended 30 June 2023 (Unaudited)								
	Equity attributable to holders of ordinary shares of the parent								
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Special reserve	Retained profits	Sub-total	Non-controlling interests	Total shareholders' equity
I. Previous period's closing balance	4,736,113	25,892,832	(2,352,743)	3,029,811	26,553	27,308,621	58,641,187	902,036	59,543,223
II. Changes during the period									
(I) Total comprehensive income	–	–	(48,157)	–	–	5,472,153	5,423,996	(83,175)	5,340,821
(II) Shareholder's capital injection and capital reduction									
1. Ordinary share injection from shareholders	39,203	1,662,756	–	–	–	–	1,701,959	29,821	1,731,780
2. Equity settled share expenses charged to equity	–	(280,996)	–	–	–	–	(280,996)	–	(280,996)
3. Disposal of subsidiaries	–	–	–	–	–	–	–	(3,155)	(3,155)
4. Others	–	(48,646)	–	–	–	–	(48,646)	–	(48,646)
(III) Profit appropriation									
1. Distribution to shareholders	–	–	–	–	–	(1,895,850)	(1,895,850)	(317,050)	(2,212,900)
(IV) Special reserve									
1. Allocated for the period	–	–	–	–	42,663	–	42,663	–	42,663
2. Utilised for the period	–	–	–	–	(16,994)	–	(16,994)	–	(16,994)
III. Current period's closing balance	4,775,316	27,225,946	(2,400,900)	3,029,811	52,222	30,884,924	63,567,319	528,477	64,095,796

	Six months ended 30 June 2022 (Unaudited)							
	Equity attributable to holders of ordinary shares of the parent							
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Sub-total	Non-controlling interests	Total shareholders' equity
I. Previous period's closing balance	4,730,796	25,359,964	(2,287,021)	3,027,154	20,651,196	51,482,089	1,805,571	53,287,660
II. Changes during the period								
(I) Total comprehensive income	–	–	(2,646)	–	4,565,826	4,563,180	(20,985)	4,542,195
(II) Shareholder's capital injection and capital reduction								
1. Ordinary share injection from shareholders	5,033	–	–	–	–	5,033	36,650	41,683
2. Equity settled share expenses charged to equity	–	326,902	–	–	–	326,902	–	326,902
3. Acquisition of non-controlling interests	–	(2,068)	–	–	–	(2,068)	(5,535)	(7,603)
4. Disposal of subsidiaries	–	–	–	–	–	–	(28,374)	(28,374)
(III) Profit appropriation								
1. Distribution to shareholders	–	–	–	–	(1,420,213)	(1,420,213)	(29,700)	(1,449,913)
III. Current period's closing balance	4,735,829	25,684,798	(2,289,667)	3,027,154	23,796,809	54,954,923	1,757,627	56,712,550

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

Consolidated Cash Flow Statement

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

		Note V	**Six months ended 30 June 2023 (Unaudited)**	Six months ended 30 June 2022 (Unaudited)
I.	**Cash flows from operating activities**			
	Cash received from sale of goods or rendering of services		**64,823,869**	67,593,369
	Refunds of taxes		**2,754,829**	3,935,121
	Cash received relating to other operating activities		**6,262,181**	2,848,097
	Sub-total of cash inflows		**73,840,879**	74,376,587
	Cash paid for goods and services		**37,457,589**	47,193,669
	Cash paid to and on behalf of employees		**17,255,190**	15,376,536
	Cash paid for various types of taxes		**4,322,570**	3,961,774
	Cash paid relating to other operating activities		**8,379,633**	4,344,974
	Sub-total of cash outflows		**67,414,982**	70,876,953
	Net cash flows from operating activities	55	**6,425,897**	3,499,634
II.	**Cash flows from investing activities**			
	Cash received from sale of investments		**6,792,478**	5,941,408
	Cash received from return on investment		**632,238**	441,612
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets		**93,265**	9,436
	Net cash received from the disposal of subsidiaries and other operating units		**30,000**	89,100
	Sub-total of cash inflows		**7,547,981**	6,481,556
	Cash paid to acquisition of fixed asset, intangible assets and other long-term assets		**1,990,360**	2,330,563
	Cash paid for acquisition of investments		**7,064,058**	5,041,165
	Other cash paid in relation to investing activities	55	**—**	72,098
	Sub-total of cash outflows		**9,054,418**	7,443,826
	Net cash flows from investing activities		**(1,506,437)**	(962,270)
III.	**Cash flows from financing activities**			
	Cash received from capital injection		**156,274**	124,823
	Including: Capital injection into subsidiaries by minority shareholders		**33,000**	36,650
	Cash received from borrowings		**134,891,520**	60,937,792
	Other cash received relating to financing activities		**1,900**	—
	Sub-total of cash inflows		**135,049,694**	61,062,615
	Cash repayment of borrowings		**128,705,607**	56,319,452
	Cash payments for distribution of dividends, profits and for interest expenses		**3,427,743**	2,346,793
	Including: Distribution of dividends, profits by subsidiaries to minority shareholders		**312,972**	75,905
	Other cash paid relating to financing activities	55	**198,296**	203,801
	Sub-total of cash outflows		**132,331,646**	58,870,046
	Net cash flows from financing activities		**2,718,048**	2,192,569
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**		**237,061**	280,649
V.	**Net increase in cash and cash equivalents**		**7,874,569**	5,010,582
	Add: cash and cash equivalents at the beginning of period		**47,071,729**	39,070,583
VI.	**Net balance of cash and cash equivalents at the end of period**	55	**54,946,298**	44,081,165

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

Balance Sheet

30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

Assets	Note XIV	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Current assets			
Cash		45,574,115	38,079,828
Trading financial assets		25,886	—
Derivative financial assets		90,632	127,765
Trade receivables	1	29,166,899	29,741,726
Receivable financing		1,946,075	3,448,350
Factored trade receivables		24,252	82,430
Prepayments		19,450	51,015
Other receivables	2	29,865,810	32,289,047
Inventories		14,877,564	16,414,551
Contract assets		3,396,751	3,769,504
Other current assets		4,253,738	2,015,773
Total current assets		129,241,172	126,019,989
Non-current assets			
Long-term trade receivables	3	3,826,588	5,422,831
Factored long-term trade receivables		761	191,551
Long-term equity investments	4	17,917,405	17,342,618
Other non-current financial assets		677,586	614,422
Investment properties		1,609,500	1,611,000
Fixed assets		5,582,010	5,748,004
Construction in progress		712,267	549,962
Right-of-use assets		494,362	529,228
Intangible assets		2,786,945	2,912,146
Development costs		189,866	223,784
Deferred tax assets		1,135,776	1,417,731
Other non-current assets		5,431,519	4,668,062
Total non-current assets		40,364,585	41,231,339
TOTAL ASSETS		169,605,757	167,251,328

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

Balance Sheet

30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

Liabilities and shareholders' equity	Note XIV	30 June 2023 (Unaudited)	31 December 2022 (Audited)
Current liabilities			
Short-term loans		5,216,817	5,500,000
Bank advances on factored trade receivables		25,444	84,550
Derivative financial liabilities		366,170	201,697
Bills payable		14,322,553	13,950,730
Trade payables		25,929,380	30,639,060
Contract liabilities		12,298,280	14,273,269
Salary and welfare payables		6,968,711	7,345,309
Taxes payable		101,519	172,074
Other payables		6,944,641	6,633,041
Provisions		833,160	1,891,295
Short-term bond payable		2,000,000	—
Non-current liabilities due within one year		852,910	148,185
Total current liabilities		75,859,585	80,839,210
Non-current liabilities			
Long-term loans		34,410,950	30,478,854
Bank advances on factored long-term trade receivables		761	195,210
Lease liabilities		384,613	412,934
Provision for retirement benefits		141,995	144,874
Deferred income		190,096	107,174
Other non-current liabilities		1,696,560	1,883,469
Total non-current liabilities		36,824,975	33,222,515
Total liabilities		112,684,560	114,061,725
Shareholders' equity			
Share capital		4,775,316	4,736,113
Capital reserves		27,306,837	25,943,902
Other comprehensive income		772,100	747,247
Surplus reserve		2,368,055	2,368,055
Special reserve		34,679	11,044
Retained profits		21,664,210	19,383,242
Total shareholders' equity attributable to holders of ordinary shares		56,921,197	53,189,603
Total shareholders' equity		56,921,197	53,189,603
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		169,605,757	167,251,328

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

Income Statement

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

	Note XIV	**Six months ended 30 June 2023 (Unaudited)**	Six months ended 30 June 2022 (Unaudited)
Operating revenue	5	**66,041,626**	55,906,298
Less: Operating costs	5	**52,930,437**	47,675,351
Taxes and surcharges		**299,491**	107,427
Selling and distribution costs		**2,553,278**	2,482,615
Administrative expenses		**1,989,783**	2,164,419
Research and development costs		**3,535,918**	1,935,144
Finance costs		**(809,666)**	(488,770)
Including: Interest expense		**1,163,538**	624,809
Interest income		**1,299,532**	871,611
Add: Other income		**53,649**	82,408
Investment income	6	**(424,044)**	85,125
Including: Gains from investment in associates and joint ventures	6	**75,012**	(53,453)
Losses from derecognition of financial assets at amortised cost		**(42,508)**	(52,798)
(Losses)/gains from changes in fair values		**(173,766)**	29,044
Credit impairment losses		**(103,679)**	(148,713)
Asset impairment losses		**(388,340)**	(132,538)
Gains from asset disposal		**1,572**	4,521
Operating profit		**4,507,777**	1,949,959
Add: Non-operating income		**47,073**	68,054
Less: Non-operating expenses		**35,913**	40,362
Total profit		**4,518,937**	1,977,651
Less: Income tax		**342,119**	9,252
Net profit		**4,176,818**	1,968,399
Including: net profit from continuing operations		**4,176,818**	1,968,399
Analysed by ownership			
Attributable to holders of ordinary shares		**4,176,818**	1,968,399
Other comprehensive income, net of tax		**24,853**	3,334
Other comprehensive that will be reclassified to profit or loss			
Effective hedging instruments		**9,445**	—
Exchange differences on translation of foreign operations		**15,408**	3,334
Total comprehensive income		**4,201,671**	1,971,733
Attributable to:			
Holders of ordinary shares		**4,201,671**	1,971,733

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

Statement of Changes in Equity

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

	Six months ended 30 June 2023 (Unaudited)							
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Special reserve	Retained profits	Total equity of holders of ordinary shares	Total shareholders' equity
I. Closing balance of previous period	4,736,113	25,943,902	747,247	2,368,055	11,044	19,383,242	53,189,603	53,189,603
II. Changes during the period								
(I) Total comprehensive income	–	–	24,853	–	–	4,176,818	4,201,671	4,201,671
(II) Shareholder's capital injection and capital reduction								
1. Shareholder's ordinary share capital injection	39,203	1,692,577	–	–	–	–	1,731,780	1,731,780
2. Equity settled share expenses charged to equity	–	(280,996)	–	–	–	–	(280,996)	(280,996)
3. Others	–	(48,646)	–	–	–	–	(48,646)	(48,646)
(III) Profit appropriation								
1. Distribution to shareholders	–	–	–	–	–	(1,895,850)	(1,895,850)	(1,895,850)
(IV) Special reserve								
1. Allocated for the period	–	–	–	–	33,425	–	33,425	33,425
2. Utilised for the period	–	–	–	–	(9,790)	–	(9,790)	(9,790)
III. Current period's closing balance	4,775,316	27,306,837	772,100	2,368,055	34,679	21,664,210	56,921,197	56,921,197

	Six months ended 30 June 2022 (Unaudited)						
	Share capital	Capital reserves	Other comprehensive income	Surplus reserve	Retained profits	Total equity of holders of ordinary shares	Total shareholders' equity
I. Closing balance of previous period	4,730,796	25,387,579	714,191	2,365,398	13,100,762	46,298,726	46,298,726
II. Changes during the period							
(I) Total comprehensive income	–	–	3,334	–	1,968,399	1,971,733	1,971,733
(II) Shareholder's capital injection and capital reduction							
1. Capital injection from shareholder	5,033	–	–	–	–	5,033	5,033
2. Equity settled share expenses charged to equity	–	326,902	–	–	–	326,902	326,902
(III) Profit appropriation							
1. Distribution to shareholders	–	–	–	–	(1,420,213)	(1,420,213)	(1,420,213)
III. Current period's closing balance	4,735,829	25,714,481	717,525	2,365,398	13,648,948	47,182,181	47,182,181

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

Cash Flow Statement

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

		Six months ended 30 June 2023 (Unaudited)	Six months ended 30 June 2022 (Unaudited)
I.	**Cash flows from operating activities**		
	Cash received from sale of goods or rendering of services	71,639,221	64,809,387
	Refunds of taxes	1,697,747	1,346,705
	Cash received relating to other operating activities	1,211,549	1,186,076
	Sub-total of cash inflows	74,548,517	67,342,168
	Cash paid for goods and services	62,483,783	55,398,229
	Cash paid to and on behalf of employees	5,506,492	4,907,145
	Cash paid for various types of taxes	739,584	871,517
	Cash paid relating to other operating activities	3,491,303	3,454,258
	Sub-total of cash outflows	72,221,162	64,631,149
	Net cash flows from operating activities	2,327,355	2,711,019
II.	**Cash flows from investing activities**		
	Cash received from sale of investments	4,810,663	4,967,520
	Cash received from return on investments	3,245,813	876,982
	Net cash received from the disposal of fixed assets, intangible assets and other long-term assets	36,029	8,810
	Cash received relating to other investing activities	655,899	31,098
	Sub-total of cash inflows	8,748,404	5,884,410
	Cash paid to acquisition of fixed asset, intangible assets and other long-term assets	881,528	1,024,658
	Cash paid for acquisition of investments	5,532,233	4,149,556
	Other cash paid in relation to investing activities	15,935	563,574
	Sub-total of cash outflows	6,429,696	5,737,788
	Net cash flows from investing activities	2,318,708	146,622
III.	**Cash flows from financing activities**		
	Cash received from capital injection	123,283	88,173
	Cash received from borrowings	70,707,689	47,668,667
	Other cash received in relation to financing activities	16,951	3,025,406
	Sub-total of cash inflows	70,847,923	50,782,246
	Cash repayment of borrowings	64,519,607	42,543,868
	Cash payments for distribution of dividends and profits or for interest expenses	2,734,130	1,977,672
	Other cash paid in relation to financing activities	83,054	3,111,258
	Sub-total of cash outflows	67,336,791	47,632,798
	Net cash flows from financing activities	3,511,132	3,149,448
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	92,949	181,926
V.	**Net increase in cash and cash equivalents**	8,250,144	6,189,015
	Add: cash and cash equivalents at the beginning of the period	30,896,841	17,381,816
VI.	**Net balance of cash and cash equivalents at the end of the period**	39,146,985	23,570,831

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

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

Note: Items in the notes to the financial statements marked with # are additional disclosures provided in compliance with the Companies Ordinance of Hong Kong and the Hong Kong Listing Rules.

I. CORPORATE BACKGROUND

ZTE Corporation (the "Company") was a joint stock limited liability company incorporated in Guangdong Province, the People's Republic of China. The Company's A shares were listed on the main board of the Shenzhen Stock Exchange following an initial public offering in November 1997. It became the first A share company to be listed on the Main Board of the Hong Kong Stock Exchange following an initial public offering of H shares in December 2004.

The Company is a world-leading listed integrated telecommunications equipment manufacturer and a provider of integrated global telecommunications solutions dedicated to the provision of ICT products and solutions that satisfy the needs of customers, integrating design, development, production, sales and services with a special focus on carriers' networks, government and corporate business and consumer business.

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

The financial statements were approved by the Board of Directors of the Company by way of resolution on 18 August 2023.

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

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements are prepared on a going concern basis.

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

The specific accounting policies and accounting estimation prepared by the Group based on actual production and operation characteristics mainly include provisions for trade receivables and bad debts, inventory pricing, government grants, revenue recognition and measurement, deferred development costs, depreciation of fixed assets, amortisation of intangible assets and measurement of investment properties.

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2023 and the results of their operations and their cash flows for the six months ended 30 June 2023.

2. Accounting period

The accounting period o the Group is based on the calendar year. The accounting period of these interim financial statements is from 1 January to 30 June.

3. Reporting currency

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

3. Reporting currency (continued)

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

4. Business combination

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

(1) Business combinations involving entities under common control

A business combination involving entities under common control is a business combination in which all of the combining entities are ultimately controlled by the same party or parties both before and after the business combination, and that control is not transitory.

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

(2) Business combinations not involving entities under common control

A business combination not involving entities under common control is a business combination in which all of the combining entities are not ultimately controlled by the same party or parties both before and after the business combination.

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

5. Consolidated financial statements

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

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

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

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

For subsidiaries obtained through a business combination involving entities under common control, the operating result and cash flow of the party being combined will be recognised in consolidated financial statement from the beginning of the period during which the combination occurs. In preparing the comparative consolidated financial statements, adjustments were made to relevant items in financial statements in previous periods as if the reporting entity formed after the consolidation had been in existence since the ultimate controlling party started to exercise effective control.

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

6. Classification of joint venture arrangements and joint operation

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

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

7. Cash and cash equivalents

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

8. Foreign currency translation

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

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

The Group translates the functional currencies of foreign operations into Renminbi when preparing the financial statements. Asset and liability items in the balance sheet are translated at the spot exchange rate prevailing at the balance sheet date. Shareholders' equity items, except for retained profits, are translated at the spot exchange rates at the date when such items arose. Income and expense items in the income statement are translated using the average exchange rate for the periods when transactions occur (unless the adoption of such exchange rate is considered inappropriate owing to exchange rate fluctuations, in which case the spot exchange rate prevailing on the date of transaction shall be adopted). Translation differences arising from the aforesaid translation of financial statements denominated in foreign currency shall be recognised as other comprehensive income. When foreign operations are disposed, other comprehensive income relating to the foreign operation is transferred to current profit or loss. Partial disposal shall be recognised on a pro-rata basis.

Cash flows denominated in foreign currencies and foreign subsidiaries' cash flows are translated using the average exchange rate for the period when cash flows occur (unless the adoption of such exchange rate is considered inappropriate owing to exchange rate fluctuations, in which case the spot exchange rate prevailing on the date on which the cash flow is incurred shall be adopted). The impact on cash by the fluctuation of exchange rates is presented as a separate line item of reconciliation in the cash flow statement.

9. Financial instruments

Financial instruments refer to the contracts which give rise to a financial asset in one entity and a financial liability or equity instrument in another entity.

(1) Recognition by classification and initial valuation

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

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

(1) Recognition by classification and initial valuation (continued)

(a) Classification and initial valuation of financial assets

At initial recognition, the Group classifies its financial assets into: financial assets at amortised cost, or financial assets at fair value through other comprehensive income and financial assets at fair value through profit or loss according to the Group's business model for managing financial assets and the contract cash flow characteristics of the financial assets.

Financial assets are measured at fair value at initial recognition, provided that trade receivables or bills receivable not containing significant financing components or for which financing components of not more than 1 year are not taken into consideration shall be measured at their transaction prices at initial recognition. For financial assets at fair value through profit or loss, the relevant transaction costs are directly recognised in profit or loss; for other financial assets, the relevant transaction costs are recognised in their initial recognition amount.

(b) Classification and initial valuation of financial liabilities

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

(2) Subsequent measurement

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

i. Debt instruments at amortised cost

Financial assets fulfilling all of the following conditions are classified as financial assets at amortised cost: the objective of the Group's business management model in respect of Such type of financial assets is to generate contract cash flow; the contract terms of Such type of financial assets provide that cash flow generated on specific dates represents interest payment in relation to principal amounts based on outstanding principal amounts only. Interest income from Such type of financial assets are recognised using the effective interest rate method, and any profit or loss arising from derecognition, amendments or impairment shall be charged to current profit or loss. Such type of financial assets includes mainly cash, trade receivables, factored trade receivables, other receivables and long-term receivables. The Group shall classify debt investment and long-term receivables with a maturity of less than 1 year from the balance sheet date as non-current assets with a maturity of less than 1 year. Debt investment with an original maturity of less than 1 year shall be classified as other current assets.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

(2) Subsequent measurement (continued)

(a) The subsequent measurement of financial assets is dependent on its classification: (continued)

ii. Debt instrument at fair value through other comprehensive income

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

iii. Financial assets at fair value through current profit or loss

Other than financial assets measured at amortised cost and financial assets at fair value through other comprehensive income as aforementioned, all financial assets are classified as financial assets at fair value through current profit or loss, which are subsequently measured at fair value, any changes of which are recognised in current profit or loss. Such type of financial assets shall be classified as trading financial assets. Financial assets with a maturity of over 1 year from the balance sheet date and expect to be held for over 1 year shall be classified as other non-current financial assets.

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

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

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

i. Financial liabilities at fair value through profit or loss

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

(2) Subsequent measurement (continued)

(b) The subsequent measurement of financial liabilities is dependent on its classification: (continued)

ii. Financial liabilities at amortised cost

Subsequent measurement of these financial liabilities are carried at amortised cost using the effective interest method.

(3) Impairment of financial instruments

The Group performs impairment treatment on financial assets at amortised cost, debt instruments at fair value through other comprehensive income and contract assets based on expected credit losses and recognises provision for losses.

Credit loss refers to the difference between all contract cash flow receivable from the contract and all cash flow expected to be received discounted at the original effective, namely, the present value of the full amount of cash shortfall. Financial assets purchased by or originated from the Group to which credit impairment has occurred should be discounted at the credit-adjusted effective interest rate of the financial assets.

For receivables, contract assets and bills receivable under other current assets that do not contain significant financing components, the Group adopts a simplified measurement method to measure provision for losses based on an amount equivalent to expected credit losses for the entire period.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

Financial assets other than those measured with simplified valuation methods, the Group evaluates at each balance sheet date whether its credit risk has significantly increased since initial recognition. The period during which credit risk has not significantly increased since initial recognition is considered the first stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the next 12 months and shall compute interest income according to the book balance and effective interest rate.

The period during which credit risk has significantly increased since initial recognition although no credit impairment has occurred is considered the second stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the entire valid period and shall compute interest income according to the book balance and effective interest rate.

The period during which credit impairment has occurred after initial recognition is considered the third stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the entire period and shall compute interest income according to the amortised cost and effective interest rate. For financial instruments with relatively low credit risk at the balance sheet date, the Group assumes its credit risk has not significantly increase since initial recognition.

The Group estimates the expected credit loss of financial instruments individually and on a group basis. The Group considers the credit risk features of different customers and estimates the expected credit loss of amounts receivable, contract assets and bills receivable in other current assets based on customers' credit rating portfolio and aging portfolio of overdue debts.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

(3) Impairment of financial instruments (continued)

The Group considers past events, current conditions and reasonable and evidenced information pertaining to future economic forecasts when assessing expected credit losses.

For the Group's criteria for judging whether credit risks have significantly increased, the definition of assets subjected to credit impairment, and assumptions underlying the measurement of expected credit losses, please refer to Note VIII.3.

Factors reflected in the Group's method of measuring ECL of financial instruments include: unbiased weighted average amount through assessment of a range of possible outcomes, currency time value, and reasonable and substantiated information on past events, current conditions and projected future economic conditions obtainable at the balance sheet date without undue excessive cost or effort.

When the Group no longer reasonably expects to be able to fully or partially recover the contract cash flow of financial assets, the Group directly writes down the book balance of such financial assets.

(4) Transfer and derecognition of financial instruments

(a) Transfer and derecognition of financial assets

If the Group has transferred substantially all the risks and rewards associated with the ownership of a financial asset to the transferee, the asset should be derecognised. If the Group retains substantially all the risks and rewards of ownership of a financial asset, the asset should not be derecognised.

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

Assets formed by the continuing involvement by way of the provision of financial guarantee in respect of the transferred financial assets shall be recognised as the lower of the carrying value of the financial asset and the amount of financial guarantee. The amount of financial guarantee means the maximum amount among considerations received to be required for repayment.

(b) General principles of derecognition

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

i. The right of receiving the cash flow generated from the financial asset has expired;

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

9. Financial instruments (continued)

(4) Transfer and derecognition of financial instruments (continued)

(b) General principles of derecognition (continued)

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

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

(5) Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities may be offset against one another and presented as a net amount in the balance sheet if all of the following conditions are met:

(a) there is a presently exercisable statutory right to offset recognized amount;

(b) there is a plan to conduct net settlement or to realise the financial asset and financial liability at the same time.

(6) Selected accounting policies on financial instruments relevant to the Group

(a) Financial guarantee contracts

A financial guarantee contract is a contract under which the issuer shall indemnify the contract holder suffering losses with a specified amount in the event that the debtor fails to repay its debt in accordance with the terms of the debt instrument. Financial guarantee contracts are measured at fair value at initial recognition, other than financial guarantee contracts designated as financial liabilities at fair value through current profit or loss, other financial guarantee contracts shall be subsequently measured at the higher of the amount of provision for expected credit loss determined as at the balance sheet date after initial recognition and the amount at initial recognition less the cumulative amortised amount determined in accordance with revenue recognition principles.

(b) Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Other than to the extent related to hedge accounting, profit or loss arising from changes in the fair value of derivative instruments shall be directly recognised in current profit or loss.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, product deliveries and cost of contract performance.

Inventories are initially recorded at costs. Inventories' costs include purchasing costs, processing costs and other costs. Actual costs of goods delivered are recognised using the weighted moving average method.

Inventories are valued using the perpetual inventories stock-take system.

Inventories at the end of the year are stated at the lower of cost or net realisable value. Provision for impairment of inventories is made and recognised in profit or loss when the net realisable value is lower than cost.

Net realisable values represent estimated selling prices less any estimated costs to be incurred to completion, estimated selling expenses and relevant tax amounts. Provision for impairment of inventories is made on the basis of individual categories.

Contract performance cost categorised as current assets is shown under inventory.

11. Long-term equity investments

Long-term equity investments include equity investments in subsidiaries, joint ventures and associates.

(1) Initial measurement of long-term equity investment

Long-term equity investments are initially measured at the initial investment cost upon acquisition.

(a) Long-term equity investment formed through business combination

For long-term equity investments acquired through the business combination of entities under common control, the initial investment cost shall be the share of carrying value of the owners' equity of the merged party at the date of combination as stated in the consolidated financial statements of the ultimate controlling party. Any difference between the initial investment cost and the carrying value of the consideration for the combination shall be dealt with by adjusting the capital reserve (if the capital reserve is insufficient for setting off the difference, such difference shall be further set off against retained profits). Upon disposal of the investment, other comprehensive income prior to the date of combination shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Long-term equity investments (continued)

(1) Initial measurement of long-term equity investment (continued)

(a) Long-term equity investment formed through business combination (continued)

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

(b) Long-term equity investment acquired through other means

The initial investment cost of long-term equity investments other than those acquired through business combination shall be recognised in accordance with the following:

For those acquired by way of cash payments, the initial investment cost shall be the consideration actually paid plus expenses, tax amounts and other necessary outgoings directly related to the acquisition of the long-term equity investments.

For long-term equity investments acquired by way of the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued.

For long-term equity investments acquired by way of the swap of non-monetary assets, the initial investment cost shall be determined in accordance with "ASBE No. 7 — Swap of Non-monetary Assets."

For long-term equity investments acquired by way of debt restructuring, the initial investment cost shall be determined in accordance with "ASBE No. 12 — Debt Restructuring."

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Long-term equity investments (continued)

(2) Subsequent measurement of long-term equity investment

(a) Cost method

In the financial statements of the Company, the cost method is used for long term equity investments in investees over which the Company exercises control. Control is defined as the power exercisable over the investee, the entitlement to variable return through involvement in the activities of the investee and the ability to influence the amount of return using the power over the investee.

When the cost method is used, long-term equity investments are measured at initial cost on acquisition. When additional investments are made or investments are recouped, the cost of long-term equity investments shall be adjusted. Cash dividend or profit distribution declared by the investee shall be recognised as investment gains for the period.

(b) Equity method

The equity method is used to account for long-term equity investments when the Group can jointly control or has significant influence over the invested entity. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control. Significant influence means having the authority to take part in the decision over the financial and operational policies but not the authority to control or jointly control with other parties the formulation of such policies.

Under the equity method, any excess of the initial investment cost over the Company's share of the net fair value of the investment's identifiable assets and liabilities is included in the initial investment cost of the long-term equity investment. When the carrying amount of the investment is less than the Company's share of the fair value of the investment's identifiable net assets, the difference is recognised in profit or loss of the current period and debited to long-term equity investment.

Under the equity method, after the long-term equity investments are acquired, investment gains or losses and other comprehensive income are recognised according to the entitled share of net profit or loss and other comprehensive income of the investee and the carrying amount of the long-term equity investment is adjusted accordingly. When recognising the Group's share of the net profit or loss of the invested entity, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date in accordance with the Group's accounting policy and accounting period to investee's net profits, eliminating pro-rata profit or loss from internal transactions with associates and joint ventures attributed to investor (except that loss from inter-group transactions deemed as asset impairment loss shall be fully recognised), provided that invested or sold assets constituting businesses shall be excluded.

When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognising its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Long-term equity investments (continued)

(2) Subsequent measurement of long-term equity investment (continued)

(b) Equity method (continued)

The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than the net-off of net profits or losses, other comprehensive income and profit allocation of the investee), and includes the corresponding adjustment in equity.

(3) Disposal of long-term equity investment

On disposal of the long-term equity investments, the difference between carrying value and market price is recognised in profit or loss for the current period.

For long-term equity investments under equity method, when the use of the equity method is discontinued, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred in full to current profit and loss.

If the equity method remains in use, other comprehensive income previously accounted for under the equity method shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee and transferred to current profit and loss on a pro-rata basis. Shareholders' equity recognised as a result of changes in shareholders' equity other than the net-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss on a pro-rata basis.

12. Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties of the Group included houses and buildings leased to other parties.

Investment properties are initially measured at cost. Subsequent expenses relating to the investment properties are charged to investment property costs if there is a probable inflow of economic benefits relating to the asset and its cost can be reliably measured; otherwise, those expenditure are recognised in profit or loss as incurred.

Investment properties of the Group represented owned properties reclassified to investment properties measured at fair value. The amount of fair value in excess of the carrying value as at the date of reclassification is included in the other comprehensive income. After initial recognition, investment properties will be subsequently measured and presented in fair value. The difference between the fair value and the original carrying value shall be included in current profit or loss. Fair values are assessed and determined by independent valuers based on open market prices of properties of the same or similar nature and other relevant information.

RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

13. Fixed Assets

A fixed asset is recognised when, and only when, it is probable that future economic benefits that are associated with the fixed asset will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to a fixed asset are recognised in the carrying amount of the fixed asset if the above recognition criteria are met, and the carrying value of the replaced part is derecognised; otherwise, those expenditures are recognised in profit or loss as incurred.

Fixed assets are initially recognised at cost taking into account the impact of expected future disposal expenditure. Cost of purchased fixed assets includes purchasing price, relevant taxes, and any directly attributable expenditure for bringing the asset to working conditions for its intended use.

Fixed assets are depreciated on a straight-line basis, and the respective estimated useful lives, estimated residual values and annual depreciation rates are as follows:

	Useful life	Estimated residual value ratio	Annual depreciation rate
Freehold land	Indefinite	—	No depreciation
Buildings	30–50 years	5%	1.90%–3.17%
Electronic equipment	3–5 years	5%	19%–32%
Machinery equipment	5–10 years	5%	9.5%–19%
Motor vehicles	5–10 years	5%	9.5%–19%
Other equipment	5 years	5%	19%

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

14. Construction in progress

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

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

15. Borrowing costs

Borrowing costs directly attributable to the acquisition or construction of assets qualified for capitalisation, i.e., fixed assets, investment properties and inventories that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. Other borrowing costs are charged to current profit or loss.

Capitalisation of borrowing costs begins where:

(1) Capital expenditure has already happened;

(2) Borrowing expenses has already incurred;

(3) Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

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

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

15. Borrowing costs (continued)

During capitalisation, interest of each accounting period is recognised using the following methods:

(1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings;

(2) Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool.

Except for expected suspension under normal situation of qualifying assets, capitalisation should be suspended during periods in which abnormal interruption has lasted for more than three months during the process of acquisition, construction or production. The borrowing cost incurred during interruption should be recognised as expenses and recorded in the income statement until the construction resumes.

16. Intangible assets

Intangible assets are recognised only when it is probable that economic benefits relating to such intangible assets would flow into the Group and that their cost can be reliably measured. Intangible assets are initially measured at cost, provided that intangible assets which are acquired in a business combination not under common control and whose fair value can be reliably measured shall be separately recognised as intangible assets at fair value.

Useful life of an intangible asset is determined by the period over which it is expected to bring economic benefits to the Group. For an intangible asset with no foreseeable limit to the period over which it is expected to bring economic benefits to the Group, it is treated as an intangible asset with indefinite useful life.

Useful life of respective intangible assets is as follows:

	Estimated useful life
Software	2–5 years
Technology know-how	2–10 years
Land use rights	30–70 years
Franchise	2–10 years
Development expenses	3–5 years

Land use rights acquired by the Group are normally accounted for as intangible assets. Land use rights and buildings relating to plants constructed by the Group are accounted for as intangible assets and fixed assets, respectively. The costs for acquiring land and buildings are apportioned between the land use rights and buildings, or accounted for as fixed assets if they cannot be apportioned.

Straight-line amortisation method is used during the useful life period for intangible assets with definite useful lives. The Group reviews, at least at each year end, useful lives and amortization method for intangible assets with definite lives and makes adjustment when necessary.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

16. Intangible assets (continued)

The Group classifies the expenses for internal research and development as research costs and development costs. All research costs are charged to the current profit or loss as incurred. Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits (including demonstration that the product derived from the intangible asset or the intangible asset itself will be marketable or, in the case of internal use, the usefulness of the intangible asset as such), the availability of technical and financial resources to complete the project and procure the use or sale of the intangible asset, and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

Corresponding projects that meet the above conditions in the Group are formed after technical feasibility and economic feasibility studies. Then, those projects are progressed into the development phase.

17. Provisions

Other than contingent consideration and assumed contingent liabilities in a business combination involving parties not under common control, the Group recognises as provision an obligation that is related to contingent matters when all of the following criteria are fulfilled:

(1) the obligation is a present obligation of the Group;

(2) the obligation would probably result in an outflow of economic benefits from the Group;

(3) the obligation could be reliably measured.

Provisions are initially valued according to the best estimate of expenses on fulfilling the current liabilities, in connection with the risk, uncertainty and timing value of the currency. The carrying value of the provisions would be reassessed on every balance sheet date. The carrying value will be adjusted to the best estimated value if there is certain evidence that the current carrying value is not the best estimate.

18. Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares or other equity instruments in consideration for receiving services.

Equity-settled share-based payments made in exchange for services rendered by employees are measured at the fair value of equity instruments granted to employees. Instruments which are vested immediately upon the grant are charged to relevant costs or expenses at the fair value on the date of grant and the capital reserve is credited accordingly. Instruments of which vesting is conditional upon completion of services or fulfillment of performance conditions are measured by recognising services rendered during the period in relevant costs or expenses and crediting the capital reserve accordingly at the fair value on the date of grant according to the best estimates conducted by the Group at each balance sheet date during the pending period based on subsequent information such as latest updates on the change in the number of entitled employees and whether performance conditions have been fulfilled, and etc. The fair value of equity instruments is determined using the binomial option pricing model. For details see Note XI. Share-based payment.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

18. Share-based payments (continued)

The cost of equity-settled transactions is recognised, together with a corresponding increase in capital reserve, over the period in which the performance and service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest.

No expense is recognised for awards that do not ultimately vest due to non-fulfillment of nonmarket conditions and/or vesting conditions. For the market or non-vesting condition under the share-based payments agreement, it should be treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that other performance condition and/or vesting conditions are satisfied.

Where the terms of an equity-settled share-based payment are modified, as a minimum, services obtained are recognised as if the terms had not been modified. In addition, an expense is recognised for any modification which increases the total fair value of the instrument ranted, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. Where employees or other parties are permitted to choose to fulfill non-vesting conditions but have not fulfilled during the pending period, equity-settled share-based payments are deemed cancelled. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the new awards are treated as if they were a modification of the original award.

19. Revenue

The Group recognises its revenue upon the fulfilment of contractual performance obligations under a contract, namely, when the customer obtains control over the relevant products or services. The acquisition control over relevant products or services shall mean the ability to direct the use of the products or the provision of the services and receive substantially all economic benefits derived therefrom.

Contractual performances meeting one of the following conditions are performances over a period of time, otherwise they are considered performances at a point of time:

i. The customer is able to forthwith obtain and consume the economic benefits brought by the contractual performance.

ii. The customer is able to control the goods created in the course of performance.

iii The goods created in the course of performance are irreplaceable and the seller has the right to receive payments for completed performances during the contract period.

For performance obligations carried out over a period of time, income should be recognized according to the progress of performance during such period, unless such progress could not be reasonably ascertained. Performance progress should be determined according to the output or input method taking into account the nature of the goods.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

19. Revenue (continued)

For performance obligations carried out at a point of time, income should be recognized at the time when the customer obtains control over the goods. In judging whether the customer has obtained control, the following should be considered:

i. The seller has a present right to receive payment and the customer has a present obligation to pay.

ii The seller has transferred and the customer has obtained legal ownership of the goods.

iii The seller has physically transferred and the customer is physically in possession of the goods.

iv. The seller has transferred and the customer has assumed the major risks and rewards of ownership.

(1) The Group's accounting policies for different types of income are as follows:

(a) Contract for the sales of products

The product sales contract between the Group and its customers typically includes contractual performance obligations for the transfer of products. The Group typically recognises its revenue at the time of delivery and acceptance upon inspection taking into account the following factors: the acquisition of the current right to receive payments for the products, the transfer of major risks and rewards of ownership, the transfer of the legal title of the products, the transfer of the physical assets of the products, and customers' acceptance of the products.

(b) Contract for the rendering of services

The service contract between the Group and its customers includes contractual performance obligations for maintenance service, operational service and engineering service. As the customer is able to forthwith obtain and consume the economic benefits brought by the Group's contractual performance when the Group performs a contract, the Group considers such contractual performance obligations to be obligations performed over a period of time, and revenue shall be recognised according the progress of performance. For contracts with specific output indicators, such as contracts for maintenance service and operational service, the Group determines the progress of performance of the service according to the output method. For a small number of contracts which do not specify output indicators, the progress of performance is determined using the input method.

(c) Telecommunication system construction contract

The Group's Telecommunication system construction contract typically includes a range of contractual performances, such as equipment sales and installation service and their combinations. Equipment sales and installation service that are distinctly separable are accounted for standalone contractual performances. Combinations of equipment sales and installation services that are not individually separable are accounted for as standalone contractual performances, as customer can benefit from the individual use of such combinations or their use together with other readily available resources and such combinations among themselves are distinctly separable from one another. As the control of such combination of equipment and installation service is transferred to the customer upon acceptance by the customer, revenue of each standalone contractual performance is recognised after the fulfillment of such standalone contractual obligation corresponding to each combination of equipment sales and installation service.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

19. Revenue (continued)

(2) Accounting policies relevant to the ascertaining and allocation and transaction prices by the Group

(a) Variable consideration

Certain contracts between the Group and its customers contain cash discount and price guarantee clauses which will give rise to variable consideration. Where a contract contains variable consideration, the Group determines the best estimates on the variable consideration based on expected values or the most probable amount, provided that transaction prices including variable consideration shall not exceed the cumulative amount of recognised revenue upon the removal of relevant uncertainties in connection with which a significant reversal is highly unlikely.

(b) Consideration payable to customers

Where consideration is payable by the Group to a customer, such consideration payable shall be deducted against the transaction price, and against current revenue upon the recognition of revenue or the payment of (or the commitment to pay) the consideration to the customer (whichever is later), save for consideration payable to the customer for the purpose of acquiring from the customer other clearly separable products.

(c) Return clauses

In connection with sales with a return clause, revenue is recognised according to the amount of consideration it expects to be entitled to for the Transfer to a customer when the customer acquires control of the relevant. Amounts expected to be refunded for the return of sales are recognised as liabilities. At the same time, the balance of the carrying value of the product expected to be returned upon transfer less expected costs for the recall of such product (including impairment loss of the recalled product) shall be recognised as an asset (i.e. cost of return receivables), and the net amount of the carrying value of the transferred product upon the transfer less the aforesaid asset cost shall be transferred to cost. At each balance sheet date, the Group reassess the future return of sales and remeasured the above assets and liabilities.

(d) Significant financing component

Where a contract contains a significant financing component, the Group determines transaction prices based on amounts payable assumed to be settled in cash by customers immediately upon the acquisition of control over the products. The difference between such transaction price and contract consideration is amortised over the contract period using the effective interest rate method based on a ratio that discounts the nominal contractual consideration to the current selling price of the products.

The Group shall not give consideration to any significant financing component in a contract if the gap between the customer's acquisition of control over the products and payment of consideration is expected to be less than 1 year.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

19. Revenue (continued)

(2) Accounting policies relevant to the ascertaining and allocation and transaction prices by the Group (continued)

(e) Warranty clauses

The Group provides quality assurance for products sold and assets built in accordance with contract terms and laws and regulations. The accounting treatment of quality assurance in the form of warranty assuring customers products sold are in compliance with required standards is set out in Note III.17. Where the Group provides a service warranty for a standalone service in addition to the assurance of compliance of products with required standards, such warranty is treated as a standalone contractual performance obligation, and a portion of the transaction price shall be allocated to the service warranty based on a percentage of the standalone price for the provision of product and service warranty. When assessing whether a warranty is rendering a standalone service in addition to providing guarantee to customers that all sold goods are in compliance with required standards, the Group will consider whether or not such warranty is a statutory requirement, the term of the warranty and the nature of the Group's undertaking to perform its obligations.

20. Contract assets and contract liabilities

The Group presents contract assets or contract liabilities on the balance sheet according to the relationship between contractual performance obligations and customer payments.

(1) Contract assets

The unconditional (namely, dependent only on the passage of time) right to receive consideration from customers owned by the Group shall be presented as amounts receivable. The right to receive consideration following the transfer of products to customers which is dependent on factors other than the passage of time is presented as contract assets.

For details of the Group's determination and accounting treatment of expected credit losses from contract assets, please refer to Note III.9.

(2) Contract liabilities

The obligation to pass products to customers in connection with customer consideration received or receivable is presented as contract liabilities, for example, amounts received prior to the transfer of the promised products.

Contract assets and contract liabilities under the same contract are presented on a net basis after set-off.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

21. Assets relating to contract cost

The Group's assets relating to contract costs include the contract acquisition costs and contract performance costs, presented respectively under inventories, other current assets and other non-current assets.

Where the Group expects the incremental costs for acquiring a contract to be recoverable, such contract acquisition costs are recognised as an asset (unless the amortisation period of the asset is not more than 1 year).

Costs incurred by the Group for the performance of a contract are recognised as an asset as contract performance costs if they do not fall under the scope of the relevant standards for inventories, fixed assets or intangible assets but meet all the following conditions:

(1) they are directly related to a current or anticipated contract, including direct labour, direct materials, manufacturing expenses (or similar expenses), to be borne by customers as specifically stipulated, and otherwise incurred solely in connection with the contract;

(2) they will increase the resources to be utilised in the Company's future performance of its contractual obligations;

(3) they are expected to be recoverable.

The Group amortises assets relating contract costs on the same basis as that for the recognition of revenue relating to such assets and recognises the amortised assets in current profit or loss.

For assets relating to contract costs whose carrying value is higher than the difference between the following two items, the Group makes provision for impairment for the excess to be recognised as asset impairment losses:

(1) The remaining consideration expected to be obtained as a result of the transfer of goods relating to such assets;

(2) Estimated costs to be incurred in connection with the transfer of relevant goods.

22. Government grants

Government grants are recognised when there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. The grant is measured as the amount received or receivable where it takes the form of a cash asset, or at fair value where it is not a cash asset. Where the fair value cannot be reliably obtained, it should be measured at the nominal value.

In accordance with the stipulations of the government instruments, government grants applied towards acquisition or the formation of long-term assets in other manners are asset-related government grants; the instruments unspecifically refer to the exercise of judgement based on the basic conditions for receiving the asset-related grant applied towards or the formation of long-term assets in other manners. All other grants are recognised as income-related government grants.

Government grants relating to income and applied to make up for related costs or losses in future periods shall be recognised as deferred income, and shall be recognised in current profit or loss or written off against related costs of the period for which related costs or loss are recognised. Government grants specifically applied for the reimbursement of incurred related costs and expenses shall be directly recognised in current profit or loss or set off against related costs.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. Government grants (continued)

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

Loans extended to the Group by borrowing banks at favourable interest rates mandated by government policies under which the borrowing banks receive interest rate subsidies from the financial authorities shall be recognised based on the actual amount of loans received, and borrowings costs shall be recognised based on the principal amount of the loan and the policy-mandated favourable interest rates.

23. Deferred tax

The Group recognises deferred tax assets and liabilities based on temporary differences using balance sheet liability method. Temporary differences are differences between the carrying amount of assets or liabilities in the balance sheet and their tax base on the balance sheet date. Temporary differences also include the differences between the carrying values and tax bases of items not recognised as assets or liabilities where the tax base can be calculated according to the relevant tax regulations.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

(1) where the taxable temporary difference arises from goodwill or the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

(2) in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carryforward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised except:

(1) where the deductible temporary difference arises from transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

(2) deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures are recognised when all following conditions are met: it is probable that the temporary differences will reverse in the foreseeable future, it is probable that taxable profit against the deductible temporary differences will be available.

As at balance sheet date, deferred tax assets and liabilities are measured in accordance with relevant tax laws at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, and reflects the tax consequences that would follow the manner in which the Group expects, at the balance sheet date, to recover the assets or settle the carrying amount of its assets and liabilities.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Deferred tax (continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

24. Leases

At the inception of a contract, the Group assesses whether the contract is, or contains, a lease. If one party to the contract conveys a right to control the use of one or more identified assets for a period of time in exchange for consideration, such contract is, or contains, a lease.

(1) As a lessee

With the exception of short-term lease and low-value asset lease, the Group recognizes right-of-use assets and lease liabilities in connection with lease through the following accounting method:

(a) Right-of-use assets

At the inception of a lease term, the right to use lease assets during the lease term is recognized as right-of-use assets and is initially measured at cost. Right-of-use assets include: the initially measured amount of lease liabilities; the lease payment incurred at or prior to the lease inception date, less the lease incentive amount received where applicable; initial direct expenses incurred by the lessee; estimated cost to be incurred by the lessee for demolishing and removing lease assets, restoring the premises at which the lease assets are located or restoring the lease assets to the agreed state under the lease terms. Where Group remeasures the lease liabilities owing to changes in the lease payment amount, the carrying value of the right-of-use assets should be adjusted accordingly. In subsequent measurement, the Group provides depreciation of the right-of-use assets using the averaging method over the lease term. Where it can be reasonably ascertained that the ownership over the lease assets can be obtained upon the conclusion of the lease term, depreciation is provided over the remaining useful life of the lease assets. Where the acquisition of the ownership over the lease assets upon the conclusion of the lease term cannot be reasonably ascertained, depreciation is provided over the lease term or the remaining useful life of the lease assets, whichever shorter.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Leases (continued)

(1) As a lessee (continued)

(b) Lease liabilities

At the inception of the lease period, the Group recognised the present value of outstanding lease payments as lease liabilities, other than short-term leases and low-value asset lease. Lease payment amounts include fixed payments and the amount of substantial fixed payments less rental incentives, variable lease payment amounts depending on indices or ratios, estimated amounts payable based on the remaining value of guarantees, as well as amounts payable for the exercise price of buying option or termination of lease renewal option, provided that the Group reasonably ascertains that the option will be exercised or the lease period reflects that the Group will terminate the renewal option.

In calculating the present value of the lease payment amount, the Group adopts the inherent interest rate of the lease as the discount rate. Where the inherent interest rate of the lease cannot be ascertained, the incremental loan interest rate of the lessee is adopted as the discount rate. Interest expenses on lease liabilities over the respective periods of the lease term are computed based on fixed cyclical interest rates and charged to current profit or loss, other than those otherwise required to be included in relevant asset cost. Variable lease payments not included in lease liabilities are charged to current profit or loss as and when incurred, other than those otherwise required to be included in relevant asset cost.

After the inception of the lease period, the carrying amount of lease liabilities is increased when the Group recognises interest expenses and reduced when lease amounts are paid. Where there are changes in the substantial fixed payment amount, changes in amounts payable expected of the remaining value of guarantees, changes in the index or ratio used to determine lease payment amounts, and changes in the assessment outcome relating to or actual exercise of the call option, renewal option and termination option, the Group re-measures the lease liabilities based on present value of the modified lease payment and adjusts the carrying value of the right-of-use assets accordingly.

(c) Short-term lease and low-value asset lease

A lease with a term of not more than 12 months at the inception of the lease term and without any call option is recognised as a short-term lease; lease comprising an individual lease asset worth not more than 30,000 in brand new conditions is recognised as a low-value asset lease. If the Group sub-leases or expects to sub-lease such lease assets, the original lease shall not be recognised as a low-value asset lease. For short-term leases and low-value asset leases, the Group elects not to recognise right-of-use assets and lease liabilities, which are instead charged to relevant asset cost or current profit or loss over the respective periods during the lease term on a straight-line basis, while contingent rental is charged to current profit or loss as and when incurred.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. Leases (continued)

(2) As a lessor

Other than leases that transfer substantially all risk and reward relating to the ownership of lease assets at inception which are recognised as finance leases, all leases are recognised as operating leases. As a sub-leasing lessor, the Group classifies the sub-leases based on the right-of-use assets of the original leases.

(a) As the lessor under a finance lease

At the inception of the lease term, finance lease receivables are recognised in respect of finance lease, while financing leases are derecognised. At initial measurement, the carrying value of finance lease receivables are recognised as the net amount of lease investment, which is in turn the sum of the unsecured residual value and the lease payments yet to be received at the commencement of the lease term discounted to their present value using the implicit interest rate of the lease, including initial direct expenses.

Interest income over the respective periods of the lease term are computed and recognised based on fixed cyclical interest rates and charged to current profit or loss. Variable lease payments not included in the net amount of lease investment are charged to current profit or loss as and when incurred.

(b) As the lessor under an operating lease

Rental income under an operating lease is recognised as current profit or loss over the respective periods of the lease term on a straight-line basis, while contingent rental is charged to current profit or loss as and when incurred. Initial direct cost is capitalised and distributed over the lease period in accordance with the same bases for recognising rental income and included in current profit or loss for each period.

25. Impairment

The Group assesses impairment of assets other than inventories, investment properties measured at fair value, deferred tax assets, contract assets and financial assets, using the methods described below:

The Group assesses at each balance sheet date whether there is an indication that a non-financial asset may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. For goodwill generated from business consolidation and intangible assets with indefinite useful lives, tests for impairment is performed at least annually regardless of whether there are indications of impairment. Intangible assets which are not yet ready for use are also tested annually for impairment.

Recoverable amount is the higher of the asset's fair value less costs to sell and its present value of estimated future cash flows. The Group estimates recoverable value for individual assets. When it is difficult to estimate individually, the recoverable value of the cash generating units which the asset belongs to will be estimated. The definition of cash generating units is determined on the basis of whether the cash generating units generate cash flows which are largely independent of those from other cash generating units.

Where the carrying amount of an asset or a cash generating unit exceeds its recoverable amount, the asset or cash generating unit is considered impaired and is written down to its recoverable amount. The difference between the carrying amount and recoverable amount is recognised in the current period's profit or loss and provision for impairment is made accordingly.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

25. Impairment (continued)

In connection with impairment tests for goodwill, the carrying value of goodwill arising from business combination is allocated to relevant cash generating units ("CGU") from the date of acquisition on a reasonable basis. If it is difficult to allocate such goodwill to a relevant CGU, it should be allocated to a relevant CGU group. A relevant CGU or CGU group is defined as one which can benefit from the synergies of the business combination and is not larger than the reporting segments determined by the Group.

In connection with impairment tests for CGUs or CGU groups that comprise goodwill, where indications of impairment exists in a CGU or CGU group related to goodwill, impairment tests should be performed first on CGUs or CGU groups that do not comprise goodwill and recognise impairment loss after estimating the recoverable amount. Then impairment tests on CGUs or CGU groups that comprise goodwill should be performed and the carrying value and recoverable amount should be compared. Where the recoverable amount is lower than the carrying value, the impairment loss should first be offset against the carrying value of the goodwill allocated to CGUs or CGU groups and then against assets in the CGUs or CGU groups other than goodwill in proportion to the weighting of these assets.

Previously recognised impairment losses are not reversed in subsequent periods.

26. Employee remuneration

Employee remuneration includes all kinds of rewards or compensation (other than share-based payments) incurred by the Group in exchange for service rendered by employees or in the termination of employment. Employee remuneration includes short-term remuneration, retirement benefits, termination benefits and other long-term employees' benefits. Benefits provided by the Group to the spouses, children and dependents of employees and families of deceased employees are also a part of employee remuneration.

(1) Short-term remuneration

For accounting periods during which services are rendered by employees, short-term remuneration that will incur is recognised as liability and included in current profit and loss or related capital costs.

(2) Retirement benefit (defined deposit scheme)

Employees of the Group participated in pension insurance and unemployment insurance schemes managed by the local government. The contribution costs are charged as asset cost or to current profit or loss when incurred.

(3) Retirement benefit (defined benefit scheme)

The Group operates a defined benefit pension scheme. No funds have been injected into the scheme. The cost of benefits provided under the defined benefit scheme is calculated using the expected benefit accrual unit approach.

Remeasurement arising from defined benefit pension schemes, including actuarial gains or losses, changes in the asset cap effect (deducting amounts included in net interest) and return on scheme assets (deducting amounts included in net interest) are instantly recognised in the balance sheet and charged to shareholders' equity through other comprehensive income for the period during which it is incurred. It will not be reversed to profit and loss in subsequent periods.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. Employee remuneration (continued)

(3) Retirement benefit (defined benefit scheme) (continued)

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

Net interest is arrived at by multiplying net liabilities or net assets of defined benefits with a discount rate. Changes in net obligations of defined benefits are recognised as operating costs and administration expenses in the income statement. Service costs included current services costs, past service costs and settlement of profit or loss. Net interest included interest income from scheme assets, interest expenses for scheme obligations and interest of the asset cap effect.

(4) Termination benefits

Where termination benefits are provided to employees, liabilities in employee remuneration are recognised and charged to current profit and loss when: the company is not in a position to withdraw termination benefits provided under termination plans or redundancy plans, or costs or expenses relating to the restructuring exercise which involves the payment of termination benefits are recognised, whichever earlier.

(5) Other long-term employees' benefits

Other long-term employees' benefits provided to employees shall be recognised and measured as net liabilities or net assets where provisions regarding post-employment benefits are applicable, provided that changes shall be included in current profit and loss or related capital costs.

27. Fair value measurement

At each balance sheet date, the Group measures the fair value of investment properties, derivative financial instruments, other debt investments and listed and unlisted equity instrument investments. Fair value means the price receivable from the disposal of an asset or required to be paid for the transfer of a liability in an orderly transaction incurred by market participants on the measurement date.

The fair value hierarchy to which an asset or liability measured or disclosed in the financial statements at fair value will be determined on the basis of the lowest level of input which is significant for the fair value measurement as a whole. Input at the first level represents unadjusted quoted prices in an active market for the acquisition of the same asset or liability on the measurement date. Input at the second level represents directly or indirectly observable assets or liabilities apart from input at the first level. Input at the third level represents unobservable input for the asset or liability.

At each balance sheet date, the Group reassesses assets and liabilities measured at fair value on an ongoing basis recognised in the financial statements to determine whether the level of fair value measurement should be changed.

28. Profit distribution

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

29. Safe production cost

Safe production cost provided in accordance with relevant regulations is charged to relevant product cost or current profit or loss and at the same to the special reserve. In application, it should be distinguished whether fixed assets are formed: cost of an expense nature should be directly set off against the special reserve. Cost that contributes to the formation of fixed assets should be aggregated and recognized as fixed assets when such assets arrive at the state of intended use, at which time an equivalent amount should be set off against the special reserve and cumulative depreciation of an equal value should be recognized.

30. Hedge accounting

For the purpose of hedge accounting, hedges are classified as cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship, the risk management objective and its risk management strategy. The documentation includes identification of the hedging instrument, the hedged item, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness. Hedge effectiveness is the extent to which the changes in fair value or cash flows of the hedging instruments offset changes in the fair value or cash flow of hedged items caused by the hedged risk. Such hedges are assessed on an ongoing basis for their effectiveness at the initial date of designation and in subsequent period.

If the hedging instrument expires or is sold, terminated or exercised (provided that the rollover or replacement of part of a hedging instrument under the hedging strategy is not treated as an expiration or a contract termination), or the hedging relationship no longer meets the risk management objective due to a change in the risk management objective, or when the hedging no longer meets other conditions of the hedge accounting method, the Group terminates the use of hedge accounting.

Where the hedging relationship no longer meets the hedging effectiveness requirements due to the hedging ratio, but the risk management objectives for the designated hedging relationship have not changed, the Group rebalances the hedging relationship.

Detailed information on the Group's methodology for assessing the effectiveness of hedging, risk management strategy and how the Group applies the strategy to manage risks are described in Note V.58.

Hedges which meet the criteria for hedge accounting are accounted for as follows:

Cash flow hedges

Profit or loss from a hedge instrument attributable to the effective portion of a hedge is directly recognised as other comprehensive income. Profit or loss from a hedge instrument attributable to the non-effective portion of a hedge is recognised in current profit or loss.

If the anticipated transaction under hedge is subsequently recognised as non-financial assets or non-financial liabilities, or if the anticipated transaction of non-financial assets or non-financial liabilities forms a firm commitment to which fair value hedge is applicable, the cash flow hedge reserve amount previously recognised as other comprehensive income is transferred to the amount of initial recognition of such assets or liabilities. For the remaining cash flow hedge, if the anticipated sales occurs during the same period when profit or loss is affected by expected cash flow under hedge, cash flow hedge reserve previously recognised in other comprehensive income is transferred to current profit or loss.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

30. Hedge accounting (continued)

Cash flow hedges (continued)

When the Group ceases to apply hedge accounting in respect of cash flow hedge, if the hedged future cash flow is still expected to occur, the amount previously recognised in other comprehensive income will not be transferred until the anticipated transaction actually occurs or the firm commitment is fulfilled. If the hedged future cash flow is no longer expected to occur, the cumulative cash flow hedge reserve amount is transferred from other comprehensive income to current profit or loss.

31. Significant accounting judgements and estimates

The preparation of financial statements requires judgement and estimation of the management. Such judgement and estimation will affect the reported amounts of revenue, expenses, assets and liabilities and the disclosure of contingent liabilities as at the balance sheet date. However, the consequence arising from the uncertain nature of such estimation may result in significant adjustment to the carrying value of the asset or liability affected in the future.

(1) Judgement

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the financial statements:

(a) Determination of standalone contractual performance obligations under telecommunication system construction contracts

The Group's telecommunication system construction contract typically includes a range of pledged performance, such as equipment sales and installation service or a combination of both. The Group determines whether the equipment sales and installation service and their combination are distinctly separable. Where the customer can benefit from the individual use of such products or services or their use together with other readily available resources, the standalone equipment sales and installation service are accounted for as standalone contractual performances. Such standalone equipment sales and installation service are considered individual separable if: (1) the customer can receive the equipment pledged under the contract without the provision of significant installation service by the Group; (2) each of the equipment sales and the installation service do not constitute any modification or customisation to the other, nor will they modify or customise other equipment or installation service pledged under the contract; (3) such equipment sales and installation service are not significantly correlated to other equipment or installation pledged under the contract. Each of the aforesaid combinations of equipment sales and installation services that is not individually separable and not significantly correlated to other combinations and that enable the customer to benefit from its individual use or use together with other readily available resources is accounted for as a standalone contractual performances. The comprehensive application of the aforesaid judgement is significant for the determination of standalone contractual performance obligations under telecommunication system construction contracts.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

31. Significant accounting judgements and estimates (continued)

(1) Judgement (continued)

(b) Determination of progress of performance of service rendering contracts

The service contract between the Group and its customers typically include obligations such as maintenance service, operational service and engineering service and revenue is recognised according to the progress of performance of each contract. For contracts with specific output indicators, such as contracts for maintenance service and operational service, the Group determines the progress of performance of the service according to the output method. For a small number of contracts which do not specify output indicators, the progress of performance is determined using the input method.

(c) Performance of obligation at a point of time

For performance obligations of the Group in respect of separately sold communication system equipment and terminals, as well as obligations in respect of communication system equipment sold in a block together with project construction, as the customer is unable to obtain and consume the economic benefits brought by the Group's performance of obligation at the same time as such obligations are performed or control goods in progress during the course of the Group's performance, the Group is not entitled to collect progress billing according to work completed to-date during the entire contract period. Hence, such performance is treated as performance at a point of time. Specifically, revenue corresponding to such standalone contractual performance is recognised upon acceptance by the customer after the performance of each standalone obligation.

(d) Business model

The classification of financial assets at initial recognition is dependent on the Group's business model for managing the assets. Factors considered by the Group in judging the business model include enterprise valuation, the method of reporting the results of financial assets to key management members, risks affecting the results of financial assets and the method for managing such risks, as well as the form of remuneration received by the management personnel of the businesses concerned. In assessing whether the business model is aimed at receiving contract cash flow, the Group is required to analyse and exercise judgment in respect of the reasons, timing, frequency and values of any disposals prior to maturity.

(e) Characteristics of contract cash flow

The classification of financial assets at initial recognition is dependent on the characteristics of the contract cash flow of such type of financial assets. Judgement is required to determine whether the contract cash flow represents interest payment in relation to principal amounts based on outstanding principal amounts only, including judgement of whether it is significantly different from the benchmark cash flow when assessing modifications to the time value of currencies, and judgement of whether the fair value of early repayment features is minimal where the financial assets include such early repayment features.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

31. Significant accounting judgements and estimates (continued)

(1) Judgement (continued)

(f) Deferred tax liabilities relating to subsidiaries, associates and joint ventures

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

(g) Derecognition of financial assets

Where the Group has transferred the right to receive cash flow arising from an asset but has not transferred or has retained substantially all risks and rewards associated with such asset, or has not transferred the controlling right in such asset, such asset shall be recognised and accounted for so long as the Group continues to be involved in such asset. If the Group has not transferred or has retained substantially all risks and rewards associated with the asset or transferred the controlling right in the asset, the exercise of significant judgment is often required, and estimations need to be made as to the extent of the Group's continued involvement in the asset.

(2) Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent financial years, are discussed below.

(a) Impairment of long-term equity investments, fixed assets, construction in progress and intangible assets

The Group assesses at each balance sheet date whether there is an indication that long-term equity investments, fixed assets, construction in progress and intangible assets may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount and performs a test of impairment for the asset. The recoverable amount is measured at the net amount of the fair value of the asset less disposal costs or the present value of the estimated future cash flow of the asset, whichever is higher. This requires an estimate of the expected future cash flows from the asset or the cash generating unit to which the asset was allocated and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

An impairment loss is recognised when the carrying amount of fixed assets, construction in progress and intangible assets exceeds the recoverable amount. The carrying amount is written down to the recoverable amount and the write-down is charged to current profit or loss, while corresponding provision for asset impairment is also made.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

31. Significant accounting judgements and estimates (continued)

(2) Estimation uncertainty (continued)

(b) Impairment of financial instruments

The Group has adopted the expected credit loss model to evaluate the impairment of financial instruments. The application of the expected credit loss model requires significant judgement and estimates and the consideration of all reasonable and soundly based information, including forward-looking information. In making such judgement and estimates, the Group estimates the projected movements of the debtor's credit risk according to past repayment records, economic policies, macro-economic indicators and industry risks.

(c) Depreciation and amortisation

The Group depreciates items of fixed assets and amortises items of intangible assets on the straight line basis over their estimated useful lives, and after taking into account their estimated residual value, commencing from the date the items of fixed assets are placed into productive use. It reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's fixed assets and intangible assets.

(d) Development costs

In determining the amount of capitalisation, the management must make assumptions concerning the expected future cash flow, applicable discount rate and expected beneficial period.

(e) Deferred tax assets

Deferred tax assets are recognised for all unused tax losses, to the extent that it is likely that taxable profit will be available to utilise these unused tax losses. Significant judgments are needed from management to estimate the timing and amount of taxable profit in the future, with tax planning strategies, to determine the amount of the deferred tax assets that should be recognised.

(f) Estimated standalone selling price

The standalone selling price refers to the price at which the Group may independently sell pledged goods or service. Observable prices for goods or services sold to similar customers under similar circumstance on a standalone basis is the best evidence for standalone selling prices. An estimation of standalone selling prices is required if such prices cannot be directly obtained. The Group has adopted cost plus pricing according the characteristics of the goods or services and its related price and cost and the level of difficulty in obtaining it. Cost plus pricing is a method for determining standalone selling prices by adding a reasonable profit margin to the estimated cost of a product. This method is mainly concerned with internal factors and requires adjustments to profit according to different products, customers and differences in other variables. It is a more appropriate method when the direct cost for performance of obligation can be ascertained.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

31. Significant accounting judgements and estimates (continued)

(2) Estimation uncertainty (continued)

(g) Provision for inventory impairment

The impairment of inventory to its net realisable value is based on the marketability and net realisable value of the inventory. The determination of the impairment value requires the acquisition of conclusive evidence by the management, who should also take into account factors such as the purpose of stocking the inventory and the impact of post-balance sheet date events before making judgments and estimates. The difference between the actual outcome and the original estimates shall affect the carrying value of the inventory and charge or reversal of impairment provision for the period during which the estimates were revised.

(h) Warranty

The Group makes reasonable estimates on warranty fee rates in respect of contract groups with similar characteristics based on the historic data and current conditions of warranty, taking into consideration all relevant information such as product improvements and market changes, among others. The Group reassesses the warranty fee rates at least annually at each balance sheet date and determines its estimated liabilities based on the reassessed warranty fee rates.

(i) Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost. The carrying value of investment property as at 30 June 2023 was RMB2,008,977,000 (31 December 2022: RMB2,010,627,000).

(j) Fair value of non-listed equity investment

Fair value of non-listed equity investment at fair value through profit or loss is estimated using the market-based method. The assumptions on which it is based are unobservable input. The estimation requires the management to determine comparable public companies (peers) based on industry, scale, gearing and strategy and compute appropriate price multiples in respect of each identified comparable company, such as enterprise value to EBIT ("EV/EBIT"), price to book ("P/B") or price to earnings ("P/E"), etc. Such multiples are measured and arrived at based on the relevant data of the comparable companies and discounted by a percentage for the lack of liquidity. The discounted multiple shall be used for the measurement of the profit or asset of the non-listed equity investment to arrive at its fair value. The management believes that the estimated fair value (as recorded in the balance sheet) and changes in fair value (as recorded in profit or loss and other comprehensive income) arrived at using the aforesaid valuation method were reasonable and represented the most appropriate value as the end of the reporting period. For details, please refer to Note IX.3.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

31. Significant accounting judgements and estimates (continued)

(2) Estimation uncertainty (continued)

(k) Provision for expected credit losses on trade receivables and contract assets

The Group uses a provision matrix to calculate ECLs for trade receivables and contract assets. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns (i.e., by geography, product type, customer type and rating, and coverage by letters of credit and other forms of credit insurance).

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic production) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At each reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation among historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

(l) Lease period-lease contracts comprising the optional for renewal

The lease term is the period during which the Group owns a non-cancellable right to use the lease assets. Where the Group has an option for renewal and it can be reasonably ascertained that such option will be exercised, the lease term shall also include the period covered by such option for renewal. Some of the Group's lease contracts carry an option for renewal for 1–5 years. When the Group assesses whether it can reasonably ascertain that the renewal option will be exercised, it will take into account all matters and conditions pertaining to the economic benefits arising from the exercise of the renewal option, including the anticipated changes in facts and conditions during the period from the commencement date of the lease period to the date on which the option is exercised. The Group is of the view that, as the cost of terminating a lease is significant, and it is more likely that the conditions for the exercise of the option will be fulfilled, the Group can reasonably ascertain that the renewal option will be exercised. Hence, the lease period includes the period covered by the renewal option.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

IV. TAXATION

1. Principal tax items and tax rates

Value-added tax ("VAT")	—	Output tax is payable at a tax rate of 13% on income generated from domestic sales of products and equipment repair services or 5%, 6% and 9% on service income and income on intangible assets, and VAT is payable on the difference after deduction of tax credit available for offsetting for the current period.
City maintenance and construction tax	—	In accordance with relevant PRC tax regulations and local regulations, city maintenance and construction tax was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Education surcharge	—	In accordance with relevant PRC tax regulations and local regulations, education surcharge was payable according to rates stipulated by the State based on individual situations of the branches and subsidiaries of the Group.
Personal income tax	—	In accordance with relevant PRC tax regulations, the Group withheld income tax from its salary payments to employees based on progressive tax rates.
Overseas tax	—	Overseas taxes were payable in accordance with tax laws of various countries and regions.
Enterprise income tax	—	In accordance with the Law on Enterprise Income Tax promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income.

RMB'000

IV. TAXATION (continued)

2. Tax concession

Company name	Concessionary tax rate	Applicable period
ZTE Corporation*	15% (National-grade hi-tech enterprise)	2020–2022
Shenzhen Zhongxing Software Company Limited*	15% (National-grade hi-tech enterprise)	2020–2022
Shanghai Zhongxing Software Company Limited*	15% (National-grade hi-tech enterprise)	2020–2022
Xi'an Zhongxing New Software Company Limited*	15% (National-grade hi-tech enterprise)	2020–2022
ZTE Smart Auto Company Limited	15% (National-grade hi-tech enterprise)	2021–2023
ZTE Microelectronics Technology Company Limited*	15% (National-grade hi-tech enterprise)	2020–2022
Chongqing Zhongxing Software Company Limited*	15% (National-grade hi-tech enterprise)	2020–2022
Guangdong ZTE Newstart Technology Co., Ltd.*	15% (National-grade hi-tech enterprise)	2020–2022
Shenzhen Zhongxing Telecom Technology & Service Company Limited	15% (National-grade hi-tech enterprise)	2023–2025
Xi'an ZTE Terminal Technology Limited	15% (Concessions under the West China Development Policy)	2023
Xi'an Cris Semiconductor Technology Company Limited	15% (National-grade hi-tech enterprise)	2021–2023
Nanjing Zhongxing Software Company Limited*	15% (National-grade hi-tech enterprise)	2020–2022
Nanjing Zhongxing New Software Company Limited	15% (National-grade hi-tech enterprise)	2021–2023

Note: *Income tax payment for the six months ended 30 June 2023 was calculated at a tax rate of 15% on a provisional basis. Registration of the preferential tax rate for 2023 will be completed before the aggregated settlement for 2023.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and Bank Balances

	30 June 2023	31 December 2022
Cash	**1,190**	1,604
Bank Deposit	**62,444,606**	55,447,343
Other cash	**887,644**	897,420
	63,333,440	56,346,367

As at 30 June 2023, the Group's overseas currency deposits amounted to RMB3,433,668,000 (31 December 2022: RMB3,255,180,000). Funds placed overseas and subject to remittance restrictions amounted to RMB54,032,000 (31 December 2022: RMB49,764,000).

Current bank deposits earn interest income based on current deposit interest rates. Short-term time deposits with terms ranging from 7 days to three months depending on the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB7,499,498,000 (31 December 2022: RMB8,377,218,000) were not included in cash and cash equivalents.

2. Trading financial assets

	30 June 2023	31 December 2022
Investment in equity instrument at fair value through current profit and loss	**424,451**	513,784

3. Derivative financial assets

	30 June 2023	31 December 2022
Cashflow hedge instrument (Note V.58)	**11,111**	–
Derivative financial assets at fair value through current profit or loss	**92,688**	132,125
	103,799	132,125

Trading in derivative financial assets at fair value through current profit or loss mainly comprised transactions in forward exchange contracts with reputable banks in the PRC mainland and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated to apply for hedge accounting, they were dealt with at fair value through current profit or loss.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4A. Trade receivables/factored trade receivables

Trade receivables are recognised according to the payment periods stipulated in contracts. The credit period for trade receivables normally ranges from 0 to 90 days, and may be extended to a maximum of 1 year depending on the credit standing of the customer. Trade receivables are interest-free.

(1) Aging analysis of the Group's overdue trade receivables based on maturity date was as follows:

	30 June 2023	31 December 2022
Within 1 year	16,034,999	17,556,673
1 year to 2 years	1,842,336	1,362,246
2 years to 3 years	761,598	747,221
Over 3 years	5,335,266	5,154,936
	23,974,199	24,821,076
Less: Bad debt provision	7,309,360	7,069,686
	16,664,839	17,751,390

(2) Classification of bad debt provision by method

	30 June 2023					31 December 2022				
	Book balance		Bad debt provision		Book value	Book balance		Bad debt provision		Book value
	Amount	Percentage (%)	Amount	Percentage of charge (%)		Amount	Percentage (%)	Amount	Percentage of charge (%)	
Standalone bad debt provision	1,980,711	8	1,980,711	100	–	1,793,742	7	1,793,742	100	–
Recognition of bad debt provision by group with credit risk characteristics	21,993,488	92	5,328,649	24	16,664,839	23,027,334	93	5,275,944	23	17,751,390
	23,974,199	100	7,309,360	30	16,664,839	24,821,076	100	7,069,686	29	17,751,390

(a) As at 30 June 2023, bad debt provisions for trade receivables which were individually made were as follows:

	Book balance	Bad debt provision	Expected credit loss rate
Customer 1*	405,170	405,170	100%
Customer 2*	206,243	206,243	100%
Customer 3*	132,704	132,704	100%
Customer 4*	126,568	126,568	100%
Customer 5*	65,735	65,735	100%
Others*	1,044,291	1,044,291	100%
	1,980,711	1,980,711	100%

* The provisions were made mainly in view of significant financial difficulty experienced by the debtors.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4A. Trade receivables/factored trade receivables (continued)

(2) Classification of bad debt provision by method (continued)

(a) As at 30 June 2023, bad debt provisions for trade receivables which were individually made were as follows: (continued)

As at 31 December 2022, bad debt provisions for trade receivables which were individually made were as follows:

	Book balance	Bad debt provision	Expected credit loss rate
Customer 1*	379,279	379,279	100%
Customer 2*	207,295	207,295	100%
Customer 3*	132,717	132,717	100%
Customer 4*	62,954	62,954	100%
Customer 5*	44,984	44,984	100%
Others*	966,513	966,513	100%
	1,793,742	1,793,742	100%

* The provisions were made mainly in view of significant financial difficulty experienced by the debtors.

(b) Bad debt provisions for trade receivables based on credit risk characteristics were as follows:

	30 June 2023			31 December 2022		
	Carrying amount estimated to be in default	**Expected credit loss rate (%)**	**Expected credit loss during the entire duration**	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire duration
0–6 months	**13,995,202**	**2**	**335,549**	15,851,392	2	304,714
6–12 months	**1,947,102**	**13**	**247,165**	1,599,152	17	277,852
1–2 years	**1,820,414**	**36**	**657,169**	1,329,424	39	523,395
2–3 years	**701,216**	**80**	**559,212**	663,814	88	586,431
Over 3 years	**3,529,554**	**100**	**3,529,554**	3,583,552	100	3,583,552
	21,993,488		**5,328,649**	23,027,334		5,275,944

(3) Movements in bad debt provisions for trade receivables was as follows:

	Opening balance	Charge/ (reversal) for the period	Write-off for the period	Effect of exchange rate	Closing balance
30 June 2023	**7,069,686**	**287,744**	**(56,501)**	**8,431**	**7,309,360**

For the period, there was reversal of RMB9,636,000 (six months ended 30 June 2022: RMB72,905,000) in bad debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately; and write-off of RMB12,600,000 (six months ended 30 June 2022: nil) in bad debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately as the amount is deemed non-recoverable. It was attributable to non-connected transactions.

RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4A. Trade receivables/factored trade receivables (continued)

(4) Top 5 accounts of trade receivables as at 30 June 2023 were as follows:

Customer	Amount	As a percentage of total trade receivables	Closing balance of bad debt provision
Customer 1	2,795,503	11.66%	23,597
Customer 2	1,941,389	8.10%	394,983
Customer 3	1,466,963	6.12%	12,603
Customer 4	887,637	3.70%	14,242
Customer 5	655,265	2.73%	20,901
	7,746,757	32.31%	466,326

(5) Transfer and derecognition of trade receivables

The Group factored trade receivables measured at amortised cost on a non-recourse basis to financial institutions. The carrying amount of trade receivables derecognised as at the end of the period was RMB7,204,904,000 (30 June 2022: RMB7,015,273,000) and loss of RMB106,780,000 (six months ended 30 June 2022: loss of RMB108,165,000) was recognised in investment income for the period.

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables". As at 30 June 2023, factored trade receivables amounted to RMB24,252,000 (31 December 2022: RMB81,525,000) and bank advances on factored trade receivables amounted to RMB25,444,000 (31 December 2022: RMB84,550,000). For details of the transfer of receivables, please refer to Note VIII.2.

(a) Factored trade receivables

	30 June 2023			31 December 2022		
	Book balance	Bad debt provision	Carrying value	Book balance	Bad debt provision	Carrying value
Factored trade receivables	25,444	(1,192)	24,252	84,550	(3,025)	81,525

(b) Movements in bad-debt provision for factored trade receivables

	Opening balance	Charge/ (reversal) for the period	Write-off for the period	Effect of exchange rate	Closing balance
30 June 2023	3,025	(1,833)	—	—	1,192

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

4B. Receiving financing

	30 June 2023	31 December 2022
Commercial acceptance bills	1,547,711	2,736,128
Bank acceptance bills	77,333	976,014
	1,625,044	3,712,142

If the endorsing or discounting of bills receivable and the disposal of trade receivables only take place occasionally or their value, whether individual or aggregated, is minimal, and the objective of their business model remains the collection of contract cash flow, they are measured at amortised cost; if the enterprise's business model for bills receivable and trade receivables is aimed at both the collection of contract cash flow and disposal, they are classified as financial assets at fair value through other comprehensive income and reported as receivable financing.

(1) Bills receivable which were discounted but not due as at the balance sheet date were as follows:

	30 June 2023		31 December 2022	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Commercial acceptance bills	5,049,324	–	1,231,037	–
Bank acceptance bills	1,372,648	–	932,421	–
	6,421,972	–	2,163,458	–

(2) Movements in bad debt provision for receivable financing were set out as follows:

	Opening balance	Provision/ (reversal) for the period	Transfer for the period	Closing balance
30 June 2023	2,403	(1,465)	–	938

5. Prepayments

(1) Aging analysis of prepayments was as follows:

	30 June 2023		31 December 2022	
	Book balance	Percentage	Book balance	Percentage
Within 1 year	156,780	100%	278,724	100%

RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5. Prepayments (continued)

(2) Top 5 accounts of prepayments as at 30 June 2023 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	23,672	15.10%
Supplier 2	13,708	8.74%
Supplier 3	12,676	8.09%
Supplier 4	7,178	4.58%
Supplier 5	5,985	3.82%
	63,219	40.33%

6. Other receivables

	30 June 2023	31 December 2022
Interests receivables	585,852	599,638
Other receivables	1,852,206	747,297
	2,438,058	1,346,935

(1) Interests receivables

	30 June 2023	31 December 2022
Time deposits	585,852	599,638

(2) Other receivables

(a) Aging analysis of other receivables was as follows:

	30 June 2023	31 December 2022
Within 1 year	1,663,422	520,431
1 year to 2 years	285,174	328,520
2 years to 3 years	63,486	26,405
Over 3 years	31,397	49,245
	2,043,479	924,601
Bad debt provision	(191,273)	(177,304)
	1,852,206	747,297

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(2) Other receivables (continued)

(b) Other receivables analysed by nature were as follows:

	30 June 2023	31 December 2022
Staff reserve fund	105,101	74,828
Transactions with third parties	518,297	672,469
Share option subscription amounts	1,228,808	–
	1,852,206	747,297

(c) Top 5 accounts of other receivables as at 30 June 2023 were as follows:

Due from	Closing balance	As a percentage of the total amount of other receivables	Bad debt provision	Expected credit loss	Nature
Third-party entity 1	1,228,808	60.13%	–	–	Transactions with third parties
Third-party entity 2	116,623	5.71%	69,597	59.68%	Transactions with third parties
Third-party entity 3	98,060	4.80%	–	–	Transactions with third parties
Third-party entity 4	28,772	1.41%	–	–	Transactions with third parties
Third-party entity 5	26,201	1.28%	26,201	100.00%	Transactions with third parties
Total	1,498,464	73.33%	95,798		

The above top five accounts of other receivables represent amounts loans, advances and others receivable from third parties of the Group, and were aged within 0–36 months.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

6. Other receivables (continued)

(2) Other receivables (continued)

(d) Movements in bad-debt provision

Financial assets included in other receivables was RMB2,332,957,000. For financial assets included in other receivables based on expected credit losses in the next 12 months and expected credit losses during the entire life, the change of provisions for bad debt was as follows:

	Stage 1 Expected credit losses in the next 12 months	Stage 2 Expected credit losses during the entire life (Standalone assessment)	Stage 3 Financial assets with credit impairment occurred (during the entire life)	Total
Opening balance	1,118	–	176,186	177,304
Provision for the period	983	–	41,458	42,441
Reversed during the period	–	–	(22,448)	(22,448)
Transfer during the period	–	–	(7,538)	(7,538)
Exchange rate effect	–	–	1,514	1,514
Balance at 30 June 2023	2,101	–	189,172	191,273

7. Inventories

	30 June 2023			31 December 2022		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Raw materials and materials under subcontract processing	28,723,178	2,250,022	26,473,156	27,894,546	2,294,517	25,600,029
Work in progress	3,031,176	22,899	3,008,277	1,875,619	23,517	1,852,102
Finished goods	4,530,645	426,125	4,104,520	4,456,591	357,989	4,098,602
Dispatch of goods	9,358,842	1,205,792	8,153,050	9,997,136	1,092,659	8,904,477
Contract performance costs	4,972,181	888,955	4,083,226	5,671,534	891,754	4,779,780
	50,616,022	4,793,793	45,822,229	49,895,426	4,660,436	45,234,990

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7. Inventories (continued)

Movements in inventory impairment provision were as follows:

	Opening balance	Charge/ (reversal) for the period	Transfer during the period	Others	Closing balance
Raw materials and materials under subcontract processing	2,294,517	(44,192)	(220)	(83)	2,250,022
Work in progress	23,517	1,698	(2,297)	(19)	22,899
Finished goods	357,989	78,661	(1,052)	(9,473)	426,125
Dispatch of goods and contract cost	1,984,413	233,721	(135,722)	12,335	2,094,747
	4,660,436	269,888	(139,291)	2,760	4,793,793

8. Contract assets

	30 June 2023			31 December 2022		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Contract assets	4,956,865	(344,410)	4,612,455	5,190,315	(339,249)	4,851,066

Contract assets refer to rights to receive consideration from customers for delivered goods. Contract assets arise when the performance of contract obligations is ahead of the payment schedule agreed under the contract.

(1) Movements in provision for impairment of contract assets was as follows:

	Opening balance	Provisions/ (reversal) for the period	Write-off for the period	Exchange rate movements	Closing balance
30 June 2023	339,249	2,587	–	2,574	344,410

(2) Contract assets for which impairment loss provision is made based on standalone bad debt provision and credit risk characteristics group were analysed as follows:

	30 June 2023		
	Carrying amount estimated to be in default	Expected credit loss rate (%)	Expected credit loss during the entire duration
Standalone bad debt provision	134,651	100.00%	134,651
For which provision for bad debt is recognised by group with credit risk characteristics	4,822,214	4.35%	209,759
	4,956,865	6.95%	344,410

RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

8. Contract assets (continued)

(2) Contract assets for which impairment loss provision is made based on standalone bad debt provision and credit risk characteristics group were analysed as follows: (continued)

	31 December 2022		
	Carrying amount estimated to be in default	Expected credit loss rate	Expected credit loss during the entire duration
Standalone bad debt provision	133,131	100.00%	133,131
For which provision for bad debt is recognised by group with credit risk characteristics	5,057,184	4.08%	206,118
	5,190,315	6.54%	339,249

9. Long-term receivables/factored long-term receivables

(1) Long-term receivables

	30 June 2023	31 December 2022
Installment payments for the provision of telecommunication system construction projects	**2,684,980**	2,729,098
Including: long-term receivables due within one year (Note V.20)	**(1,824,100)**	—
	860,880	2,729,098
Less: Bad debt provision for long-term receivables	**49,685**	166,885
	811,195	2,562,213

(2) Movements in bad debt provision for long-term trade receivables were as follows:

	Opening balance	**Provision/ (reversal) for the period**	**Write-off for the period**	**Exchange rate movements**	**Closing balance**
30 June 2023	**166,885**	**(117,087)**	**—**	**(113)**	**49,685**

(3) Transfer of long-term receivables

The discount rates adopted for long-term receivables ranged from 4.10%–6.16%. Long-term trade receivables was provided based on expected credit loss during the entire life. All long-term trade receivables had not expired during the period. The rate of expected credit loss was 5.77%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables". As at 30 June 2023, factored trade receivables amounted to RMB761,000 (31 December 2022: RMB186,025,000) and bank advances on factored trade receivables amounted to RMB761,000 (31 December 2022: RMB195,210,000). For details of the transfer of long-term receivables, please refer to Note VIII.2.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9. Long-term receivables/factored long-term receivables (continued)

(3) Transfer of long-term receivables (continued)

(a) Factored long-term receivables

	30 June 2023			31 December 2022		
	Book balance	**Provision for impairment**	**Carrying value**	Book balance	Provision for impairment	Carrying value
Factored long-term receivables	**761**	**–**	**761**	195,210	(9,185)	186,025

(b) Movements in bad-debt provision for factored long-term receivables

	Opening balance	**Provision/ (reversal) for the period**	**Write-off for the period**	**Exchange rate movements**	**Closing balance**
30 June 2023	**9,185**	**(9,185)**	**–**	**–**	**–**

10. Long-term equity investments

		30 June 2023	31 December 2022
Equity method			
Joint ventures	(1)	**688,018**	527,718
Associates	(2)	**1,266,240**	1,323,149
Less: provision for impairment of long-term equity investments		**82,286**	96,837
		1,871,972	1,754,030

(1) Joint Ventures

			Movement during the period								
	Shareholding percentage	Opening book balance	Increase of investment	Decrease of investment and other outgoing transfer	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend	Allowance for impairment provision	Closing book balance	Impairment provision as at the end of the period
Puxing Mobile Tech Company Limited	33.85%	10,752	–	–	–	–	–	–	–	10,752	–
德特賽維技術有限公司	49.00%	34,922	–	–	(2,950)	–	–	–	–	31,972	–
Shaanxi Zhongtou Zhanlu Tranche I Equity Investment Partnership Enterprise (Limited Partnership)	40.00%	64,007	–	–	197	–	–	–	–	64,204	–
Shaanxi Zhongtou Zhanlu Tranche II Equity Investment Partnership Enterprise (Limited Partnership)	40.25%	–	48,300	–	25	–	–	–	–	48,325	–
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	40.00%	418,037	–	–	114,728	–	–	–	–	532,765	–
		527,718	48,300	–	112,000	–	–	–	–	688,018	–

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

10. Long-term equity investments (continued)

(2) Associates

	Shareholding percentage	Opening book balance	Movement during the period							Closing balance	Impairment provision as at the end of period
			Increase of investment	Decrease of investment and other outgoing transfer	Investment gains/losses under equity method	Other comprehensive income	Other equity movement	Cash dividend	Charge/transfer out of impairment provision		
New Idea Investment Pte. Ltd*	20.00%	–	–	(14,551)	–	–	–	–	14,551	–	–
Hengyang ICT Real Estate Co., Ltd.	30.00%	34,972	–	–	–	–	–	–	–	34,972	(17,474)
Whale Cloud Technology Co., Ltd.	27.62%	978,245	–	–	(28,747)	2,883	(48,646)	–	–	903,735	–
Zhongxing Feiliu Information Technology Company Limited	31.69%	13,651	–	–	(3,985)	–	–	–	–	9,666	(19,877)
Xingyun Times Technology Company Limited	23.26%	126,865	–	–	(3,501)	–	–	–	–	123,364	–
Zhongxing (Wenzhou) Rail Communication Technology Company Limited	45.90%	31,827	–	–	3,066	–	–	(5,279)	–	29,614	–
Qingdao Hongtu Zhanlu II Private Equity Investment Fund Partnership Enterprise (Limited Partnership)	33.33%	10,000	50,000	–	(58)	–	–	–	–	59,942	–
Other projects**		30,752	–	(4,687)	(3,408)	4	–	–	–	22,661	(44,935)
		1,226,312	50,000	(19,238)	(36,633)	2,887	(48,646)	(5,279)	14,551	1,183,954	(82,286)

* New Idea Investment Pte. Ltd has ceased to be accounted for as an associated following the loss of significant influence on the company after the disposal of the entire equity interests held in this company during the period.

** 廣東中城信息技術有限公司 has ceased to be accounted for as an associated following the loss of significant influence on the company after the disposal of the entire equity interests held in this company during the period.

(3) Provision for impairment in long-term equity investment:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
New Idea Investment Pte.Ltd	14,551	–	(14,551)	–
Hengyang ICT Real Estate Co., Ltd.	17,474	–	–	17,474
Zhongxing Feiliu Information Technology Company Limited	19,877	–	–	19,877
Other projects	44,935	–	–	44,935
	96,837	–	(14,551)	82,286

11. Other non-current financial assets

	30 June 2023	31 December 2022
Financial assets at fair value through current profit and loss	864,463	1,028,262

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

12. Investment properties

	Buildings
Opening balance	2,010,627
Fair value change (Note V.48)	(1,650)
Closing balance	2,008,977

During the period, the Group leased buildings of the investment properties to related parties and other non-related parties.

As at 30 June 2023, investment properties with a carrying value of RMB1,285,500,000 (31 December 2022: RMB1,286,000,000) had yet to obtain title registration certificates.

13. Fixed assets

	Buildings	Freehold land	Electronic equipment	Machinery equipment	Vehicles	Other equipment	Total
Cost							
Opening balance	10,505,923	31,117	8,219,183	2,827,574	242,951	339,235	22,165,983
Acquisitions	23,550	–	645,952	81,521	5,620	20,062	776,705
Transfer from construction in progress	5,780	–	–	–	–	–	5,780
Disposal or retirement	(16,903)	–	(496,734)	(142,603)	(9,938)	(18,071)	(684,249)
Exchange rate adjustments	(9,860)	4,038	13,818	10,100	330	8,572	26,998
Closing balance	10,508,490	35,155	8,382,219	2,776,592	238,963	349,798	22,291,217
Cumulative depreciation							
Opening balance	2,598,045	–	4,390,154	1,831,887	141,759	249,754	9,211,599
Provision	186,573	–	732,382	99,966	8,443	2,862	1,030,226
Disposal or retirement	(16,667)	–	(477,281)	(112,790)	(8,807)	(9,719)	(625,264)
Exchange rate adjustments	(9,846)	–	11,436	9,652	248	5,796	17,286
Closing balance	2,758,105	–	4,656,691	1,828,715	141,643	248,693	9,633,847
Provision for impairment							
Opening balance	33,636	–	894	5,511	–	1,030	41,071
Provision	–	–	15	556	–	–	571
Disposal or retirement	(297)	–	–	–	–	(952)	(1,249)
Exchange rate adjustments	(2)	–	398	–	–	2	398
Closing balance	33,337	–	1,307	6,067	–	80	40,791
Book value							
As at the end of the period	7,717,048	35,155	3,724,221	941,810	97,320	101,025	12,616,579
As at the beginning of the period	7,874,242	31,117	3,828,135	990,176	101,192	88,451	12,913,313

As at 30 June 2023, the Group was in the process of applying for property ownership certificate for buildings in Shenzhen, Shanghai and Nanjing in China with a net book value of approximately RMB3,575,137,000 (31 December 2022: RMB3,644,785,000).

RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

14. Construction in progress

Changes in major construction in progress as at 30 June 2023 were as follows:

	Budget	Opening balance	Increase during the period	Transfer to fixed assets	Other reduction	Impairment provision	Closing balance	Source of funds	Construction contribution as a percentage of budget (%)	Work progress
Nanjing Project	296,601	274,772	12,797	–	–	–	287,569	Internal funds	96.96%	Under construction
Shanghai R&D Centre Phase III	454,664	313,896	4,856	–	–	–	318,752	Internal funds	70.11%	Under construction
Xi'an Project	502,500	109,339	80,562	5,780	–	–	184,121	Internal funds	36.64%	Under construction
Others		265,997	157,395	–	2,240	652	420,500	Internal funds		Under construction
		964,004	255,610	5,780	2,240	652	1,210,942			

As at 30 June 2023, there was no capitalised interest in the balance of the construction in progress (31 December 2022: Nil).

15. Lease

(1) As lessee

Lease assets rented by the Group included houses and buildings, transportation equipment and other equipment required in the course of business. Houses and buildings are typically leased for terms of 1 year to 10 years, transportation equipment and other equipment are typically leased for terms of 1 to 5 years, and other equipment are typically leased for terms of 1 to 10 years. Some lease contracts provide for options of renewal and termination.

	Six months ended 30 June 2023	Six months ended 30 June 2022
Interest expense on lease liabilities	**30,528**	26,597
Short-term leases through current profit or loss using simplified approach	**84,211**	63,388
Total cash outflow relating to leases	**195,141**	195,790

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Lease (continued)

(1) *As lessee (continued)*

(a) *Rights-of-use assets*

	Buildings and structures	Vehicles	Other equipment	Total
Cost				
Opening balance	1,541,395	66,736	3,931	1,612,062
Increase	113,105	8,196	11,125	132,426
Decrease	(22,952)	—	—	(22,952)
Exchange rate adjustment	27,587	906	288	28,781
Closing balance	1,659,135	75,838	15,344	1,750,317
Cumulative depreciation				
Opening balance	482,124	47,766	2,651	532,541
Charge	167,941	6,772	80	174,793
Decrease	(19,659)	—	—	(19,659)
Exchange rate adjustment	17,989	590	188	18,767
Closing balance	648,395	55,128	2,919	706,442
Book value				
As at the end of the period	1,010,740	20,710	12,425	1,043,875
As at the beginning of the period	1,059,271	18,970	1,280	1,079,521

(b) *Lease liabilities*

Lease liabilities due within one year is set out under "Non-current liabilities due within one year". The amount as at 30 June 2023 was RMB445,513,000 (31 December 2022: RMB391,539,000).

Long-term lease liabilities were set out as follows:

	30 June 2023	31 December 2022
Lease liabilities	730,024	788,649

(2) *As lessor*

(a) *Finance leasing:*

Profit/loss relating to finance leasing was set out as follows:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Interest income from finance leasing	36,426	34,971

RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

15. Lease (continued)

(2) As lessor (continued)

(a) Finance leasing: (continued)

As at 30 June 2023, the balance of unrealised finance income amounting to RMB36,426,000 was amortised over the respective periods in the lease period using the effective interest rate method. According to the lease contract signed with the lessees, minimum lease payments under non-cancellable operating leases falling due are as follows:

	30 June 2023	30 June 2022
Within 1 year	**1,824,100**	–
1 to 2 years	**–**	1,824,100
Less: unrealised finance income	**36,426**	107,823
Lease investment, net	**1,787,674**	1,716,277

(b) Operating lease:

Profit or loss relating to operating leases was set out as follows:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Lease income	**57,811**	67,615

According to the lease contract signed with lessee, minimum lease payments under non-cancellable operating leases falling due were as follows:

	30 June 2023	30 June 2022
Within 1 year (including 1 year)	**88,008**	166,776
1 to 2 years (including 2 years)	**61,807**	86,627
2 to 3 years (including 3 years)	**61,537**	58,925
3 to 4 years (including 4 years)	**61,633**	59,079
4 to 5 years (including 5 years)	**59,873**	57,568
More than 5 years	**25,045**	100,112
	357,903	529,087

The Group entered into operating property leasing contracts with terms ranging from 1 year to 15 years with certain lessees, as shown in Note V.12. The leased properties were accounted for as investment properties.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

16. Intangible assets

	Software	Technology know-how	Land use right	Franchise	Deferred development costs	Total
Cost						
Opening balance	1,346,686	392,047	2,857,231	2,133,634	17,307,895	24,037,493
Acquisition	92,305	47,536	–	10,289	–	150,130
In-house R&D	–	–	–	–	1,478,043	1,478,043
Disposal or retirement	(92,213)	(183)	(112,848)	–	–	(205,244)
Disposal of subsidiaries	(13,517)	–	–	–	–	(13,517)
Exchange rate adjustments	23,051	–	–	23,625	–	46,676
Closing balance	1,356,312	439,400	2,744,383	2,167,548	18,785,938	25,493,581
Cumulative amortization						
Opening balance	650,594	288,931	486,652	1,496,958	12,950,857	15,873,992
Provision	99,616	47,756	34,367	39,562	990,315	1,211,616
Disposal or retirement	(66,407)	(32)	(17,358)	–	–	(83,797)
Disposal of subsidiaries	(13,517)	–	–	–	–	(13,517)
Exchange rate adjustments	19,333	1	–	13,862	–	33,196
Closing balance	689,619	336,656	503,661	1,550,382	13,941,172	17,021,490
Provision for impairment						
Opening balance	95,018	81,359	–	542,874	102,384	821,635
Charge	–	–	–	–	–	–
Disposal or retirement	(5,266)	–	–	–	–	(5,266)
Exchange rate adjustments	4,055	–	–	3,403	–	7,458
Closing balance	93,807	81,359	–	546,277	102,384	823,827
Book value						
As at the end of the period	572,886	21,385	2,240,722	70,889	4,742,382	7,648,264
As at the beginning of the period	601,074	21,757	2,370,579	93,802	4,254,654	7,341,866

As at 30 June 2023, the Group was in the process of obtaining the land use right certificate of land blocks located in Nanjing in the PRC, with a carrying value of approximately RMB88,140,000 (31 December 2022: RMB88,908,000).

As at 30 June 2023, intangible assets formed through internal research and development accounted for 62% of the book value of intangible assets as at the end of the period (31 December 2022: 58%).

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17. Deferred development costs

	Opening balance	Increase during the period	Decrease during the period	Closing balance
System products	2,584,570	768,772	(1,478,043)	1,875,299

The Group adopts the timing of the product development project listing as the starting point for capitalisation. All research and development projects were under normal implementation according to the research and development milestone schedules.

18. Goodwill

	Zhuhai Guangtong Bus Co., Ltd.	Suzhou Laxense Technology Co., Ltd.	NETAS TELEKOMUNIKASYON A.S.	Total
Cost				
Opening balance	186,206	33,500	89,763	309,469
Increase during the period	–	–	–	–
Decrease during the period	–	–	–	–
Exchange rate movement	–	–	–	–
	186,206	33,500	89,763	309,469
Impairment provision				
Opening balance	(186,206)	(33,500)	(89,763)	(309,469)
Increase during the period	–	–	–	–
Decrease during the period	–	–	–	–
Exchange rate movement	–	–	–	–
	(186,206)	(33,500)	(89,763)	(309,469)
Bank value	–	–	–	–

As at 30 June 2023, full impairment provisions had been provided in respect of the Zhongxing Smart Auto Company Limited asset group (Zhuhai Guangtong Bus Co., Ltd.), Suzhou Laxense Technology Co., Ltd. asset group and NETAS TELEKOMUNIKASYON A.S. asset group.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Deferred tax assets/liabilities

(1) Deferred tax assets which are not offset:

	30 June 2023		31 December 2022	
	Deductible temporary differences	**Deferred tax assets**	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealised profits arising on consolidation	**2,691,959**	**448,413**	2,374,988	403,748
Provision for impairment in inventory	**3,636,051**	**823,694**	3,393,228	794,195
Estimated construction contract losses	**974,362**	**155,898**	2,022,756	323,641
Amortisation of development costs	**3,494,514**	**520,361**	3,612,418	577,987
Provision for warranties and returned goods	**134,270**	**30,882**	136,486	31,392
Provision for retirement benefits	**141,995**	**32,659**	144,874	33,321
Deductible tax losses	**2,493,063**	**437,354**	5,993,531	958,965
Deferred income	**2,209,614**	**502,082**	1,479,251	347,067
Accruals	**5,548,546**	**904,263**	3,246,588	519,454
Share option scheme expenses	**718,240**	**107,736**	38,453	5,768
Lease liabilities	**1,175,537**	**178,620**	1,180,188	177,028
	23,218,151	**4,141,962**	23,622,761	4,172,566

(2) Deferred tax liabilities which are not offset:

	30 June 2023		31 December 2022	
	Deductible temporary differences	**Deferred tax liabilities**	Deductible temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	**1,083,679**	**162,537**	1,085,029	162,754
Investment in equity instruments through profit or loss at fair value	**190,961**	**49,731**	456,121	94,202
Fair-value adjustment of business combination not under common control	**110,662**	**16,117**	115,811	16,889
Rights-of-use assets	**1,043,875**	**156,384**	1,079,521	161,928
Others	**832,038**	**125,485**	699,400	105,393
	3,261,215	**510,254**	3,435,882	541,166

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19. Deferred tax assets/liabilities (continued)

(3) The net amount of deferred tax assets and deferred tax liabilities after set-off:

	30 June 2023		31 December 2022	
	Amount of set-off	**Amount after set-off**	Amount of set-off	Amount after set-off
Deferred tax assets	**425,549**	**3,716,413**	454,022	3,718,544
Deferred tax liabilities	**425,549**	**84,705**	454,022	87,144

(4) Deductible temporary differences and deductible tax losses of unrecognised deferred tax assets:

	30 June 2023	31 December 2022
Deductible tax losses	**12,334,989**	6,590,832

(5) Deductible tax losses of unrecognised deferred tax assets expiring in:

	30 June 2023	31 December 2022
2023	**70,341**	112,496
2024	**211,896**	193,890
2025	**259,745**	719,316
2026	**494,557**	502,942
Beyond 2027	**11,298,450**	5,062,188
	12,334,989	6,590,832

20. Other current assets/other non-current assets

(1) Other current assets

	30 June 2023	31 December 2022
Prepaid output tax and credit tax available for set off	**7,533,009**	7,462,588
Long-term receivables due within one year	**1,824,100**	—
Others	**436,726**	162,207
	9,793,835	7,624,795

(2) Other non-current assets

	30 June 2023	31 December 2022
Prepayments for projects, equipment and land	**647,740**	669,153
Risk compensation fund	**161,905**	186,227
Guarantee deposit	**321,124**	294,005
Restricted cash (Note 1)	**3,111,048**	2,913,604
Prepaid income tax	**68,449**	114,916
Others	**3,208,983**	2,758,851
	7,519,249	6,936,756

Note 1: Restricted funds represented deposits in an escrow account. For details, please refer to Note XII.2.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21. Short-term loans

			30 June 2023		31 December 2022	
			Original currency	**RMB equivalent**	Original currency	RMB equivalent
Credit loans		RMB	**2,678,519**	**2,678,519**	4,329,808	4,329,808
		USD	**73,652**	**534,558**	22,294	155,068
		EUR	**18,899**	**148,921**	18,684	138,530
		TRY	**711,318**	**199,925**	726,491	270,244
		KZT	**95,000**	**1,518**	298,460	4,503
Bills discounting loans		RMB	**24,489**	**24,489**	153,154	153,154
Letter of credit loans		RMB	**5,200,000**	**5,200,000**	4,901,008	4,901,008
Pledged loans		RMB	**—**	**—**	10,000	10,000
Guaranteed loans	Note 1	RMB	**54,100**	**54,100**	—	—
				8,842,030		9,962,315

As at 30 June 2023, there was no overdue loans (31 December 2022: Nil).

Note 1: The guaranteed loans comprised mainly a bank loan extended to JINZHUAN Information Technology Co., Ltd. guaranteed by ZTE Corporation.

22. Derivative financial liabilities

	30 June 2023	31 December 2022
Derivative financial liabilities at fair value through current profit and loss	**380,700**	201,717

Financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details, please refer to Note V.3.

23A. Bills payable

	30 June 2023	31 December 2022
Bank acceptance bills	**3,801,103**	5,682,845
Commercial acceptance bills	**5,625,519**	4,947,007
	9,426,622	10,629,852

There were no bills payables due and outstanding as at the end of the period.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

23B. Trade payables

An aging analysis of the trade payables based on book record date were as follows:

	30 June 2023	31 December 2022
0 to 6 months	18,271,054	18,111,180
6 to 12 months	141,824	222,962
1 year to 2 years	280,488	199,932
2 years to 3 years	115,036	203,604
Over 3 years	472,005	337,068
	19,280,407	19,074,746

Trade payables are interest-free and repayable normally within 6 months. As at 30 June 2023, there were no material trade payables aged over 1 year (31 December 2022: Nil).

24. Contract liabilities

	30 June 2023	31 December 2022
Contracted consideration received	14,789,318	17,699,861

Contract liabilities refer to the obligation to transfer goods to customers in consideration of payments received or receivable from customers. Contract liabilities are incurred when the payment schedule agreed under the contract is ahead of the performance of contract obligations.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25. Tax payable

	30 June 2023	31 December 2022
Value-added tax	341,494	375,631
Enterprise income tax	581,897	594,909
Including: PRC tax	354,508	341,853
Overseas tax	227,389	253,056
Personal income tax	259,249	338,967
City maintenance and construction tax	31,394	30,621
Education surcharge	28,553	27,235
Other taxes	26,665	79,719
	1,269,252	1,447,082

26. Other payables

	30 June 2023	31 December 2022
Interest payables	76,466	58,531
Dividend payables	–	4,240
Other payables	2,901,989	2,827,193
	2,978,455	2,889,964

(1) Dividend payables

	30 June 2023	31 December 2022
Dividend payables to minority shareholders	–	4,240

(2) Other payables

	30 June 2023	31 December 2022
Accruals	1,045,722	1,130,002
Deferred income from staff housing due in 1 year	251,095	48,142
Payables to external parties	1,312,333	1,303,854
Deposits	172,915	159,209
Others	119,924	185,986
	2,901,989	2,827,193

RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Salary and welfare payables and provision for retirement benefits

(1) Salary and welfare payable

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Short-term remuneration	12,860,749	15,872,152	(16,789,923)	11,942,978
Retirement benefits (Defined contribution scheme)	217,322	1,037,884	(974,034)	281,172
Termination benefits	144,108	146,271	(164,566)	125,813
	13,222,179	17,056,307	(17,928,523)	12,349,963

(a) Short-term remuneration analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Salary, bonus and allowance	10,306,360	14,266,136	(15,547,820)	9,024,676
Staff welfare	12,890	9,158	(6,554)	15,494
Social insurance	58,177	635,102	(611,483)	81,796
Including: Medical	54,715	594,972	(574,757)	74,930
Work injuries	898	17,701	(16,413)	2,186
Maternity	2,564	22,429	(20,313)	4,680
Housing funds	3,527	484,011	(445,756)	41,782
Labour union fund and employee education fund	2,479,795	477,745	(178,310)	2,779,230
	12,860,749	15,872,152	(16,789,923)	11,942,978

(b) Defined contribution plans are analysed as follows:

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Pension insurance	215,349	1,009,015	(947,086)	277,278
Unemployment insurance	1,973	28,869	(26,948)	3,894
	217,322	1,037,884	(974,034)	281,172

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

27. Salary and welfare payables and provision for retirement benefits (continued)

(2) Provision for retirement benefits

	30 June 2023	31 December 2022
Net liabilities from defined benefit plan	**141,995**	144,874

The Group operates for all qualifying employees a defined benefit plan that has yet to receive capital injection. Under the plan, an employee is entitled to retirement benefits ranging from 0% to 50% of his/her last salary at the retirement age.

The scheme is subject to interest rate risks and the risk of change in the life expectancy of the pension beneficiaries.

28. Provisions

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Expected contract loss (Note 1)	**2,022,756**	**358,144**	**(1,406,538)**	**974,362**
Outstanding litigation (Note 2)	**390,248**	**13,814**	**(43,052)**	**361,010**
Provision for warranties	**136,486**	**33,528**	**(35,744)**	**134,270**
	2,549,490	**405,486**	**(1,485,334)**	**1,469,642**

Note 1: Unavoidable cost for the performance of contract in excess of expected economic benefits of the contract.

Note 2: Provisions in respect of likely compensation amounts for cases as assessed based on the advice from appointed legal counsel and the progress of such cases.

29. Short-term bond payable

	30 June 2023	31 December 2022
Short-term bond financing	**2,000,000**	–

The balance of short-term bond payable as at 30 June 2023 was set out as follows:

Nominal	Date of issue	Maturity	Amount	Opening balance	Issued during the period	Annual interest rate	Interest accrued for the period	Repayment during the period	Closing balance
1,000,000	2023/06/27	92 days	1,000,000	–	1,000,000	2.08%	114	–	1,000,000
1,000,000	2023/06/27	92 days	1,000,000	–	1,000,000	2.08%	114	–	1,000,000

30. Non-current liabilities due within one year

	30 June 2023	31 December 2022
Long-term loans due within one year	**844,323**	270,205
Lease liabilities due within one year	**445,513**	391,539
	1,289,836	661,744

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31. Long-term loans

		30 June 2023	31 December 2022
Credit loans	RMB	39,721,800	34,998,425
Secured loans Note 1	RMB	131,206	127,563
		39,853,006	35,125,988

As at 30 June 2023, the annual interest rate for the aforesaid loans was 1.82%–5.64% (31 December 2022: 2.40%–5.64%).

Note 1: The secured loans comprised mainly an RMB131,206,000 (31 December 2022: RMB127,563,000) loan extended to Zhongxing Smart Auto Company Limited secured by land use rights with a book value of RMB139,619,000 and fixed assets with a book value of RMB470,261,000.

\# Aging profile of bank loans

	30 June 2023	31 December 2022
Listed as:		
Bank loan repayable:		
Within one year	9,686,353	10,232,520
Within the second year	9,561,018	7,437,773
Within the third to fifth years, inclusive	30,291,988	27,688,215
After five years	—	—
Total bank loans	49,539,359	45,358,508

32. Other non-current liabilities

	30 June 2023	31 December 2022
Deferred income relating to staff housing	8,714	217,985
Long-term payable	4,054,017	3,993,993
Amounts payable to third parties	78,568	78,568
Financial liabilities through current profit or loss at fair value	32,364	32,364
	4,173,663	4,322,910

33. Share capital

	Opening balance (1,000 shares)	Increase/ decrease during the period (1,000 shares) Issuance of new share	Closing balance (1,000 shares)
Restricted shares	728	—	728
Unrestricted shares	4,735,385	39,203	4,774,588
Total number of shares	4,736,113	39,203	4,775,316

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

34. Capital reserves

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium (Note 1)	24,402,389	1,692,577	(78,467)	26,016,499
Share-based payment (Note 2)	1,410,443	98,701	(379,697)	1,129,447
Capital investment by government	80,000	–	–	80,000
	25,892,832	1,791,278	(458,164)	27,225,946

Note 1: During the period, the shareholders' premium of the capital reserve was increased by RMB1,692,577,000 following the exercise of the Company's share option incentives representing the difference between the exercise price and the nominal value of the share capital. The capital reserve was decreased by RMB48,646,000 as a result of the reduction in ZTE's shareholding percentage in Whale Cloud Technology Co., Ltd. following the change in the capital contribution percentage of the external shareholders of Whale Cloud Technology Co., Ltd. The shareholders' premium was decreased by RMB29,821,000 following a capital increase with buy-back clause by the by minority shareholders of Nanjing Yingbo Super Computer Technology Company Limited.

Note 2: The initial grant under the 2020 Share Option Incentive Scheme was completed in November 2020. The scheme was implemented in three exercise periods. Share option expenses for the period of RMB93,819,000 were recognised in respect of share options for the three periods. The reserved grant under the 2020 Share Option Incentive Scheme was completed in September 2021. The scheme was implemented in two exercise periods. Share option expenses for the period of RMB4,882,000 were recognised in respect thereof. For details please refer to Note XI.

35. Other comprehensive income

	Opening balance of other comprehensive income attributable to shareholders of the parent company	Amount for the period			Closing balance of other comprehensive income attributable to shareholders of the parent company
		Amount for the period before tax	Amount after tax attributable to the parent company	Amount after tax attributable to non-controlling interest	
Other comprehensive income that cannot be reclassified as profit or loss					
Changes in net liabilities arising from the re-measurement of defined benefit plans	(74,857)	–	–	–	(74,857)
Share of investee results in other comprehensive income under equity method which cannot be reclassified to profit or loss	44,350	–	–	–	44,350
Other comprehensive income that will be reclassified as profit or loss					
Effective portion of hedging instruments	(67,982)	11,111	9,445	–	(58,537)
Differences arising from foreign currency translation	(3,047,023)	(60,876)	(57,602)	(3,274)	(3,104,625)
Fair value at date of reclassification of owned properties reclassified as investment properties at fair value in excess of book value	792,769	–	–	–	792,769
	(2,352,743)	(49,765)	(48,157)	(3,274)	(2,400,900)

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36. Surplus reserves

	Opening balance	Opening balance as adjusted	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserves	3,029,811	–	–	–	3,029,811

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capital of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalized as the Company's share capital.

37. Special reserve

	Opening balance	Increase during the period	Decrease during the period	Closing balance
Safe production cost	26,553	42,663	(16,994)	52,222

38. Retained profits

	30 June 2023	31 December 2022
Retained profits at the beginning of the period	27,308,621	20,651,196
Net profit attributable to shareholders of the parent	5,472,153	8,080,295
Surplus reserve	–	(2,657)
Distributions to shareholders	(1,895,850)	(1,420,213)
Retained profits at the end of the period	30,884,924	27,308,621

In accordance with the "Proposal for profit distribution 2022" considered and approved at the 2022 Annual General Meeting of the Company held on 6 April 2023, a dividend of RMB0.4 (2022: RMB0.3) in cash (before tax) per share was distributed to all shareholders. Based on the total share capital as at the record date of 4,739,624,618 shares (2022: 4,734,044,778 shares), the actual amount of profit distribution was RMB1,895,849,847.20 (2022: RMB1,420,213,433.40). The dividend distribution was completed in May 2023.

For the interim period of 2023, the Company does not propose any profit distribution (six months ended 30 June 2022: Nil).

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

39. Operating revenue and costs

	Six months ended 30 June 2023		Six months ended 30 June 2022	
	Revenue	Cost	Revenue	Cost
Principal business	59,382,397	33,447,748	58,238,358	36,402,809
Other business	1,322,397	1,021,462	1,579,942	1,260,085
	60,704,794	34,469,210	59,818,300	37,662,894

(1) Operating revenue is analysed as follows:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Revenue from customer contract	60,646,983	59,750,685
Rental income — operating leases	57,811	67,615
	60,704,794	59,818,300

(2) Breakdown of revenue from customer contracts:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Major operating area		
The PRC	43,057,719	40,534,755
Asia (excluding the PRC)	6,139,353	7,899,366
Africa	2,870,199	2,510,729
Europe and Oceania	8,579,712	8,805,835
	60,646,983	59,750,685
Types of key products		
Sale of products	19,803,579	20,430,782
Provision of service	5,244,272	4,296,317
Telecommunications system contracts with customers	35,599,132	35,023,586
	60,646,983	59,750,685
Recognise revenue in time		
Transferred at a point in time	55,402,711	55,454,368
Transferred over a period	5,244,272	4,296,317
	60,646,983	59,750,685

(3) Revenue included in the opening book value of contract liabilities recognised for the period was set out as follows:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Revenue included in the opening book value of contract liabilities recognised for the period	8,667,235	6,741,166

RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

40. Taxes and surcharges

	Six months ended 30 June 2023	Six months ended 30 June 2022
City maintenance and construction tax	**274,499**	117,089
Education surcharge	**200,152**	90,744
Property tax	**55,482**	38,266
Stamp duty	**87,770**	90,746
Others	**65,486**	50,562
	683,389	387,407

41. Selling and distribution costs

	Six months ended 30 June 2023	Six months ended 30 June 2022
Wages, welfare and bonuses	**2,782,368**	2,664,354
Advertising and promotion expenses	**613,407**	620,815
Service charges	**125,622**	226,404
Travelling expenses	**370,641**	328,810
Hospitality expenses	**213,861**	115,119
Office expense	**97,101**	118,022
Others	**413,237**	350,024
	4,616,237	4,423,548

42. Administrative expenses

	Six months ended 30 June 2023	Six months ended 30 June 2022
Wages, welfare and bonuses	**1,284,364**	1,194,995
Office expenses	**69,951**	80,749
Amortization and depreciation charges	**268,728**	220,917
Travelling expenses	**44,132**	29,578
Audit fees#	**10,516**	8,055
Others	**838,080**	998,402
	2,515,771	2,532,696

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43. Research and development expenses

	Six months ended 30 June 2023	Six months ended 30 June 2022
Wages, welfare and bonuses	9,533,483	7,448,841
Amortization and depreciation charges	1,591,564	1,372,889
Technical cooperation fee	441,127	444,177
Direct material costs	494,222	346,748
Office expenses	242,581	189,194
Others	488,055	349,651
	12,791,032	10,151,500

44. Expenses by nature

Supplementary information of the Group's operating costs, selling and distribution costs, administration expenses and research and development expenses by nature were as follows:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Cost of goods and services	31,345,299	34,646,743
Staff remuneration (including share-based payment)	16,409,353	14,050,926
Depreciation and amortization	2,380,308	2,136,928
Rental not included in the measurement of lease liabilities	84,211	63,388
Others	4,173,079	3,872,653
	54,392,250	54,770,638

45. Financial expenses

	Six months ended 30 June 2023	Six months ended 30 June 2022
Interest expenses	1,648,613	949,580
Less: Interest income	1,839,701	1,141,487
(Gain)/loss on foreign currency exchange	(735,447)	405,233
Bank charges	112,783	90,419
	(813,752)	303,745

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

46. Other income

	Six months ended 30 June 2023	Six months ended 30 June 2022	Relating to asset/ income
Refund of VAT on software products (Note 1)	797,954	714,735	Relating to income
Refund of handling charges for personal tax	31,030	23,028	Relating to income
Others	164,933	163,823	Relating to income
	993,917	901,586	

Note 1: Refund of VAT on software products represents the refund of the portion of tax payment in excess of 3% in respect of software product sales by some subsidiaries of the Company pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

47. Investment income

	Six months ended 30 June 2023	Six months ended 30 June 2022
Gain/(loss) from long-term equity investment under equity method	75,367	(56,564)
Investment income from financial assets at fair value through profit or loss during the period of holding	4,855	7,973
Investment (loss)/income from disposal of derivative investment	(548,439)	328,675
Investment income arising from disposal of financial assets at fair value through profit or loss	218,511	529,190
Investment (loss)/income from disposal of long-term equity investment	(1,036)	7,445
Loss on derecognition of financial assets at amortised cost and financial assets at fair value through other comprehensive income	(213,515)	(145,496)
	(464,257)	671,223

48. Gain/(loss) from changes in fair values

	Six months ended 30 June 2023	Six months ended 30 June 2022
Financial assets at fair value through profit or loss	(211,174)	(445,353)
Derivative financial instruments	(218,166)	54,603
Investment properties at fair value	(1,650)	(1,484)
	(430,990)	(392,234)

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

49. Credit impairment losses

	Six months ended 30 June 2023	Six months ended 30 June 2022
Impairment loss of trade receivables	**287,744**	118,080
Impairment (reversal)/losses on receivable financing	**(1,465)**	1,327
Impairment loss of other receivables	**19,993**	1,127
Reversal of impairment of long-term receivables	**(117,087)**	(3,591)
(Reversal)/loss of impairment of factored trade receivables	**(1,832)**	64
Reversal of impairment of long-term factored receivables	**(9,185)**	(95)
	178,168	116,912

50. Asset impairment losses

	Six months ended 30 June 2023	Six months ended 30 June 2022
Inventories provision losses	**269,888**	167,433
Impairment losses/(reversal) of contract assets	**2,587**	(22,449)
Prepayment impairment losses	**4,100**	9,850
Fixed asset impairment losses	**571**	—
Losses from impairment of other non-current assets	**—**	5,937
	277,146	160,771

51. Gains from asset disposal

	Six months ended 30 June 2023	Six months ended 30 June 2022
Gains from disposal of right-of-use assets	**5,980**	5,911
Gains from disposal of fixed assets	**2,638**	—
Gains from disposal of intangible assets	**7,844**	1,691
	16,462	7,602

52. Non-operating income/non-operating expenses

(1) Non-operating income

	Six months ended 30 June 2023	Six months ended 30 June 2022	Amount of extraordinary gain/loss recognized for the six months ended 30 June 2023
Income from contract penalty and reward	**16,748**	11,292	16,748
Others	**58,855**	88,021	58,855
	75,603	99,313	75,603

RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

52. Non-operating income/non-operating expenses (continued)

(2) Non-operating expenses

	Six months ended 30 June 2023	Six months ended 30 June 2022	Amount of extraordinary gain/loss recognized for the six months ended 30 June 2023
Compensation	**17,542**	102,152	17,542
Others	**101,448**	52,456	101,448
	118,990	154,608	118,990

53. Income tax

	Six months ended 30 June 2023	Six months ended 30 June 2022
Current income tax	**640,332**	901,925
Deferred income tax	**26,754**	(236,868)
	667,086	665,057

Reconciliation between income tax and total profit was as follows:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Total profit	**6,059,338**	5,211,709
Tax at statutory tax rate (Note)	**1,514,835**	1,302,927
Effect of different tax rates applicable to certain subsidiaries	**(547,079)**	(555,199)
Adjustment to current tax in previous periods	**(16,820)**	(20,878)
Profits and losses attributable to jointly-controlled entities and associates	**(11,305)**	10,472
Income not subject to tax	**(3,586)**	(36,257)
Weighted deduction for research and development costs and non-deductible tax expense	**(556,965)**	(289,100)
Utilization of tax losses from previous years	**(15,228)**	(13,824)
Unrecognized tax losses and deductible temporary differences	**303,234**	266,916
Tax charge at the Group's effective rate	**667,086**	665,057

Note: The Group's income tax has been provided at the rate on the estimated taxable profits and applicable tax rates arising in the PRC. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

54. Earnings per share

Calculations of basic and diluted earnings per shares were as follows:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	**5,472,153**	4,565,826
Shares		
Weighted average number of ordinary shares of the Company ('000 shares)	**4,759,603**	4,736,367
Dilutive effect — weighted average number of ordinary shares ('000 shares)	**—**	108
Adjusted weighted average number of ordinary shares of the Company in issue ('000 shares)	**4,759,603**	4,736,475
Basic/diluted earnings per share	**1.15**	0.96

Note: The calculation of the diluted earnings/(losses) per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares.

55. Notes to major items in cash flow statement

	Six months ended 30 June 2023	Six months ended 30 June 2022
Cash received in connection with other operating activities:		
Interest income	**1,074,701**	716,586
Cash paid in connection with other investing activities:		
Net cash outflow on disposal of subsidiaries	**—**	72,098
Other cash paid in relation to other financing activities:		
Repayment of minority interest investment	**3,155**	8,011
Payment of principal and interest on lease liabilities	**195,141**	195,790

RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

55. Notes to major items in cash flow statement (continued)

(1) Supplemental information on cash flow statement

(a) Reconciliation of net profit to cash flows from operating activities:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Net profit	**5,392,252**	4,546,652
Add: Credit impairment losses	**178,168**	116,912
Asset impairment losses	**277,146**	160,771
Depreciation of fixed assets	**1,011,306**	817,230
Depreciation of right-of-use assets	**174,793**	164,300
Amortisation of intangible assets	**1,194,209**	1,172,805
Gain on disposal of fixed assets, intangible assets and other long-term assets	**(16,462)**	(7,602)
Loss from changes in fair value	**430,990**	392,234
Finance costs	**1,369,726**	991,525
Investment income	**464,257**	(671,223)
Decrease/(increase) in deferred tax assets	**2,131**	(194,851)
Decrease in deferred tax liabilities	**(2,439)**	(42,017)
Increase in inventories	**(857,127)**	(5,698,996)
Decrease/(increase) in operating receivables	**1,594,275**	(1,257,070)
(Decrease)/increase in operating payables	**(4,722,683)**	2,761,653
Cost of share-based payment	**98,701**	247,549
Increase in cash not readily available for payments	**(163,346)**	(238)
Net cash flow from operating activities	**6,425,897**	3,499,634

(b) Net change in cash and cash equivalents:

	Six months ended 30 June 2023	Six months ended 30 June 2022
Closing cash balance	**1,190**	1,933
Less: opening cash balance	**1,604**	1,685
Add: closing balance of cash equivalents	**54,945,108**	44,079,232
Less: opening balance of cash equivalents	**47,070,125**	39,068,898
Net increase in cash and cash equivalents	**7,874,569**	5,010,582

(2) Information on subsidiaries and other business units disposed of

	Six months ended 30 June 2023	Six months ended 30 June 2022
Price at which subsidiaries and other business units were disposed of	**560,000**	297,000
Cash and cash equivalents received on disposal of subsidiaries and other business units	**30,000**	89,100
Net cash received on disposal of subsidiaries and other business units	**30,000**	89,100

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

55. Notes to major items in cash flow statement (continued)

(3) Cash and cash equivalents

	Six months ended 30 June 2023	Six months ended 30 June 2022
Cash		
Including: Cash on hand	**1,190**	1,933
Bank deposit readily available for payment	**54,945,108**	44,079,232
Cash and cash equivalents at end of the period	**54,946,298**	44,081,165

56. Assets subject to restrictions on ownership or right of use

	30 June 2023	31 December 2022	
Cash	**887,644**	897,420	Note 1
Trade receivables and contract assets	**—**	40,253	Note 2
Fixed assets	**470,261**	478,585	Note 3
Intangible assets	**139,619**	215,677	Note 4
Other non-current assets restricted cash	**3,594,077**	3,393,836	Note 5
	5,091,601	5,025,771	

Note 1: As at 30 June 2023, the Group's cash subject to ownership restriction amounted to RMB887,644,000 (31 December 2022: RMB897,420,000), including acceptance bill deposits of RMB214,750,000 (31 December 2022: RMB125,840,000), letter of credit deposits of RMB505,638,000 (31 December 2022: RMB576,910,000), deposit for guarantee letter of RMB45,179,000 (31 December 2022: RMB47,307,000), dues from the People's Bank of China of RMB88,096,000 (31 December 2022: RMB107,092,000) and technology grants of RMB33,981,000 (31 December 2022: RMB40,271,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released on a pro-rata basis in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 30 June 2023, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB161,905,000 (31 December 2022: RMB186,227,000), which were funds to be released after one year and accounted for as other non-current assets.

Note 2: As at 30 June 2023, nil trade receivables (31 December 2022: RMB40,253,000) were pledged to secure bank borrowing.

Note 3: As at 30 June 2023, fixed assets with a carrying value of RMB470,261,000 (31 December 2022: RMB478,585,000) were pledged to secure bank borrowing. No fixed assets were pledged in connection with asset acquisitions (31 December 2022: Nil).

Note 4: As at 30 June 2023, intangible assets with a total carrying value of RMB139,619,000 (31 December 2022: RMB215,677,000) were pledged to secure bank borrowing. No intangible assets were pledged in connection with asset acquisitions (31 December 2022: Nil).

Note 5: As at 30 June 2023, restricted funds represented an RMB3,111,048,000 (31 December 2022: RMB2,913,604,000) deposit in an escrow account, the details of which are set out in Note XII. The RMB321,124,000 (31 December 2022: RMB294,005,000) performance bond with a term of over 1 year was paid to a project partner by ZTE; and risk compensation fund to be released after one year amounted to RMB161,905,000 (31 December 2022: RMB186,227,000).

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

57. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

		30 June 2023			31 December 2022		
		Original currency	Exchange rate	RMB Equivalent	Original currency	Exchange rate	RMB Equivalent
Cash	USD	66	7.2579	481	115	6.9555	800
	DZD	955	0.0534	51	1,006	0.0507	51
Bank deposit	USD	651,968	7.2579	4,731,916	802,151	6.9555	5,579,361
	EUR	176,083	7.8798	1,387,499	139,635	7.4145	1,035,324
	JPY	3,078,955	0.0501	154,231	2,761,755	0.0525	144,992
	PKR	3,662,269	0.0253	92,663	3,813,768	0.0307	117,083
	MYR	36,361	1.5512	56,402	31,869	1.5844	50,493
	ETB	441,440	0.1330	58,696	610,866	0.1303	79,596
	NPR	335,057	0.0553	18,521	563,731	0.0525	29,596
	DZD	1,587,006	0.0534	84,786	408,104	0.0507	20,691
	GBP	2,110	9.1439	19,293	1,564	8.3887	13,120
	RUB	32,389	0.0834	2,701	126,791	0.0989	12,540
	IDR	177,148,349	0.0005	85,715	124,653,058	0.0004	49,861
	HKD	84,115	0.9260	77,886	78,196	0.8918	69,735
	CAD	2,748	5.4818	15,065	8,432	5.1355	43,303
	BRL	15,303	1.5061	23,049	17,304	1.3331	23,068
	THB	909,980	0.2042	185,804	294,914	0.2015	59,425
	EGP	49,343	0.2349	11,591	46,957	0.2811	13,200
	COP	4,547,064	0.0017	7,874	17,971,081	0.0014	25,160
	CLP	441,159	0.0090	3,989	665,686	0.0081	5,392
Other cash	USD	16,094	7.2579	116,811	26,003	6.9555	180,864
Trade receivables	USD	524,232	7.2579	3,804,824	600,628	6.9555	4,177,670
	EUR	138,266	7.8798	1,089,511	153,421	7.4145	1,137,537
	INR	2,191,966,685	0.0005	1,060,605	1,956,798,815	0.0004	872,917
	MXN	1,604,606	0.4236	679,634	1,064,505	0.3572	380,257
	INR	1,920,391	0.0885	169,887	2,610,679	0.0840	219,297
Other receivables	USD	85,884	7.2579	623,335	40,369	6.9555	280,786
	EUR	5,539	7.8798	43,642	5,984	7.4145	44,366
	PKR	1,179,479	0.0253	29,843	1,131,272	0.0307	34,717
	IDR	34,481,803	0.0005	16,684	32,410,801	0.0004	14,458
Trade payables	USD	735,505	7.2579	5,338,218	885,922	6.9555	6,162,028
	IDR	1,667,356,215	0.0005	806,767	1,612,243,754	0.0004	719,213
	EUR	50,943	7.8798	401,419	61,576	7.4145	456,558
	INR	2,860,795	0.0885	253,080	3,159,174	0.0840	265,426
	PHP	867,232	0.1311	113,693	1,356,540	0.1239	168,129
Other payables	MXN	568,821	0.4236	240,925	604,858	0.3572	216,064
	USD	23,865	7.2579	173,208	70,372	6.9555	489,470
	EUR	19,457	7.8798	153,320	20,928	7.4145	155,172
	THB	675,883	0.2042	138,005	96,286	0.2015	19,404
	GBP	847	9.1439	7,744	854	8.3887	7,167
Short-term loan	USD	73,652	7.2579	534,558	22,294	6.9555	155,068
	TRY	711,318	0.2811	199,925	726,491	0.3720	270,244
	EUR	18,899	7.8798	148,921	18,684	7.4145	138,530
	KZT	95,000	0.0160	1,518	298,460	0.0151	4,503

The Group's principal places of business overseas include the United States, Indonesia and India, among others. Its operating entities in these countries adopt their respective principal currency for conducting business as their functional currencies.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

58. Hedge

Cash flow hedge

The Group designates USD forward exchange contracts as hedging instruments against exchange risks arising from future expenses to be priced and settled in USD, for which the Group has made definitive commitment. The balance of USD such forward exchange contracts varies according to changes in the scale of anticipated foreign currency expenses and movements in forward exchange rates. Through quantitative analysis, the Group has determined a 1:1 ratio between the quantity of hedging instruments and the quantity of hedged items. There are no ineffective portions of cash flow hedge.

In 2022, the Group did not enter into forward exchange contract with designated hedge accounting relationships.

Time distribution of nominal amount of hedging instruments and average exchange rates were set out as follows:

30 June 2023

	Within 6 months	6–12 months	After 1 year	Total
Nominal amount of USD forward contract	–	24,000	–	24,000
Average RMB to USD exchange rate	–	6.73	–	6.73

Carrying value of hedging instruments and fair-value change were set out as follows:

30 June 2023

	Nominal amount of hedging instruments	Carrying value of hedging instruments		Balance sheet items including hedged instruments	Fair-value change of hedging instruments adopted as basis for recognition of ineffective hedge portion during the period
		Assets	Liabilities		
Exchange rate risk — USD forward exchange contract	24,000	11,111	–	Derivative financial assets	–

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

58. Hedge (continued)

Cash flow hedge (continued)

Fair-value change in hedging instruments recognised in current profit or loss and other comprehensive income were set out as follows:

Six months ended 30 June 2023

	Fair-value change in hedging instruments recognised in other comprehensive income	Ineffective portion of hedge recognised in current profit or loss	Profit or loss items including recognised ineffective portion of hedge	Amount reclassified from cash flow hedge reserve to current profit or loss	Profit or loss items including reclassification adjustments
Exchange rate risk — USD forward exchange contract	11,111	–	N/A	–	N/A

VI. CHANGES TO THE SCOPE OF CONSOLIDATION

Company name	Reason for change	Date of inclusion in/exclusion from scope of consolidation
ZTE (Rwanda) Company Limited	New incorporation	March 2023
ZTE (Chengdu) Company Limited	New incorporation	May 2023
Chengdu Cris Semiconductor Technology Company Limited	New incorporation	May 2023
ZTE India Research institute	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	April 2023
Xinjiang ZTE Silk Road Network Technology Company Limited	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	May 2023
Fujian Maritime Silk Road Technology Company Limited	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	May 2023

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of the major subsidiaries of the Group were as below:

Type of subsidiary	Place of registration/ principal places of business	Business nature	Registered capital	Percentage of shareholding (%)	
				Direct	Indirect
Subsidiaries acquired by way of incorporation or investment					
Shenzhen ZTE Kangxun Telecom Company Limited*	Shenzhen	Manufacturing	RMB1,755 million	100%	–
ZTE (H.K.) Limited	Hong Kong	Information technology	HKD2,483.7478 million	100%	–
Shenzhen Zhongxing Software Company Limited*	Shenzhen	Servicing	RMB51.08 million	100%	–
Xi'an ZTE Terminal Technology Company Limited*	Xi'an	Manufacturing	RMB300 million	100%	–
Sanechips Technology Co., Ltd.*	Shenzhen	Manufacturing	RMB131.5789 million	87.22%	12.78%
Xi'an Zhongxing New Software Company Limited*	Xi'an	Servicing	RMB340 million	100%	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited*	Shenzhen	Telecommunications services	RMB200 million	90%	10%
Shenzhen ZTE Capital Management Company Limited*	Shenzhen	Investment fund	RMB30 million	55%	–
Xi'an Cris Semiconductor Technology Company Limited*	Xi'an	Manufacturing	RMB1,000 million	–	100%

* Such subsidiaries are companies with limited liability incorporated under the laws of the PRC.

In the view of the Company, the subsidiaries listed in the table above were material to the annual results or accounted for a significant share of the Group's net assets.

RMB'000

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in joint ventures and associates

(1) Interests in joint ventures

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding (%)		Accounting method
				Direct	Indirect	
Joint Ventures						
Puxing Mobile Tech Company Limited	PRC	R&D, production and sales of communications equipment	RMB128,500,000	33.85%	–	Equity method
德特賽維技術有限公司	PRC	Software development, information technology consultant and information systems integration	RMB60,000,000	49%	–	Equity method
Shaanxi Zhongtou Zhanlu Tranche I Equity Investment Partnership Enterprise (Limited Partnership)	PRC	Venture investment, equity investment, investment management and investment consultation	RMB100,000,000	39%	1%	Equity method
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	PRC	Equity investment, investment management and asset management	RMB1,000,000,000	40%	–	Equity method
Shaanxi Zhongtou Zhanlu Tranche II Equity Investment Partnership Enterprise (Limited Partnership)	PRC	Venture investment, equity investment, investment management and investment consultation	RMB200,000,000	39%	1.25%	Equity method

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in joint ventures and associates (continued)

(2) Interests in associates

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding (%)		Accounting method
				Direct	Indirect	
Associates						
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited*	PRC	Hotel management service	RMB30,000,000	18%	–	Equity method
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	Zimbabwe	Colour ringtone and other telecommunication VAS	USD500	49%	–	Equity method
中山優順置業有限公司	PRC	Real estate	RMB10,000,000	20%	–	Equity method
鐵建聯合(北京)科技有限公司	PRC	Technology promotion and application services	RMB20,000,000	30%	–	Equity method
上海博色信息科技有限公司	PRC	Professional technical services	RMB23,676,517	23.2%	–	Equity method
南京寧網科技有限公司	PRC	Manufacturing of computers, communication and other electronic equipment	RMB25,487,400	21.26%	–	Equity method
Xingchen Smart Tech Industry Company Limited*	PRC	Manufacturing of computers and related equipment	RMB200,000,000	19%	–	Equity method
Hengyang ICT Real Estate Co., Ltd.	PRC	Real estate	RMB20,000,000	30%	–	Equity method
貴州中安雲網科技有限公司*	PRC	Technology and innovative IOT inter-network services	RMB61,224,500	9.31%	–	Equity method
陝西高端裝備與智能製造產業研究院有限公司*	PRC	High-end equipment and smart manufacturing, product research, consultation service and technology development	RMB16,000,000	12.5%	–	Equity method
山東興濟置業有限公司*	PRC	Real estate	RMB10,000,000	10%	–	Equity method

RMB'000

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in joint ventures and associates (continued)

(2) Interests in associates (continued)

	Place of registration/ principal place of business	Nature of business	Registered capital	Percentage of Shareholding (%)		Accounting method
				Direct	Indirect	
Huanggang Education Valley Investment Holdings Co., Ltd.	PRC	Education	RMB50,000,000	25%	–	Equity method
Shijiazhuang Smart Industry Company Limited*	PRC	Smart City construction and operation	RMB400,000,000	12%	–	Equity method
Whale Cloud Technology Co., Ltd.	PRC	Scientific research and technical service	RMB791,624,476	27.62%	–	Equity method
江西國投信息科技有限公司*	PRC	Smart city operation	RMB100,000,000	15%	–	Equity method
Anhui Qiying Intelligent Technology Company Limited	PRC	Intelligent technology, automobile and Information technology	RMB20,000,000	35%	–	Equity method
Zhongxing Feiliu Information Technology Company Limited	PRC	Development of computer software/ and hardware, development of big data technology	RMB118,153,800	31.69%	–	Equity method
Xingyun Times Technology Company Limited	PRC	Internet and related services	RMB290,000,000	23.26%	–	Equity method
Zhongxing (Wenzhou) Rail Communication Technology Company Limited	PRC	Software and IT services	RMB50,000,000	45.9%	–	Equity method
Qingdao Hongtu Zhanlu Tranche II Private Equity Investment Fund Partnership Enterprise (Limited Partnership)	PRC	Equity investment, investment management and asset management	RMB300,000,000	33.3%	–	Equity method

* Companies in which the Group had a shareholding percentage less than 20% were listed as associates, mainly in view of the Group's right to participate in the decision-making of the financial and operational policies of the investees.

During the reporting period, the Group had no subsidiaries with significant minority interests nor individual material joint ventures or associates which had a significant influence on the Group.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

VII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in joint ventures and associates (continued)

(3) The following table sets out summarized financial information of insignificant joint ventures and associates of the Group:

	30 June 2023	31 December 2022
Joint ventures		
Aggregate carrying value of investments	**688,018**	527,718

	Six months ended 30 June 2023	Six months ended 30 June 2022
Aggregate amounts of the following attributable to shareholdings:		
Net gain/(loss)	**112,000**	(260)
Other comprehensive income	**—**	—
Total comprehensive income	**112,000**	(260)

	30 June 2023	31 December 2022
Associates		
Aggregate carrying value of investments	**1,183,954**	1,226,312

	Six months ended 30 June 2023	Six months ended 30 June 2022
Aggregate amounts of the following attributable to shareholdings:		
Net gain	**(36,633)**	(56,303)
Other comprehensive income	**2,887**	(5,355)
Total comprehensive income	**(33,746)**	(61,658)

As at 30 June 2023, there were no contingent liabilities associated with the investments in joint ventures and associates (31 December 2022: Nil).

RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

30 June 2023

(1) The book values of financial assets at the balance sheet date were as follows:

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Derivative designated as effective hedging instrument	Total
Cash	–	63,333,440	–	–	63,333,440
Derivative financial assets	92,688	–	–	11,111	103,799
Trading financial assets	424,451	–	–	–	424,451
Trade receivables	–	16,664,839	–	–	16,664,839
Long-term trade receivables	–	811,195	–	–	811,195
Factored trade receivables and factored long-term receivables	–	25,013	–	–	25,013
Financial assets in other receivable	–	2,332,957	–	–	2,332,957
Receivable financing	–	–	1,625,044	–	1,625,044
Financial assets in other current assets	–	1,824,100	–	–	1,824,100
Financial assets in other non-current assets	–	4,164,077	–	–	4,164,077
Other non-current financial assets	864,463	–	–	–	864,463
	1,381,602	89,155,621	1,625,044	11,111	92,173,378

(2) The book values of financial liabilities at the balance sheet date were as follows:

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Total
Derivative financial liabilities	380,700	–	380,700
Bank loans	–	49,539,359	49,539,359
Lease liabilities	–	1,175,537	1,175,537
Bills payable	–	9,426,622	9,426,622
Trade payables	–	19,280,407	19,280,407
Short-term bond payable	–	2,000,000	2,000,000
Bank advances on factored trade receivables and long-term trade receivables	–	26,205	26,205
Other payables (excluding accruals and staff housing fund contributions)	–	1,681,638	1,681,638
Other non-current liabilities	32,364	4,132,585	4,164,949
	413,064	87,262,353	87,675,417

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

1. Classification of financial instruments (continued)

31 December 2022

(1) The book values of financial assets at the balance sheet date were as follows:

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Financial assets measured at fair value through other comprehensive income	Derivative designated as effective hedging instrument	Total
Cash	—	56,346,367	—	—	56,346,367
Derivative financial assets	132,125	—	—	—	132,125
Trading financial assets	513,784	—	—	—	513,784
Trade receivables	—	17,751,390	—	—	17,751,390
Long-term trade receivables	—	2,562,213	—	—	2,562,213
Factored trade receivables and factored long-term receivables	—	267,550	—	—	267,550
Financial assets in other receivable	—	672,469	—	—	672,469
Receivable financing	—	—	3,712,142	—	3,712,142
Financial assets in other non-current assets	—	3,393,836	—	—	3,393,836
Other non-current financial assets	1,028,262	—	—	—	1,028,262
	1,674,171	80,993,825	3,712,142	—	86,380,138

(2) The book values of financial liabilities at the balance sheet date were as follows:

	Financial assets at fair value through current profit and loss	Financial assets at amortised cost	Total
Derivative financial liabilities	201,717	—	201,717
Bank loans	—	45,358,508	45,358,508
Lease liabilities	—	1,180,188	1,180,188
Bills payable	—	10,629,852	10,629,852
Trade payables	—	19,074,746	19,074,746
Bank advances on factored trade receivables and long-term trade receivables	—	279,760	279,760
Other payables (excluding accruals and staff housing fund contributions)	—	1,649,049	1,649,049
Other non-current liabilities	32,364	4,072,561	4,104,925
	234,081	82,244,664	82,478,745

RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Transfers of financial assets

(1) Financial assets transferred but not derecognised in their entirety

During the period, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that no bills receivable (31 December 2022: nil) retained substantially all risks and rewards upon discounting and hence did not qualify for derecognition of financial assets.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognised to the extent of trade receivables transferred under continuous involvement. As at 30 June 2023, the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB2,539,952,000 (31 December 2022: RMB24,317,362,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

	Financial assets (at amortised cost) Trade receivables/long-term receivables	
	30 June 2023	31 December 2022
Carrying value of assets under continuous involvement	**25,013**	267,550
Carrying value of liabilities under continuous involvement	**26,205**	279,760

Factored trade receivables that did not qualify for derecognition and factored trade receivables under continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 30 June 2023, the amount of factored trade receivables was RMB25,013,000 (31 December 2022: RMB267,550,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 30 June 2023, the amount of bank advances on factored trade receivables was RMB26,205,000 (31 December 2022: RMB279,760,000).

(2) Financial assets transferred and derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the period. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB6,421,972,000 (31 December 2022: RMB2,163,458,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognised at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognised bills receivable and the undiscounted cash flow for the repurchase of such bills equal to the carrying amounts of the bills receivable. The Group is of the view that the fair value of continuous involvement in the derecognised bills receivable is not significant. For the relevant period, the Group recognised discounted interests of RMB81,323,000 (31 December 2022: RMB81,320,000) in respect of the derecognised bills receivable as at the date of transfer.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments

The Group's daily activities expose it to the risk of a variety of financial instruments, mainly including credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The Group's major financial instruments included cash and bank balances, equity investments, borrowings, notes receivable and trade receivables, notes payable and trade payables, etc. The risks related to these financial instruments and the risk management strategy adopted by the Group to reduce these risks are described as follows.

(1) Credit risk

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group is not exposed to significant bad debts. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the special approval of the credit control department of the Group.

Since cash and bank balances, bank acceptance bills receivable and derivative financial instruments are placed with the well-established banks with high credit ratings, the credit risk of these financial instruments is relatively low.

The Group's other financial assets, which comprise cash, equity investments, other receivables and certain derivatives. The credit risk associated with such financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

(a) Criteria for judging significant increases in credit risk

The Company assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Company takes into account the reasonable and substantiated information that is accessible without exerting undue extra cost or effort, including qualitative and quantitative analysis based on the historical data of the Company, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Company compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to determine changes in the risk of default during the expected lifetime of financial instruments.

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative and qualitative criteria have been met:

- Quantitative criteria are primarily represented by the increase in the probability of default for the remaining lifetime at the reporting date is considered significant comparing with the one at initial recognition.
- Qualitative criteria are primarily represented by the significant adverse change in the debtor's operational or financial status and the watch list for potential default, among others.
- The maximum limit indicator is represented by an overdue of 30 years for the contractual payments of the debtor (including principal and interest).

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

(1) Credit risk (continued)

(b) Definition of credit-impaired financial assets

The standard adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred, the principal factors considered are as follows:

- Significant financial difficulty of the issuer or debtor;
- Debtors' breach of contract, such as defaulting or becoming overdue on interest or principal payments;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties of the issuer or debtor;
- The purchase or origination of a financial asset at a deep discount that reflects the incurrence of credit losses;

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

(c) Forward-looking information

For trade receivables and contract assets for which impairment provision for expected credit loss for the entire period has been made, a risk matrix model may be provided in lieu of credit risk rating. The risk matrix may follow the example shown in Note V.4A and V.8.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

(2) Liquidity risk

The Group monitors its risk to the shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans and other interest-bearing loans.

The maturity profile of financial liabilities based on undiscounted contractual cash flow was summarised as follows:

30 June 2023

	Within 1 year	**1–2 years**	**2–3 years**	**Over 3 years**	**Total**
Bank loans	**9,861,271**	**9,986,262**	**27,357,315**	**5,327,360**	**52,532,208**
Lease liabilities	**445,513**	**110,417**	**145,332**	**474,275**	**1,175,537**
Derivative financial liabilities	**380,700**	**–**	**–**	**–**	**380,700**
Bills payable	**9,426,622**	**–**	**–**	**–**	**9,426,622**
Trade payables	**19,280,407**	**–**	**–**	**–**	**19,280,407**
Short-term bond payable	**2,000,228**	**–**	**–**	**–**	**2,000,228**
Bank advances on factored trade receivables and factored long-term trade receivable	**25,445**	**761**	**–**	**–**	**26,206**
Other payables (excluding accruals and staff housing fund contributions)	**1,605,172**	**–**	**–**	**–**	**1,605,172**
Other non-current liabilities	**389**	**2,079,023**	**98,389**	**2,112,996**	**4,290,797**
	43,025,747	**12,176,463**	**27,601,036**	**7,914,631**	**90,717,877**

31 December 2022

	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	10,355,808	8,066,794	21,023,352	11,015,327	50,461,281
Lease liabilities	391,539	152,281	176,249	460,119	1,180,188
Derivative financial liabilities	201,717	–	–	–	201,717
Bills payable	10,629,852	–	–	–	10,629,852
Trade payables	19,074,746	–	–	–	19,074,746
Bank advances on factored trade receivables and factored long-term trade receivable	84,550	–	11,509	183,701	279,760
Other payables (excluding accruals and staff housing fund contributions)	1,649,049	–	–	–	1,649,049
Other non-current liabilities	389	600,389	1,479,023	2,201,087	4,280,888
	42,387,650	8,819,464	22,690,133	13,860,234	87,757,481

RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

(3) Market risk

(a) Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

As at 30 June 2023, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR and Euribor. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 2.40% to 52.95% (14.75%–52.95% for TRY loans). Approximately 18.88% (31 December 2022: 20.58%) of the Group's interest bearing borrowings were subject to interests at fixed rates. In addition, the Group borrowed loans amounting to approximately USD60 million at floating interest rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in RMB. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit or loss (through the impact on floating rate loans) and other comprehensive income (net of tax) assuming that other variables remain constant.

	Increase/ (decrease) in basis points	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2023	**25**	**(88,849)**	**–**	**(88,849)**
	(25)	**88,849**	**–**	**88,849**
Six months ended 30 June 2022	25	(78,765)	–	(78,765)
	(25)	78,765	–	78,765

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. Risks of financial instruments (continued)

(3) Market risk (continued)

(b) Foreign currency risk

The Group is exposed to trading exchange rate risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's net profit or loss, with all other variables held constant, as at the balance sheet date.

	Increase/ (decrease) in USD exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2023				
Weaker RMB against USD	**5%**	**330,581**	**–**	**330,581**
Stronger RMB against USD	**(5%)**	**(330,581)**	**–**	**(330,581)**
Six months ended 30 June 2022				
Weaker RMB against USD	5%	(80,155)	–	(80,155)
Stronger RMB against USD	(5%)	80,155	–	80,155

	Increase/ (decrease) in EUR exchange rate	Increase/ (decrease) in net profit or loss	Increase/ (decrease) in other comprehensive income net of tax	Increase/ (decrease) in total shareholders' equity
Six months ended 30 June 2023				
Weaker RMB against EUR	**5%**	**139,795**	**–**	**139,795**
Stronger RMB against EUR	**(5%)**	**(139,795)**	**–**	**(139,795)**
Six months ended 30 June 2022				
Weaker RMB against EUR	5%	143,024	–	143,024
Stronger RMB against EUR	(5%)	(143,024)	–	(143,024)

RMB'000

VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

4. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group makes adjustments in the light of changes in economic conditions and in the risk profiles of relevant assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital for the six months ended 30 June 2023.

The Group manages capital using the financial gearing ratio, which is the ratio of interest-bearing liabilities to the sum of owners' equity and interest-bearing liabilities. The financial gearing ratio of the Group as at the balance sheet dates was as follows:

	30 June 2023	31 December 2022
Interest-bearing bank borrowings	**51,539,359**	45,358,508
Lease liabilities	**1,175,537**	1,180,188
Bank advances on factored receivables and long-term trade receivables	**26,205**	279,760
Total interest-bearing liabilities	**52,741,101**	46,818,456
Owners' equity	**64,095,796**	59,543,223
Total equity and interest-bearing liabilities	**116,836,897**	106,361,679
Gearing ratio	**45.1%**	44.0%

IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

30 June 2023

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	**Significant observable inputs Level 2**	**Significant unobservable inputs Level 3**	**Total**
Continuous measurement of fair value				
Derivative financial assets	**–**	**103,799**	**–**	**103,799**
Trading financial assets	**330,907**	**–**	**93,544**	**424,451**
Other non-current financial assets	**–**	**–**	**864,463**	**864,463**
Receivable financing	**–**	**1,625,044**	**–**	**1,625,044**
Investment properties leased buildings	**–**	**–**	**2,008,977**	**2,008,977**
	330,907	**1,728,843**	**2,966,984**	**5,026,734**
Derivative financial liabilities	**–**	**(380,700)**	**–**	**(380,700)**
Other non-current liabilities	**–**	**–**	**(32,364)**	**(32,364)**
	–	**(380,700)**	**(32,364)**	**(413,064)**

RMB'000

IX. DISCLOSURE OF FAIR VALUES (continued)

1. Assets and liabilities measured at fair value (continued)

31 December 2022

	Input applied in the measurement of fair value			
	Quoted prices in active markets Level 1	Significant observable inputs Level 2	Significant unobservable inputs Level 3	Total
Continuous measurement of fair value				
Derivative financial assets	—	132,125	—	132,125
Trading financial assets	417,402	—	96,382	513,784
Other non-current financial assets	—	—	1,028,262	1,028,262
Receivable financing	—	3,712,142	—	3,712,142
Investment properties leased buildings	—	—	2,010,627	2,010,627
	417,402	3,844,267	3,135,271	7,396,940
Derivative financial liabilities	—	(201,717)	—	(201,717)
Other non-current liabilities	—	—	(32,364)	(32,364)
	—	(201,717)	(32,364)	(234,081)

2. Estimation of fair value

(1) Fair value of financial assets

The management has conducted evaluations of our cash, bills receivable, trade receivables, bills payable and trade payables. The fair values approximate the book values as the remaining terms are not long.

Fair value of financial assets and financial liabilities refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows.

The fair values of long-term receivables and long/short-term loans are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics, risk profiles and outstanding term. As at 30 June 2023, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity instruments are determined on the basis of market prices. The fair values of equity investments in listed companies during the lock-up period is arrived at based on quotations in an active market discounted at a percentage reflecting the lack of liquidity during lock-up.

Fair value of non-listed equity investment at fair value through profit or loss is estimated using the market-based method. The assumptions on which it is based are unobservable input. The estimation requires the management to determine comparable public companies (peers) based on industry, scale, gearing and strategy and compute appropriate price multiples in respect of each identified comparable company, such as enterprise value to EBIT ("EV/EBIT"), enterprise value to revenue ("EV/Revenue") or price to earnings ("P/E"), etc. Such multiples are measured and arrived at based on the relevant data of the comparable companies and discounted by a percentage for the lack of liquidity. The discounted multiple shall be used for the measurement of the profit or asset of the non-listed equity investment to arrive at its fair value. The management believes that the estimated fair value (as recorded in the balance sheet) and changes in fair value (as recorded in profit or loss and other comprehensive income) arrived at using the aforesaid valuation method were reasonable and represented the most appropriate value as the end of the reporting period.

IX. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value (continued)

(1) Fair value of financial assets (continued)

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal inputs of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of an interest rate swap and a forward exchange contract is identical with its fair value. As at 30 June 2023, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

For financial products at fair value through profit or loss, the Group estimates the fair value based on the discounted cash flow model using market interest rates of instruments with similar terms and risks.

(2) Fair value of investment properties under the fair value model

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties at 30 June 2023 was RMB2,008,977,000 (31 December 2022: RMB2,010,627,000).

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

IX. DISCLOSURE OF FAIR VALUES (continued)

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

30 June 2023

	Fair value at end of period	Valuation techniques	Unobservable inputs	Range
Commercial properties	RMB2,008,977,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB30–RMB500
			Rent growth (p.a.)	3%–6%
			Discount rate	7%–8.5%
Equity instrument investment	RMB958,007,000	Market method	Liquidity discount rate	5.80%–50%
			P/E	3.44–27.55
			P/B	0.76–2.10
Other non-current liabilities	RMB32,364,000	Binomial tree option pricing model	Risk-free interest rate	2.42%–2.72%
			Volatility rate	40.86%-44.27%
			Dividend rate	–
			Exercise probability	5%–15%

31 December 2022

	Fair value at end of year	Valuation techniques	Unobservable inputs	Range
Commercial properties	RMB2,010,627,000	Discounted cash flow method	Estimated rental value (per sq. m. and per month)	RMB30–RMB500
			Rent growth (p.a.)	3%–6%
			Discount rate	7%–8.5%
Equity instrument investment	RMB1,124,644,000	Market method	Liquidity discount rate	6.69%–30%
			P/E	7.1
			P/B	0.6–1.1
			EV/Revenue	2.1–6.2
Other non-current liabilities	RMB32,364,000	Binomial tree option pricing model	Risk-free interest rate	2.42%–2.72%
			Volatility rate	40.86%–44.27%
			Dividend rate	–
			Exercise probability	5%–15%

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

IX. DISCLOSURE OF FAIR VALUES (continued)

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorised within Level 3 of the fair value hierarchy:

30 June 2023

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Acquisition	Disposal	Closing balance	Change in unrealised profit or loss for the period of assets held at the end of period included in profit and loss
Investment properties	2,010,627	–	–	(1,650)	–	–	2,008,977	(1,650)
Trading financial assets	96,382	–	(33,236)	30,398	–	–	93,544	30,398
Other non-current financial assets	1,028,262	–	–	(44,091)	1,800	(121,508)	864,463	(275,024)
Other non-current financial liabilities	32,364	–	–	–	–	–	32,364	–

31 December 2022

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Acquisition	Disposal	Closing balance	Change in unrealised profit or loss for the period of assets held at the end of year included in profit and loss
Investment properties	2,013,927	–	–	(3,300)	–	–	2,010,627	(3,300)
Trading financial assets	1,139,092	64,864	(1,139,092)	31,518	–	–	96,382	31,358
Other non-current financial assets	1,175,249	22,000	(64,864)	(78,572)	–	(25,551)	1,028,262	(952)
Other non-current financial liabilities	–	–	–	–	32,364	–	32,364	–

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to non-financial assets is analyzed as follows:

	Six months ended 30 June 2023 Relating to non-financial assets	Six months ended 30 June 2022 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	(1,650)	(1,484)
Change in unrealised profit or loss for the period of assets held at year-end included in profit and loss as at the end of the period	(1,650)	(1,484)

During the period, there were no transfers of fair value measurements between Level 1 and Level 2.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Place of registration	Nature of business	Registered capital	Percentage of shareholding in the Company (%)	Percentage of voting rights in the Company (%)
Zhongxingxin Telecom Company Limited	Shenzhen, Guangdong	Manufacturing	RMB100 million	20.12%	20.12%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Zhongxingxin Telecom Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note VI and Note VII.1.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

4. Other related parties

	Relationship
Sindi Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
深圳市中興新力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
安徽中興聚力精密機電技術有限公司	Subsidiary of the Company's controlling shareholder
Pylon Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen New Video Smart Technology Company Limited	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxingxin Cloud Service Company Limited	Subsidiary of the Company's controlling shareholder
Shenzhen Xingkai Communication Equipment Limited	Subsidiary of the Company's controlling shareholder
航天歐華信息技術有限公司	Subsidiary of a company for which a connected natural person of the Company acted as senior management
廣東歐科空調製冷有限公司	Subsidiary of a company for which a connected natural person of the Company acted as senior management
Shenzhen Aerospace Guangyu Industrial Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as senior management
Shenzhen Zhongxing Information Company Limited	Company for which a connected natural person of the Company acted as director
Shenzhen Aerospace Property Management Co., Ltd.	Company for which a connected natural person of the Company acted as director
Shenzhen ZTE International Investment Company Limited	Company for which a connected natural person of the Company acted as chairman
Tianjin ZTE International Investment Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as chairman
Shenzhen Zhongxing WXT Equipment Company Limited	Company for which a connected natural person of the Company acted as director
北京中興協力科技有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director
CASIC Shenzhen (Group) Company Limited	Company for which a connected natural person of the Company acted as director and senior management

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
Huatong Technology Co., Ltd.	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Huatong Software Technology (Nanjing) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
ZTE Software Technology (Nanchang) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Zhongxing Software Technology (Shenyang) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Chongqing Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Sanhe Zhongxing Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Sanhe Zhongxing Property Service Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
重慶中興中投物業服務有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
深圳中興和泰海景酒店投資發展有限公司	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Xiazhi Technology Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Beijing Changrui Time Technology Limited	Company for which a connected natural person of the Company acted as senior management
Xi'an Microelectronics Technology Research Institute	Entity at which a connected natural person of the Company had previously acted as head
深圳中興新源環保股份有限公司	Company for which a connected natural person of the Company acted as chairman
Shenzhen Zhongxing Tenglang Eco-Tech Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as chairman
上海中興科源實業有限公司	Subsidiary of a company for which a connected natural person of the Company acted as chairman
Zhongxing Intelligent Technology (Wuhu) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as chairman
深圳中興節能環保股份有限公司	Company for which a connected natural person of the Company acted as vice chairman
Shenzhen Zhongxingxu Technology Company Limited	Company controlled by Company a connected natural person of the Company
南京中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
西安中興和泰酒店管理有限公司	Subsidiary of an associate of the Company
上海市和而泰酒店投資管理有限公司	Subsidiary of an associate of the Company

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties

(1) *Transaction of goods with related parties*

(a) *Sales of goods and services to related parties*

	Six months ended 30 June 2023	Six months ended 30 June 2022
Transactions with controlling shareholder and its subsidiaries:		
Sindi Technologies Co., Ltd.	**82**	—
Transactions with companies where connected natural persons held office and their subsidiaries:		
航天歐華信息技術有限公司	**391,305**	401,604
Shenzhen Zhongxing Information Company Limited	**433**	2,366
Beijing Changrui Time Technology Limited	**175**	—
Shenzhen Zhongxing WXT Equipment Company Limited	**—**	2
	391,913	403,972
Transactions with associates and joint ventures of the Company and their subsidiaries:		
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**25**	25
南京中興和泰酒店管理有限公司	**325**	883
西安中興和泰酒店管理有限公司	**822**	786
上海市和而泰酒店投資管理有限公司	**728**	598
Puxing Mobile Tech Company Limited	**811**	811
上海博色信息科技有限公司	**—**	657
Whale Cloud Technology Co., Ltd.	**1,386**	6
廣東中城信息技術有限公司	**—**	174
德特賽維技術有限公司	**291**	—
Shaanxi Zhongtou Zhanlu Tranche I Equity Investment Partnership Enterprise (Limited Partnership)	**990**	—
Anhui Qiying Intelligent Technology Company Limited	**1,416**	—
Shaanxi Zhongtou Zhanlu Tranche II Equity Investment Partnership Enterprise (Limited Partnership)	**866**	—
	7,660	3,940
	399,655	407,912

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(1) Transaction of goods with related parties (continued)

(b) Purchases of goods and services from related parties

	Six months ended 30 June 2023	Six months ended 30 June 2022
Transactions with controlling shareholder and its subsidiaries:		
Sindi Technologies Co., Ltd.#	**69,749**	73,837
Shenzhen Xinyu Tengyue Electronics Co., Ltd#	**10,354**	13,986
Pylon Technologies Co., Ltd.#	**14**	14,177
深圳市中興新力精密機電技術有限公司#	**47,530**	72,405
安徽中興聚力精密機電技術有限公司#	**—**	374
Shenzhen New Video Smart Technology Company Limited#	**587**	3,824
	128,234	178,603
Transactions with companies and their subsidiaries where connected natural persons held office:		
Shenzhen Aerospace Property Management Co., Ltd.	**155**	—
廣東歐科空調製冷有限公司	**16,536**	3,066
北京中興協力科技有限公司	**1,918**	1,644
Huatong Technology Company Limited	**20,724**	19,940
ZTE Software Technology (Nanchang) Company Limited	**23,480**	17,831
Zhongxing Software Technology (Shenyang) Company Limited	**—**	2,135
深圳中興和泰海景酒店投資發展有限公司	**191**	22
Xiazhi Technology Limited	**115**	—
Shenzhen Zhongxing Tenglang Eco-Tech Company Limited	**8,646**	—
CASIC Shenzhen (Group) Company Limited	**—**	1,001
	71,765	45,639
Transactions with associates and joint ventures of the Company and their subsidiaries:		
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	**8,814**	3,497
南京中興和泰酒店管理有限公司	**7,354**	4,535
西安中興和泰酒店管理有限公司	**6,226**	2,818
上海市和而泰酒店投資管理有限公司	**3,395**	5,826
Whale Cloud Technology Co., Ltd.	**97,646**	107,340
	123,435	124,016
	323,434	348,258

\# Continuing connected transaction subject to annual reporting under the Hong Kong Listing Rules.

Note: For the period, the Group conducted commodity trade with connected parties based on market prices.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties

(a) As lessor

	Type of lease asset	**Six months ended 30 June 2023 Lease income**	Six months ended 30 June 2022 Lease income
Transactions with controlling shareholder and its subsidiaries:			
Shenzhen Zhongxingxin Cloud Service Company Limited	Office	**1,962**	1,860
深圳市中興新力精密機電技術有限公司	Quarters	**6**	—
		1,968	1,860
Transactions with companies and their subsidiaries where connected natural persons held office:			
Zhongxing Intelligent Technology (Wuhu) Company Limited	Office	**85**	—
Shenzhen ZTE International Investment Company Limited	Office	**77**	73
Huatong Technology Company Limited	Office	**17**	10
Huatong Software Technology (Nanjing) Company Limited	Office	**—**	92
上海中興科源實業有限公司	Office	**218**	202
深圳中興節能環保股份有限公司	Office	**147**	84
		544	461
Transactions with associates and joint ventures of the Company and their subsidiaries:			
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	Property and equipment & facilities	**6,432**	6,442
南京中興和泰酒店管理有限公司	Property and equipment & facilities	**3,427**	3,427
西安中興和泰酒店管理有限公司	Property and equipment & facilities	**9,320**	9,320
上海市和而泰酒店投資管理有限公司	Property and equipment & facilities	**8,181**	8,181
Zhongxing Feiliu Information Technology Company Limited	Office	**—**	351
		27,360	27,721
		29,872	30,042

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties (continued)

(b) As lessee

Six months ended 30 June 2023

	Type of lease asset	Rental expense based on simplified short term lease and low value asset lease	Variable lease payment not included in the measurement of lease liabilities	Rental paid	Lease liability interest expense assumed	Right of use assets added
Transactions with controlling shareholder and its subsidiaries:						
Zhongxingxin Telecom Company Limited	Office	107	–	2,612	10	–
Transactions with companies and their subsidiaries where connected natural persons held office:						
Chongqing Zhongxing Development Company Limited	Office	215	–	3,747	165	–
Chongqing Zhongxing Zhongtou Property Service Company Limited	Office	212	–	–	–	–
Sanhe Zhongxing Development Company Limited	Office	1,588	–	–	–	–
Sanhe Zhongxing Property Service Company Limited	Office	109	–	3,414	57	–
Tianjin ZTE International Investment Company Limited	Office	1,035	–	1,286	96	–
		3,266	–	11,059	328	–

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties (continued)

(b) As lessee (continued)

Six months ended 30 June 2022

	Type of lease asset	Rental expense based on simplified short term lease and low value asset lease	Variable lease payment not included in the measurement of lease liabilities	Rental paid	Lease liability interest expense assumed	Right of use assets added
Transactions with controlling shareholder and its subsidiaries:						
Zhongxingxin Telecom Company Limited	Office	113	–	5,489	251	13,192
Transactions with companies and their subsidiaries where connected natural persons held office:						
Chongqing Zhongxing Development Company Limited	Office	318	–	3,857	319	–
Sanhe Zhongxing Property Service Company Limited	Office	1,657	–	–	–	–
Sanhe Zhongxing Development Company Limited	Office	114	–	4,966	322	2,377
Tianjin ZTE International Investment Company Limited	Office	820	–	1,286	165	–
		3,022	–	15,598	1,057	15,569

Note: The Group recognised lease income of RMB29,872,000 (six months ended 30 June 2022: RMB30,042,000) for the period according to the lease contracts for the lease of office and equipment to the aforesaid connected parties.

The Group recognised lease expenses of RMB11,059,000 (Six months ended 30 June 2022: RMB15,598,000)for the period according to the lease contracts for the lease of office from the aforesaid connected parties.

(3) Other major related transactions

Remuneration of key management personnel

	Six months ended 30 June 2023	Six months ended 30 June 2022
Short-term staff remuneration	**6,092**	5,554
Retirement benefit	**163**	153
	6,255	5,707

Note: Share-based payment expense recognized for six months ended 30 June 2023 in respect of share option incentive granted to key management personnel of the Company amounted to RMB861,000 (six months ended 30 June 2022: RMB12,234,000). For details, please refer to Note XI. 2 and 3.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments of the Group with related parties

(1) Information on purchases with related parties in 2023–2024 of the Group as purchaser was as follows:

Supplier	Subject of purchase	Date of agreement	Duration of agreement	Estimated purchase 2023 (RMB'000)	Estimated purchase 2024 (RMB'000)
Zhongxingxin Telecom Company Limited and its subsidiaries	Raw materials	December 2022	1 year	550,000	–
Huatong Technology Company Limited	Software outsourcing	December 2022	2 years	85,000	85,000
ZTE Software Technology (Nanchang) Company Limited	Software outsourcing	December 2022	2 years	85,000	85,000
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries	Hotel service	December 2021	2 years	48,000	–
				768,000	170,000

Note: For details of purchases occurring during the period, please refer to Note X. 5 (1).

(2) Information on sales with related parties in 2023 of the Group as seller was as follows:

Customer	Subject of sales	Date of agreement	Duration of agreement	Estimated sales 2023 (RMB'000)
航天歐華信息技術有限公司	Full range of government and corporate business products	December 2022	1 year	1,300,000

Note: For details of sales occurring during the period, please refer to Note X. 5 (1).

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

6. Commitments of the Group with related parties (continued)

(3) Information on leases of the Group (as lessor) with connected parties in 2023–2024 was as follows:

	Estimated lease income	
Lessee	**2023 (RMB'000)**	**2024 (RMB'000)**
Transactions with controlling shareholder and its subsidiaries	4,482	3,576
Transactions with companies where connected natural persons held positions and their subsidiaries	1,063	557
Transactions with associates and joint ventures of the Company and their subsidiaries	53,792	–
	59,337	4,133

Note: For details of lease income occurring during the period, please refer to Note X. 5 (2).

(4) Information on leases of the Group (as lessee) with connected parties in 2023–2024 was as follows:

	Estimated lease expense	
Lessor	**2023 (RMB'000)**	**2024 (RMB'000)**
Transactions with controlling shareholder and its subsidiaries	10,454	10,455
Transactions with companies where connected natural persons held positions and their subsidiaries	30,923	23,081
	41,377	33,536

Note: For details of lease expense occurring during the period, please refer to Note X. 5 (2).

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties

Item	Name of related companies	30 June 2023 Amount	31 December 2022 Amount
Bills receivable	航天歐華信息技術有限公司	–	288,405
Trade receivable	Puxing Mobile Tech Company Limited	4,700	4,700
	德特賽維技術有限公司	9	308
	Whale Cloud Technology Co., Ltd.	506	995
	鐵建聯和(北京)科技有限公司	7,424	7,424
	上海博色信息科技有限公司	–	2,030
	Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	46,311	38,282
	西安中興和泰酒店管理有限公司	38,633	27,823
	南京中興和泰酒店管理有限公司	11,976	7,110
	上海市和而泰酒店投資管理有限公司	74,289	65,240
	Shenzhen Xingkai Communication Equipment Limited	22,060	22,060
	Shenzhen Zhongxing Information Company Limited	1,665	2,434
	Beijing Changrui Time Technology Limited	112	–
	Anhui Qiying Intelligent Technology Company Limited	100	–
	上海中興科源實業有限公司	116	–
	Sindi Technologies Co., Ltd.	93	–
		207,994	178,406
Prepayment	深圳市中興新力精密機電技術有限公司	731	731
Other receivable	山東興濟置業有限公司	20,591	20,591

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related companies	30 June 2023 Amount	31 December 2022 Amount
Bills payable	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	6,173	9,116
	Sindi Technologies Co., Ltd.	60,770	55,139
	深圳市中興新力精密機電技術有限公司	43,632	49,417
	廣東歐科空調製冷有限公司	—	621
	Pylon Technologies Co., Ltd.	23	390
	Shenzhen New Video Smart Technology Company Limited	663	220
	Shenzhen Zhongxing Tenglang Eco-Tech Company Limited	656	—
		111,917	114,903
Trade payables	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	3,213	3,394
	Sindi Technologies Co., Ltd.	28,794	26,204
	Shenzhen Zhongxing WXT Equipment Company	327	483
	Shenzhen Zhongxing Information Company Limited	762	9,692
	Puxing Mobile Tech Company Limited	217	217
	深圳市中興新力精密機電技術有限公司	18,543	20,787
	廣東歐科空調製冷有限公司	—	846
	Whale Cloud Technology Co., Ltd.	193,111	156,172
	Pylon Technologies Co., Ltd.	1,994	2,246
	航天歐華信息技術有限公司	2,237	3,762
	Zhongxing Software Technology (Shenyang) Company Limited	—	96
		249,198	223,899

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related companies	30 June 2023 Amount	31 December 2022 Amount
Contract liabilities	ZTE Software Technology (Nanchang) Company Limited	5,327	5,327
	Xi'an Microelectronics Technology Research Institute	1,620	1,611
	Beijing Zhongxing Xieli Technology Company Limited	155	155
	航天歐華信息技術有限公司	11,999	4,855
	Zhongxing Software Technology (Shenyang) Company Limited	3	3
	Whale Cloud Technology Co., Ltd.	8,482	9,328
	Anhui Qiying Intelligent Technology Company Limited	81	436
	Shaanxi Zhongtou Zhanlu Tranche II Equity Investment Partnership Enterprise (Limited Partnership)	874	–
	Shaanxi Zhongtou Zhanlu Tranche I Equity Investment Partnership Enterprise (Limited Partnership)	1,000	–
	Shenzhen Zhongxingxu Technology Company Limited	925	925
		30,466	22,640

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related companies	30 June 2023 Amount	31 December 2022 Amount
Other payables	Shenzhen Zhongxing WXT Equipment Company Limited	12	2,712
	Zhongxingxin Telecom Company Limited	10	10
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	5,433	5,243
	中山優順置業有限公司	2,000	2,000
	Hengyang ICT Real Estate Co., Ltd.	198	198
	山東興濟置業有限公司	272	272
	Shenzhen Zhongxingxin Cloud Service Company Limited	45	45
	深圳中興節能環保股份有限公司	29	29
	Shenzhen ZTE International Investment Company Limited	14	26
	Huatong Technology Company Limited	6	6
	Shenzhen Aerospace Property Management Co., Ltd.	30	30
	ZTE Software Technology (Nanchang) Company Limited	190	—
	Zhongxing Intelligent Technology (Wuhu) Company Limited	26	—
	廣東中城信息技術有限公司	—	1,165
		8,265	11,736

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivables from related parties were interest-free and unsecured with a usual credit term of 0–90 days, which may be extended to up to 1 year.

RMB'000

XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:	**30 June 2023**	30 June 2022
Cumulative balance of equity-settled share-based payments credited to capital reserves	**1,129,447**	1,188,524
Transfer of cost of equity-settled share-based payments to share premium in capital reserve upon exercise of share options	**(379,697)**	(55,444)
Total costs of equity-settled share-based payments for the period	**98,701**	247,549

2. Share option incentive scheme

(1) 2017 Share Option Incentive Scheme

Pursuant to the "Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, the date of grant was set for 6 July 2017. Pursuant to the Scheme, the Company proposed to grant 149,601,200 share options to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the Directors and senior management of the Company and key employees of the Company, excluding Independent Non-executive Directors and Supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the de facto controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of 5 years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 2-year period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

(1) Rate of Return on Common Stockholders' Equity ("ROE");

(2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

For the purpose of calculating the aforesaid performance indicators under the Scheme, "net profit" shall refer to the net profit attributable to holders of ordinary shares of the listed company and "net assets" shall refer to the net assets attributable to holders of ordinary shares of the listed company.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(1) 2017 Share Option Incentive Scheme (continued)

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/3	2019.7.6–2020.7.5	ROE for 2017 shall be no less than 10% and Net Profit Growth for 2017 shall be no less than 10% on a base amount of RMB3,825 million
Second exercise period ("Second Period")	1/3	2020.7.6–2021.7.5	ROE for 2018 shall be no less than 10% and Net Profit Growth for 2018 shall be no less than 20% on a base amount of RMB3,825 million
Third exercise period ("Third Period")	1/3	2021.7.6–2022.7.5	ROE for 2019 shall be no less than 10% and Net Profit Growth for 2019 shall be no less than 30% on a base amount of RMB3,825 million

The fair value of the share options granted amounted to RMB1,477,496,000. The first exercise period expired in July 2020. The exercise conditions for the second exercise period were not fulfilled. The vesting period of the third exercise period expired in July 2022. Hence, no share option expense was required to be recognised for the six months ended 30 June 2023.

Share options issued and outstanding under the Scheme are as follows:

	30 June 2023		31 December 2022	
	Weighted average exercise price* RMB/share	**Number of share options In'000**	Weighted average exercise price* RMB/share	Number of share options In'000
At the beginning of the period/year	**–**	**–**	16.66	5,256
Exercised during the period		**–**		(5,256)
Lapsed		**–**		–
At the end of the period/year	**–**	**–**	16.36	–

* The grant under the Company's 2017 Share Option Incentive Scheme was completed in July 2017. The initial exercise price of the share options was RMB17.06/share. The exercise price of the 2017 Share Option Incentive Scheme was adjusted to RMB16.86/share after the implementation of the 2019 profit distribution plan in August 2020, RMB16.66/share after the implementation of the 2020 profit distribution plan in August 2021 and RMB16.36/share after the implementation of the 2021 profit distribution plan in May 2022.

The exercise period for the 2017 Share Option Incentive Scheme was expired in July 2022. As at 30 June 2023, the exercise periods had expired and there were no issued and outstanding share options (2022: Nil).

RMB'000

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(2) 2020 Share Option Incentive Scheme — initial grant

Pursuant to the "Resolution on Matters pertaining to the grant of shares options under the 2020 Share Option Incentive Scheme" considered and passed at the Twenty-seventh Meeting of the Eighth Session of the Board of Directors and the Twentieth Meeting of the Eighth Session of the Supervisory Committee held on 6 November 2020, it was confirmed that 158,472,000 would be granted to 6,123 participants under the initial grant. In accordance with ASBE 11 — Share-based Payment, the date of grant should be the date of approval of the share-based payment agreement. Hence, the date of grant for the initial grant of the share option incentive scheme was set for 6 November 2020. The scheme participants of the Share Incentive Scheme were the Directors and senior management of the Company and key employees of the Company, excluding Independent Non-executive Directors and Supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the de facto controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of 4 years from the date of grant. The first exercise period shall commence from the first trading day after expiry of a 1-year period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The share options not exercisable due to failure to fulfil the Company's performance as the condition of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include: the net profit attributable the shareholders of the listed company.

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options for each exercise period:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/3	2021.11.6–2022.11.5	Net Profit for 2020 shall be no less than RMB3.0 billion
Second exercise period ("Second Period")	1/3	2022.11.6–2023.11.5	Cumulative net profit for 2020 and 2021 shall be no less than RMB6.47 billion
Third exercise period ("Third Period")	1/3	2023.11.6–2024.11.5	Cumulative net profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion

The fair value of the share options under the initial grant amounted to RMB1,444,549,000. The Company recognised share option expense of RMB93,819,000 for the six months ended 30 June 2023 based on the best estimates of expected number of exercisable options at the end of the period.

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(2) 2020 Share Option Incentive Scheme — initial grant (continued)

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second	Third
Proposed dividend (RMB)	0.20	0.20	0.20
Volatility (%)	34.40	33.57	30.33
Risk-free interest rate (%)	2.775	2.846	2.909

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

The exercise prices and exercise periods of the share options outstanding as at the balance sheet date are as follows:

30 June 2023 Number of options '000	Exercise price RMB per share	Exercise period
—	34.47	6 November 2021 to 5 November 2022
12,615	34.47	6 November 2022 to 5 November 2023
50,317	34.47	6 November 2023 to 5 November 2024
62,932		

Share options issued and outstanding under the Scheme are as follows:

	30 June 2023		31 December 2022	
	Weighted average exercise price RMB/share	Number of share options In'000	Weighted average exercise price RMB/share	Number of share options In'000
At the beginning of the period/year	34.47	100,507	34.47	154,668
Exercised during the period		(37,575)		(61)
Lapsed		—		(54,100)
At the end of the period/year	34.47	62,932	34.47	100,507

RMB'000

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(3) 2020 Share Option Incentive Scheme — reserved options

Pursuant to the "Resolution on Matters pertaining to the Grant of Reserved Share Options under the 2020 Share Option Incentive Scheme" considered and passed at the Fortieth Meeting of the Eighth Session of the Board of Directors of the Company and the Thirty-first Meeting of the Eighth Session of the Supervisory Committee held on 23 September 2021, 5,000,000 reserved share options shall be granted to 410 participants. In accordance with ASBE No. 11 — Share-based payment, the date of grant shall be the date on which the agreement governing the share-based payment is approved. Therefore, the date of grant for the reserved share options under the share option incentive scheme shall be 23 September 2021. Participants of the reserved share options shall be key business employees.

The reserved share options shall be valid for a period of 3 years subject to a 1-year vesting period from the date of grant. Thereafter, one half of the options shall become exercisable in each of the two exercise periods, namely, the first and the second exercise periods, subject to the fulfilment of conditions relating to business performance. The share options not exercisable due to failure to fulfil the business performance conditions or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

Business performance indicator for the exercise of the share options: net profit attributable to holders of ordinary shares of the listed company.

The conditions for the exercise of share options:

Exercise period	Percentage of options exercisable	Duration	Conditions for exercise
First exercise period ("First Period")	1/2	2022.9.23–2023.9.22	Cumulative net profit for 2020 and 2021 shall be no less than RMB6.47 billion
Second exercise period ("Second Period")	1/2	2023.9.23–2024.9.22	Cumulative net profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion

The fair value of the reserved share options was RMB36,102,000. The Company recognised share option expenses of RMB4,882,000 for the six months ended 30 June 2023 based on the best estimates of the expected number of exercisable options at the end of the period.

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

Exercise period	First	Second
Estimated dividend payment (RMB)	0.20	0.20
Volatility (%)	29.53	31.46
Risk-free interest rate (%)	2.393	2.499

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

XI. SHARE-BASED PAYMENT (continued)

2. Share option incentive scheme (continued)

(3) 2020 Share Option Incentive Scheme — reserved options (continued)

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

30 June 2023 Number of share options In'000	Exercise price RMB/share	Valid exercise period
825	34.92	23 September 2022 to 22 September 2023
2,456	34.92	23 September 2023 to 22 September 2024
3,281		

According to the Scheme, share options outstanding are set out as follows:

	30 June 2023		31 December 2022	
	Weighted average exercise price RMB/share	Number of share option (1,000)	Weighted average exercise price RMB/share	Number of share option (1,000)
At the beginning of the period/year	34.92	4,909	34.92	5,000
Exercised during the period		(1,628)		—
Lapsed		—		(91)
At the end of period/year	34.92	3,281	34.92	4,909

3. 2020 Management Stock Ownership Scheme

The Management Stock Ownership Scheme has been considered and approved at the Twenty-fifth Meeting of the Eighth Session of the Board of Directors and Eighteenth Meeting of the Eighth Session of the Supervisory Committee and the Second Extraordinary General Meeting of 2020. The source of fund of the Management Stock Ownership Scheme was the RMB114,765,557.00 dedicated management stock ownership scheme fund set aside by the Company and the source of shares was 2,973,900 A shares in the Company repurchased by the Company, accounting for 0.06% of the total share capital of the Company. There are 27 participants including Directors, Supervisors, senior management and other core management personnel.

The total amount of funds paid under the Management Stock Ownership Scheme was RMB114,765,557.00, converted into 114,766,000 units at RMB1.00 per unit. The Directors, Supervisors and senior management of the Company have subscribed for a total of 62,606,000 units, while other participants of the Company have subscribed for a total of 52,160,000 units.

The Management Stock Ownership Scheme shall be valid for 3 years from the date of approval of the Management Stock Ownership Scheme at the general meeting. The scheme will terminate automatically upon maturity, or it may be extended upon approval by the Board at the request of the management committee.

RMB'000

XI. SHARE-BASED PAYMENT (continued)

3. 2020 Management Stock Ownership Scheme (continued)

The performance indicator for the Management Stock Ownership Scheme is a net profit attributable to ordinary shareholders of the listed company for 2020 of not less than RMB3.0 billion. The number of share options to be granted is based on the operating results of the business segment which the management personnel is in charge of and his/her personal appraisal, and the confirmed number of options will be vested in the holder in 2 periods separated by an interval of 12 months, with 50% vested in each period.

The lock-up period of the target stocks obtained in this Management Stock Ownership Scheme is from 18 December 2020 to 17 December 2021. On 18 December 2021, the lock-up period of the subject shares under the Management Stock Ownership Scheme expired. As at the end of 31 December 2022, 100% of the units under the Management Stock Ownership Scheme was vested.

The Group recognises share option expense based on the best estimates of expected number of exercisable shares at the end of the year and the fair value per share on the date of grant. For the six months ended 30 June 2023, no share option expense was recognised as the vesting period had expired.

XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	30 June 2023	31 December 2022
Contracted but not provided of		
Capital expenditure commitments	2,233,784	2,290,979
Investment commitments	141,347	191,347
Including: investment commitment to joint ventures	80,500	80,500
	2,375,131	2,482,326

2. Contingent events

2.1. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB47,221,800). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB47,026,900), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.1. (continued)

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB125 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

On 18 March 2022, the presiding judge of the Primary Case ruled that the valid period for the execution of the credit rights ruled in favour of ZTE Brazil expired on 13 June 2022. On 1 April 2022, ZTE Brazil filed an appeal against such ruling. Pursuant to Brazilian law, the valid period for an execution will not be suspended because of an appeal. Therefore, on 8 June 2022, ZTE Brazil applied to the Civil Court of Brasilia, the court for the Primary Case, to request deliberation between the Court of Brasilia and Civil Court No. 15 of Sao Paulo City, Brazil, the court for the Sued Case, in support of the Brazilian subsidiary's application for the set-off of the credit rights ruled in favour in the Primary Case against any liabilities that may materialise in the event of an unfavourable ruling under the Sued Case. On 19 July 2022, the Court of Brasilia ruled in favour of the aforesaid application for set-off, confirming that, in the event of an unfavourable ruling against ZTE Brazil under the Sued Case, ZTE Brazil will be allowed to set off a compensation amount of BRL176,997,100 (equivalent to approximately RMB267 million as at the date of ruling, subject to inflationary adjustments as at the date of actual set-off).

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the Company is currently not able to make reliable estimates on outcome of the litigation.

Note: The exchange rates are based on the book exchange rates of the Company as at 30 June 2023 where BRL amounts are translated at the exchange rate of BRL1: RMB1.5061.

2.2. In August 2020, China MCC20 Group Corporation ("MCC20") filed a litigation with the People's Court of Jinwan District, Zhuhai, Guangdong Province demanding progress payment together with outstanding interests in the amount of RMB12,307,000 in aggregate from ZTE Smart Auto Company Limited ("ZTE Smart Auto"). The People's Court of Jinwan District, Zhuhai, Guangdong Province ruled to freeze ZTE Smart Auto's cash at bank amounting to RMB12,307,000. ZTE Smart Auto has appointed an attorney for active response to the case.

In September 2020, ZTE Smart Auto filed a counter-claim for a total amount of RMB17,958,000 and application for preservation with the court on the grounds that the work project involved in the case had been grossly overdue, the construction process had been subject to numerous penalties and a number of work items had required repair because of quality issues.

In October 2020, MCC20 applied for change of its litigation claim, demanding ZTE Smart Auto to settle project work payment and related outstanding interests amounting in aggregate to RMB188 million, and the case was referred to Zhuhai Intermediate People's Court ("Zhuhai Intermediate Court").

In December 2020, Zhuhai Intermediate Court ruled to freeze funds in ZTE Smart Auto's account with an amount of RMB15,865,000 and seize the land use rights of two sites under the name of ZTE Smart Auto.

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.2. (continued)

In January 2021, ZTE Smart Auto filed an application to increase the amount of counter-claim to RMB72,548,000 on the grounds that MCC20 had not applied for relevant certificates in a timely manner and the project work under the case had not passed the delivery inspection in one instance. Application was also made to the court for property preservation in relation to the additional amount of counter-claim.

In November 2021, Zhuhai Intermediate Court ruled to approve the replacement of the aforesaid frozen and seized account funds and land use rights of two sites with RMB80 million and production equipment by ZTE Smart Auto.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

2.3. On 2 August 2021, Xi'an Zhongxing New Software Company Limited ("Xi'an Zhongxing Software") filed litigation at Xi'an Intermediary People's Court against China Construction No. 8 Engineering Bureau Company Limited ("China Construction No. 8 Bureau") on the grounds that China Construction No. 8 Bureau had not completed and delivered project work within the agreed timeframe, demanding payment of delay penalty, rental loss and construction penalty with an aggregate amount of approximately RMB257 million to Xi'an Zhongxing Software by China Construction No. 8 Bureau.

On 8 November 2021, China Construction No. 8 Bureau filed a counter-claim against Xi'an Zhongxing Software on the grounds that Xi'an Zhongxing Software had repeatedly made variations to its requirements, failed to honour payments in a timely manner and caused delay in work schedules owing to force majeure resulting in substantial loss for China Construction No. 8 Bureau, and demanded payment of project work amounts and work suspension and stalling loss with an aggregate amount of approximately RMB400 million by Xi'an Zhongxing Software to China Construction No. 8 Bureau.

On 30 November 2021, Xi'an Intermediary People's Court held the first session of the first trial, at which the two parties exchanged evidence.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

2.4. On 21 February 2022, 山東興濟置業有限公司 ("興濟置業") filed an litigation with Jining City Rencheng District People's Court ("Rencheng Court") against Shenzhen Zhongxing ICT Company Limited ("Shenzhen ICT") and Shandong Zhongxing ICT Company Limited ("Shandong ICT") on the grounds that the latter two had not fulfilled contractual agreements, demanding: (1) compensation for loss caused by default with a provisional amount of RMB90,499,085.06 to be paid by Shenzhen ICT and Shandong ICT in accordance with the law; (2) the assumption by Shenzhen ICT and Shandong ICT of agency fees, litigation fees and preservation fees incurred by 興濟置業 in connection with the case.

On 29 April 2022, Shandong ICT received the civil case verdict for property preservation from Rencheng Court and civil litigation petition of 興濟置業. Rencheng Court ruled to freeze in aggregate RMB95 million bank deposits or seal properties with the corresponding value of Shenzhen ICT and Shandong ICT.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.4. (continued)

On 26 May 2022, Shandong ICT received a writ of summons from Rencheng Court and an application for modification of litigation petition from 興濟置業, who had modified the litigation claim amount from RMB90,499,085.06 to RMB94,148,627.01. On 18 July 2022, Rencheng District People's Court commenced first trial and a ruling has yet to be given.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

2.5. On 15 April 2018, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the "15 April 2018 Denial Order"). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (its wholly-owned subsidiary) ("ZTE") from participating in any way, whether directly or indirectly, in any transaction involving any commodity, software, or technology exported or to be exported from the United States that is subject to the U.S. Export Administration Regulations ("EAR"), or any other activities subject to control under EAR. The full text of the 15 April 2018 Denial Order was published in the United States Federal Register (Federal Register Vol. 83, p. 17644) on 23 April 2018.

In June 2018, ZTE and BIS entered into a superseding settlement agreement ("2018 Superseding Settlement Agreement") to supersede the settlement agreement signed between ZTE and BIS in March 2017 ("2017 Settlement Agreement"). The 2018 Superseding Settlement Agreement came into effect via a superseding order relating to ZTE on 8 June 2018 (the "8 June 2018 Order"). In accordance with the 2018 Superseding Settlement Agreement, the Company had paid civil monetary penalties totalling USD1.4 billion, including a lump sum payment of USD1 billion and an additional penalty of USD0.4 billion placed in an escrow account with a U.S. bank suspended during the period of ten years from the issuance of the 8 June 2018 Order(the "Probationary Period") (The USD0.4 billion penalty will be waived after the end of Probationary Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE's compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To fulfill the obligations under the 2018 Superseding Settlement Agreement and 2017 Settlement Agreement, the Company is required to provide and implement a comprehensive and updated export control compliance programme that covers all levels of ZTE.

XII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.5. (continued)

In the event of the Company's violation of obligations under the 2018 Superseding Settlement Agreement or 2017 Settlement Agreement, (i) the suspended New Denial Order might be activated, which would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any transaction involving any commodity, software, or technology that is subject to the EAR; (ii) the USD0.4 billion placed in an escrow account with a U.S. bank shall become payable immediately and shall be paid in full or in part.

The Company has established the Export Compliance Committee of the Board of Directors, which includes the Company's executive directors, non-executive directors and independent non-executive directors; built a team composed of Chief Export Control Compliance Officer, Regional Export Control Compliance Directors and export control compliance team members with global coverage and engaged a number of counsels and consultants; established and enhanced the Company's export control compliance management structure, system and procedure; introduced and implemented SAP Global Trade System to automate key aspects of export compliance management; carried out ECCN Publication Project, which makes available to its customers and business partners the applicable Export Control Classification Number ("ECCN") and other export control information for products subject to the EAR via a public website; continued to provide online and offline export compliance training for senior management, subsidiaries, compliance liaisons, account managers and new employees; cooperated with the independent compliance monitor and special compliance coordinator to conduct various monitoring and compliance audits; and made continuous investment on the work on export control compliance.

In the first half of 2023, the Company has complied with all local rules and regulations, as applicable, including restrictions under economic sanctions and export control laws and regulations, of the countries in which it operates its businesses. Complying with ZTE's Export Compliance Program and the regulations on which it is based is an essential requirement for ZTE's employees, contract employees, and businesses.

Compliance not only protects value, but it also creates value. The Company attaches significant importance to the work on export control compliance, regarding compliance as a foundation for the Company's strategy and condition and bottom-line for the Company's operations. The Company will continually build its value for its customers, shareholders, and employees, and build a compliant and healthy business environment with customers and partners through the dedication and vigilance to export compliance of every employee.

During the period from 1 January 2023 to the date of publication of this report, to the best of the Company's knowledge, the aforesaid contingent events will not have any material adverse impact on the current financial conditions and operating results of the Group.

2.6. As at 30 June 2023, an amount of RMB10,176,017,000 (31 December 2022: RMB11,213,625,000) was outstanding under the bank guarantee letters issued by the Group.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

XIII. OTHER SIGNIFICANT MATTERS

1. Segment reporting

(1) Operating segment

For management purposes, the Group is organised into business units based on its products and services and has 3 reportable operating segments as follows:

(a) Carriers'network is focused on meeting carries' requirements in network evolution with the provision of wireless access, wireline access, bearer systems, core networks, server and storage and other innovative technologies and product solutions;

(b) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry and corporate clients through the development, production and sale of products such as home information terminal, smart phones, mobile Internet terminals, innovative fusion terminals, as well as the provision of related software application and value-added services;

(c) The Government and Corporate Business is focused on meeting requirements of government and corporate clients, providing informatisation solutions for the government and corporations through the application of products such as "communications networks, IOT, Big Data and cloud computing".

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted total profit from continuing operations, which is consistent with the Group's total profit from continuing operations, except for the exclusion of finance costs, research and development costs, impairment losses, fair value gains from financial instruments, investment income as well as head office and corporate expenses.

Segment assets exclude derivative financial instruments, deferred tax assets, cash and cash equivalents, long-term equity investments, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, borrowings, other payables, short-term bonds payable, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

XIII. OTHER SIGNIFICANT MATTERS (continued)

1. Segment reporting (continued)

(1) Operating segment (continued)

Six months ended 30 June 2023

	Carriers' networks	Consumer business	Government and corporate business	Total
Segment revenue				
Six months ended 30 June 2023				
Revenue from customer contract	40,811,506	14,017,511	5,817,966	60,646,983
Rental income	—	—	57,811	57,811
Sub-total	40,811,506	14,017,511	5,875,777	60,704,794
Segment results	18,558,924	1,273,644	1,103,390	20,935,958
Unallocated revenue				1,069,520
Unallocated cost				(16,404,269)
Finance costs				813,752
Loss from changes in fair values				(430,990)
Investment gain from associates and joint ventures				75,367
Total profit				6,059,338
Total assets				
30 June 2023				
Segment assets	47,115,712	15,661,647	6,783,416	69,560,775
Unallocated assets				116,626,396
Sub-total				186,187,171
Total liabilities				
30 June 2023				
Segment liabilities	10,464,751	2,844,125	1,506,647	14,815,523
Unallocated liabilities				107,275,852
Sub-total				122,091,375
Supplemental information				
Six months ended 30 June 2023				
Depreciation and amortisation expenses	1,600,268	549,643	230,397	2,380,308
Capital expenditure	1,400,822	481,140	201,681	2,083,643
Asset impairment losses	(186,324)	(63,997)	(26,825)	(277,146)
Credit impairment loss	(119,781)	(41,141)	(17,246)	(178,168)

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

XIII. OTHER SIGNIFICANT MATTERS (continued)

1. Segment reporting (continued)

(1) Operating segment (continued)

Six months ended 30 June 2022

	Carriers' networks	Consumer business	Government and corporate business	Total
Segment revenue				
Six months ended 30 June 2022				
Revenue from external transactions	38,720,841	14,392,182	6,637,662	59,750,685
Rental income	—	—	67,615	67,615
Sub-total	38,720,841	14,392,182	6,705,277	59,818,300
Segment results	14,430,955	1,618,070	1,295,426	17,344,451
Unallocated revenue				1,000,899
Unallocated cost				(12,381,098)
Finance costs				(303,745)
Loss from changes in fair values				(392,234)
Investment loss from associates and joint ventures				(56,564)
Total profit				5,211,709
Total assets				
30 June 2022				
Segment assets	49,602,348	17,546,162	8,589,624	75,738,134
Unallocated assets				103,986,628
Sub-total				179,724,762
Total liabilities				
30 June 2022				
Segment liabilities	13,891,320	4,199,524	2,405,556	20,496,400
Unallocated liabilities				102,515,812
Sub-total				123,012,212
Supplemental information				
Six months ended 30 June 2022				
Depreciation and amortisation expenses	1,383,250	514,141	239,537	2,136,928
Capital expenditure	1,610,590	598,641	278,905	2,488,136
Asset impairment losses	(104,068)	(38,681)	(18,022)	(160,771)
Credit impairment loss	(75,678)	(28,129)	(13,105)	(116,912)

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

XIII. OTHER SIGNIFICANT MATTERS (continued)

1. Segment reporting (continued)

(2) Geographic information

Total revenue

	Six months ended 30 June 2023	Six months ended 30 June 2022
The PRC	**43,115,530**	40,602,370
Asia (excluding the PRC)	**6,139,353**	7,899,366
Africa	**2,870,199**	2,510,729
Europe, America and Oceania	**8,579,712**	8,805,835
	60,704,794	59,818,300

Total non-current assets

	30 June 2023	31 December 2022
The PRC	**23,519,552**	23,654,703
Asia (excluding the PRC)	**1,105,587**	1,337,111
Africa	**450,286**	445,055
Europe, America and Oceania	**284,636**	377,511
	25,360,061	25,814,380

Non-current assets, excluding long-term receivables, factored long-term receivables, long-term equity investments, other non-current financial assets, deferred tax assets, goodwill and other non-current assets, are analysed by geographic locations where the assets are located.

(3) Information of major customers

Operating revenue of RMB19,635,193,000 (First half of 2022: RMB17,991,810,000) was derived from Carriers'network and consumer business revenue from one major customer.

2. # Net current assets/(liabilities)

	30 June 2023 Group	31 December 2022 Group	30 June 2023 Company	31 December 2022 Company
Current assets	**144,999,182**	137,873,843	**129,241,172**	126,019,989
Less: current liabilities	**74,101,669**	78,423,500	**75,859,585**	80,839,210
Net current assets/(liabilities)	**70,897,513**	59,450,343	**53,381,587**	45,180,779

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

XIII. OTHER SIGNIFICANT MATTERS (continued)

3. # Total assets less current liabilities

	30 June 2023 Group	31 December 2022 Group	30 June 2023 Company	31 December 2022 Company
Total assets	186,187,171	180,953,574	169,605,757	167,251,328
Less: current liabilities	74,101,669	78,423,500	75,859,585	80,839,210
Total assets less current liabilities	112,085,502	102,530,074	93,746,172	86,412,118

XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

(1) The overdue aging analysis of trade receivables according to maturity dates was set out as follows:

	30 June 2023	31 December 2022
Within 1 year	21,733,499	23,482,314
1–2 years	3,762,802	2,823,754
2–3 years	1,073,140	1,789,390
Over 3 years	8,921,934	7,877,687
	35,491,375	35,973,145
Less: bad debt provision for trade receivables	6,324,476	6,231,419
	29,166,899	29,741,726

	30 June 2023				31 December 2022			
	Book balance		Expected credit loss for the entire subsisting period		Book balance		Expected credit loss for the entire subsisting period	
	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)	Amount	Percentage (%)
Individually significant and for which bad debt provision has been separately made	1,765,263	5	1,765,263	100	1,716,579	5	1,716,579	100
For which bad debt provision has been collectively made								
0–6 months	16,037,147	45	197,014	1	19,766,326	55	212,972	1
6–12 months	5,605,000	16	150,982	3	3,622,881	10	96,378	3
12–18 months	2,519,848	7	170,436	7	1,968,620	5	122,355	6
18–24 months	1,226,019	3	61,882	5	824,172	2	60,794	7
2–3 years	1,039,188	3	193,691	19	1,721,933	5	187,655	11
Over 3 years	7,298,910	21	3,785,208	52	6,352,634	18	3,834,686	60
	33,726,112	95	4,559,213	14	34,256,566	95	4,514,840	13
	35,491,375	100	6,324,476	18	35,973,145	100	6,231,419	17

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

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

1. Trade receivables (continued)

(2) Movements in bad-debt provisions for trade receivables:

	Opening balance	Provision/ (reversal) for the period	Write off for the period	Effect of exchange rate movement	Closing balance
30 June 2023	**6,231,419**	**107,497**	**(26,553)**	**12,113**	**6,324,476**

As at 30 June 2023, RMB9,636,000 (six months ended 30 June 2022: RMB72,905,000) was reversed in respect of bad-debt provision for trade receivables which were individually significant and for which bad-debt provision had been made separately. There was nil write-off (six months ended 30 June 2022: nil) in respect of bad-debt provision for trade receivables.

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables".

2. Other receivables

	30 June 2023	31 December 2022
Interest receivable	**492,016**	535,047
Dividend receivable	**88,393**	2,786,303
Other receivables	**29,285,401**	28,967,697
	29,865,810	32,289,047

(1) Other receivables

The aging analysis of other receivables:

	30 June 2023	31 December 2022
Within 1 year	**22,882,615**	22,633,564
1–2 years	**3,359,467**	3,322,903
2–3 years	**1,941,075**	1,919,949
Over 3 years	**1,109,810**	1,097,731
	29,292,967	28,974,147
Bad debt provision	**(7,566)**	(6,450)
Total	**29,285,401**	28,967,697

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

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

2. Other receivables (continued)

(2) Other receivables are analysed as follows:

	30 June 2023	31 December 2022
Staff reserve fund	66,045	24,378
Transactions with third parties	27,990,548	28,943,319
Share option subscription amounts	1,228,808	—
Total	29,285,401	28,967,697

3. Long-term trade receivables

	30 June 2023	31 December 2022
Loans granted to subsidiaries (Note 1)	3,166,513	3,038,980
Installment payments for the provision of telecommunication system construction projects	2,524,127	2,419,781
Including: long-term receivable due within one year	(1,824,100)	—
	3,866,540	5,458,761
Less: Bad debt provision for long-term receivables	39,952	35,930
	3,826,588	5,422,831

Note 1 Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

Movements in bad debt provision for long-term receivables during the period were as follows:

	Opening balance	Provision/ (reversal) for the period	Closing balance
30 June 2023	35,930	4,022	39,952

The interest rate of long-term trade receivables ranged from 4.10%–6.16%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as "Factored long-term trade receivables" and "Bank advances on factored long-term trade receivables".

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

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

4. Long-term equity investments

		30 June 2023	31 December 2022
Equity method			
Joint Ventures	(1)	575,489	463,711
Associates	(2)	895,275	937,766
Less: Provision for impairment in long-term equity Investments		–	–
		1,470,764	1,401,477
Cost method			
Subsidiaries	(3)	16,827,807	16,322,307
Less: Provision for impairment in long-term equity investments	(4)	381,166	381,166
		16,446,641	15,941,141
		17,917,405	17,342,618

(1) Joint Ventures

		Movements during the period								
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash Dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the period
Puxing Mobile Tech Company Limited	10,752	–	–	–	–	–	–	–	10,752	–
德特賽維技術有限公司	34,922	–	–	(2,950)	–	–	–	–	31,972	–
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	418,037	–	–	114,728	–	–	–	–	532,765	–
	463,711	–	–	111,778	–	–	–	–	575,489	–

(2) Associates

		Movements during the period									
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash Dividend declared	Allowance for impairment provision	Others	Closing book balance	Impairment provision at the end of the period
Whale Cloud Technology Co., Ltd.	747,035	–	–	(28,743)	2,883	(48,646)	–	–	–	672,529	–
Zhongxing Feiliu Information Technology Company Limited	8,743	–	–	(3,985)	–	–	–	–	–	4,758	–
Xingyun Times Technology Company Limited	126,865	–	–	(3,501)	–	–	–	–	–	123,364	–
Zhongxing (Wenzhou) Railway Communication Technology Company Limited	29,529	–	–	3,066	–	–	(5,279)	–	–	27,316	–
Qingdao Hongtu Zhanlu II Private Equity Investment Fund Partnership Enterprise (Limited Partnership)	10,000	50,000	–	(58)	–	–	–	–	–	59,942	–
Other projects	15,594	–	(4,687)	(3,545)	4	–	–	–	–	7,366	–
	937,766	50,000	(4,687)	(36,766)	2,887	(48,646)	(5,279)	–	–	895,275	–

Notes to Financial Statements

Six months ended 30 June 2023
(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
RMB'000

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

4. Long-term equity investments (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the period	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the period
Sanechips Technology Co., Ltd.	2,702,784	2,702,784	–	2,702,784	87%	87%	–
ZTE (H.K.) Limited	2,226,963	2,226,963	–	2,226,963	100%	100%	–
Nubia Technology Limited	1,124,402	1,124,402	–	1,124,402	78%	78%	–
ZTE Group Finance Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100%	100%	–
Zhongxing Opto-electronic Technology Company Limited	1,000,000	1,000,000	–	1,000,000	100%	100%	–
ZTE (Nanjing) Company Limited	1,000,000	1,000,000	–	1,000,000	100%	100%	–
Zhongxing Smart Technology Nanjing Company Limited	1,000,000	1,000,000	–	1,000,000	100%	100%	–
ZTE Smart Auto Company Limited	790,500	790,500	–	790,500	86%	86%	–
Shenzhen Renxing Technology Company Limited	720,000	720,000	–	720,000	100%	100%	–
Shenzhen ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	–
ZTE (Heyuan) Company Limited.	500,000	500,000	–	500,000	100%	100%	–
Zhongxing (Chengdu) Smart Technology Company Limited	500,000	–	500,000	500,000	100%	100%	–
Changsha Zhongxing Smart Technology Company Limited	350,000	350,000	–	350,000	100%	100%	–
Xi'an Zhongxing New Software Company Limited	340,000	340,000	–	340,000	100%	100%	–
ZTE Telecom India Private Ltd.	335,759	335,759	–	335,759	100%	100%	–
Nanjing Jinyi Digital Technology Company Limited	70,000	45,000	25,000	70,000	100%	100%	–
Shenzhen ZTE Capital Management Company Limited	16,500	16,500	–	16,500	55%	55%	68,750
深圳市興意達通訊技術有限公司	5,000	5,000	–	5,000	100%	100%	46,000
Shenzhen Zhonghe Chunsheng Partnership Investment Fund I (Limited Partnership)	–	–	–	–	–	*	36,000
Xinjiang ZTE Silk Road Network Technology Company Limited	–	19,500	(19,500)	–	**	–	–
Suzhou Zhonghe Chunsheng Partnership Investment Fund III (Limited Partnership)	–	–	–	–	–	*	60,000
Other projects	2,565,899	2,565,899	–	2,565,899	–	–	–
		16,322,307	505,500	16,827,807			210,750

* This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Group was in a position to exercise control over this subsidiary.

** The Company has ceased to exercise control over this company following its deregistration with industrial and commercial authorities before 30 June 2023.

RMB'000

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

4. Long-term equity investments (continued)

(4) Provision for long-term equity investments

	Opening balance	Increase/ decrease during the period	Closing balance
ZTE Telecom India Private Ltd.	**335,759**	**–**	**335,759**
Other investment	**45,407**	**–**	**45,407**
	381,166	**–**	**381,166**

5. Operating revenue and costs

	Six months ended 30 June 2023		Six months ended 30 June 2022	
	Revenue	**Cost**	Revenue	Cost
Principal operations	**57,300,564**	**52,716,465**	50,035,643	47,574,881
Other businesses	**8,741,062**	**213,972**	5,870,655	100,470
	66,041,626	**52,930,437**	55,906,298	47,675,351

6. Investment income

	Six months ended 30 June 2023	Six months ended 30 June 2022
Investment gain/(loss) from long-term equity investment under equity method	**75,012**	(53,452)
Investment income from long-term equity investment under cost method	**210,750**	46,225
Investment gain earned during the period of holding financial assets at fair value through profit or loss for the period	**2,714**	4,163
Investment loss from disposal of long-term equity investment	**(13,560)**	(147,715)
Investment (loss)/income from disposal of derivative investments	**(549,716)**	326,033
Loss on derecognition of financial assets at amortised cost and financial assets at fair value through other comprehensive income	**(149,244)**	(90,129)
	(424,044)	85,125

Supplementary Information to the Financial Statements

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

1 BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	Six months ended 30 June 2023
Gain from the disposal of non-current assets	16,462
Investment gain from the disposal of long-term equity investments	(1,036)
Gain/loss from fair-value change in derivative financial assets and derivative financial liabilities and investment gain from disposal of derivative financial assets and derivative financial liabilities other than effective value-protection hedge relating to the normal operation of the Company (Note 2)	(234,817)
Gain/loss from change in fair value of investment properties	(1,650)
Other gains other than income from software VAT rebate and income from refund of handling charge for withholding personal tax	164,933
Write-back of provision for individually tested receivable impairment	9,636
Net amount of other non-operating income and expenditure other than the above	(43,387)
Other gains/losses falling under the definition of extraordinary gain/loss	748,084
	658,225
Less: Effect of income tax	98,734
Effect of non-controlling interests (net of tax)	(3,333)
	562,824

Note 1 The Group recognises extraordinary items of gain or loss in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items" (CSRC Announcement [2008] No. 43). The following items, which are set out in the provisions as extraordinary items, have been categorised as recurring items:

	Six months ended 30 June 2023	Reason
Income from VAT rebate for software products	797,954	Operational on an ongoing basis
Income from refund of handling charge for withholding personal tax	31,030	Operational on an ongoing basis
Gain from disposal of equity interests in ZTE Capital and gain/loss from fair-value change	(32,921)	Operating business

Note 2 The Company has entered into a series of forward exchange contracts. Subject to compliance with conditions for fair-value hedge accounting, the Company has elected not to apply hedge accounting. The gain/loss of hedging instruments was included in recurring gain/loss to the extent of the exchange gain/loss of the hedged items. Loss arising from effective hedge items for value protection in relation to the Company's ordinary business for the period amounted to RMB531,788,000.

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

2 RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

30 June 2023

	Weighted average return on net assets (%)	Earnings per share Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	**8.93%**	**1.15**	**1.15**
Net profit after extraordinary items attributable to ordinary shareholders of the Company	**8.01%**	**1.03**	**1.03**

30 June 2022

	Weighted average return on net assets (%)	Earnings per share Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	8.56%	0.96	0.96
Net profit after extraordinary items attributable to ordinary shareholders of the Company	6.98%	0.79	0.79

DOCUMENTS AVAILABLE FOR INSPECTION

- Financial statements duly signed under the hand and seal of the Company's Legal Representative, Chief Financial Officer and Head of Finance Division;
- Original copies of all of the Company's documents and announcements published during the Reporting Period; and
- Articles of Association.

By order of the Board
Li Zixue
Chairman
18 August 2023

ZTE 中兴通讯股份有限公司
ZTE CORPORATION