ZTE CORPORATION

中興通訊股份有限公司

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

(Stock Code: 763)

2023 ANNUAL RESULTS ANNOUNCEMENT

The Company and all the members of the Board of Directors confirm that all the information contained in this information disclosure is true, accurate and complete and that there is no false and misleading statement or material omission in this information disclosure.

The board of directors (the "Board") of ZTE Corporation (the "Company") hereby announces the audited results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2023. This announcement, containing the full text of the 2023 Annual Report of the Company, complies with the relevant requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited in relation to information to accompany preliminary announcement of annual results.

Both the Chinese and English versions of this results announcement are available on the websites of the Company (www.zte.com.cn) and The Stock Exchange of Hong Kong Limited (www.hkexnews.hk). The Company's 2023 Annual Report will be dispatched to holders of H shares and published on the websites of the Company and The Stock Exchange of Hong Kong Limited in due course.

By Order of the Board

Li Zixue

Chairman

Shenzhen, the PRC

8 March 2024

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

Important

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

2. This report has been considered and approved at the Nineteenth Meeting of the Ninth Session of the Board of Directors of the Company held on 8 March 2024. All directors have attended the meeting in person.

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 annual financial reports of the Group for 2023 have been audited by Ernst & Young Hua Ming LLP, which has issued an unqualified auditors' report in connection therewith.

5. The Company's proposal for profit distribution for 2023 is as follows: distribution of RMB6.83 in cash (before tax) for every 10 shares to all shareholders based on the total share capital as at the record date for profit distribution and dividend payment. The aforesaid matter is subject to consideration and approval at the general meeting.

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

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

8. This report has been prepared in Chinese and English, respectively. In case of any ambiguity in meaning, 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 31 December 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.

5G site network	Corporate or industry wireless private networks built according to 5G standards which are separated from the public 5G networks of carriers.
AAU	Active Antenna Unit, the principal equipment at a 5G base station mainly responsible for receiving and transmitting 5G radio frequency signals.
AGV	Automated Guided Vehicle, a vehicle equipped with an electromagnetic or optical automated guidance device enabling it to be driven along the stipulated way under guidance, providing safety protection and various transport functions.
CENI	China Environment for Network Innovation, 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.
C-V2X	Communication technology based on 3GPP global uniform standards, namely, a vehicular wireless communication technology formed through the evolution of 3G/4G/5G cellular communication technology; it comprises LTE-V2X and 5G-V2X, with LTE-V2X supporting smooth evolution into 5G-V2X.
FTTR	FTTR (Fiber to The Room) is a networking mode connecting different indoor APs with the indoor all-optical node through optical fibre to achieve a 1000M+ coverage throughout the house.
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.
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.
NTN	Non-terrestrial Network, which facilitates 5G 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. NTN comprises IoT-NTN and NR-NTN: IoT-NTN supports satellite-based interconnection of IoT terminals, while NR-NTN adopts 5G NR which enables smartphones to be directly linked to satellites.
OTN	Optical Transport Network, a next-generation backbone transmission network within the optical zone organisational network based on WDM technology.
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 traffic management and security control functions.
PUE	Power Usage Effectiveness represents the ratio between total energy consumption of the data centre and energy consumption of IT loading, which is an indicator adopted to assess the energy efficiency of data centres.
QPSK	Quadrature Phase Shift Keying, a form of digital modulation characterised by higher frequency utilisation rate and stronger counter-interference properties.

Glossary

RedCap	Reduced Capability, a 5G technology as defined by 3GPP under the new technology standards NR light (NR lite). To meet the needs of specific application scenarios such as Industrial Internet and Smart City, it features reduced aerial access capacity and a lower level of complexity to meet the requirement for reduction in cost and power consumption.
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.
SLAM	Simultaneous Localization And Mapping, the construction of maps and structures of an unknown environment and positioning of the location and direction of a device using the sensor.
SoC	System on Chip, an integrated circuit with a designated purpose, comprising a complete system and all contents of embedded software.
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.
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.
UBR	Ultra Broadband Radio, the industry’s most complete series of dual/tripe frequency UBR products launched by ZTE catering to multi-frequency and multi-modal integration of wireless mobile networks, whereby one base station is able to simultaneously support the operation of multiple frequencies and support coverage by multiple protocols, such as GSM/UMTS/LTE/NR.
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.
vCDN	Virtualization Content Delivery Network, the migration of traditional server-based CDN to a virtualized platform with consistent system functions to increase the efficiency of resource utilisation.
XR	Extended Reality, 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 computing technology and wearable device.
Intrinsic Safety Base Station	Mine Intrinsic Safety Base Station 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. It is an Internet access device that facilitates communication at critical locations in a coal mine well, characterised by its small size, light weight and high safety level.
Large Model	Machinery learning model with large-scale parameters and complex computing structures, usually formed by deep neutral networks with billions or hundred billions of parameters. Large Models are designed to enhance the expressive ability and estimate function of models, so that it can process more complex tasks and data.
Optical overlay	Optical overlay at the power source system of the base station which facilitates the supply of solar power electricity to communication loading through the overlay of photovoltaic components.

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.
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.
Digital Twin	Creation of a digital clone on the basis of an equipment or a system. It is a simulation process that utilises fully data such as physical models, sensor updating and operating history and integrates multiple disciples, physical volumes, measurements and probabilities, completing the reflection in a virtual space to mirror the entire lifecycle of the entity equipment concerned.
Communication-sense-computing integration	Network that offers both spatial sense and communication capabilities and acquires senses of targets or the environment by analysing the transmission of wireless signals.
Liquid cooling	Cooling by way of putting cooling liquid in contact with heat sources.
Heterogeneous acceleration	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 also known as heterogeneous computing.

Chairman's Statement

DEAR SHAREHOLDERS,

I hereby present the 2023 annual report of ZTE on behalf of the Board of Directors of the Company and express sincere appreciation to all shareholders, global customers, partners and the public for their longstanding concern and support for ZTE.

Li Zixue
Chairman

In retrospect of 2023, the global economy was struggling on the path to recovery as uncertainty became normality, subjecting development of the ICT industry to a host of unknown factors. The Company showcased strong stability and resilience in overall operations underpinned by consistently improving quality, although the challenge of overtaking growth was still present. Given "advancement in technology as the essential factor for qualitative development," the Company continued to commit robust R&D investment in "connectivity + computility" technologies, as it achieved ongoing innovation in core base-level technologies and maintained its position as a forerunner in the industry in terms of the competitiveness of principal products. The Company has been consistently honing its products to meet the needs of a diverse customer base and multiple scenarios and expediting its deep development from connectivity to computing in close tandem with the progress of customers' business transformation and their changing investment profiles, further cementing its status as a core supplier as a result.

In the meantime, we should make no mistake that competition in the industry has been escalating with technological innovations emerging by the day. The Company is compelled to gear up its effort in order to be at par with its peers, as it continues to face challenges in the development of new sectors and new markets.

In 2024, we will be looking to accomplish critical missions as the "period of strategic overtaking" becomes more firmly established. The Company will find itself in a complicated environment that has never been seen before, while the ICT industry will metamorphose under the intertwining impact of complexities in the international environment and market developments in China led by domestic proprietary technological innovation, negotiating changes in the transition to new driving forces from old ones in the context of large-scale 5G construction stabilising in China coupled with booming development of intelligent computing focused on AIGC large-scale models. New opportunities will be coming our way in an overwhelming manner and new challenges will be imminent.

In terms of strategy, we must stay consistently focused and adhere to our initial objectives. We must persist without distraction in a technologically-advanced, innovation-driven and application-oriented approach according to the strategic pace set for the three stages according to the plans of the Company. We should continue to broaden our main business of "connectivity" and expedite our development in computility, firmly seizing strategic opportunities associated with digitalisation, intelligentisation and low-carbon development with enhanced innovative efforts in 5G-A, all-optical network, computing infrastructure, AI large-scale model and new 5G applications, seeking large-scale development on various terminal of AIoT. While ensuring the green, resilient and sustainable development of the Company, we must remain firmly in tandem with the national strategy of qualitative development and conscientiously undertake the historical mission given to technology enterprises in this era with a strong focus on our principal businesses. In the ongoing process of driving the development of a global digital economy, we endeavour to deliver value to customers, help fulfill staff aspirations, generate returns for shareholders and make contributions to the society.

In terms of operation, we must persist in "precision, pragmatism and steady growth". Growth remains our first and foremost task for 2024! The Company will seek to improve the profile of our existing business whilst developing markets for new ones, identifying opportunities presented by variables to ensure ongoing enhancement of the core competitiveness and market pattern of our primary-curve business represented by wireless and wireline connectivity products, while rapidly boosting our secondary-curve business represented by computing. We should seize opportunities presented by the digital economy to drive qualitative and stable development. Precision represents a key assurance for growth: we should always execute with precision, whether it is about business positioning, commitment of resources, market focus, or R&D planning.

In terms of management, we must "adjust our conditions and identify unseen potential". That means inspiring organisational and team vigour, constantly challenging ourselves to leave our comfort zone and break our limits. In ongoing efforts to deepen our digital transformation and process optimisation, we will seek to advance from being "effective" to being "exceedingly efficient" by further enhancing the efficiency of our overall operations and business turnover. We also need to firmly reinforce our three major strategic cornerstones, namely "talent, compliance and internal control" by recruiting talents on a global basis, building a first-rate compliance regime to foster a corporate ambience of probity and integrity and strengthening our risk aversion ability on an ongoing basis to forge an entity of strong resilience. We will persist in the incorporation of ESG principles in the full process of corporate operation and governance, whilst honouring our responsibility and undertaking as a leading ICT enterprise to help charitable causes with the aid of technology, with the aim to bridge up the digital gap and "enable connectivity and trust everywhere".

Opportunities always go side by side with challenges and only the brave will be able to outperform. In every past cycle of generational upgrade for communication technologies, we have negotiated breakthroughs and innovations with a fighting spirit, constantly exceeding ourselves and adding something new to our formidable technological strength and competence. As we welcome historic opportunities arising from the latest turn of technological revolution and industrial metamorphosis, we must foster, with unwavering confidence, even stronger and more lasting abilities to innovate and to embrace changes through trials and tests, abilities which are ever present in the DNA of ZTE! Forever mindful of the mission we inherit, we will write new chapters with the work we do. No difficulties will stop us from marching forward. As we embark on a new journey in the new year, let us strengthen our strategic resolve and persistence in the long-term outlook, as we venture in valiance to chart the future, seeking progress in stability while negotiating change through progress with precision and pragmatism.

Li Zixue
Chairman,
ZTE Corporation

March 2024

I. Corporate Information and Summary of Major Financial Data

1.1 CORPORATE INFORMATION

1.1.1 Information on the Company

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
Legal representative	Li Zixue
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

1.1.2 Industry in which the Group operates and principal operations

The Group is engaged in communication equipment manufacturing and 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 in 2023.

1.1.3 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

1.1.4 Contact persons and method of contact

Authorised representative at Hong Kong Stock Exchange	Gu Junying, Ding Jianzhong
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	0755 26770282
Facsimile	0755 26770286
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

1.1.5 Information disclosure and location

Media designated for information disclosure by the Company	China Securities Journal, Securities Times, Shanghai Securities News
Authorised websites for enquiries about this report	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

1.1.6 Intermediaries

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
Legal adviser in Mainland China	Beijing Jun He Law Offices 20th Floor, China Resources Building, 8 Jianguomen North Street, Beijing, The People's Republic of China
Hong Kong legal adviser	Paul Hastings 22/F, Bank of China Tower, 1 Garden Road, Hong Kong
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 Signing accountants: Li Jianguang, Zhu Ting

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

1.2.3 Major accounting data and financial indicators of the Group for the past three years

Unit: RMB in millions

Item	2023	2022	Year-on-year change	2021
Operating results				
Operating revenue	**124,250.9**	122,954.4	1.05%	114,521.6
Net profit attributable to holders of ordinary shares of the listed company	**9,325.8**	8,080.3	15.41%	6,812.9
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	**7,399.6**	6,166.9	19.99%	3,305.9
Net cash flows from operating activities	**17,405.7**	7,577.7	129.70%	15,723.5
Size				
Total assets	**200,958.3**	180,953.6	11.06%	168,763.4
Total liabilities	**132,626.9**	121,410.4	9.24%	115,475.8
Owners' equity attributable to holders of ordinary shares of the listed company	**68,008.3**	58,641.2	15.97%	51,482.1
Per share basis (RMB/share)				
Basic earnings per share	**1.96**	1.71	14.62%	1.47
Diluted earnings per share [Note]	**1.96**	1.71	14.62%	1.47
Basic earnings per share after extraordinary items	**1.55**	1.30	19.23%	0.71
Net cash flows from operating activities per share	**3.64**	1.60	127.50%	3.32
Net asset per share attributable to holders of ordinary shares of the listed company	**14.22**	12.38	14.86%	10.88
Financial ratios (%)				
Weighted average return on net assets	**15.19%**	14.66%	Increased by 0.53 percentage point	14.49%
Weighted average return on net assets after extraordinary items	**12.05%**	11.19%	Increased by 0.86 percentage point	7.03%
Gearing ratio	**66.00%**	67.09%	Decreased by 1.09 percentage points	68.42%

Note: As share options granted by the Company have given rise to 0, 107,742 and 2,568,160 potentially dilutive ordinary shares for the 2023, 2022 and 2021, 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 The Group's major financial indicators for 2023 analysed by quarter

Unit: RMB in millions

Item	The first quarter of 2023	The second quarter of 2023	The third quarter of 2023	The fourth quarter of 2023
Operating revenue	29,142.9	31,561.9	28,688.6	34,857.5
Net profit attributable to holders of ordinary shares of the listed company	2,642.3	2,829.9	2,369.0	1,484.6
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	2,454.5	2,454.8	2,191.9	298.4
Net cash flows from operating activities	2,325.6	4,100.3	2,836.1	8,143.7

The above accounting data is consistent with the relevant accounting data disclosed in the Group's quarterly reports and interim report.

1.2.5 Extraordinary gains or losses items and amounts of the Group for the past three years

Unit: RMB in millions

Item	**2023**	2022	2021
Gain from the disposal of non-current assets	**20.6**	11.0	231.7
Investment gain from disposal of investment in associates and joints	**96.0**	(27.2)	1,251.7
Gains from fair-value change in trading financial assets, derivative financial assets, other non-current financial assets, trading financial liabilities, derivative financial liabilities and other non-current liabilities held and investment gains from disposal of trading financial assets, derivative financial assets, other non-current financial assets, trading financial liabilities and derivative financial liabilities, excluding the effective-value protection hedge business relating to the ordinary business of the Company	**(337.0)**	37.7	7.5
Write-back of provision for individually tested receivable impairment	**51.4**	186.2	295.0
Gain from fair-value change of investment properties	**(211.6)**	(3.3)	(2.6)
Other gains other than income from software VAT rebate and income from refund of handling charge for withholding personal tax	**343.8**	536.4	681.7
Net of other non-operating income and expenditure other than the above	**(55.2)**	(43.2)	(177.2)
Other gains/losses falling under the definition of extraordinary gain/loss	**2,353.6**	1,556.8	1,827.7
Less : Effect of income tax	**339.2**	338.2	617.3
Effect of non-controlling interest (after tax)	**(3.8)**	2.8	(8.8)
Total	**1,926.2**	1,913.4	3,507.0

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" (Amended 2023). The following items, which are set out in the provisions as extraordinary items, have been categorised as recurring items:

Unit: RMB in millions

Item	2023	Reasons
Income from VAT rebate for software products	1,431.2	Operational on an ongoing basis
Income from refund of handling charge for withholding personal tax	30.9	Operational on an ongoing basis
Gain from disposal of equity interests in Shenzhen ZTE Capital Management Company Limited ("ZTE Capital") and gain from fair-value change	(29.2)	Business with the scope of operation of ZTE Capital

II. Report of the Board of Directors

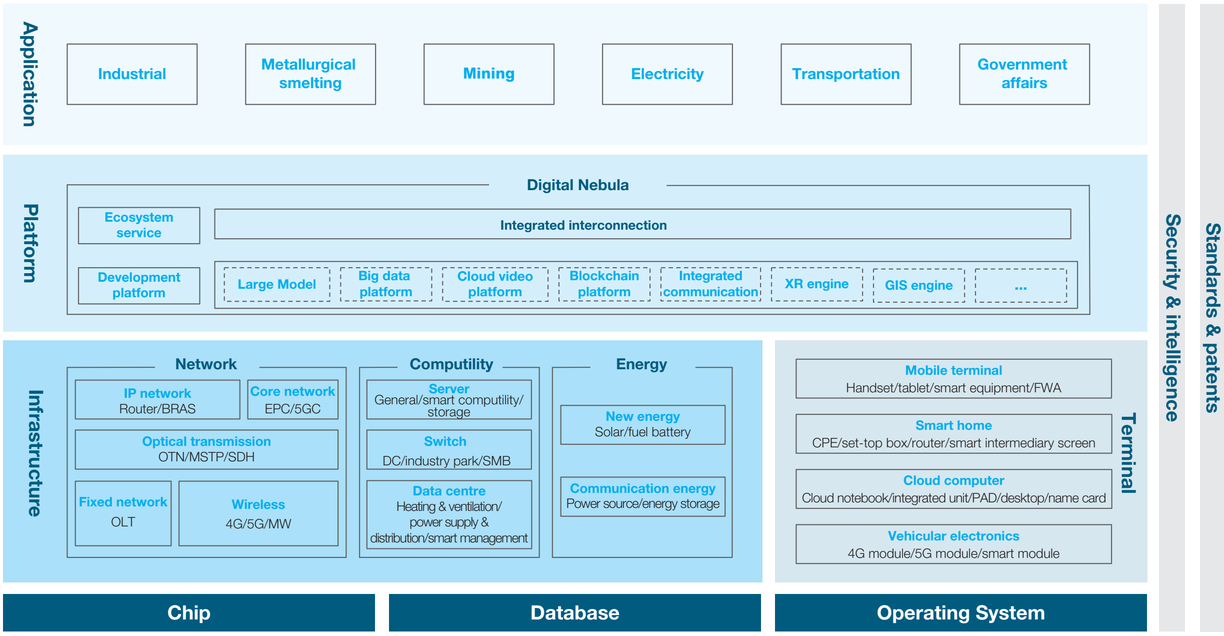
In 2023 the Group continued to commit robust R&D investment in "connectivity + computility + capacity + intelligence" technologies, as it achieved innovation in core base-level technologies and maintained its position as a forerunner in the industry in terms of the competitiveness of principal products. The Group showcased strong stability and resilience in overall operations underpinned by consistently improving quality, although the challenge of overtaking growth was still present. Technological edge provides assurance for the Group's qualitative development. This chapter begins with a discussion of the innovation of the Group's core technologies in 2023, followed by a detailed account of its operating results in 2023 and business outlook for 2024.

2.1 INNOVATIONS IN CORE TECHNOLOGIES IN 2023

Digital and intelligent transformation has become the dominant trend of the day. First of all, the digital economy as one of the core pillars of qualitative economic development has become a matter of general consensus. Secondly, 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 basis for global survival and development, and digital and intelligent transformation is one of the key pathways to rapid low-carbon development.

With the accelerating development of digital technologies and AI technologies in particular, the reinvention of productivity and revolutionary changes in efficiency are expected in the next decade to empower high-quality social and economic development. Facing the development trends such as the explosive growth in data volume, diversification in application scenarios and exponential growth in the number of parameters for AI models, digital infrastructure facilities will more than ever be required to take into consideration the demand for minimalist, efficient and green features, while digital and intelligent capabilities are expected to enable greater flexibility and dexterity. On the back of its full-stack and all-round DICT technologies assembled over a span of more than 30 years, the Group has been actively seizing opportunities presented by the digital tide and firmly adhered to its positioning as a path-builder for digital economy in the broader business ecosphere, persisting in extensive collaboration and an open and mutually beneficial approach as it endeavours to deliver value to customers and contribute its wisdom to the industry in a bid to generate mutual benefits with its partners and undertake due social responsibilities.

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 and its future evolution, 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 position itself as a "path-builder for digital economy" and continuously spend its efforts in "connectivity + computility + capacity + intelligence", that helps customers and business partners to forge the efficient and green foundation of digital and intelligent operations and solutions that meet scenario requirements and speed up the process of digital and intelligent transformation and upgrade for the society as a whole. The Group has continued to increase investment in the AI sector with the establishment of a number of product lines, laboratories and other specialised institutions to support the development of intelligent computational capability and R&D of diversified intelligent computing solutions. Empowerment and efficiency enhancement for internal R&D and operation was rolled out centering on large-scale models, followed by efforts to assist in the construction of end-to-end smart computational infrastructure and corporate digital and intelligent transformation solutions for multiple industries and sectors according to the principle of utilising proprietary products in internal applications before supplying them to third parties. Through ongoing enhancement of its competitiveness in a full range of ICT end-to-end products and digital and intelligent solutions, the Group has achieved steady growth in its market share and further optimisation of its market pattern.



2.1.1 Persisting in long-term investment and mastery of base-level core technologies

1. *Chip*

The Group has continued to increase investment in advanced process technique design, advanced architecture and seal packaging design and core intellectual properties, 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. On top of a solid foundation in the R&D of base-level technology for DICT chip, the Group has also constructed an ultra-efficient, green and intelligent full-stack computing network base pivoting on "data, computing and network" in line with developments in computing-network integration. 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.

2. *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 market**, our core industry service application has remained a leader, making ongoing breakthroughs and creating numerous exemplary projects with customers which are industry leaders, such as large-scale state-owned banks and joint stock corporation banks. New clients among leading players in the financial sector included Pudong Development Bank, Zheshang Bank, Ningbo Bank and China Export and Import Bank, CSC and Guangfa Securities. Core business systems for customers including China Construction Bank, Industrial and Commercial Bank of China, Everbright Bank, Guangfa Bank, Evergrowing Bank and Shandong City Commercial Banks Alliance Co., Ltd. were completed and successfully commissioned. According to the Frost & Sullivan report, GoldenDB claimed the largest market share for finance-grade distributed database in the banking industry in 2022, while ranking first in 2023 in terms of the number of systems commissioned under the sub-categories of core bank system, secondary core system and non-bank core system.

In the **carriers' market**, we have maintained the largest shares in procurements of China Mobile and China Unicom. Benchmark projects such as CRM & BOSS of Shandong Mobile, the respective core billing systems of Zhejiang Mobile and Hebei Mobile and the CMIOT core support system of China Mobile have been created and commissioning has been completed for China Mobile Group and in more than 10 provinces.

3. 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 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. The Group's automobile operating system products have attained the OSDL (Open Source Development Labs) 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 (Institute of Electrical and Electronics Engineers).

2.1.2 Driven by technological in ongoing enhancement of product competitiveness

1. High-speed network

(1) Wireless

On the back of our strong capabilities at base level built around chip, computing and architecture, highly-efficient, intelligent and minimal and green mobile communication networks designed for carrier customers and industry customers have been constructed. The 5G scenarios have been further explored in greater detail, as we created product solutions with special features for scenarios such as the high-speed rail, indoor hotpots and scenic areas and constructed excellent networks offering multiple frequencies, multiple modes, high integration levels and high energy efficiency and worked with carriers to continuously expand 5G-Advanced innovations, applications and practices. According to the Dell'Oro Group Report, the Group has ranked second globally for four consecutive years in terms of dispatch volume for 5G base stations.

- **Wireless access: to address the requirements of minimal conversion of stations**, the 12-channel ultra-broadband RRU has been launched using the most powerful Super-N power magnification technology in the industry to achieve frequency module consolidation with ultra-high integration, which could enhance the efficiency of site utilisation and energy consumption by more than 30% when deployed in coordination with other products in the multi-frequency and multi-fan series. **To address the high-speed evolution of the network**, a number of first-of-its-kind products in the industry have been launched, such as the 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 address optimisation of network deployment**, we have also launched the industry's first "1.8GHz and 2.6GHz" dual-frequency RRU which facilitates precise matching of RRU signals with rail coaches with the pioneering "power tag-along" solution to achieve one-stop 4/5G coverage in high-speed rail scenarios without the need for antenna upgrade and conversion in the existing network. **To address refined 5G scenario operation**, we have pioneered in the launch of the quadruple frequency QCell to meet the requirements of scenarios with a high indoor heat level. The UBR series featuring large power, multi-frequency combinations and multi-fan integration has been put to large-scale commercial application as an industry leader in terms of integration level and energy efficiency.

- **Green energy conservation:** we have procured ongoing evolution of the energy conservation solution PowerPilot. Following the launch and large-scale commercial application of the AAU automatic start/stop function which reduces AAU night-time energy consumption to a minimum of 5W or below, we have launched China's first trial RRU automatic start/stop function, by which power consumption of an idle RRU can be reduced to a minimum of 3W.

- **5G-Advanced evolution:** the Group has joined forces with carriers to gain pace in technological and industrial sophistication, enabling major sporting events in Asia with a range of products featuring 5G-A technologies such as ultra-20G maximum limit network, communication and sensor integration, air, space and terrestrial integration, among others. **In connection with 10G network**, we have built the world's first 5G train-wayside communication system in Shanghai, assuring 2Gbps+ communication for metro passengers with 10G+ backhaul. **In connection with communication and sensor integration**, in Guangdong, we have completed the industry's first "communication and sensor integration" multi-station networking deployment and verification of scenarios such as low-altitude drone security defense. In Zhuhai, we have completed technical verification of the industry's first internet of vehicle architecture featuring communication, sensor and computing integration. In Suzhou, 20ms@99.99% low-latency and high-reliability vehicle-road coordination has been provided on the back of an ultra-stable network to safeguard self-driving at 60km/h. **In connection with the integration of air, space and terrestrial applications**, we have completed outfield verification of the industry's first 5G IoT NTN handset and terminal for commercial application with direct satellite link and verification of the NR-NTN low-orbit satellite broadband service laboratory.

(2) 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. According to the Dell'Oro Group Report, the Group has ranked second globally for four consecutive years in terms of dispatch volume for 5G core networks.

- **Acceleration of software/hardware coordination:** 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.

- **Smart green:** 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 computing, 25% consolidated power conservation, millisecond service alert and zero loss.

- **Fit-it-all 5G private network products:** the full-stack iCube, compact i5GC, Mini5GC and forward-mode Edge UPF have been launched 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 campus 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.

(3) Wireline

- **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 30 carriers globally to accelerate sophisticated commercial application. TITAN, our flagship product in optical access has been given the highest Leader rating by GlobalData for the third consecutive year, as it claimed the largest capacity and highest level of integration among peers. Light Campus, our park zone solution, has won the Network X 2023 "Most Innovative Enterprise PON network" award. According to the Dell'Oro Group 2023 Report, the Group ranked second globally for 10G PON.

- **Optical transmission network:** the Group has teamed up with carriers to complete a number of 400G QPSK live network trials with the adoption of 400G QPSK technology on the back of 130GBd high-performance optical components enabling the backbone network to upgrade its speed from 200G to 400G and maintain optimal performance in transmission without reducing the distance. The 400G ultra-long distance transmission system has received the 2023 Lightwave Optical Transmission Annual Innovation Award. ZXONE 9700 among our OTN flagship series has again been given the highest Leader rating by GlobalData. According to the Omdia 2023Q3 Report, the Group ranked second globally in terms of dispatch volume for OTN 200G ports and first globally in terms of year-on-year growth rate for the dispatch volume of OTN 400G port.

- **IP network: In connection with backbone core network**, the Group has launched the 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, has been completed on the back of future network testing facility CENI. **In connection with private industry network**, we have 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. We have also been the first supplier to complete trial runs of the HEC ultra-edge computing solution, achieving flexible as-needed deployment of computing capacity in 5G bearer to provide carriers with a new business model of "leased line + computility". **In connection with green energy conservation**, the AI energy conservation technology adopted in 5G has increased network energy conservation efficiency by more than 15%. In 2023, our edge router product has been upgraded to the highest GlobalData Leader rating. According to the IDC 2023Q3 Report, the Group's router products ranked second in domestic market share and first in year-on-year growth.

2. Computility infrastructure

In connection with computility infrastructure, the Group has enhanced its R&D of relevant infrastructure products to address new opportunities afforded by the AI large-scale model, with a view to providing a full range of diversified computility infrastructure solutions with superb efficiency.

(1) Server and storage

To address requirements from a diverse range of scenarios such as AI and high-performance computing and for differentiated deployment at different levels from the centre to the edge, the Group has launched a range of products and solutions including communication and computing server, smart computing server, high-performance storage and integrated training and inference unit. **In connection with server**, the Group's full range of servers support liquid cooling and heterogeneous acceleration, while high-density full liquid-cooling holistic cabinet solutions have been launched to achieve ultra-high density refrigeration which would substantially lower energy consumption by data centres. **In connection with storage**, the Group offers a combination of distributed magnet array and all-flash magnet array to cater to both large-capacity storage and high-performance requirements. **In connection with integrated training and inference unit**, the AiCube integrated training and inference unit combines computing, storage, network equipment and AI platform software to offer one-stop deployment and are ready to use upon delivery, meeting the requirement for localised deployment of edge nodes and helping enterprises to lower the training and inference cost of private domain models whilst safeguarding corporate data security.

(2) Switch

A new-generation high-performance 400GE/800GE data centre switch has been launched, 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 supported by an optimal framework offering a full range of functions with high reliability. The innovative framework single-level multi-rail networking solution is capable of flexible and efficient construction of 1,000-card/10,000-card computing clusters. This product series has maintained the rating of "Very Strong" in GlobalData, the highest among its domestic peers, including the highest Leader rating for its hardware component. According to the IDC 2023 Q3 Report, we ranked first in terms of year-on-year growth in domestic market share for data centre switch.

(3) 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 green energy conservation, quick and easy fabrication, smart management and security and reliability. Innovative energy-saving products such as power modules and liquid cooling systems with a PUE level of 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 complete data centre solutions for the eight principal core nodes and deployed them in key nodes such as Gansu, Horinger and Ningxia in expanding scale to foster our core competitiveness for proprietary products, whilst actively building the Binjiang Liquid Cooling Smart Computing Centre as a template project.

- **Domestic market:** we have completed deliveries of large-scale projects for domestic carriers, maintained our prestigious position with leading Internet companies by winning the tender for Tencent's multi-level database framework project whilst enhancing market penetration of the financial and data centre sectors with the construction of template projects such as BOC Baoxin and CITIC Bank.

- **Overseas market:** we have engaged in active development of the granary markets with a special focus on key nations, as we have undertaken the data centre project of China Telecom in Indonesia on an exclusive basis to make a breakthrough in the domestic Indonesian market for DCI data centre operator and achieve large-scale operation, while also negotiating breakthroughs in national markets such as Ethiopia, Algeria and Libya.

3. Digital energy

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 deployed large-scale 5G power source and minimal site solutions to safeguard power supply for 720,000 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 supported storage integration and multiple forms of energy storage conducive to low-carbon energy consumption. We have been a TOP supplier in the communication energy storage sector with a growth rate of over 50% in terms of annual dispatch of lithium batteries. Investigations into end-to-end system solutions have been made with a view to expanding from equipment sales to the operation of equipment + engineering + services, which has been implemented in markets such as South Africa and Ethiopia.

4. *Terminal*

(1) Mobile terminal

In 2023, the Group resorted to AI as the key driving force for innovation and enhancement of user experience, as it continued to construct smart ecology leveraging rudimentary algorithm research and platform-based innovation.

- **Innovative terminal:** a number of innovative products have been launched. Nubia Z60 Ultra features a fifth-generation under-screen camera and NeoVision Taishan imaging system which creates the first vertical image AI large-scale model in the industry based on Nubia's specialised image data. Red Magic 9 Pro introduces the first vertical AI large-scale model in the e-game sector. Nubia Pad 3D, the world's first AI engine-driven bare eye 3D tablet, was honoured with the 2023 Intelligent Hardware Innovation Award. Nubia Z50S Pro garnered the 2023 International CMF Design Award on the back of its superb beauty and spectacular external design. ZTE Axon 50 Ultra, as the industry's first 5G security flagship handset supporting satellite communication, received an Outstanding Innovative Product Award in the 2023 Public Security Expo in recognition of the groundbreaking significance of its intelligent security features.

- **Mobile Internet products:** the Group firmly maintained its global first ranking in market shares for 5G FWA & MBB. Our innovative data terminal ZTE Portable WiFi F50 5G and U10 Series both received the G-MARK Design Award in 2023, as they have brought to users the experience of convenient, lasting, efficient and full-scenario connectivity.

(2) Smart home

From total solutions to terminal product series, the Group has enabled home users to experience the premium giga network, ranking first globally according to the Dell'Oro Group and Omdia 2023 Q3 Report in terms of dispatch for PON CPE, DSL CP and IP set-top box in consistent leadership.

- **FTTR:** we have launched the industry's first screened FTTR series RoomPON 5.0, which allows stronger coverage and simultaneous use by multiple users without lagging thanks to an auxiliary antenna, the first of its kind in the industry, and an intelligent hardware modulation engine. Meanwhile, we have also launched the industry's first FTTR main gateway supporting XGS+2.5GE LAN ports to assist the launch of mega-volume broadband package of 2000M or above by carriers.

- **Smart medium screen:** we have teamed up with China Mobile to forge a smart medium-screen control for the home ecology 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 product series. The products have been deployed to serve as a secondary screen for the household which will become a brand new home media offering the threefold functions of contents supply, control and security.

- **Wi-Fi router:** in the e-commerce market for personal customers, we have launched the industry's first Qingtian wall-mount router in a breakthrough of product shape to allow flexible placement. This product has ranked first in the public test and assessment among products with similar specifications and performances and garnered the G-MARK Design Award. The new router product series represented by Xuntian, Wentian and Qingtian have driven the exploding sales of smart home connectivity products, contributing to leaping growth in annual sales and making its way into the league of TOP online router brands.

(3) Cloud computer

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. We have launched the world's 5G cloud notebook "Yufeng 2" which supports a number of connection modes such as 5G card, WiFi, blue tooth and wireline network. The product has been named as an "Exemplary Case in 5G New-format Terminal Innovation" in GSMA. In 2023, the Group sold more than 300,000 cloud computer terminals in 2023, ranking first in the domestic carrier market in terms of market share for cloud terminals. We have assisted customers in the financial sector such as China Construction Bank, CITIC Bank and China Pacific Insurance to launch large-scale commercial application catering to over 10,000 users, while making breakthroughs with large corporate customers such as Chery Automobile and Xinyi Glass Group. The Group's cloud computer products won the "Global Product Leadership Award" presented by Frost & Sullivan, as well as a Class I Award of Excellence in ICT China (2023) Commendation of Exemplary Projects.

(4) Vehicular electronics

The Group has persisted in the innovation of fundamental technologies and has, on the back of its solid strengths in five principal ICT segments: chip, operating system, software engineering, digital transformation, software/hardware coordination and 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 chip**, the Group has launched the nation's first Internet of Vehicle chip supporting C-V2X and chip-grade SoC solutions to customise for industry customers products that meet the application requirements of the domestic market, in a bid to foster a diversified safety ecology for the industry. **In connection with software**, we have 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 launched by the Group on the basis of our full-stack proprietary chip platform, the first of its kind in China, will be put to application on the vehicular communication terminal platform project of GAC R&D Center. Agreements have been reached with SAIC and DIAS for intensive strategic cooperation in relation to the Group's full-stack proprietary 4G vehicular specification grade module has been. In future, the Group will remain engaged in joint technological innovation with partners within the industry chain ecosystem to assist in the qualitative development of new-energy vehicle.

5. Video business

- **General video products:** the Group provides IPTV, video conferencing and video security products and solutions on the basis of the video intermediary platform, for which the development of an ecosystem for applications has expedited with the benefit of proprietary technologies such as ultra-low latency coding and decoding, real-time audio and video network acceleration, delivering applications for IPTV, video conferences, video security services in numerous provinces. In terms of innovative solutions, the Group's vCDN computing sharing and 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 after the cloudified deployment and conversion of CDN, helping carriers to reduce CAPEX on relevant equipment by as much as 20%.

- **XR products:** a lightweight AR camera system based on cloud rendering has been launched to support AR shooting in motion. With the launch of 5G VR large-space immersive theatre, industrial metaverse platform and MR virtual live training solution, we have rolled out comprehensive cooperation in metaverse services with the cultural tourism, media, industrial and education sectors to assist in the digital innovation and transformation of industries. **In connection with cultural tourism**, a cultural art metaverse project has been delivered in association with Tang West Market and Shaanxi Mobile, garnering the 5G Industry Challenge Award under the GSMA Asia Mobile Awards 2023 and also named a 2023 Chinese Cultural Metaverse Exemplary Project. **In the media sector**, we have deepened cooperation with customers such as CCTV, Xinhua News Agency, Dongfang Satellite TV and Henan Satellite TV. **In connection with the industrial and education sectors**, the Group's industrial metaverse platform and MR virtual live training solution have won the "Outstanding AI + AR Application Award of the Year" and "Outstanding MR Application Award of the Year", respectively, at the Eighth Golden Spintop Awards.

6. *Large model*

ZTE actively embraced the wave of large models and generated AI, and carried out R&D deployment and engineering practices to improve its competitiveness, including basic large model, large model for improving R&D efficiency, large model for telecommunications, and large model for industries. In addition, ZTE is further strengthening key capabilities such as intelligent computing infrastructure, intelligent computing efficiency optimization, and large-scale model training tool chain. By injecting a large amount of high-quality data and Know-How knowledge into large models, ZTE hopes to use large models to replace auxiliary or even human resources in multiple scenarios, thus significantly reducing costs and improving efficiency. The large model for improving R&D efficiency has been assisting R&D personnel in requirement analysis, product design, programming, testing, and product document compilation, improving code compilation efficiency by 30%. The large model for telecommunications has been partially applied in operators' autonomous networks and value-added services. The large model for industries, is initially piloted in industries and scenarios such as urban governance and intelligent parks. The 2.0 version of the self-developed basic large model is already under iteration. It is estimated that the large models in the self-use and commercial fields will be migrated to the new version of the basic large model in 2024.

7. *Trusted security*

The Group has launched the ultra-amalgamated security gateway, integrating cyber security, switch router and computing storage capacity to construct an integrated infrastructure for cloud, network and security that safeguards the digital transformation 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. We have also launched a data security solution based on privacy computing whilst undertaking a research project on "Data security technology based on 5G industrial Internet scenarios" commissioned by MIIT. In an in-depth effort to develop the 5G network endogenic security business, a 5GC and a 5G private network asset security management have been implemented for Hunan Telecom and Guangdong Mobile, respectively, on a trial basis. Meanwhile, asset data collection and security management for 5G core network and 5G RAN, the first of its kind conducted in China, has been completed. Our quantum integrated encryption key system, designed to assist in the construction of the novel integrated encryption key management system and password application platform, has received the CEPREI Outstanding Solution Award.

2.1.3 Enabling industrial transformation in a joint effort with industries to add value

Pivoting on digital-physical integration, the Group has launched the "5G Live Network + Digital Nebula 2.0" double-wheel digital transformation architecture to provide swift and flexible solution customisation for the digital transformation of enterprises. Meanwhile, we have developed the star cloud industrial large-scale model through proprietary R&D to create industrial large-scale models, such as those for government affairs and industrial parks, through incremental pre-training in sector knowledge, in order to build a new engine for the digital and intelligent transformation of industries. The Group advocates deep-level cooperation in atomic ability with industrial partners and has developed more than 1000 digital nebula partners in 15 sectors, including city lifeline, water supply, emergency, railway, port, manufacturing, electric power, smelting, metallurgy, mining, cultural tourism, new media and others, creating a range of benchmark digital projects in collaboration with major customers. In 2023, the Group became one of the first five-star suppliers included in the 5G application sector quadrant designated by CAICT, as it received the highest ratings in all three of the principal aspects for assessment: rudimentary abilities, business performance and innovation.

1. *Industrial*

The Group has 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. We have also assisted Lynk & Co’s Zhangjiakou factory in the large-scale application of a 5G laser SLAM navigation AGV, the first of its kind in China, in a complex environment which is highly dynamic, randomly occupied by forklifts and tractor units and housing hybrid manufacturing of three vehicle types, for which we have won a National Class I Award at the Sixth Blooming Cup Contest hosted by MIIT. Elsewhere, we have continued to deepen digital transformation in collaboration with enterprises such as JA Solar Qujing Base, Maotai Group, China Resources Cement, Chongqing Changan Automobile, Deli Group and Huifeng Petrochemical.

2. *Metallurgical smelting*

The Group has built an innovative base featuring industrial on-site network solutions in association with Wugang Group Co., Ltd., as well as a benchmark project for regional-level centralised control of electrolytic aluminium plants in association with SPIC Qingtongxia Aluminium Factory, whilst winning the tender of the phase-two financial intelligentisation project of Ansteel Group in a bid to tap the market for IT intelligentisation. On the back of scenario-based solutions in centralised control for metallurgical production, safe production, digital mobile maintenance and intelligent inspection and test, the Group has implemented 50+ projects with industry giants such as Baowu Group, Ansteel Group, Shougang Group, Hesteel Group, State Power Investment Corporation, Chinalco Group and Shenhuo Group to assist in the digital and intelligent transformation of the metallurgical smelting industry.

3. *Mining*

The Group has launched a diverse range of customised products, such as intrinsic safety base station, minimal core network, 10G+ industrial ring network and intelligent single soldier. We have also actively participated in the formulation of relevant standards and conventions led by National Energy Administration and China National Coal Association. We have teamed up with 40+ partners and 30+ industry-leading customers in the implementation of 300+ projects nationwide, including Shaanxi Dahaize Coal Mine 5G Smart Exploitation Project of China Coal, which has won the 2023 GSMA 5G Energy Challenge Award, as well as China Pingmei Shenma 5G+ Green and Safe Coal Exploration Project, which has been included in the Top 10 Exemplary Application Projects at the 2023 World 5G Convention and as a benchmark project of the year at the 2023 5G+ Industrial Internet Conference of China.

4. *Electricity*

The Group has assisted State Grid Shandong Electric in the construction of China's first provincial 5G demonstration power grid and completed verification for new technologies such as 5G TSN, 5G LAN, RedCap. The project has won a Class I Award from the Open Bid Contest at the 2023 World 5G Convention. In association with China Energy Investment, we have launched a 5G power generation exclusive private network solution targeting at the power generation industry to facilitate safety management at fully-connected 5G power plants, successfully creating China's first smart power plant featuring a lightweight 5GC independent private network. We have entered into cooperation with State Power Investment in connection with new energy power generation and low carbon operations, as a ZTE 5G low-carbon manufacturing base featuring business innovations in areas such as distributed solar energy, energy storage and energy consumption management has initially been constructed.

5. *Transportation*

The Group has provided an advanced cloud platform and a line network-grade big-data platform supporting full decoupling and full compatibility for Qingdao Metro Line. We have also collaborated with Nanjing Metro Line, Hangzhou Metro Line, Guangzhou Metro Line and Shentong Metro Line, as the Qingdao City Rail project has been included in the 2023 Most Influential IoT Innovation League prepared by Fortune Magazine, while the Guangzhou 5G Smart Metro project has received the GSMA 2023 Global Mobile Award. We have also collaborated with the metro bureaus of Beijing, Shanghai, Shenyang and Guangzhou to assist in smart rail operation through system cloudification and network automation for substantial enhancement in communication efficiency and reliability. In a joint effort with Shenzhen Telecom and other partners, we have provided the world's largest gantry crane remote control based on the 5G network for Yantian International.

6. *Government affairs*

The Group has constructed a mega emergency and safety framework built on the smart emergency hub, integrated air, space and terrestrial network and sensors with access to monitoring data, whereby smart analysis and assessment can be conducted to help alleviate or eliminate disasters and keep the city safe. The city lifeline solution we launched has been providing service in Nanjing, Kunshan and Changsha as the only solution in the industry capable of air, space and terrestrial unmanned helicopter emergency communication covering both public and private domains. In 2023, we successfully completed the emergency communication drills for the scenario of "three disruptions" in Muli Highlands organised by the Ministry of Emergency Management and the MIIT nationwide emergency communication drill and contest. We have also participated in disaster relief at Mentougou, Beijing in the wake of extreme torrential rain to facilitate swift and steady recovery of communication. We have been honoured with the title of "Leading City Lifeline Safety Solution Supplier in China" at the China Hi-Tech Fair in 2023. The Group has built a water conservancy cloud platform for Taihu River Administration under the Ministry of Water Resources on the back of its digital twin-based water conservancy solution to serve the project for smart modulation and control of water resource allocation in Northern Hubei.

2.1.4 Extensive participation in standard formulation work while adding highly valuable patents to our portfolio

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.

89,500
patent applications submitted globally to-date

45,000
patents licensed globally to-date

As at 31 December 2023

Global ranking: 4th
In terms of valid families of 5G standard essential patents

ETSI

Nearly 5,000 patent applications
Over 2,000 licensed patents
Chips

10 gold awards, 3 silver awards, 38 excellence awards
China Patent Awards to-date

31 awards
Guangdong Provincial Patent Awards to-date

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 (The European Telecommunications Standards Institute), 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 2023

2.2.1 Industry development

1. Domestic market

In 2023, the domestic digital economy continued to expand, as further improvements in basic communication infrastructure, AI-guided transformation, expedited digital-real economy integration and in-depth development of optical network terminals were driving qualitative economic development in China.

In the basic communication sector, the telecommunications industry as a whole sustained stable growth, as the domestic telecommunications business reported revenue of RMB1,680 billion for 2023, representing year-on-year growth of 6.2%. The three telecom carriers and China Tower completed telecommunications fixed asset investment of RMB420.5 billion, representing year-on-year growth of 0.3%. The 5G networks continued to expand in outreach and depth, as the total number of domestic 5G base stations reached 3,377,000 as at the end of the year, adding increasing 1,065,000 stations compared to the end of the previous year. Large-scale deployment of GB-grade optical networks was progressing at a rapid pace, with 23.02 million 10G PON ports capable of GB-grade network servicing in place as at the end of the year, a net increase by 7,792,000 ports compared to the end of the previous year. Meanwhile, the three telecom carriers were actively developing novel businesses such as Data Centre, Cloud Computing, Big Data and Internet of Things, driving stable revenue growth for the telecommunications sector.

In the AI sector, new-generation AI technologies were guiding production, daily living and social governance towards profound changes. In 2023, telecom carriers and Internet enterprises were actively investing in the building of computing capabilities and stepping up with their development in computing infrastructure, platform software, large model and applications, among others. At present, the computing capacity of China ranks second in the world. Meanwhile, the value of data as an critical production factor became increasingly prominent, as the National Data Administration was established to explore the application of the data factor on all fronts and drive the materialisation of the value of data.

In the digital-real economy integration sector, novel industrialisation was advancing in steady progress as the nation registered 8,000 "5G+ Industrial Internet" projects covering all 41 major industrial categories, underpinned by a 5G application ratio of over 60% for the industrial sector, while the deployment of intelligent applications was gaining pace in sectors such as industrial manufacturing, metallurgical smelting, mining, electric power and transportation sectors.

In the terminal sector, in connection with optical network terminals, FTTR were being promoted among users, driving the launch of smart household applications such as HD video and smart home devices. Meanwhile, GB-grade optical network supported the deployment of corporate/factory networks at a wide range of businesses as well as the implementation of smart education for people's livelihood, in a bid to empower digital transformation of the society. In connection with handset products, multi-screen and multi-scenario operation and coordinated application became the new normal, while the AI smartphone was attracting interest from a wide spectrum.

2. *International market*

Over the past decade, global telecom carriers have maintained steady growth in their capital expenditure. In 2023, carriers' investments were focused on wireless and wireline broadband network, as well as new businesses such as new data centre construction and green low-carbon transition, among others.

In connection with wireless network, commercial 5G network deployment was basically completed in developed nations, as carriers were actively developing 5G industry applications and stepping up with transition to 5G SA (5G standalone network). In emerging markets such as Asia, Africa and Latin America, the modernisation upgrade of 4G was ongoing while 5G frequencies were being issued in a systematic manner, as carriers were actively deploying 5G networks and launching commercial services. As at the end of the year, 582 telecom carriers worldwide had invested in 5G and deployed 302 5G commercial networks, while more than 2,350 models of 5G terminals had been launched.

In connection with wireline network, the global trend of replacing copper wire with optical fibre for fixed-line networks continued, as carriers increased their investment in optical fibre infrastructure and actively advanced the employment of optical fibre broadband technology, while large-scale deployment of 10G PON had commenced with leading carriers starting to investigate the commercial application of 50G PON. Meanwhile, the commercial deployment of 5G network and transition to optical fibre resulted in greater demand for the bandwidth of existing bearer networks, driving the upgrade and conversion of these networks to meet the demand for bandwidth growth in the digital age.

In connection with new businesses, with the acceleration of digital transformation, data centre as the infrastructure of cloud computing and edge computing was coming into focus and becoming an important segment for industry investment. Low-carbon development and sustainability became generally accepted norms as carrier network was evolving towards low-carbon and zero-carbon standards, underpinned by ongoing increase in the demand for energy conservation and reduction in emission.

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

2.2.2 Business and Financial Analysis of the Group

In 2023, the global economy was struggling on the path to recovery as uncertainty became normality, subjecting development of the ICT industry to a host of unknown factors. Against such a backdrop, the Company showcased strong stability and resilience in overall operations underpinned by consistently improving quality, although the challenge of overtaking growth was still present. For 2023, the Group report revenue of RMB124,250.9 million, representing year-on-year growth of 1.05%.

For 2023, the Group's gross profit margin was 41.53%, an increase by 4.34 percentage points attributable mainly to gross profit margin improvements for carriers' network, government and corporate business and consumer business. Operating cost amounted to RMB72,650.3 million, a 5.93% decrease, year-on-year, attributable mainly to the decrease in cost for government and corporate business and consumer business.

In 2023, the Group continued to report improvements in profitability with net profit attributable to the holders of ordinary shares of the listed company amounting to RMB9,325.8 million, increasing by 15.41%, year-on-year. Net profit attributable to the holders of ordinary shares of the listed company after extraordinary items amounted to RMB7,399.6 million, increasing by 19.99%, year-on-year.

2.2.2.1 Income, cost and gross profit margin

1. *Breakdown of income, cost and gross profit margin by industry, business, region and sales model*

Unit: RMB in millions

Revenue mix	Operating revenue in 2023	As a percentage of operating revenue	Operating costs in 2023	Gross profit margin in 2023	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	**124,250.9**	100%	**72,650.3**	**41.53%**	1.05%	(5.93%)	4.34
Total	**124,250.9**	**100%**	**72,650.3**	**41.53%**	**1.05%**	**(5.93%)**	**4.34**
II. By business							
Carriers' network	**82,758.9**	66.61%	**42,116.0**	**49.11%**	3.40%	(2.16%)	2.89
Government and corporate business	**13,583.5**	10.93%	**8,837.8**	**34.94%**	(7.14%)	(19.07%)	9.59
Consumer business	**27,908.5**	22.46%	**21,696.5**	**22.26%**	(1.33%)	(6.73%)	4.50
Total	**124,250.9**	**100%**	**72,650.3**	**41.53%**	**1.05%**	**(5.93%)**	**4.34**
III. By region							
The PRC	**86,485.4**	69.61%	**49,063.6**	**43.27%**	1.45%	(4.61%)	3.61
Asia (excluding the PRC)	**14,131.0**	11.37%	**8,604.0**	**39.11%**	(5.26%)	(12.08%)	4.72
Africa	**6,221.5**	5.01%	**2,819.9**	**54.67%**	12.86%	1.66%	4.99
Europe, Americas and Oceania	**17,413.0**	14.01%	**12,162.8**	**30.15%**	0.77%	(8.09%)	6.73
Total	**124,250.9**	**100%**	**72,650.3**	**41.53%**	**1.05%**	**(5.93%)**	**4.34**
IV. By sales model							
Direct sales	**91,535.9**	73.67%	**48,892.7**	**46.59%**	1.30%	(5.35%)	3.76
Distribution	**32,715.0**	26.33%	**23,757.6**	**27.38%**	0.37%	(7.08%)	5.83
Total	**124,250.9**	**100%**	**72,650.3**	**41.53%**	**1.05%**	**(5.93%)**	**4.34**

2. Analysed by market

(1) Domestic market

For 2023, the Group's revenue from the domestic market amounted to RMB86,485.4 million, increasing by 1.45% year-on-year and accounting for 69.61% of its operating revenue. Gross profit margin was 43.27%, increasing by 3.61 percentage points, year-on-year.

In connection with carrier customers, the Company was deeply involved in the construction of 5G and GB-grade optical networks. For wireless and wireline products, market pattern was optimised and stable growth in revenue was noted. For intelligent computing servers, revenue growth was under pressure as the timing for launch was not well-matched with the pace of intelligent computing construction. In connection with government and corporate customers, the Company persisted in enhancing proprietary products and solutions, although revenue growth was challenging given the pace of industry investment and construction by key customers. In connection with consumers, the Company seized the opportunity presented by the rapid development of GB-grade optical network to drive ongoing growth in revenue from home terminals, while persisting in the cost leadership and differentiated innovation strategies to attain trend-bucking growth in revenue from handset products.

(2) International market

For 2023, the Group's operating revenue from the international market amounted to RMB37,765.5 million, increasing by 0.15% year-on-year and accounting for 30.39% of its operating revenue. Gross profit margin was 37.54%, increasing by 5.94 percentage points, year-on-year.

In connection with carrier customers, the Company made important progress in its persistence in the strategy of focusing in large nations, big Ts (mainstream telecom carriers) and large networks, as it achieved a number of key breakthroughs for wireless and wireline products in big T value regions, improving the market pattern while driving double-digit growth in revenue. In connection with government and corporate customers, the Company was mainly focused on the operation of its existing business. In connection with consumers, decreasing market demand and escalating competition gave rise to enormous challenge in seeking revenue growth for home terminal and handset products.

3. Analysed by business segment

(1) Carriers' network

For 2023, the Group's revenue from carriers' network amounted to RMB82,758.9 million, a 3.40% growth, year-on-year, attributable mainly to growth in operating revenue from wireless and wireline products. Gross profit margin was 49.11%, increasing by 2.89 percentage points, year-on-year, attributable mainly to changes in the revenue mix as well as ongoing cost optimisation.

In connection with the traditional networks of carriers, the Company further consolidated its leading position in technology and continued to enhance its core competitiveness, as it sustained revenue growth in a firmly set market duopoly. **For wireless products**, the Company launched 5G wireless products covering all scenarios and all frequency bands. Share in the domestic market was stable in general with growth in certain segments, including breakthroughs in indoor distribution and the high-speed rail scenario and growth in market share for the low-frequency refarming scenario. In the international market, we achieved pattern optimisation for wireless products in the dual network integration project of Thailand. Meanwhile, we seized the opportunity presented by wireless network modernisation upgrades to make breakthroughs in the capital regions of the national branches of big Ts in Côte d'Ivoire, Kazakhstan and three Latin American countries. **For core network products**, the Company seized the opportunity arising from the changing landscape in market competition to further expand its presence and achieve further breakthrough and enhancement in the domestic market. Meanwhile, we won bids with significant shares for the centralised procurement tenders of mainstream carriers in Malaysia and Thailand. **For wireline products**, the Company maintained its global leadership in fixed-line network products as it negotiated breakthroughs to fill the void in the market of carriers in Germany, Romania and Nigeria. For optical transmission products, while we were focused on our existing accounts in the domestic market, we also won the bid for China Mobile's 400G OTN backbone network centralised procurement tender in a major boost for our brand influence. In the international market, we seized the opportunity arising from bearer network bandwidth upgrade to make breakthroughs with the national branches of big Ts in Spain, Argentina and Algeria. We also won the bid to supply core routers under China Telecom's centralised procurement for 9 years in a row, while delivering full-scenario large-scale commercial applications for domestic carriers.

In connection with carriers' computing networks, breakthroughs in AI technologies brought about new challenges as well as opportunities for computing infrastructure. **For servers**, the Company's traditional general servers remained a leader in the market of domestic carriers, although growth in the overall revenue from servers was subject to pressure as the timing for the launch of intelligent computing servers was not well-matched with the pace of intelligent computing construction, in connection with which the Company is increasing R&D investment in relevant products and solutions in a bid to restore growth. **For data centre switch**, we launched the 9900X series of data centre switch featuring fully proprietary core components and secured notable increase in the size of winning bids for the centralised procurement of domestic carriers. **For data centre**, breakthroughs were made to fill voids in a number of domestic provincial markets and supply to nodes in East-to-West Computing projects, while undertaking China's Telecom's data centre project in Indonesia on an exclusive basis. **For cloud computers**, we launched the world's first 5G cloud notebook "Yufeng 2" and our cloud computers ranked first in market share for the supply of cloud terminals to domestic carriers in 2023.

(2) Government and corporate business

For 2023, the Group's operating revenue from the government and corporate business amounted to RMB13,583.5 million, a 7.14% decrease, year-on-year, attributable mainly to the decrease in revenue from domestic integration projects, data centre and the international market. Gross profit margin was 34.94%, increasing by 9.59 percentage points, year-on-year, attributable mainly to ongoing cost optimisation.

The Company was focused on the domestic government and corporate market. In 2023, the Company enhanced its proprietary products and solutions on the back of base-level core technologies such as chip, database and operating system, as it continued to optimise the deployment of its principal products including server, data centre switch, data centre and distributed database with strategic customers in key industries such as the Internet and finance sectors. Nevertheless, the pursuit of revenue growth was challenging as affected by the pace of industry investment and customers' construction. The Company made active adjustments in response by: firstly, integrating its domestic marketing organisations to enhance its ability in frontline market development by strengthening business coordination and resource allocation; secondly, increasing R&D investment to enhance the competitiveness of its principal products; thirdly, seizing new market opportunities in computing and IT innovation for the resumption of rapid growth.

(3) Consumer business

For 2023, the Group's operating revenue from the consumer business amounted to RMB27,908.5 million, a 1.33% decrease, year-on-year, attributable mainly to the decrease in operating revenue from home terminal and handset products in the international market. Gross profit margin was 22.26%, increasing by 4.50 percentage points, year-on-year, attributable mainly to improvements in gross profit margins for home information terminals in the international market and handset products.

The consumer business comprised mainly home terminal and handset products. In the domestic market, the Company was driving the development of optical fibre network from GB access to GB experience in the creation of full-scenario, full optical connection to enhance the competitiveness of its home terminal on the back of its proprietary chip. We stayed ahead of our peers in terms of new market share for FTTR, while ranking first in the dispatch of Wi-Fi products for 4 years in a row, driving ongoing growth in revenue from home terminal. In connection with handsets, we persisted in the strategies of cost leadership and differentiated innovation and achieved trend-bucking growth in revenue from handset products with the launch of new products such as nubia Z60 Ultra, Red Magic 9 Pro, nubia Pad 3D (a bare-eye 3D tablet) and the navigation series and smooth ride series. In the international market, the Company completed large-scale deployment of its proprietary SoC chip of Wi-Fi 7 products in Japan, Spain and Italy in a major boost of its market status, whilst new handset products such as ZTE Blade V50 design and nubia Neo 5G were launched in succession. Nevertheless, the challenge of pursuing revenue growth for home terminal and handset products was enormous giving declining market demand and escalating competition.

4. Others

(1) Changes in the scope of consolidation and analysis of operating revenue and operating costs for the comparable period of 2022

The Company has incorporated ZTE RWANDA Limited, ZTE (Chengdu) Co., Ltd., Chengdu CRS Xingxin Semiconductor Technology Co., Ltd. and ZONSON SMART AUTO ITALIA S.R.L. in 2023. The aforementioned subsidiaries have been included in the consolidated financial statements.

For 2023, Yingbo Super Computer (Nanjing) Technology Company Limited was excluded from the consolidated financial statements following the Company's disposal of all equity interest in this subsidiary. Xinjiang ZTE Silk Road Network Technology Company Limited, ZTE India Research Institute, Fujian Maritime Silk Road Technology Company Limited, CLAA IoT (Quzhou) Company Limited, Shenzhen Xinglutong Technology Company Limited and Newinfo Holdings Limited completed deregistration with the industrial and commercial administration authorities. ZTE GEORGIA LLC commenced bankruptcy procedures and was taken over by the court. The aforesaid subsidiaries had been excluded from the consolidated financial statements.

A comparative analysis of operating revenue and operating costs for 2022 excluding the aforesaid subsidiaries which were no longer included in the consolidated statements is set out as follows:

Unit: RMB in millions

Item	**2023**	2022	Year-on-year increase/decrease
Operating revenue	**124,250.9**	122,853.6	1.14%
Operating costs	**72,650.3**	77,116.3	(5.79%)
Gross profit margin	**41.53%**	37.23%	Increased by 4.30 percentage points

(2) Breakdown of the Group's costs by principal items

Unit: RMB in millions

	2023		2022		
Item	**Amount**	**As a percentage of operating costs**	Amount	As a percentage of operating costs	Year-on-year increase/decrease
Raw materials	**57,073.7**	**78.56%**	61,305.4	79.38%	(6.90%)
Engineering costs	**11,837.2**	**16.29%**	12,374.6	16.02%	(4.34%)
Others	**3,739.4**	**5.15%**	3,547.6	4.60%	5.41%
Total	**72,650.3**	**100%**	77,227.6	100%	(5.93%)

(3) Major customers and suppliers

The Company provides innovative ICT technology and product solutions to telecom carriers and government and corporate clients and terminal products to personal consumers. Suppliers of the Group include suppliers of raw materials and outsourcing manufacturers around the world, which have established stable business relationships with the Group.

Sales by the Group in 2023 to its largest customer amounted to RMB34,725.3 million, accounting for 27.95% of the total sales of the Group, while sales to its top five customers amounted to RMB77,598.2 million, accounting for 62.45% of the total sales of the Group.

Purchases by the Group from its largest supplier in 2023 amounted to RMB3,507.1 million, accounting for 6.10% of the total purchases of the Group, while the purchases made from its top five suppliers amounted to RMB13,344.4 million, accounting for 23.22% of the total purchases of the Group.

The top five customers and top five suppliers were not connected to the Company in any way. None of the Directors, Supervisors or their close associates, senior management, key technical employees, or to the knowledge of the Board of Directors, any of the shareholders holding 5% or more of the shares and other connected parties of the Company had any direct or indirect interest in any of the aforesaid top five customers or top five suppliers.

(4) Progress during 2023 of material sales and purchase contracts entered into during and prior to 2023

☐ Applicable √ N/A

2.2.2.2 Expenses

Unit: RMB in millions

Item	2023	2022	Year-on-year increase/decrease
R&D expenses	**25,289.2**	21,602.3	17.07%
Selling and distribution expenses	**10,171.9**	9,173.3	10.89%
Administrative expenses	**5,631.8**	5,332.7	5.61%
Finance expenses	**(1,101.2)**	163.2	(774.75%)
Income tax	**962.3**	960.0	0.24%

The Group's research and development expenses for 2023 amounted to RMB25,289.2 million, increasing by 17.07% year-on-year, as a percentage of operating revenue increased by 2.78 percentage points to 20.35%, which was attributable mainly to the Group's ongoing investment in technologies such as 5G and 5G-A, chip, server and storage and innovative business.

The Group's selling and distribution expenses for 2023 amounted to RMB10,171.9 million, increasing year-on-year by 10.89% and accounting for 8.19% of our operating revenue, an increase by 0.73 percentage point year-on-year attributable mainly to the increase in marketing expenditure.

The Group's administrative expenses for 2023 amounted to RMB5,631.8 million, increasing by 5.61% compared to the same period last year and accounted for 4.53% of our operating revenue, an increase by 0.19 percentage point year-on-year attributable mainly to the increase in remuneration and benefits.

The Group's finance expenses for 2023 amounted to RMB–1,101.2 million, decreasing year-on-year by 774.75%, which was attributable mainly to exchange gain for the period from exchange rate volatility versus loss for the previous period.

The Group's income tax for 2023 amounted to RMB962.3 million, little changed compared to the same period last year.

2.2.2.3 R&D investment

(1) R&D investment

Unit: RMB in millions

Item	2023	2022	Year-on-year increase/decrease
R&D investment amount	**26,783.3**	23,423.7	14.34%
Including: Amount accounted for as expense	**25,289.2**	21,602.3	17.07%
Amount accounted for as capitalised	**1,494.1**	1,821.4	(17.97%)
R&D investment as a percentage of operating revenue	**21.56%**	19.05%	Increased by 2.51 percentage points
Capitalised R&D investment as a percentage of R&D expense	**5.58%**	7.78%	Deceased by 2.20 percentage points

(2) R&D personnel

Item	2023	2022	Year-on-year increase/decrease
Headcount of R&D personnel	**35,393**	36,300	(2.50%)
R&D personnel as a percentage of total headcount of the Group	**49.09%**	48.52%	Increased by 0.57 percentage point
Academic qualification profile of R&D personnel			
Doctorate degree	**438**	424	3.30%
Master's degree	**22,204**	22,194	0.05%
Bachelor's degree	**11,479**	12,342	(6.99%)
Others	**1,272**	1,340	(5.07%)
Age profile of R&D personnel			
Under 30	**12,200**	13,761	(11.34%)
30~40	**13,537**	13,919	(2.74%)
40~50	**8,622**	7,797	10.58%
Over 50	**1,034**	823	25.64%

2.2.2.4 Other components in the profit mix

Unit: RMB in millions

Item	2023	2022	Year-on-year increase/decrease
Other gains	**1,806.0**	1,893.0	(4.60%)
Investment returns	**(205.0)**	1,087.5	(118.85%)
Gains from changes in fair value	**(702.3)**	(1,141.8)	38.49%
Credit impairment loss (loss indicated as a negative value)	**(75.8)**	(369.3)	(79.47%)
Asset impairment loss (loss indicated as a negative value)	**(858.4)**	(1,190.0)	(27.87%)
Gains from asset disposal	**20.6**	11.0	87.27%

The Group's other gains for 2023 amounted to RMB1,806.0 million, decreasing 4.60% year-on-year which was attributable mainly to the decrease in deferred income arising from fulfillment of conditions for acceptance upon inspection.

The Group's investment income for 2023 amounted to RMB–205.0 million, decreasing 118.85% year-on-year which was attributable mainly to loss from disposal of derivative investment versus gain for the same period last year. The Group's loss from changes in fair value for 2023 amounted to RMB702.3 million, decreasing by 38.49% year-on-year, which was mainly attributable to the decrease in transfer of listed equity disposal by subsidiary fund partnership under ZTE Capital from fair value gain to investment gain for the period.

The Group's credit impairment loss for 2023 amounted to RMB75.8 million, decreasing by 79.47% year-on-year which was attributable mainly to the reversal of trade receivable impairment after enhanced effort in collection. The Group's asset impairment loss for 2023 amounted to RMB858.4 million, decreasing 27.87% year-on-year which was attributable mainly to the decrease in intangible asset impairment for the period.

The Group's gain/loss from asset disposal for 2023 amounted to RMB20.6 million, increasing 87.27% year-on-year which was attributable mainly to the increase in gain from disposal of non-current assets for the period.

2.2.2.5 Cash flow

Unit: RMB in millions

Item	2023	2022	Year-on-year increase/decrease
Sub-total of cash inflows from operating activities	**144,286.0**	150,483.4	(4.12%)
Sub-total of cash outflows from operating activities	**126,880.3**	142,905.7	(11.21%)
Net cash flows from operating activities	**17,405.7**	7,577.7	129.70%
Sub-total of cash inflows from investing activities	**11,977.8**	14,697.7	(18.51%)
Sub-total of cash outflows from investing activities	**32,879.1**	15,989.1	105.63%
Net cash flows from investing activities	**(20,901.3)**	(1,291.4)	(1,518.50%)
Sub-total of cash inflows from financing activities	**276,368.9**	149,114.1	85.34%
Sub-total of cash outflows from financing activities	**268,997.3**	147,659.3	82.17%
Net cash flows from financing activities	**7,371.6**	1,454.8	406.71%
Net increase in cash and cash equivalents	**3,941.4**	8,001.1	(50.74%)

The Group's net cash flow from operating activities for 2023 increased year-on-year, reflecting mainly the decrease in purchase of goods 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 2023, please refer to Note V.56. Notes to major items in cash flow statement to the Financial Statements in this report.

The Group's net cash flow from investing activities for 2023 decreased year-on-year, reflecting mainly the increase in cash paid for investment.

The Group's net cash flow from financing activities for 2023 increased year-on-year, reflecting mainly the increase in net borrowing for the period.

Cash and cash equivalents of the Group as of 31 December 2023 amounted to RMB51,013.2 million held mainly in RMB, with the remaining held in USD, EUR and other currencies.

2.2.2.6 Assets and liabilities

(1) Change in major assets and liabilities

Unit: RMB in millions

Item	31 December 2023 Amount	31 December 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	**200,958.3**	**100.00%**	180,953.6	100.00%	–
Cash	**78,543.2**	**39.08%**	56,346.4	31.14%	7.94
Trade receivables	**20,821.5**	**10.36%**	17,751.4	9.81%	0.55
Contract assets	**4,845.0**	**2.41%**	4,851.1	2.68%	(0.27)
Inventories	**41,131.3**	**20.47%**	45,235.0	25.00%	(4.53)
Investment properties	**1,473.8**	**0.73%**	2,010.6	1.11%	(0.38)
Investment in associates and joints	**2,157.6**	**1.07%**	1,754.0	0.97%	0.10
Property, plant and equipment	**13,372.4**	**6.65%**	12,913.3	7.14%	(0.49)
Construction in progress	**987.8**	**0.49%**	964.0	0.53%	(0.04)
Right-of-use assets	**1,557.3**	**0.77%**	1,079.5	0.60%	0.17
Short-term loans	**7,560.4**	**3.76%**	9,962.3	5.51%	(1.75)
Contract liabilities	**14,889.7**	**7.41%**	17,699.9	9.78%	(2.37)
Long-term loans due within one year	**3,001.6**	**1.49%**	661.7	0.37%	1.12
Long-term loans	**42,576.1**	**21.19%**	35,126.0	19.41%	1.78
Lease liabilities	**960.5**	**0.48%**	788.6	0.44%	0.04

For details of the Group's assets subject to restricted ownership or right of use as at 31 December 2023, please refer to "Note V.20. Assets under restrictions on ownership or right of use to Financial Report" in this report.

(2) Change in property, plant and equipment

As at 31 December 2023, the carrying value of the Group's property, plant and equipment was RMB13,372.4 million, representing a 3.56% increase compared to the end of last year, attributable mainly to the transfer of infrastructure projects upon completion to property, plant and equipment. Details of changes in property, plant and equipment are set out in "Note V.13. Property, plant and equipment to the Financial Report" 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 2023.

Unit: RMB in millions

Item	Opening balance	Gains arising from fair value change for the year	Cumulative fair value change dealt with in equity	Impairment charge for the year	Amount purchased for the year	Amount disposed of for the year	Other change	Closing balance
Financial assets								
Including: 1. Trading financial assets (excluding derivative financial assets)	513.8	(297.2)	–	–	–	428.5	–	153.3
2. Derivative financial assets	132.1	(46.2)	–	–	–	–	(0.60)	85.3
3. Receivable financing	3,712.1	–	–	0.2	15,243.3	14,881.2	–	4,074.1
4. Other non-current financial assets	1,028.3	(154.9)	–	–	4.4	142.4	0.30	831.9
Sub-total of financial assets	**5,386.3**	**(498.3)**	**–**	**0.2**	**15,247.7**	**15,452.1**	**(0.3)**	**5,144.6**
Investment properties	2,010.6	(211.6)	–	–	4.80	–	(330.0)	1,473.8
Total	**7,396.9**	**(709.9)**	**–**	**0.2**	**15,252.5**	**15,452.1**	**(330.3)**	**6,618.4**
Financial liabilities	234.1	(7.6)	1.3	–	–	–	(0.10)	227.7

(4) *Major overseas assets*

☐ Applicable √ N/A

(5) *Charges on assets*

As at 31 December 2023, the carrying value of the Group's assets under charge was RMB579.7 million, which was applied mainly to acquire bank loans. For details, please refer to "Note V. 21. Short-term loans and 31. Long-term loans to the Financial Report" in this report.

(6) *Contingent liabilities*

For details of the Group's contingent liabilities as at 31 December 2023 required to be disclosed under the Hong Kong Listing Rules, please refer to "Note XIII. 2. Contingent events to the Financial Report in this report".

2.2.2.7 Liquidity and capital structure

(1) Source and application of capital

In 2023, the Group's development funds were financed mainly by cash generated from its operations, bank loans and issuance of 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. The current ratio and quick ratio for 2023 were 1.91 and 1.41, respectively. 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 31 December 2023 was 46.0%, increasing by 2.0 percentage points as compared to 44.0% as at 31 December 2022, attributable mainly to the increase in interest-bearing liabilities.

(3) Analysis of debt

For 2023, the Group's debt comprised mainly long-term and short-term bank loans and super short-term commercial papers ("SCPs"), mainly settled in RMB, USD and EUR without any notable seasonality of requirements. As at 31 December 2023, the Group's bank loans amounted to RMB51,812.8 million in aggregate and balance of SCP principal cum interest amounted to RMB5,012.9 million in aggregate applied mainly as working capital. All due bank loans had been settled. Bank loans and SCP principal cum interest subject to interests at fixed rates amounted to approximately RMB11,198.4 million, while the remaining portion was subject to floating interest rates, the details of which are as follows:

Short-term/long-term bank loans

Unit: RMB in millions

Item	**31 December 2023**	31 December 2022
Bank loan		
Short-term bank loans	**9,236.8**	10,232.5
Long-term bank loans	**42,576.0**	35,126.0
SCPs	**5,012.9**	—
Total	**56,825.7**	45,358.5

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

Analysed by security

Unit: RMB in millions

Item	31 December 2023	31 December 2022
Bank loan		
Secured bank loans	**154.6**	137.6
Unsecured bank loans	**51,658.2**	45,220.9
Unsecured SCPs	**5,012.9**	—
Total	**56,825.7**	45,358.5

For details of the Group's bank loans and other borrowings as at 31 December 2023, please refer to "Note V. 21. Short-term loans, 23. Short-term bond payable, 30. Non-current liabilities due within one year and 31. Long-term loans to the Financial Report" in this report.

(4) Contractual obligations

As at 31 December 2023, the Group's total bank loans amounted to RMB51,812.8 million, increasing by RMB6,454.3 million compared to RMB45,358.5 million as at 31 December 2022, which was mainly applied towards working capital.

Unit: RMB in millions

Item	31 December 2023	31 December 2022
Less than one year	**9,236.8**	10,232.5
More than one year but not exceeding two years	**17,962.0**	7,437.8
Three to five years	**20,471.0**	27,688.2
Beyond five years	**4,143.0**	—
Total	**51,812.8**	45,358.5

(5) Capital expenditure

For 2023, the Group's capital expenditure, used mainly for purchase of equipment assets, capitalisation of R&D expenditure and construction of office buildings for its own use, amounted to RMB4,959.6 million, compared to RMB5,813.6 million for the same period last year.

(6) Capital commitment

Capital commitment represents contract amounts under the Group's contracts for acquiring long-term assets and investment in and establishment of associates and joint ventures which have yet to be completed and have not been recognised in the financial statements.

Unit: RMB in millions

Item	31 December 2023	31 December 2022
Contracted but not provided for		
Capital expenditure commitment	**2,322.8**	2,291.0
Investment commitment	**495.2**	191.3
Total	**2,818.0**	2,482.3

2.2.2.8 Shares and Reserves

(1) Share capital and shares and debentures

Share capital and change

As at 31 December 2023, the total share capital of the Company was 4,783,251,552 shares (including 4,027,749,018 A shares and 755,502,534 H shares), increasing by 47,139,044 shares versus the previous year-end mainly as a result of the exercise of share options by participants under the share option incentive scheme.

Issue of shares and debentures

During the Reporting Period, save for the 47,139,044 A shares issued as a result of the exercise of share options by participants and the receipt of exercise amounts of RMB1,625,842,000 by the Company from the participants, the Company and its subsidiaries did not issue any shares or debentures within the meaning of the Companies Ordinance of Hong Kong.

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.

Equity-linked agreement

During the Reporting Period, save as disclosed in the sections headed "3.9 SHARE SCHEMES" in this report, the Group did not enter into any equity-linked agreement, nor was there any relevant agreement subsisting.

Pre-emptive rights

There are no clauses on pre-emptive rights under the Company Law or the Articles of Association that provide for the issue of new shares to existing shareholders by the Company on a pro-rata basis.

(2) Reserve, proposed dividend and taxation

Reserve

As at 31 December 2023, the Group's and the Company's reserves amounted to RMB63,225.1 million and RMB56,103.5 million, respectively. For details of the reserve, please refer to the "Consolidated Statement of Change of Equity" and "Statement of Change of Equity" of the Financial Report. As at 31 December 2023, the Company's reserve available for distribution to shareholders amounted to RMB25,221.2 million.

Proposed dividend

The Company's proposal for profit distribution for 2023 recommended by the Board: distribution of RMB6.83 in cash (before tax) for every 10 shares to all shareholders based on the total share capital as at the record date for profit distribution and dividend payment. The aforesaid matter is subject to consideration and approval at the general meeting.

Taxation

In accordance with laws and regulations pertinent to taxation on dividend, personal A shareholders and securities investment funds are taxed on a differentiated basis, whereby personal income tax is computed and withheld and paid according to the period of shareholding. Dividend received by non-resident corporate A shareholders shall be subject to a 10% enterprise income tax withheld and paid on their behalf. Dividend received by Hong Kong market investors (including corporate and individual) holding A shares in the Company through Shenzhen Hong Kong Stock Connect (Northbound) shall be subject to a 10% income tax withheld and paid on their behalf.

Dividend received by non-resident corporate H shareholders shall be subject to a 10% enterprise income tax withheld and paid on their behalf. Dividend received by non-resident personal H shareholders which are residents of Hong Kong or Macau shall be subject to a 10% personal income tax withheld and paid on their behalf. Residents of countries or regions under dividend income tax agreements with China shall be subject to personal income tax withheld and paid on their behalf at relevant tax rates. Residents of countries or regions without dividend income tax agreements with China shall be subject to personal income tax withheld and paid on their behalf at a 20% tax rate. Dividend income tax receivable by Mainland personal investors and securities investment funds holding H shares in the Company through Shenzhen Hong Kong Stock Connect (Southbound) shall be subject to personal income tax withheld and paid on their behalf at a 20% tax rate. Dividend income tax receivable by Mainland corporate investors holding H shares in the Company through Shenzhen Hong Kong Stock Connect (Southbound) shall be voluntarily declared and paid by such Mainland corporate investors.

Shareholders entitled to preferential treatment under tax treaties may apply for such treatment voluntarily or through the Company. Shareholders are advised to consult their tax advisors on the tax implications of owning and disposing of the Company’s shares.

2.2.2.9 Subsequent events

For details of events of the Company subsequent to the reporting period, please refer to Note XIV. POST-BALANCE SHEET DATE EVENTS to the Financial Report in this report.

2.2.3 Investment of the Group

As at 31 December 2023, the Company’s Investment in associates and joints amounted to approximately RMB2,157.6 million, representing increase of 23.0% compared to approximately RMB1,754.0 million as at the previous year-end mainly attributable to the increase in profit from associates and joint ventures for the period. Other third-party investments amounted to approximately RMB985.2 million, representing decrease of 36.1% compared to approximately RMB1,542.0 million as at the previous year-end. The change was attributable mainly to the disposal of listed equities held by subsidiary fund partnership enterprises of 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 2023.

(2) Principal subsidiaries and investee companies

For 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 millions

Name of company	Corporate type	Principal operations	Registered capital	Total assets	Net assets	Operating revenue	Operating profit	Net profit
Zhongxing Software	Subsidiary	Software development	51.1	15,162.1	3,022.4	21,472.4	2,126.4	2,221.7

For details of other subsidiaries, associates and joint ventures of the Group, please refer to "Note VIII. INTERESTS IN OTHER ENTITIES and Note XVI.5. Investment in associates, joints and subsidiaries to the Financial Report" in this report. For details of the Group's acquisition and disposal of subsidiaries in 2023 and its impact please refer to "Note VII. CHANGES TO THE SCOPE OF CONSOLIDATION to the Financial Report" 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	Gains 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	(1,988.0)	–	–	2,202.4	(744.8)	–	–	–
688019	Anji Technology Note 1	434.9	5,831.0	(5,396.1)	–	–	7,539.1	1,235.3	–	–	–
688630	Circuit Fabology Note 1	1,303.8	27,197.3	(17,151.7)	–	–	19,343.3	307.0	9,179.4	109.4	0.83%
301160	Xianglou New Material Note 1	1,350.0	3,323.6	(1,973.6)	–	–	3,636.9	312.6	–	–	–
301319	Vital New Material Note 1	1,080.0	6,314.6	(2,088.2)	–	–	3,310.8	765.0	3,726.4	64.4	1.10%
301000	Hajime Note 1	1,809.8	5,380.1	(3,570.4)	–	–	6,394.1	988.2	–	–	–
600734	ST Start Note 2	–	–	2,422.7	–	–	–	2,422.7	2,422.7	948.2	0.44%
ENA:TSV	Enablence Technologies Note 3	3,583.3	731.8	(115.9)	–	–	–	(115.9)	615.9	79.2	4.26%
TRIO	Trikomsel Oke Tbk Note 4	256.0	–	(256.0)	–	256.0	–	–	–	1,827.1	0.07%
Total		**11,183.4**	**52,110.2**	**(30,095.4)**	**–**	**256.0**	**42,849.4**	**5,249.1**	**15,944.4**	**–**	**–**

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 Venture Investment Partnership (Limited Partnership) ("Jiaxing Fund"), formerly known as Jiaxing Xinghe Equity Investment Partnership (Limited Partnership). 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 measured 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 in 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 measured at fair value and accounted for as other non-current financial assets. Investments in the aforesaid securities were funded by internal resources.

Note 4: PT. ZTE Indonesia ("ZTE Indonesia"), a wholly-owned subsidiary of the Company, held trade receivables amounting to RMB2.56 million owed by its customer Trikomsel. As Trikomsel underwent a debt restructuring, the said trade receivables was converted into 18,271,000 Trikomsel shares under court orders, which are currently frozen by the Indonesia Stock Exchange. Such shares had a carrying value of zero as at the end of the period measured at fair value and were accounted for as other non-current financial assets.

(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. 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.

Derivative trading for the purpose of value-protection hedging

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 2023. Details are as follows:

Unit: RMB ten thousand

Type of derivative trading	Initial investment amount	Opening balance	Fair-value gain for the year	Cumulative fair-value change included in equity	Investment gain	Amount purchased during the year	Amount disposed of during the year	Closing balance	Closing balance as a percentage of net assets at the end of the year
Foreign exchange derivative	–	1,720,455.8	(2,775.9)	(70.3)	(64,004.7)	15,334,080.6	14,713,981.4	2,340,555.0	34.42%

Items	Statement
Accounting policy and accounting audit principles	The Group accounted for its derivative trades in accordance with "ASBE No.22 — Recognition and measurement of financial instruments" and "ASBE No.24 — Hedge accounting".
Actual gain/loss for 2023 and effectiveness of value-protection hedging	The Company has recognised gains/losses from investments in derivatives for 2023. Total loss recognised amounted to RMB668 million, comprising loss from fair-value change of RMB28 million and investment loss of RMB640 million. The hedged items incurred gain of RMB573 million for 2023 owing to the exchange rate movements. In summary, the Company recorded net loss of RMB95 million for 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 and interest rate derivatives. 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.
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 banks 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.

Items	Statement
	2. Control measures adopted for risk prevention The Group addressed legal risks by entering into contracts with clear and precise terms with counterparty banks 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.
Specific opinion of Independent Non-executive Directors on the Company's derivative investments and risk control	The Group has conducted hedging value-protection derivative trading 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 and its subsidiaries have entered into contracts for derivative trading are organisations with sound operations and good credit standing. The derivative trading made by the Group and its subsidiaries have been closely related to their day-to-day operational requirements and the internal review procedures performed have been in compliance with the provisions of relevant laws and regulations and of the Articles of Association.

(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 (subject to the finalised amount of fund raised). 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.

The Company has subscribed for Beijing Shunyi Jianguang Zhanlu New Industries Equity Investment Partnership Enterprise (Limited Partnership) ("Jianguang Zhanlu Fund") as limited partner with a capital contribution of RMB500 million. The fund size of Jianguang Zhanlu Fund was RMB851 million (subject to the finalised amount of funds raised). Jianguang Zhanlu Fund 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 Jianguang Zhanlu Fund" and "Overseas Regulatory Announcement Announcement on the completion of filing and registration of Jianguang Zhanlu Fund that participates in subscription" published by the Company on 15 September 2023 and 8 October 2023, respectively.

(7) Use of proceeds

☐ Applicable √ N/A

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

During 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 2023.

2.2.4 Directors, Employees and Stakeholders

(1) Directors and Supervisors

List of Directors and Supervisors

The Ninth Session of the Board of Directors of the Company comprised nine Directors, including three Executive Directors: Mr. Li Zixue (Chairman), Mr. Xu Ziyang and Mr. Gu Junying; 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 Ninth Session of the Company's Supervisory Committee comprises five Supervisors, including two Shareholder Representative Supervisors Ms. Jiang Mihua and Mr. Hao Bo and three Staff Representative Supervisors Mr. Xie Daxiong (Chairman of the Supervisory Committee), Ms. Xia Xiaoyue and Ms. Li Miaona.

Service contracts

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

Competing interests

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

Interests in transactions, arrangements or contracts

None of the Directors and Supervisors of the Company or entities which are connected to the Directors and Supervisors was or had been materially interested, either directly or indirectly, in any transactions, arrangements and contracts of significance to which the Group is a party subsisting during or at the end of 2023.

Permitted indemnity provision

The Company has made appropriate arrangements for insurance in connection with the duties of the Directors, Supervisors and senior management of the Company with a view to procuring timely and proper compensation for any economic loss incurred by third parties as a result of the performance of duties in office by the Directors, Supervisors and senior management. The aforesaid permitted indemnity provision based on Directors' interests was in effect during the financial year ended 31 December 2023 pursuant to Section 470 of the Company Ordinance (Chapter 622 of the Laws of Hong Kong) and remained in effect at the time of the approval of the Report of the Board of Directors prepared by the Directors pursuant to Section 391(1)(a) of the Company Ordinance (Chapter 622 of the Laws of Hong Kong).

(2) Management contracts

During the Reporting Period, the Company did not enter into or maintain any contract for the management or administration of all or all material part of the Company's business with any parties other than the Directors or any full-time employee of the Company.

(3) Stakeholders

The Company respects the rights of stakeholders such as customers, suppliers, employees, banks, other creditors and the community, and works actively with these stakeholders to promote the sound and sustainable development of the Company.

2.2.5 Legal compliance and environmental policy and donations

(1) Compliance with laws and regulations

The Group is global leading integrated communication information solution provider. The laws and regulations which have a material impact on the business and operations of the Group include, but are not limited to, those pertaining to corporations, contracts, product safety, privacy protection and data compliance, intellectual property laws and other pertinent laws and regulations of relevant countries and regions and trade rules of relevant international organisations, countries and regions. The Group endeavours to ensure compliance of its businesses and operations with applicable domestic and international laws and regulations.

As a dedicated functional organisation responsible for the operation of compliance management regimes and policymaking relating to areas including export control compliance, compliance in anti-commercial bribery and data compliance, the Group's Compliance Management Committee monitors the Group's overall conformity with compliance laws and regulations which have a material impact on the Group's business and operations and reports its work to the Board.

For details of the Group's compliance with the Corporate Governance Code and the regulatory document for corporate governance of listed companies, please refer to the section headed "III. Corporate Governance Report" in this report.

During the Reporting Period, so far as known to the Company, the Group has endeavoured to comply in material respects with laws and regulations having a significant impact on the Group's business and operations.

(2) Environmental policy and donations

ZTE is highly concerned with global climate change. We have been engaged in active implementation of energy conservation and carbon reduction initiatives in ongoing advancement of green operation. Through the four major aspects of green corporate operation, green supply-chain, green ICT digital and intelligent bases and green industry empowerment, we have built a well-supported pathway for digital economy to mitigate the impact of the environment and climate. Meanwhile, ZTE is committed to ongoing enhancement of its environmental performance in an effort to improve its performance in resource efficiency and facilitate sustainable waste management, so as to help promote the circular economy. For details of the Group's environmental performance, please refer to the section headed "4.1 ENVIRONMENTAL INFORMATION" in this report.

The Group made charitable donations amounting to approximately RMB26.06 million in 2023.

2.2.6 Summary of the Group's Financial Data for the Past Five Years

Unit: RMB in millions

Item	2023	2022	2021	2020	2019
Operating results					
Operating revenue	**124,250.9**	122,954.4	114,521.6	101,450.7	90,736.6
Operating profit	**10,258.4**	8,794.8	8,676.1	5,470.7	7,552.2
Total profit	**10,203.1**	8,751.7	8,498.9	5,064.2	7,161.7
Net profit attributable to holders of ordinary shares of the listed company	**9,325.8**	8,080.3	6,812.9	4,259.8	5,147.9
Net profit after extraordinary items attributable to holders of ordinary shares of the listed company	**7,399.6**	6,166.9	3,305.9	1,035.6	484.7
Net cash flows from operating activities	**17,405.7**	7,577.7	15,723.5	10,232.7	7,446.6
Size					
Total assets	**200,958.3**	180,953.6	168,763.4	150,634.9	141,202.1
Total liabilities	**132,626.9**	121,410.4	115,475.8	104,512.4	103,247.8
Owners' equity attributable to holders of ordinary shares of the listed company	**68,008.3**	58,641.2	51,482.1	43,296.8	28,826.9
Per share basis (RMB/share)					
Basic earnings per share	**1.96**	1.71	1.47	0.92	1.22
Diluted earnings per share	**1.96**	1.71	1.47	0.92	1.22
Basic earnings per share after extraordinary items	**1.55**	1.30	0.71	0.22	0.12
Net cash flows from operating activities per share	**3.64**	1.60	3.32	2.22	1.76
Net asset per share attributable to holders of ordinary shares of the listed company	**14.22**	12.38	10.88	9.39	6.82
Financial ratios (%)					
Weighted average return on net assets	**15.19%**	14.66%	14.49%	10.18%	19.96%
Weighted average return on net assets after extraordinary items	**12.05%**	11.19%	7.03%	2.47%	1.88%
Gearing ratio	**66.00%**	67.09%	68.42%	69.38%	73.12%

2.3 BUSINESS OUTLOOK AND RISK EXPOSURES FOR 2024

The Group's business outlook and risk exposures for 2024 are set out in the following:

2.3.1 Business outlook for 2024

Looking to 2024, the Company will enter a critical stage in "strategic overtaking" amidst a complicated and volatile external environment. At the same time, the integration and evolution of energy and digital technology will be accelerating, while generational upgrade of model and generative AI will gain pace, with new scenarios and new business forms emerging to give rise to opportunities as well as challenges. The Company will firmly seize the strategic opportunities presented by digitalisation, intelligentisation and low-carbon development in persistent adherence to the operating strategy of "stable growth through precision and pragmatism". We will seek to drive ongoing evolution in technologies such as 5G-A, optical network and computing, bolster organisational resilience, actively enhance the profile of our existing business whilst developing markets for new ones and identifying opportunities presented by variables to accelerate expansion of our secondary-curve business represented by computing, on top of assuring ongoing improvement in the core competitiveness of our primary-curve business represented by wireless and wireline products.

In connection with carrier's network, large-scale 5G construction is entering a stage of stable development in the domestic market, while the construction of intelligent computing centres is entering a booming phase focusing on AI big model. The Company will persist in an innovation-driven and application-oriented approach as it expedites expansion from connectivity to computing to embrace the AI era. First, we will enhance technological innovation in 5G and full optical network, among others, working with carriers to advance technological verification and industrial maturity for 5G-A, while enhancing preliminary research on 6G to extend our technological edge and drive ongoing improvement in our market pattern. Second, we will actively work with carriers in a joint effort to pursue innovation in computing network and cloud network integration, in a bid to drive the rapid development of new businesses represented by server, data centre exchange, data centre and cloud computer. In the international market, the Company will enhance the deployment of and market expansion for key products such as wireless and wireline products, pivoting on major nations, large-scale networks and big Ts in sound operation to achieve qualitative development.

In connection with government and corporate business, the Company will focus on the domestic market and seize opportunities in digital construction opportunities such as computing capacity construction, digital-real economy integration and novel industrialisation, among others, seeking deeper cooperation with leading customers in the Internet and finance sectors to drive expansion in scale. For the electrical sector, we will seize the opportunity presented by IT innovation and the reconstruction of electrical communication networks to facilitate faster expansion. In the meantime, we will broaden our coverage of sectors such as large enterprises, commerce and government affairs, focusing our resources on key projects and enhancing innovation in products and solutions in relation to server, data centre switch, data centre and distributed database, among others, to drive speedy growth of our secondary-curve business.

In connection with the consumer business, the Company intends to forge a brand new experience around multi-terminal intelligent interaction and ecospheric expansion with the creation of an AI-driven, full-scenario smart ecosphere. For home terminals, we will leverage our strength in proprietary chips and solutions catering to a full range of formats as we seize the opportunity presented by the GB upgrade of optical network terminals and rapid promotion of FTTR to increase our market share on an ongoing basis. Meanwhile, leveraging Wi-Fi 7 and AI upgrade, we will seek to maintain our leading position in Wi-Fi products. For handset and mobile Internet products, we will continue to pursue business development based on differentiated innovation and the cost leadership strategy with intensive efforts in sectors such as mobile image, e-games and e-sports, bare-eye 3D, GPT+AR spectacles and mobile Internet, leveraging rudimentary computing research and platform-based innovation to bring about more comprehensive and intelligent interactive experience for consumers.

In view of the historic opportunity presented by the latest round of technological revolution and industrial transformation, the Company will firmly adhere to its positioning as a "path-builder for digital economy" and actively embrace the new wave of digital construction with an enhanced strategic focus, seeking stable progress with precision and pragmatism and accelerating development towards "connectivity + computing" to drive long-term development and share the benefit of digitalisation with the society as a whole in a joint effort to shape a sustainable future that is ultra-efficient, green and smart.

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 and regions 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 compliance risks on the operation of the Group, please refer to Note XIII. COMMITMENTS AND CONTINGENT EVENTS 2. Contingent events 2.3 to the Financial Report in this report. The Group endeavours to ensure operational compliance 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 the countries which it operates. We also work with professional third-party institutions to analyse and address country risks. For businesses operated in regions with higher assessed risk levels, we take out necessary export insurance and resort to financing means to reduce probable loss.

(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 Report

Set out in this chapter is the Corporate Governance Work Report and Corporate Governance Report prepared in accordance with the requirements of CSRC and Shenzhen Stock Exchange and Hong Kong Listing Rules, respectively. The Company improves its corporate governance systems and regimes and enhances the standard of regulated operations on an ongoing basis in accordance with regulatory requirements of the Company Law, Corporate Governance Standards for Listed Companies, Shenzhen Listing Rules and Hong Kong Listing Rules, whilst fostering a multi-dimensional corporate culture and encouraging vigorous innovation on the part of staff. The general meeting, Board of Directors, Supervisory Committee and management fulfil their respective roles with independent, efficient and transparent decision, attach importance to shareholders' rights and actively reward shareholders. Long-term incentive mechanisms have been established to lay a foundation in terms of talents for the Company's long-term development. Internal control development and risk management have been enhanced to drive the Company's stable operation.

3.1 CORPORATE CULTURE

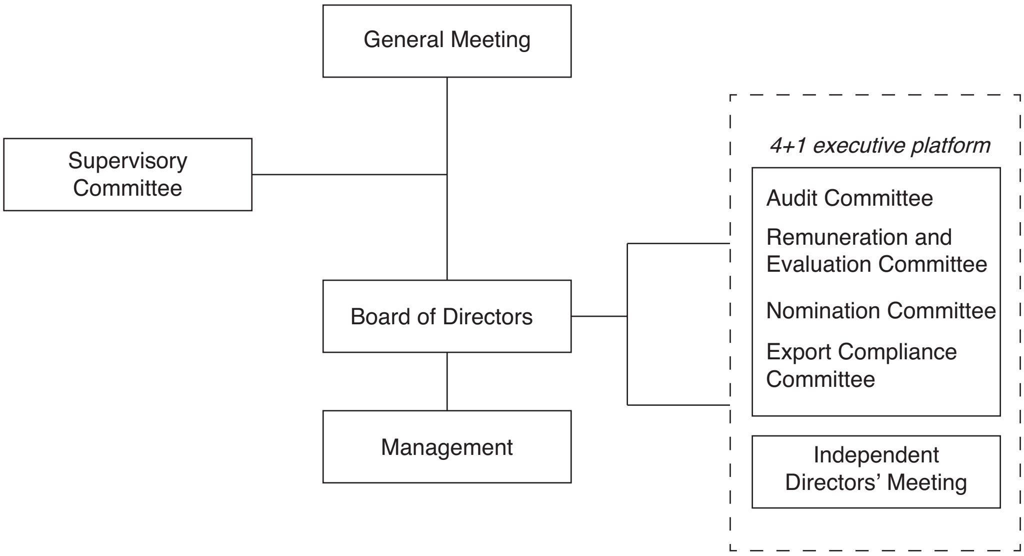
The conceptual regime of the Company's corporate culture is set out as follows:

Vision	Core Values	Culture Spirit	Behavior Guidelines
■ To enable connectivity and trust everywhere	■ Respecting each other and being faithful to the ZTE Cause	■ Customer Success	■ Cooperative: Take the initiative
Mission	■ Serving with dedication and being committed to our customers	■ Value Contribution	■ Responsible: Dare to assume responsibility
■ To connect the world with continuous innovation for a better future	■ Endeavoring with creativity to establish a famous ZTE brand	■ Pursuit of Excellence	■ Professional: Win first place
	■ Operating with scientific management to increase corporate performance	■ Simplicity Prevails	■ Pragmatic: Tell complete truth

In 2023, focusing on strategic objectives and operation strategies, the Company enhanced staff experience through a variety of corporate cultural initiatives and encouraged its staff to focus on value contributions, as it fostered a corporate ambience under which opinions would be actively voiced and staff work in united effort and create a corporate ethos of vigorous endeavour, innovation, simplicity and pragmatism, with a view to attaining qualitative growth.

3.2 CORPORATE GOVERNANCE STRUCTURE

The Company has developed a governance structure comprising "three levels of governance bodies and one level of executive arm":



The general meeting is the highest authority of the Company determining material matters in relation to the Company's operations and management. The Board is formed through election at the Company's general meeting and determines the Company's operational plans and investment schemes. The "4+1" duty performance platform under the Board features the Audit Committee, Remuneration and Evaluation Committee, Nomination Committee, Export Compliance Committee and Independent Directors' Meeting, which conduct prior deliberations on specific matters falling within their scope of duties and furnish professional opinions. The Supervisory Committee is accountable to the general meeting and monitors the regulated operation and financial affairs of the Company as well as the performance of the Company's Directors and senior management. The management is the executive arm appointed by the Board to be responsible for the Company's operational management.

3.3 SHAREHOLDERS AND GENERAL MEETINGS

3.1.1 Shareholders

(1) Total number of shareholders

As at 31 December 2023, there were 403,259 shareholders (comprising holders of 402,955 A shares and 304 holders of H shares). As at 29 February 2024, namely the end of month immediately preceding the date of publication of the annual report, there were 476,911 shareholders (comprising 476,607 holders of A shares and 304 holders of H shares).

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

As at 31 December 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 year	Class of shares	Increase/ decrease during the year	Number of shares held subject to lock-up	Number of shares pledged, marked or frozen
1. Zhongxingxin Telecom Company Limited "Zhongxingxin") Note1	Domestic general corporation	20.09%	958,940,400 2,038,000	A share H share	−46,900,000 –	–	Nil
2. HKSCC Nominees Limited Note2	Foreign shareholder	15.73%	752,325,137	H share	−35,867	–	Unknown
3. Hong Kong Securities Clearing Company Limited Note3	Foreign corporation	2.59%	123,656,358	A share	+11,034,954	–	Nil
4. NSF Portfolio #113	Others	0.95%	45,468,889	A share	−22,011,136	–	Nil
5. Central Huijin Asset Management Co. Ltd.	State-owned corporation	0.88%	42,171,534	A share	–	–	Nil
6. Hunan Nantian (Group) Co. Ltd.	State-owned corporation	0.87%	41,516,065	A share	–	–	Nil
7. Basic Pension Fund Portfolio #802	Others	0.66%	31,500,045	A share	−16,304,780	–	Nil
8. ICBC Limited – Huatai Pinebridge CSI 300 Traded Open-ended Index Securities Investment Fund	Others	0.49%	23,332,454	A share	+11,556,630	–	Nil
9. NSF Portfolio #110	Others	0.45%	21,628,521	A share	+21,628,521	–	Nil
10. Shenzhen Investment Holding Capital Co., Ltd. – Shenzhen Investment Holding Win-Win Equity Investment Fund Partnership (Limited)	Others	0.45%	21,412,108	A share	−21,620,000	–	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 2023	No
Description of involvement in securities margin trading of top 10 shareholders	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 other corporate shareholders holding 10% or above of the Company's shares.

(3) Controlling shareholder

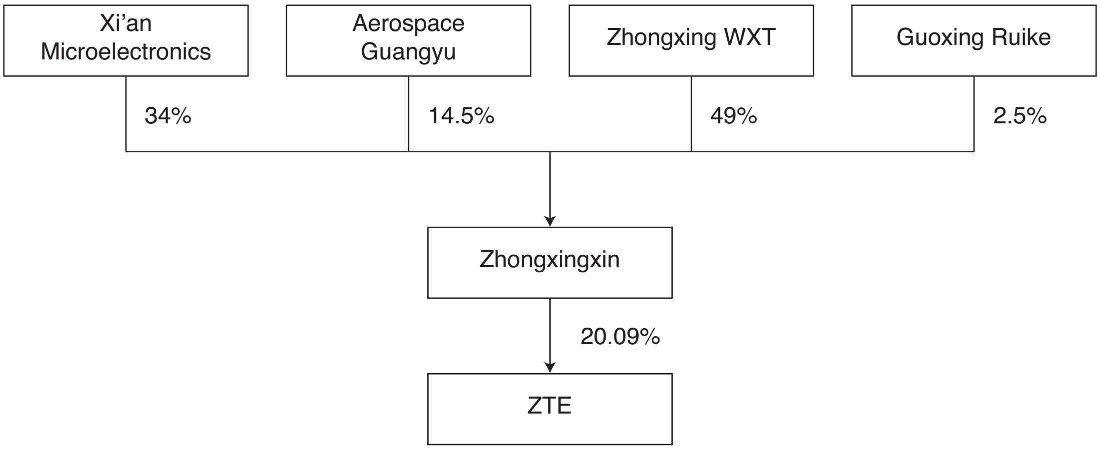
Zhongxingxin is the controlling shareholder of the Company and there was no change during the Reporting Period.

Zhongxingxin was established on 29 April 1993. Its legal representative is Mr. Wei Zaisheng. It has a registered capital of RMB100 million and its uniform social credit code is 91440300192224518G. Its scope of business covers: R&D of machine vision systems integration; design and production of optical instruments, industrial cameras and instruments and high-end mechanical equipment; computer systems integration; R&D, technology development, technology transfer, technical services, technical consultation and import and export of technologies in relation to software, hardware, electronic components and raw materials of computer vision data processing systems; leasing of owned housing properties; industrial investment; import and export business. (Commencement of operation of enterprises requiring prerequisite administrative approvals shall be subject to the obtaining of documents for such prerequisite administrative approvals.)

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

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 31 December 2023.

III. Corporate Governance Report



Xi’an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large-scale state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tang Lei. It is the large-scale integrated research institute in China engaged in the research and development, commercial production and complementary integration and inspection/testing of semi-conductor integrated circuits, hybrid integrated circuits and computers.

Aerospace Guangyu, a subsidiary of CASIC Shenzhen (Group) Company Limited, is a state-owned enterprise established on 17 August 1989. The legal representative is Xie Jing and the registered capital amounts to RMB200 million. The scope of business includes sales of aerospace technology products, machinery equipment, electrical appliances, apparatuses and instruments, electronic products, plastic products, chemical products, hoisting and transportation products, hardware and furniture, construction materials, magnetic materials, powder metallurgy, raw materials for textile, raw materials for chemical fibre, apparel, textile and automobile.

Zhongxing WXT is a private enterprise incorporated on 23 October 1992. Its legal representative is Hou Weigui and its registered capital amounts to RMB10 million. The scope of business includes the development and production of telecommunications and transmission equipment, ancillary equipment, computer and peripheral equipment (excluding restricted projects); investment in industrial operations (subject to separate applications for specific projects).

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

(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 31 December 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)	20.05% (L)	23.81% (L)
Zhongxing WXT	Interests of corporate controlled by you	958,940,400 A shares (L)	20.05% (L)	23.81% (L)
Xi'an Microelectronics	Interests of corporate controlled by you	958,940,400 A shares (L)	20.05% (L)	23.81% (L)
China Aerospace Electronics Technology Research Institute	Interests of corporate controlled by you	958,940,400 A shares (L)	20.05% (L)	23.81% (L)
China Aerospace Science and Technology Corporation	Interests of corporate controlled by you	958,940,400 A shares (L)	20.05% (L)	23.81% (L)
BlackRock, Inc.	Interests of corporate controlled by you	52,932,651 H shares (L)	1.11% (L)	7.01% (L)
		2,365,200 H shares (S)	0.05% (S)	0.31% (S)
Capital Research and Management Company	Investment manager	38,410,000 H shares (L)	0.80% (L)	5.08% (L)

(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 4,783,251,552 shares, comprising 4,027,749,018 A shares and 755,502,534 H shares, as at 31 December 2023.

For details of shares or debentures held by the Directors, Supervisors and chief executives of the Company as at 31 December 2023, please refer to the section headed "3.7.4 Shareholdings in the Company and annual remuneration of the Directors, Supervisors and senior management" in this report. Save as disclosed above, as at 31 December 2023, so far as the Directors, Supervisors and chief executives 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.

III. Corporate Governance Report

3.3.2 Shares

(1) Changes in Shareholdings

Unit: share

Type of shares	31 December 2022		Increase/decrease as a result of the change during 2023 (+, -)					31 December 2023	
	Number of shares	Percentage	New issue[Note]	Bonus issue	Transfer from capital reserve	Others	Sub-total	Number of shares	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%**	**+47,139,044**	**–**	**–**	**–**	**+47,139,044**	**4,782,523,309**	**99.98%**
1. RMB ordinary shares	3,979,881,731	84.03%	+47,139,044	–	–	–	+47,139,044	4,027,020,775	84.19%
2. Domestic-listed foreign shares	–	–	–	–	–	–	–	–	–
3. Overseas-listed foreign shares (H shares)	755,502,534	15.95%	–	–	–	–	–	755,502,534	15.79%
4. Others	–	–	–	–	–	–	–	–	–
III. Total number of shares	**4,736,112,508**	**100.00%**	**+47,139,044**	**–**	**–**	**–**	**+47,139,044**	**4,783,251,552**	**100.00%**

Note: The Company's total share capital was increased by 47,139,044 shares following the exercise of a total of 47,139,044 A share options by the participants under the 2020 Share Option Incentive Scheme of the Company during 2023.

(2) Changes in shares subject to lock-up

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 31 December 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) As at 31 December 2023, neither the controlling shareholder nor other entities subject to undertaking were under restrictions against selling down shares in the Company

(4) Issue and listing of securities

The Company's total share capital increased by 47,139,044 shares following the exercise of a total of 47,139,044 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 Super and Short-term Commercial Paper ("SCP") 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.

(5) Public float

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

3.3.3 Shareholders' rights

The general meeting of shareholders is the highest authority of the Company and an important channel for shareholders' participation in corporate governance. The Company has established a corporate governance structure to ensure that all shareholders, minority shareholders in particular, can fully exercise their rights and enjoy equal status.

As a measure to protect shareholders' interests and rights, materials matters are considered and voted upon by shareholders on a standalone basis at general meetings. All resolutions tabled at the general meetings are voted upon by way of poll. The voting results will be published by way of announcement after the general meeting.

Shareholders holding 10% of above of the shares of the Company alone or in aggregate shall be entitled to request the Board of Directors or Supervisory Committee to convene an extraordinary general meeting or to unilaterally convene such extraordinary general meeting in accordance with Article 74 of the Articles of Association of the Company.

Shareholders holding 3% or above of the shares of the Company alone or in aggregate shall be entitled to propose ex tempore motions ten days prior to the convening of the general meeting by submitting the same in writing to the convener of the general meeting in accordance with Article 78 of the Articles of Association of the Company.

Upon furnishing to the Company documentation evidencing shareholdings in the Company and verification of his/her identity by the Company, a shareholder shall be entitled to inspect relevant information of the Company in accordance with the Articles of Association. Shareholders may send enquiries in writing to the Secretary to the Board of Directors/Company Secretary at the address set out in the section headed "1.1 Corporate Information" in this report for such enquiries and questions to be forwarded to the Board of Directors.

In 2023, the Company extended its scope of operation and amended Article 14 of its Articles of Associations accordingly. The latest Articles of Association of the Company is available for inspection on www.cninfo.com.cn and the respective websites of Hong Kong Stock Exchange and the Company.

3.3.4 Independence of Company from controlling shareholder and competition in same business

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

With respect to assets, the Company's assets are fully independent with unequivocal ownership. The Company has independent production systems, supplementary production systems and purchase and sales systems. Intangible assets such as industrial property rights, trademarks, and non-patentable technologies are owned by the Company. With respect to staffing, the Company is fully independent in matters including the management of labour, human resources and salaries. Members of the senior management receive their remuneration from the Company. They do not receive any remuneration from, nor have they taken up other major positions (other than as directors and supervisors) with, the controlling shareholder and other companies under its control. With respect to finance, the Company has an independent financial department with an independent accounting and audit system and a financial management system, and maintains an independent bank account. With respect to organisation, the Board of Directors, the Supervisory Committee and other internal organisations of the Company operate in complete independence. There is no reporting relationship between the controlling shareholder (and its functional departments) and the Company (and its functional departments). With respect to business, the Company's business is fully independent from the controlling shareholder. The controlling shareholder and other units controlled by it were not engaged in competition in the same business with the Company.

3.3.5 Convening of General Meeting

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 of 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.

3.3.6 Implementation of profit distribution

(1) Profit distribution policy

According to the Articles of Association of ZTE, aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution (namely the annual average net profit attributable to holders of ordinary shares of the listed company) in the past three years; the profit distribution plan of the Company should be formulated by the Board of Directors and considered and approved at the general meeting. Following a resolution on the profit distribution plan by the general meeting, the Board of Directors should complete the distribution of dividend (or shares) within two months after the general meeting; when the Board of Directors of the Company formulates a profit distribution proposal, the views of Independent Non-executive Directors should be sufficiently heard; after the announcement of the profit distribution plan is published in accordance with the law, the views and propositions of shareholders, the minority shareholders in particular, should be sufficiently heard. If the Board of Directors has not drawn up a cash profit distribution proposal, the reasons for not making the profit distribution and the use of funds not applied to profit distribution and retained at the Company should be disclosed in regular reports.

The Company did not make any adjustments or changes to its profit distribution policy in 2023.

(2) Implementation of profit distribution plan

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

(3) Proposal for profit distribution of 2023

The profit distribution proposal for 2023 recommended by the Board of the Company: distribution of RMB6.83 in cash (before tax) for every 10 shares to all shareholders based on the total share capital as at the record date for profit distribution and dividend payment. In the event of changes in the Company's total share capital after the announcement of the Company's profit distribution proposal but before its implementation, the total share capital shall be readjusted on the basis of the total share capital as at the record date for profit and dividend distribution for the purpose of the profit distribution proposal for 2023 according to the existing proportion for distribution. The Company's total share capital as at 8 March 2024 was 4,783,251,552 shares. A total of 51,856,276 exercisable options for the third exercise period of the initial grant and the second exercise period of the reserved grant under the 2020 A Share Option Incentive Scheme of the Company were unexercised and outstanding. Assuming the exercise of the aforesaid options in full prior to the A share record date, there will be 4,835,107,828 shares in the Company entitled to dividend payment and the total amount of cash dividend will not exceed RMB3,303 million. The aforesaid matter is subject to consideration and approval at the general meeting. As at 31 December 2023, the profit available for distribution to shareholders amounted to approximately RMB25.22 billion on a cumulative basis.

The exact timing of payment of the Company's 2023 dividend is dependent on when the general meeting will be held and the progress of working relating to dividend distribution, provided that the distribution will be completed no later than before 31 August 2024. There were no shareholders of the Company who have waived or agreed to waive any dividend arrangement.

Based on the total share capital of the Company of 4,783,251,552 shares as at 8 March 2024, the Company shall make a profit distribution by way of cash in the amount of RMB3,270 million, which accounts for 35.0% of the net profit attributable to the holders of ordinary shares of the listed company in 2023 of RMB9,330 million and the aggregate profit distribution of the Company in the form of cash in 2021–2023 amounted to RMB6,580 million accounted for 81.5% of the annual average net profit attributable to the holders of ordinary shares of the listed company in the past three years of RMB8,070 million, which was in compliance with provisions under "Shenzhen Stock Exchange Self-disciplinary Regulatory Guide for Listed Companies No. 1 — Regulated Operation of Main Board Listed Companies (amended December 2023) and the Articles of Association.

3.3.7 Investor relations

(1) Shareholder communication policy

The Company is committed to driving investor relations initiatives and enhancing communications with its shareholders to increase investors' understanding of the Company. In addition to the regular reports and interim announcements published by the Company, the Company also publishes corporate news and information and updates on the Company's solutions and products and social responsibility to provide investors with information of the Company's latest developments in a timely manner. The Company enables investors to fully express their views by setting up investors' hotline, e-mail, the investors relations interactive platform of Shenzhen Stock Exchange and investors' questions collected prior to results presentation. At the same time, to facilitate the Company's communication with investors, the Company reports its operating conditions and financial data as well as responds to investors' and analysts' questions through results presentation. The Company regards the convening of its annual general meeting as one of the most important annual events for the Company. All Directors and key senior management members attend the meeting on a best effort basis and are engaged in dialogue with the shareholders. The Board has examined and reviewed the shareholder communication policy for 2023. Taking into account the variety of existing channels for communication and participation, the Company is of the view that its shareholder communication policy has been duly and effectively implemented.

(2) Reception of investors

Details of reception of investors by the Company in 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 regular reports
	August 2023	Shenzhen	Telephone conference	Investors and analysts from 339 investment institutions, the details of which are set out in the Investor Relations Activity Record published by the Company on 24 August 2023.	Interim results and operating conditions of the Company	Published announcements and regular reports
External meeting	January to December 2023	Shenzhen Shanghai Beijing Hong Kong, etc.	Telephone conference on-site meeting	Customers of Morgan Stanley, Founder Securities, USB, Guolian Securities, Guotai Jun'an Securities, Western Securities, China Securities, CITIC Securities, Guosen Securities, Cinda Securities, Industrial Securities, Tianfeng Securities, Guangfa Securities, Guosheng Securities, Minsheng Securities, Jefferies, Huachuang Securities, China Merchant Securities	Day-to-day operations of the Company	Published announcements and regular reports

3.4 BOARD OF DIRECTORS

3.4.1 Duties of the Board

The Board of the Company is responsible for convening the general meeting, report its work to the general meeting and implement the resolutions of the general meeting in a timely manner; overseeing the Company's overall operation and strategic development; determining the operational plans and investment schemes of the Company, supervising and providing guidance to the Company's management; and monitoring the Company's operational and financial performance.

(1) Corporate governance functions

The Board of Directors is charged with the duty of corporate governance. It should procure the management to establish a compliant organisational structure and system and comply with the Code of Corporate Governance and other laws and regulations pertaining to corporate governance in daily management. The Board of Directors is responsible for the following corporate governance functions:

- Formulating and reviewing the corporate governance policies and practices of the Company;
- Reviewing and monitoring training and continuous professional development of the Directors and senior management;
- Reviewing and monitoring the Company's policies and practices in relation to compliance with legal and regulatory provisions;
- Formulating, reviewing and monitoring the code of conduct and compliance guide for employees and Directors (if any); and
- Reviewing the Company's compliance with the Corporate Governance Code set out in Appendix C1 (previously Appendix 14, redesignated as Appendix C1 with effect from 31 December 2023) to the Hong Kong Listing Rules and the disclosures in its Corporate Governance Report.

In 2023, the Board fulfilled its corporate governance functions in a diligent effort to improve the Company's corporate governance practices.

(2) Duties and scope of authority of the Board of Directors and the management

The respective duties and scopes of authority of the Board and the Management are clearly defined. The management conducts day-to-day operations and management and reports to the Board, and provides adequate information to the Board and its specialist committees in a timely manner to ensure that the Board makes informed decision. All Directors are entitled to require further information from the Company's management.

3.4.2 Board composition and diversity policy

(1) Board composition

The Ninth Session of the Board of Directors of the Company comprised nine Directors. The name list of the Directors are set out as follows:

Executive Directors: Mr. Li Zixue (Chairman), Mr. Xu Ziyang and Mr. Gu Junying

Non-executive Director: Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong

Independent Non-executive Directors: Ms. Cai Manli, Mr. Gordon Ng and Mr. Zhuang Jiansheng

The composition of the Board of Directors was in compliance with the provisions of Rule 3.10(1) and (2) and Rule 3.10 (A) of the Hong Kong Listing Rules. There were no financial, business, family or other material/relevant connections among members of the Board of Directors of the Company.

(2) Term of office, appointment and removal of Directors

A Director (including Non-executive Director) of the Company is appointed for a term of three years and is eligible for re-election upon conclusion of each term. An Independent Non-executive Director can hold office for a maximum of six years. Other than Ms. Cai Manli and Mr. Gordon Ng, Independent Non-executive Director of the Ninth Session of the Board of the Company, who serve a term commencing on 30 March 2022 and ending on 28 June 2024, all Directors of the Ninth Session of the Board of the Company serve a term commencing on 30 March 2022 and ending on 29 March 2025.

The appointment and removal of Directors is subject to the approval of the general meeting of the Company. Each Director has entered into a Director's Service Contract with the Company.

(3) Board diversity policy

The Company acknowledges the importance of Board diversity for corporate governance and has formulated the Board Diversity Policy as part of the Working Rules of the Nomination Committee of the Board of Directors, which primarily provides that: the Company shall consider Board diversity from multiple aspects when determining Board composition, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. All members of the Board are appointed solely on the basis of merit. The benefits to Board diversity are weighted in light of objective conditions in the consideration of candidates.

The selection of candidates for Board members by the Board and the Nomination Committee is based on a range of diverse perspectives and measurable objectives. The Company will seek to increase the ratio of female Directors on top of the appointment of at least one female Director, taking into account its actual conditions. The current Board members include two female Directors, accounting of 22% of the Board composition. Independent Non-executive Directors account for not less than one third of the Board membership. The Executive Directors have extensive practical, management and operational experience in the electronics/telecommunications sectors. The Non-executive Directors have extensive business and management experience. The Independent Non-executive Directors are professionally qualified and bring extensive experience in the monetary, financial, legal and compliance aspects. For details of the personal information of the Directors, please refer to the section headed "3.7.1 Brief biography of Directors, Supervisors and senior management" in this chapter. The current diversified mix of the Board of the Company has enabled a broad vision and high level of professional experience, as well as maintaining the element of independence required for the Board to ensure that the Board of the Company is capable of effectively making independent judgement and scientific decisions in the deliberation and consideration of material matters. The

Nomination Committee has reviewed the composition, size and structure of the Board in 2023 and, taking into consideration the business requirements of the Company, is of the view that the incumbent Board fulfills the requirement for diversity.

3.4.3 Chairman and the President

The roles of Chairman and President of the Company are two distinctly separate positions with clearly defined respective functions under Articles 162 and 179, respectively, of the Articles of Association.

Mr. Li Zixue as Chairman is primarily responsible for providing leadership over the Board and ensure effective operation of the Board in the best interest of the Company. In respect of the Company's operating performance and material matters, the Chairman should ensure communication and deliberation between the Board and the management both on a regular basis and from time to time.

Mr. Xu Ziyang as President is primarily responsible for presiding over the production operation and management of the Company, reporting to the Board on a quarterly basis in connection with material matters and organising the implementation of Board resolutions, whilst maintaining sound communication with the Directors.

3.4.4 Board Meetings

The Board of the Company convenes at least 4 meetings each year. Notices of regular Board meetings and interim Board meetings of the Company were given 14 days and 3 days (or such other period as might be agreed), respectively, prior to the convening of the meetings. The Secretary to the Board of Directors/Company Secretary should provide details of the meetings not later than 3 days (or other agreed periods) prior to the commencement of the meeting.

The Ninth Session of the Board of Directors of the Company convened 18 Board meetings in 2023, including 5 meetings by way of video or telephone conference and 13 by way voting via communication, the details of which are as follows:

Session	Date of meeting	Resolutions
The First Interim Meeting of 2023	31 January 2023	Consideration and approval of resolutions including the replacement of officer in-charge of the overseas project office
The Second Interim Meeting of 2023	28 February 2023	Consideration and approval of resolutions including on asset disposal by the Company and a wholly-owned subsidiary
The Tenth Meeting of the Ninth Session of the Board	10 March 2023	Consideration and approval of resolutions including the 2022 Annual Report
The Third Interim Meeting of 2023	31 March 2023	Consideration and approval of resolutions including transfer of equity in an investee company
The Eleventh Meeting of the Ninth Session of the Board	21 April 2023	Consideration and approval of resolutions including the 2023 First Quarterly Report
The Fourth Interim Meeting of 2023	28 April 2023	Consideration and approval of resolution on waiver of pre-emptive right by a subsidiary
The Fifth Interim Meeting of 2023	21 June 2023	Consideration and approval of resolutions including the capital reduction of an investee company
The Twelfth Meeting of the Ninth Session of the Board of Directors	18 August 2023	Consideration and approval of resolutions including the 2023 Interim Report
The Sixth Interim Meeting of 2023	13 September 2023	Consideration and approval of resolutions including transfer of equity in an investee company

Session	Date of meeting	Resolutions
The Thirteenth Meeting of the Ninth Session of the Board	15 September 2023	Consideration and approval of resolution on the participation in the subscription for shares in Beijing Shunyi Jianguang Zhanlu Emerging Industry Equity Investment Partnership Enterprise (Limited Partnership)
The Fourteenth Meeting of the Ninth Session of the Board	25 September 2023	Consideration and approval of resolutions including matters pertaining to the reserved grant of share options under the 2020 Share Option Incentive Scheme
The Seventh Interim Meeting of 2023	10 October 2023	Consideration and approval of resolutions including deregistration of a subsidiary
The Fifteenth Meeting of the Ninth Session of the Board	23 October 2023	Consideration and approval of resolutions including the 2023 Third Quarterly Report
The Sixteenth Meeting of the Ninth Session of the Board of Directors	6 November 2023	Consideration and approval of resolutions including matters pertaining to the initial grant of share options under the 2020 Share Option Incentive Scheme
The Eighth Interim Meeting of 2023	15 November 2023	Consideration and approval of resolutions including transfer of equity interests in a subsidiary
The Ninth Interim Meeting of 2023	5 December 2023	Consideration and approval of resolution on conversion of debt to capital reserve and cash capital increase by way of cash among wholly-owned subsidiaries
The Tenth Interim Meeting of 2023	25 December 2023	Consideration and approval of resolutions including transfer of equity in an investee company
The Seventeenth Meeting of the Ninth Session of the Board	27 December 2023	Consideration and approval of resolutions related to connected transactions

The aforesaid resolutions have been considered and approved by the Board of Directors of the Company. The Directors have not expressed any dissent in respect of material matters considered in 2023, having made decisions on the resolutions in a well-informed manner. Where any matters (including connected transactions) to be considered by the Board of Directors of the Company were deemed by the Board of Directors to involve a material conflict of interest, abstention measures were adopted and the Directors who were by any means connected with such transactions abstained from voting.

Minutes of each Board of Directors meeting should be filed after being signed by the attending Directors, the Secretary to the Board and minute-takers, and shall be made available for Directors' inspection from time to time upon their request.

3.4.5 Directors' attendance at meetings

Attendance of Directors of the Company at the Board meetings, meetings of the specialist committees under the Board, Independent Directors' meetings and the general meetings in 2023 is set out in the following:

	Number of attendance in person Note/number of attendance expected						
	Board meetings	Audit Committee	Remuneration and Evaluation Committee	Nomination Committee	Export Compliance Committee	Independent Directors' Meeting	General Meeting
Number of meetings held	**18**	**6**	**4**	**1**	**4**	**1**	**1**
Executive Director							
Li Zixue	18/18	–	–	1/1	4/4	–	0/1
Xu Ziyang	18/18	–	–	–	–	–	1/1
Gu Junying	18/18	–	4/4	–	–	–	1/1
Non-executive Director							
Li Buqing	18/18	6/6	–	–	–	–	1/1
Zhu Weimin	18/18	6/6	4/4	–	–	–	1/1
Fang Rong	17/18	–	–	1/1	4/4	–	0/1
Independent Non-executive Director							
Cai Manli	18/18	6/6	4/4	1/1	4/4	1/1	1/1
Gordon Ng	18/18	5/6	4/4	1/1	4/4	1/1	1/1
Zhuang Jiansheng	17/18	5/6	4/4	1/1	4/4	1/1	1/1

Note: Certain Directors did not attend some meetings in person owing to work reasons and attended by proxy instead in 2023. Attendance by proxy is not counted in attendance rate. Ms. Fang Rong and Mr. Zhuang Jiansheng each attended Board meetings by proxy for once. Mr. Gordon Ng and Mr. Zhuang Jiansheng each attended meetings of the Audit Committee by proxy for once. No Director of the Company reported absence from Board meetings or failed to attend in person at two consecutive Board meetings. Mr. Li Zixue and Ms. Fang Rong did not attend the 2022 General Meeting owing to work reasons.

3.4.6 Performance of duties by the Independent Non-executive Directors

The Company has received annual written confirmations of independence from all the Independent Non-executive Directors regarding their independence in accordance with Rule 3.13 of the Hong Kong Listing Rules and Management Regulations on Independent Directors of Listed Company. The Company and Board of Directors is of the opinion that all the Independent Non-executive Directors are independent persons.

Independent Non-executive Directors accounted for the majority and served as convenor at the specialist committees of the Board. In 2023, the Independent Non-executive Directors of the Company informed themselves of the Company's important business information in a timely manner, dutifully attended the meetings of the Board and its specialist committees where they actively expressed their views and furnished suggestions in genuine fulfillment of the role of "participating in decision-making, supervision and check and balance and professional consultation". In 2023, the Company convened an Independent Directors' Meeting attended solely by Independent Non-executive Directors for the consideration of connected transactions, the details of which are set out in the section headed "3.5.2 Independent Directors' Meeting" in this report.

3.4.7 Measures Taken to Ensure the Performance of Duties by Directors

(1) In 2023, the Directors of the Company received ongoing professional training by studying relevant materials and attending training sessions or seminars. The Company provided Directors with timely and comprehensive information on listing regulation. All Directors (Executive Directors Mr. Li Zixue, Mr. Xu Ziyang, Mr. Gu Junying; Non-executive Directors Mr. Li Buqing, Mr. Zhu Weimin, Ms. Fang Rong; Independent Non-executive Directors Ms. Cai Manli, Mr. Gordon Ng, Mr. Zhuang Jiansheng) have received training on the roles and duties of Directors by studying materials, including corporate governance, ongoing Directors' responsibilities, compliance in share trading. Mr. Li Zixue and Mr. Li Buqing have also participated in seminars and training on listing regulation and performance of Directors' duties organised by external organisations.

(2) The Company has established a mechanism to allow the Directors of the Company to seek independent professional opinion in respect of the performance of their duties and responsibilities at the cost of the Company to ensure that the Board of Directors can obtain independent views and opinions. The Board has examined and reviewed the relevant mechanism and is of the view that it has been duly implemented and effective.

(3) In connection with potential legal risks arising from the performance of duties by the Directors, Supervisors and senior management, the Company has purchased liability insurance for Directors, Supervisors and the senior employees.

3.5 SPECIALISED COMMITTEES UNDER THE BOARD OF DIRECTORS AND INDEPENDENT DIRECTORS' MEETING

3.5.1 Specialised committees under the board of directors

There are four specialised committees under the Board of Directors of the Company, namely the Audit Committee, Remuneration and Evaluation Committee, Nomination Committee and Export Compliance Committee. Specific working rules have been formulated for each of the specialised committees, stipulating, among other things, the duties and powers of these committees, and have been posted on www.cninfo.com.cn, the website of the Hong Kong Stock Exchange and the website of the Company. The order of meeting for the specialised committees is conducted in accordance with their respective working rules, and is implemented by reference to the statutory procedures for meetings of the Board of Directors. Members of the specialist committees discharged their duties with due diligence and performed the duties of Directors in a proactive, professional and efficient manner, reviewing carefully all documents and information relating to the meetings, conducting analysis and making judgements on various issues in a fair and objective manner, making recommendations based on the actual conditions of the Company, and providing scientific and professional opinions for reference by the Board of Directors in its decision-making. Records of Directors' attendance at the specialist committee meetings in 2023 are set out above.

3.5.1.1 The Audit Committee

(1) Roles, functions and composition of the Audit Committee

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

The Audit Committee of the Ninth Session of the Board of Directors of the Company comprised five members, including Independent Non-executive Directors Ms. Cai Manli (convenor), Mr. Gordon Ng and Mr. Zhuang Jiansheng and Non-executive Director Mr. Li Buqing and Mr. Zhu Weimin. The composition of the Audit Committee was in compliance with the provisions of the Shenzhen Listing Rules and Rule 3.21 of the Hong Kong Listing Rules.

(2) Meetings and work of the Audit Committee during the year

The Audit Committee held 6 meetings on 17 January 2023, 3 March 2023, 10 March 2023, 21 April 2023, 18 August 2023 and 23 October 2023, respectively, to discuss and consider audit arrangements, regular financial reports, appointment of auditors, derivatives trading, the internal control audit report of the Company and amendments to the Working Rules of the Audit Committee of the Board of Directors, and held numerous discussions with the auditors. The Audit Committee plays an important role in ensuring scientific decision making at the Board of Directors by furnishing advice and recommendations in respect of matters such as the Company's financial information and its disclosure, internal audit system and its implementation, internal control system and risk management system. Members of the Audit Committee have not expressed any dissent in respect of matters considered at the aforesaid meeting.

The Audit Committee conducted the following important tasks in respect of the Company's 2023 annual audit and internal control development and improvement:

Issue of three review opinions on the 2023 annual financial report of the Company: The Audit Committee issued review opinions on the Company's unaudited, preliminarily audited and audited financial statements of 2023. Following thorough assessment, the Audit Committee was of the view that the financial report was a fair reflection of the Company's financial conditions as at 31 December 2023 and its operating results and cash flow for 2023 in material aspects and was in compliance with PRC ASBEs and their practice guide and approved the submission of the audited financial report 2023 for consideration by the Board of Directors of the Company.

Supervision of the audit work of the auditor: to ensure the conduct of auditing work in an orderly manner, the auditor of the Company had finalised the 2023 audit timetable for the year with the auditor ahead of schedule. During the course of audit, members of the Audit Committee held three meetings with principal officers in charge of the assignment to inform themselves of the progress of audit and concerns in genuine performance of their supervisory duties. The Audit Committee also procured the auditors in charge of the assignment to expedite their work. The Audit Committee examined the annual audit report furnished by the auditor. The Audit Committee was of the view that the auditor was capable of performing its tasks in strict accordance with audit regulations with an emphasis on understanding the Company's operating conditions and internal control and maintained its independence and its prudent approach.

Assessment report on the audit work of the auditors: following a number of communications and discussions with the auditor, the Audit Committee was of the view that the auditor was capable of performing its tasks in strict accordance with audit regulations with an emphasis on understanding the Company and its operating conditions as well as the establishment and implementation of its internal control with a strong awareness for risks. The auditor was able to complete the audit work in a timely manner in accordance with the audit schedule and maintained its independence and its prudent approach during the course of audit, completing the financial reporting and internal control audit of the Company for 2023 in a sound manner.

Supervising improvement of the internal control system: The Audit Committee has established an Internal Control and Audit Department as the day-to-day executive arm of the Audit Committee to implement supervision and inspection of the Company's internal controls on behalf of the Audit Committee. In 2023, the Audit Committee received the report of the Internal Control and Audit Department on internal control and audit and furnished relevant opinion. For details of the Audit Committee's work in reviewing the Company's internal control and risk management, please refer to the section headed "3.12 INTERNAL CONTROL AND RISK MANAGEMENT" in this report.

3.5.1.2 The Remuneration and Evaluation Committee

(1) Roles, functions and composition of the Remuneration and Evaluation Committee

The Remuneration and Evaluation Committee is primarily responsible for determining and reviewing specific remuneration packages and performances of the Directors and senior management of the Company based on the policies and structures for the management of remuneration and performance of Directors and senior management laid down by the Board of Directors, and conducting appraisal of the performance of Executive Directors, and considering share ownership schemes of the Company such as share option incentives and staff shareholding plans.

The Remuneration and Evaluation Committee of the Ninth Session of the Board of Directors of the Company comprised five members, including Independent Non-executive Directors Ms. Cai Manli (convenor), Mr. Gordon Ng and Mr. Zhuang Jiansheng, Executive Director Mr. Gu Junying and Non-executive Director Mr. Zhu Weimin.

(2) Meetings and work of the Remuneration and Evaluation Committee during the year

The Remuneration and Evaluation Committee held 4 meetings on 10 March 2023, 21 April 2023, 25 September 2023 and 6 November 2023, respectively, to consider and approve, among others, Directors' allowance, the performance of and annual bonus amount for senior management personnel, the 2020 Share Option Incentive Scheme and amendments to the Working Rules of the Remuneration and Evaluation Committee of the Board of Directors. Members of the Remuneration and Evaluation Committee have not expressed any dissent to the aforesaid businesses under consideration at the meetings.

Details of consideration of the share option incentive scheme by the Remuneration and Evaluation Committee in 2023 are as follows:

On 25 September 2023, matters pertaining to reserved options under the 2020 Share Option Incentive Scheme were considered, fulfilment of the exercise conditions of the second exercise period for reserved options was confirmed and adjustments to the number of participants and share options for the second exercise period under the reserved grant and the cancellation of certain share options and the tabling of the aforesaid matter at the Board for consideration were approved.

On 6 November 2023, matters pertaining to initial grant under the 2020 Share Option Incentive Scheme were considered, fulfilment of the exercise conditions of the third exercise period for initial grant was confirmed and adjustments to the number of participants and share options for the third exercise period under the initial grant and the cancellation of certain share options and the tabling of the aforesaid matter at the Board for consideration were approved.

(3) Remuneration policy for Directors and senior management

The Company determines the remuneration of Directors and senior management based on their position and duties, and performance as well as the actual operating conditions of the Company.

The Remuneration and Evaluation Committee makes recommendations to the Board of Directors on the remuneration for Directors and senior management according to the aforesaid remuneration policy in the manner set out in Code E.1.2(c)(ii) of Appendix C1 to the Hong Kong Listing Rules.

3.5.1.3 The Nomination Committee

(1) Roles, functions and composition of the Nomination Committee

The Nomination Committee is primarily responsible for considering standards and procedures for the selection of Directors and senior management of the Company. The committee identifies suitable candidates for appointment as Directors and senior management and conducts qualification vetting in accordance with relevant laws and regulations and the Articles of Association, taking into account the actual conditions of the Company. The Nomination Committee then formulates a resolution to be submitted to the Board of Directors and general meetings (if applicable) for approval, and implements accordingly.

The Nomination Committee of the Ninth Session of the Board of Directors of the Company comprises five members, including Independent Non-executive Directors Mr. Gordon Ng (convenor), Ms. Cai Manli and Mr. Zhuang Jiansheng, Executive Director Mr. Li Zixue and Non-executive Director Ms. Fang Rong.

(2) Meeting and work of the Nomination Committee during the year

The Nomination Committee held 1 meeting on 10 March 2023 to deliberate on the structure and diversity policy of the Board and discuss and review amendments to the Rules of the Nomination Committee of the Board of Directors. Members of the Nomination Committee have not expressed any dissent to the aforesaid businesses under consideration at the meeting.

(3) Criteria and procedures for the nomination, selection and recommendation of Directors and senior management

The Nomination Committee conducts extensive searches for candidates for Directors and senior management after considering the Company's requirements. With the consent of the nominees, a meeting of the Nomination Committee will be convened to vet the qualifications of the shortlisted nominees and recommend candidates for Directors and new senior management appointments to the Board of the Directors based on the terms for appointment of Directors and senior management under the Company Law, Measures Governing Independent Directors of Listed Companies and the Hong Kong Listing Rules and furnish relevant materials.

3.5.1.4 Export Compliance Committee

(1) Roles and functions of the Export Compliance Committee

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

The Export Compliance Committee of the Ninth Session of the Board of Directors of the Company comprises five members, including Independent Non-executive Directors Mr. Zhuang Jiansheng (chair), Ms. Cai Manli and Mr. Gordon Ng, Executive Director Mr. Li Zixue and Non-executive Director Ms. Fang Rong.

(2) Meeting and work of the Export Compliance Committee during the year

The Export Compliance Committee held 4 meetings on 24 March 2023, 20 June 2023, 22 September 2023 and 20 December 2023 to discuss and review matters relating to the Company's export compliance. Members of the Export Compliance Committee have not expressed any dissent to the aforesaid businesses under consideration at the meeting.

3.5.2 Independent Directors' Meeting

(1) Role, functions and composition of the Independent Directors' Meeting

In accordance with the Rules Governing Independent Directors of Listed Companies announced by the CSRC, the Company convened an Independent Directors' Meeting attended solely by Independent Non-executive Directors. In accordance with the aforesaid regulations, the Company's Independent Non-executive Directors perform supervisory duties with a special authority. Connected transactions and other matters that could potentially involve conflict of interests should be approved at the Independent Directors' Meeting prior to submitting to the Board for consideration. The exercise of special authority by Independent Non-executive Directors to independently appoint intermediaries, propose the convening of interim general meetings to the Board and propose the convening of Board meetings shall require approval by the majority of all Independent Directors.

(2) Work of the Independent Directors' Meeting during the year

The Independent Directors of the Company convened the First Meeting of the Independent Directors of the Ninth Session of the Board of Directors on 20 December 2023 to discuss and consider the Company's continuing connected transactions in connection with purchase and sales and connected transactions in connection with leasing, review the transaction prices and terms of agreement and give approval to the tabling of the resolution on such connected transactions at the Board meeting for consideration.

3.6 SUPERVISORY COMMITTEE

The Supervisory Committee is accountable to the general meeting. It monitors the financial affairs of the Company and inspects and supervises legal compliance in the performance of duties by the Company's Directors and senior management to safeguard the legal rights and interests of the Company and shareholders. The Ninth Session of the Company's Supervisory Committee comprises five Supervisors, including two Shareholder Representative Supervisors Ms. Jiang Mihua and Mr. Hao Bo and three Staff Representative Supervisors Mr. Xie Daxiong (Chairman of the Supervisory Committee), Ms. Xia Xiaoyue and Ms. Li Miaona.

In 2023, the Supervisory Committee of the Company held 7 meetings to conduct diligent supervision and inspection of matters such as the Company's regulated operations, financial conditions, share option incentive scheme, connection transactions and the performance of duties by Directors and senior management and has not indicated any disapproval in the course of its supervision over such matters.

3.7 DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

3.7.1 Brief biography of Directors, Supervisors and senior management

(1) Brief biographies of Directors

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

Mr. Xu Ziyang, born in 1972, is Executive Director and President of the Company. He graduated from University of Electronic Science and Technology of China with a bachelor's degree in engineering majoring in physical electronics technology in 1994. Mr. Xu joined the Company in 1998, and served successively as head of development department, and product general manager of core network, regional MKT general manager, general manager of subsidiary and assistant to the President. Mr. Xu has been President of the Company since July 2018 and Executive Director of the Company since August 2018. Mr. Xu has many years of operational and management experience in the telecommunication industry.

Mr. Li Buqing, born in 1972, is Non-executive Director of the Company. Mr. Li graduated from Jiangxi University of Finance & Economics with a bachelor's degree in economics majoring in financial accounting in 1994, and currently holds the professional title of senior economist. From 1994 to 2001, Mr. Li worked in Shenzhen Aerospace Guangyu Industrial Company Limited. From 2001 to 2009, Mr. Li served successively as deputy general manager and general manager of Shenzhen Zhenfeng Industry Limited. From 2009 to 2012, he was deputy general manager of Shenzhen Aerospace Real Estate Development Co., Ltd. From 2011 to 2017, Mr. Li worked successively as general manager and chairman of Shenzhen Aerospace Real Estate Consultation Co., Ltd. Mr. Li successively acted as deputy chief economist, director and chief accountant of CASIC Shenzhen (Group) Company Limited from 2015 to September 2023, and as deputy chief economist and chief accountant of Shenzhen Aerospace Industrial Technology Research Institute Limited from 2016 to June 2023. Mr. Li has been chief accountant of Henan Aerospace Industry Company Limited since June 2023. Mr. Li has been Non-executive Director of the Company since June 2018. Mr. Li has extensive experience in management and operations.

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

Mr. Zhu Weimin, born in 1966, is Non-executive Director of the Company. Mr. Zhu graduated from the Department of Electronic Engineering of Shanghai Jiaotong University in 1988 with a bachelor's degree in engineering majoring in electronic engineering and obtained an MBA degree from China Europe International Business School in Shanghai in 2003. Mr. Zhu served successively as a technician and deputy head of Suzhou Dongfeng Communication Equipment Factory Research Institute from 1988 to 1991; research engineer and deputy director of the development department of Shenzhen Zhongxing Semiconductor Co., Ltd. from 1991 to 1993; research engineer of Zhongxingxin, the controlling shareholder of the Company, and head of Nanjing Research Institute of Zhongxingxin from 1993 to 1997. Mr. Zhu served as Director and Deputy General Manager of the Company from 1997 to 2000; deputy general manager of Zhongxingxin from 2002 to 2003; general manager of Shenzhen Changfei Investment Co., Ltd. from 2004 to 2013; and director of Shenzhen Jufei Optoelectronics Co., Ltd. (a company listed on the Shenzhen Stock Exchange in 2012) from 2009 to 2015. Mr. Zhu served as director of Shenzhen Techaser Technologies Co., Ltd. from 2008 to 2023 (concurrently as advisor from 2013 to 2018); and chairman/director of Shenzhen Zhongxing International Investment Co., Ltd. and its certain subsidiaries since 2018. At present, he is concurrently serving as director of Zhongxingxin, Shenzhen Zhongxing WXT Equipment Company Limited, Shenzhen Xinyu Tengyue Electronics Co., Ltd. and Hainan Xinghang Technology Company Limited. Mr. Zhu has been Non-executive Director of the Company since June 2018. Mr. Zhu has extensive experience in management and operations.

Ms. Fang Rong, born in 1964, is Non-executive Director of the Company. She graduated from Nanjing Institute of Posts and Telecommunications (now known as Nanjing University of Posts and Telecommunications) in 1987 with a bachelor's degree in engineering, majoring in telecommunications engineering. From 1987 to 1995, Ms. Fang worked at Wuhan Posts and Telecommunications and Science Research Institute under the Ministry of Posts and Telecommunications. She worked with Zhongxingxin, controlling shareholder of the Company, from 1995 to 1997 and with the Company from 1997 to 2009, acting as Senior Vice President of the Company from 1998 to 2009. She has been director and executive vice president of Zhongxing Development Company Limited since 2009. From September 2021, she has been chairman of Xiazhi Technology Company Limited. Ms. Fang has been Non-executive Director of the Company since June 2018. Ms. Fang has many years of operational and management experience in the telecommunication industry.

Ms. Cai Manli, born in 1973, is Independent Non-executive Director of the Company. Ms. Cai graduated from Renmin University of China in 1998 with a bachelor's degree in economics majoring in accounting and obtained a master's degree in management from Central University of Finance and Economics in 2006. In 2023, she was conferred a doctorate degree in Economics by Southwestern University of Finance and Economics. She is a certified public accountant and certified tax agent of the PRC. From 2002 to 2015, Ms. Cai was involved in regulatory governance of listed companies at CSRC, holding successively the positions of deputy chief of the M&A Governance Office II and chief of the M&A Governance Office I while also serving as the leader of the accounting and evaluation group at the Department for the Governance of Listed Companies. She was formerly general manager of HEYI Rising Assets Management Co., Ltd. and independent director of Beijing Yadii Media Co., Ltd., SF Diamond Co., Ltd., Hubei Radio & Television Information Network Co., Ltd. and Guangzhou Jifei Technology Corporation and external supervisor of Sichuan Xinwang Bank Co., Ltd. Since 2015, she has been senior advisor at King & Wood Mallesons. She is currently independent director of Shanghai Flyco Electrical Appliance Co., Ltd. (a company listed on the Shanghai Stock Exchange), New Hope Liuhe Co., Ltd. (a company listed on the Shenzhen Stock Exchange), Kuangshi Technology Co., Ltd., Lianchu Securities Co., Ltd. and Allmed Medical Products Co., Ltd. (a company listed on the Shenzhen Stock Exchange) and, supervisor of China Communications Services Corporation Limited (a company listed on Hong Kong Stock Exchange). She has been Independent Non-executive Director of the Company since June 2018. Ms. Cai has extensive experience in consultation and equity investments relating to capital markets.

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

Mr. Zhuang Jiansheng, born in 1965, is Independent Non-executive Director of the Company. Mr. Zhuang graduated from East China University of Political Science and Law with a bachelor's degree in law in 1988, and obtained a master's degree in international and economic law from the University of International Business and Economics in 1991. Mr. Zhuang has been admitted as a PRC Attorney. Mr. Zhuang has worked in Shanghai WGQ Free Trade Zone Development Corporation, PricewaterhouseCoopers Consulting Firm, and Baker & McKenzie LLP in the United States. Mr. Zhuang has been the advisory partner of Shanghai Huiye Law Firm with respect to the business of trade compliance and customs since January 2016. He has been Independent Non-executive Director of the Company since June 2020. Mr. Zhuang has extensive experience in the laws and practices in areas like international trade compliance, corporate regulatory matters, customs and tax laws.

(2) Brief biographies of Supervisors

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

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

Ms. Li Miaona, born in 1974, is a Supervisor of the Company. Ms. Li graduated from Renmin University of China in 1997 with a bachelor's degree in History, majoring in Archival Science. Ms. Li joined the Company in 2000 and worked with the Quality Section of the Network Business Department and the Editorial of ZTE Newsletter under the Human Resources Department from 2000 to 2005. Ms. Li was Head of the Shenzhen Platform of the Administrative Department of the Company from 2005 to 2010. She worked at the Cloud Service Centre under the financial organisation from 2010 to 2017. She was Principal of the Administrative Platform under the Administrative Department, Principal of Operations and Management of Administrative Properties and Head of the Administrative Properties Staff Service Management Department of the Company from 2017 to July 2021. Since July 2021, she has been chairman of the Trade Union and Head of the Office of Trade Unions Directly Affiliated with the Headquarters of the Company. She is concurrently the chairman of Shenzhen Zhongxing Yihe Investment and Development Company Limited. She has been Supervisor of the Company since March 2022. Ms. Li has extensive management and operational experience.

Ms. Jiang Mihua, born in 1976, is a Supervisor of the Company. Ms. Jiang graduated from Shenzhen University in July 1999 with a bachelor's degree in Economics majoring in international accounting and holds the title of senior accountant. Ms. Jiang worked as accountant and deputy manager of the finance department at Shenzhen Qiaoshe Industrial Corporation from July 1999 to October 2007, finance manager at Shenzhen Port CTS Company Limited from October 2007 to August 2011, assistant financial controller at Shenzhen Pengai Hospital Investment Management Company Limited from August 2011 to May 2013, chief financial officer at Shenzhen Caimeng Technology Company Limited from May 2013 to June 2020, general manager at Shenzhen Chengyian Machinery and Equipment Company Limited from September 2020 to March 2021, chief accountant of Shenzhen Aerospace Guangyu Industrial Company Limited from April 2021 to January 2022. Since January 2022, she has been deputy head (operations) of the finance department of Shenzhen Aerospace Industrial Technology Research Institute Limited. Since February 2022, she has been supervisor of Zhongxingxin. Since March 2022, she has been director of Shenzhen Aerospace Guangyu Industrial Company Limited. She has been Supervisor of the Company since March 2022. Ms. Jiang has extensive financial and management experience.

Mr. Hao Bo, born in 1989, is a Supervisor of the Company. Mr. Hao graduated from Wuhan University with a bachelor's degree in Economics in 2010 and obtained a doctorate degree in Management in 2015. From July 2015 to March 2019, Mr. Hao worked in various capacities including investment director at the Investment Management Department of the Company, during which he also served as director/supervisor of certain subsidiaries of the Company; from March 2019 to February 2023 he was head of the strategic planning department of Zhongxingxin, the controlling shareholder of the Company. Since December 2020, he has been appointed a tutor to post-graduate students at Zhongnan University of Economics and Law and Wuhan University. He has been deputy general manager of Zhongxingxin since February 2023. Mr. Hao is currently chairman of the supervisory committee of Pylon Technologies Co., Ltd. (a subsidiary of Zhongxingxin listed on the Shanghai Stock Exchange) and director/supervisor of certain other subsidiaries of Zhongxingxin. He has been Supervisor of the Company since March 2022. Mr. Hao brings with him a wealth of experience in financial operations and investment management.

(3) Brief biographies of senior management

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

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

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

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

Mr. Xie Junshi, born in 1975, is Executive Vice President of the Company. Mr. Xie graduated from Tsinghua University in 1998 with a bachelor's degree in engineering majoring in engineering mechanics and further obtained a master's degree in engineering majoring in fluid mechanics in 2001, also from Tsinghua University. Mr. Xie joined the Company in 2001 and had successively served as the Company's Technology Manager (International Markets), Regional Business Technology Manager (Europe and South Asia) and Regional Deputy General Manager (Europe and North America) and Regional Deputy General Manager (Europe) from 2001 to 2013. From 2014 to July 2018, he was the Company's General Manager (Europe and America) for MKT and Solutions. He was Senior Vice President and Chief Operating Officer from July 2018 to September 2019. Since September 2019, he has been Executive Vice President and Chief Operating Officer of the Company. Mr. Xie has many years of experience in the operation and management of the telecommunication industry.

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

3.7.2 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	Whether receiving remuneration from Zhongxingxin
Zhu Weimin	Zhongxingxin	Director	August 2021	August 2024	Yes
Jiang Mihua	Zhongxingxin	Supervisor	February 2022	August 2024	Yes
Hao Bo	Zhongxingxin	Deputy general manager	February 2023	August 2024	Yes

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 with effect from February 2023.

(2) Positions held at other entities

Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Li Buqing	Henan Aerospace Industry Company Limited	Chief accountant	Yes
	Shenzhen Aerospace Liye Industry Development Co., Ltd.	Chairman	No
	Shenzhen Zhongxing Information Company Limited	Director	No
	Shenzhen Hangxin Property Management Co., Ltd.	Director	No
Gu Junying	JINZHUAN information Technology Co., Ltd.	Chairman, general manager	No
	Nanjing Zhongxing Jinyi Digital Technology Company Limited	Chairman	No
Zhu Weimin	Shenzhen ZTE International Investment Limited	Chairman	Yes
	Held positions in 4 subsidiaries of Shenzhen ZTE International Investment Limited including Beijing United ZTE International Investment Limited	Chairman/director	No
	Shenzhen Zhongxing WXT Company Limited	Director	No
	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	Director	No
	Hainan Xinghang Technology Co., Ltd.	Director	No
Fang Rong	Zhongxing Development Company Limited	Director, executive vice president	Yes
	Held positions in 8 subsidiaries or investees of Zhongxing Development Company Limited including Xiazhi Technology Company Limited	Chairman/director	No
	Shenzhen ZTE International Investment Limited	Director	No
	Beijing United ZTE International Investment Limited	Director	No
	Hainan Lianhe Investment Partnership Enterprise (Limited Partnership)	Executive partner	No
Cai Manli	Beijing King & Wood Mallesons	Senior consultant	Yes
	Shanghai Flyco Electrical Appliance Co., Ltd.	Independent director	Yes
	New Hope Liuhe Co., Ltd.	Independent director	Yes
	Kuangshi Technology Co., Ltd.	Independent director	Yes
	Lianchu Securities Co., Ltd.	Independent director	Yes
	Allmed Medical Products Co., Ltd.	Independent director	Yes
	China Communications Services Corporation Limited	Supervisor	Yes
Gordon Ng	Dentons Hong Kong LLP	Partner	Yes
	China Energine International (Holdings) Limited	Independent non-executive Director	Yes
	Mainland Headwear Holdings Limited	Independent non-executive Director	Yes

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Name	Name of other entities	Position in other entities	Whether remuneration is received from other entities
Zhuang Jiansheng	Shanghai Huiyue Law Firm	Partner	Yes
Xie Daxiong	Guangdong Newstart Technology & Service Company Limited	Chairman	No
	Guangzhou Huijian Detection Technology Co., Ltd.	Chairman	No
Li Miaona	Shenzhen Zhongxing Yihe Investment Development Company Limited	Chairman	No
Jiang Mihua	Shenzhen Aerospace Industrial Technology Research Institute Limited	Deputy head of finance department	Yes
	Shenzhen Aerospace Guangyu Industrial Company Limited	Director	No
	航天歐華信息技術有限公司	Supervisor	No
Hao Bo	Held positions in 7 subsidiaries or investees of Zhongxingxin including Pylon Technologies Co., Ltd.	Chairman of supervisory committee/ director/ supervisor	No
	Hainan Xinglian Private Equity Investment Fund Management Company Limited	Executive director and general manager	No
Wang Xiyu	Sanechips Technology Co., Ltd.	Chairman	No
	Beijing Lirui Micro-electronics Technology Limited	Chairman	No
	Zhongxing Photonics Technology Co., Ltd.	Chairman	No
	JINZHUAN information Technology Co., Ltd.	Vice-chairman	No
Li Ying	ZTE Group Finance Company Limited	Chairman	No
	ZTE (H.K.) Limited	Chairman	No
	SHENZHEN ZTE FINANCIAL HOLDINGS COMMERCIAL FACTORING LIMITED COMPANY	Chairman	No
	Sanechips Technology Co., Ltd.	Director	No

Note 1: Change in positions held by Directors:

Mr. Li Buqing has been appointed as chief accountant of Henan Aerospace Industry Company Limited with effect from June 2023 and has ceased to be chief accountant of Shenzhen Aerospace Industrial Technology Research Institute Limited, director and chief accountant of CASIC Shenzhen (Group) Company Limited and director of Shenzhen Aerospace Property Management Co., Ltd. as from June 2023, September 2023 and November 2023, respectively.

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

Ms. Fang Rong has been appointed as executive partner of Hainan Lianhe Investment Partnership Enterprise (Limited Partnership) with effect from May 2023 and has ceased to be director of Jingmen Zhongxing Real Estate Company Limited as from March 2023.

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

Note 2: Change in positions held by Supervisors:

Ms. Jiang Mihua has been appointed as supervisor of 航天歐華信息技術有限公司 with effect from October 2023 and has ceased to be director of Aerospace Yinshan Electrical Company Limited as from September 2023.

Mr. Hao Bo has been appointed as director of Beijing Zhongxingxin Telecom Company Limited, Zhongxingxin International Company Limited and Zhongxingxin International Technological Innovation Centre Company Limited with effect from September 2023, October 2023 and November 2023, respectively, and has ceased to be executive director of Shenzhen Haina Jingying Management Consultant Company Limited and director of Shenzhen Xinglian Digital Technology Company Limited as from April 2023 and June 2023, respectively.

Note 3: Change in positions held by senior management:

Mr. Wang Xiyu has been appointed as chairman of Beijing Lirui Micro-electronics Technology Limited with effect from December 2023.

3.7.3 Bases for determination and actual payment 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.

3.7.4 Shareholdings in the Company and annual remuneration of the 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 year (shares)	Number of shares acquired during the year	Number of shares disposed of during the year	Number of shares held at end of year (shares)	As a percentage of		Total amount of remuneration received from the Company in 2023 (RMB10,000)	Whether remuneration or subsidy is received from connected parties [Note 2]
											Total share capital	A shares		
Li Zixue	Male	59	Chairman	Incumbent	3/2022	3/2025	–	–	–	–	–	–	872.2	No
Xu Ziyang	Male	51	Director and President	Incumbent	3/2022	3/2025	168,000	–	–	168,000	0.0035%	0.0042%	1,128.0	No
Li Buqing	Male	51	Director	Incumbent	3/2022	3/2025	–	–	–	–	–	–	20.0	Yes
Gu Junying	Male	56	Director and Executive Vice President	Incumbent	3/2022	3/2025	–	–	–	–	–	–	885.0	No
Zhu Weimin	Male	57	Director	Incumbent	3/2022	3/2025	–	–	–	–	–	–	20.0	Yes
Fang Rong	Female	59	Director	Incumbent	3/2022	3/2025	–	–	–	–	–	–	20.0	Yes
Cai Manli	Female	50	Independent Non-executive Director	Incumbent	3/2022	6/2024	–	–	–	–	–	–	40.0	Yes
Gordon Ng	Male	59	Independent Non-executive Director	Incumbent	3/2022	6/2024	–	–	–	–	–	–	40.0	Yes
Zhuang Jiansheng	Male	58	Independent Non-executive Director	Incumbent	3/2022	3/2025	–	–	–	–	–	–	40.0	Yes
Xie Daxiong	Male	60	Chairman of Supervisory Committee	Incumbent	3/2022	3/2025	371,903	–	92,800	279,103	0.0058%	0.0069%	639.1	No
Xia Xiaoyue	Female	48	Supervisor	Incumbent	3/2022	3/2025	50,927	–	–	50,927	0.0011%	0.0013%	239.2	No
Li Miaona	Female	49	Supervisor	Incumbent	3/2022	3/2025	–	–	–	–	–	–	199.0	No
Jiang Mihua	Female	46	Supervisor	Incumbent	3/2022	3/2025	–	–	–	–	–	–	–	Yes
Hao Bo	Male	34	Supervisor	Incumbent	3/2022	3/2025	–	–	–	–	–	–	–	Yes
Wang Xiyu	Male	49	Executive Vice President	Incumbent	3/2022	3/2025	139,034	–	–	139,034	0.0029%	0.0035%	1,092.5	No
Li Ying	Female	45	Executive Vice President and Chief Financial Officer	Incumbent	3/2022	3/2025	95,500	–	–	95,500	0.0020%	0.0024%	895.1	No
Xie Junshi	Male	48	Executive Vice President	Incumbent	3/2022	3/2025	112,468	–	–	112,468	0.0024%	0.0028%	898.5	No
Ding Jianzhong	Male	47	Secretary to the Board of Directors	Incumbent	3/2022	3/2025	33,160	–	–	33,160	0.0007%	0.0008%	361.9	No
Total	**–**	**–**	**–**	**–**	**–**	**–**	**970,992**	**–**	**92,800**	**878,192**	**0.0184%**	**0.0218%**	**7,390.4**	**–**

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: Connected parties as defined under the Shenzhen Listing Rules.

Note 3: All shares in the Company held by the Directors, Supervisors and senior management personnel of the Company were A shares and none of them held any H shares. The Directors, Supervisors and senior management of the Company did not hold any equity interests in the subsidiaries of the Company.

Note 4: As at 31 December 2023, Mr. Zhang Changling, the spouse of Ms. Li Ying, held 6,668 2020 A shares options of the Company. Such share options have been recorded in the register required to be kept under the SFO.

Note 5: 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 and exercised by the Directors and senior management of the Company, please refer to the section headed "3.9 SHARE SCHEMES" in this report.

Save as disclosed above, as at 31 December 2023, none of the Directors, Supervisors and chief executives 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 C3 (previously Appendix 10, redesignated as Appendix C3 with effect from 31 December 2023) to the Hong Kong Listing Rules.

Save as disclosed above, at any time during the year ended 31 December 2023 and as at 31 December 2023, the Company has not entered into any arrangement that would enable the Directors, Supervisors or chief executives of the Company or their spouses or children under the age of 18 to hold any right to subscribe for the equity or debt securities of the Company or its associated corporations and acquire benefits, or to exercise any such right.

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 in 2023.

3.7.5 Company Secretary

The Company Secretary (Mr. Ding Jianzhong) is responsible for facilitating the procedures of the Board of Directors of the Company and communications among Directors, between Directors and shareholders and among the management and compliance with Board policies and procedures. In 2023, the Company Secretary received more than 15 hours of training to update his professional skills and expertise.

3.8 STAFF OF THE GROUP

3.8.1 Staff headcount and diversity

As at 31 December 2023, the Group had 72,093 employees (including 68,253 as employees of the parent company), with an average age of 34.6. There were 17,233 female employees accounting for approximately 23.9% of the total staff headcount and 54,860 male employees accounting for approximately 76.1% of the total staff headcount. The Group had 256 retired employees in 2023, including 136 retired employees in respect of which expenses were payable by the Company. The Group's staff breakdown by specialisation and academic qualifications is set out as follows:

Classification by specialisation

Type	Headcount	As an approximate percentage of total headcount
Research and development	35,393	49.1%
Marketing and sales	8,058	11.2%
Customer service	7,867	10.9%
Manufacturing	15,183	21.1%
Financial	1,291	1.8%
Administration	4,301	5.9%
Total	**72,093**	**100.0%**

Classification by academic qualifications

Type	Headcount	As an approximate percentage of total headcount
Doctorate degree	523	0.7%
Master's degree	28,951	40.2%
Bachelor's degree	25,542	35.4%
Others	17,077	23.7%
Total	**72,093**	**100.0%**

The Group's recruitment strategy is underpinned by the appointment of the right staff for the right position, in order to achieve staff diversity for all employees (including the senior management) in terms of gender, age, cultural and educational background, expertise, skills and know-how. As at 31 December 2023, the Group's female staff accounted for approximately 23.9% of the total staff headcount. Given the characteristics of the industry in which the Group operates, staff gender diversity has been attained. The Group is not aware of any factors and conditions that would render gender diversity for all employees (including senior management) more challenging or irrelevant.

3.8.2 Remuneration policy and regime and retirement benefits

For 2023, the aggregate amount of the Group's staff remuneration was approximately RMB30 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 and the management stock ownership scheme in a timely manner to enhance motivation of the management and core personnel. Information on the five highest paid employees of the Company for 2023 is set out in Note XV.3 "Five highest paid employees of the Group for the year" to the financial statements in this report. Details of the staff retirement benefits provided by the Group are set out in Note V.28 "Salary and welfare payables and provision for retirement benefits" to the financial statements in this report.

3.8.3 Training programme

Staff training provided by the Group includes induction training, leadership training, job-specific business skill training and compliance training for all staff. Such training sessions are conducted in the forms of class lessons, public lectures, shared book studies, case discussion, themed seminars, sand table drilling, project assignments and online learning via PC terminals or mobile phones or remote learning. Training programmes will be arranged for new employees upon their induction according to their job positions, and instructors will be assigned to provide supervision. In-service staff may take part in group training, 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 variety of online and offline training comprising reading classes, close-ended training, guided reading and online learning.

3.9 SHARE SCHEME

The A share scheme 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.

3.9.1 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 under the initial grant was granted to 6,123 participants (including Directors, senior management 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), 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 2020 Share Option Incentive Scheme, 5,000,000 share options under the reserved grant was granted to 410 participants who were key business 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), 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.

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 any 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 share capital and total A share capital in issue, and the maximum entitlement (including exercised, cancelled and unexercised share options) and awards which may be granted to a scheme participant within any 12-month period shall not exceed 0.1% of the Company's total share capital and total A share capital in issue.

(3) Exercise price, basis of determination, adjustment to exercise price and value of share options

Exercise price and basis of determination

A. Share options under the initial grant

The initial exercise price of share options under the initial grant of the 2020 Share Option Incentive Scheme is the higher of the following:

a. the average trading price of the A Shares of the Company on the last trading day immediately preceding the announcement of the draft and summary of the 2020 Share Option Incentive Scheme (i.e. 12 October 2020); or

b. the average trading price of the A Shares quoted for the 20 trading days immediately preceding the announcement of the draft and summary of the 2020 Share Option Incentive Scheme.

Based on the aforesaid principle, the initial exercise price of the share options under the initial grant of the 2020 Share Option Incentive Scheme is RMB34.47 per A share.

B. Share options under the reserved grant

The initial exercise price of share options under the reserved grant of the 2020 Share Option Incentive Scheme is the higher of the following:

a. the average trading price of the A Shares of the Company on the last trading day immediately preceding the announcement of the Board resolution approving the grant of reserved grant (i.e. 23 September 2021); or

b. the average trading price of the A Shares quoted for the 20 trading days immediately preceding the announcement of the Board resolution approving the grant of reserved grant.

Based on the aforesaid principle, the initial exercise price of the share options under the reserved grant of the 2020 Share Option Incentive Scheme is RMB34.92 per A share.

Adjustment of exercise price

During the validity period of the 2020 Share Option Incentive Scheme, in the event of any dividend distribution, capitalisation through conversion of capital reserves, bonus issue, sub-division, rights issue or consolidation of shares, etc. in relation to the Company's A shares by the Company prior to any exercise of share options, the exercise price shall be adjusted accordingly.

Valuation of share options

A. Share options under the initial grant

The Company has adopted the Binomial Tree model to calculate the value of share options under the initial grant of the 2020 Share Option Incentive Scheme. The date of grant (i.e. 6 November 2020) has been adopted as the measurement date and the estimated value of the 2020 share options is RMB9.12 per A share, representing 25.47% of the market price of the A shares on the date of grant. Data used in and results of the calculation are as follows:

Factors	Amount of factors and description
Initial exercise price	RMB34.47 per A share
Market price	RMB35.80 per A share, being the closing price of the A shares on the date of grant
Expected life	The scheme participants shall exercise all his/her options exercisable in the first, second and third exercise period within the 2nd, 3rd and 4th year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first, second and third exercise period being 34.40%, 33.57% and 30.33%, respectively.
Expected dividend	RMB0.20 per share
Risk-free interest rate	The risk-free interest rate for the first, second and third exercise period shall be 2.78%, 2.85% and 2.91%, respectively.
Value of share options per A share	RMB9.12

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

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

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

B. Share options under the reserved grant

The Company has adopted the Binomial Tree model to calculate the value of the reserved share options under the 2020 Share Option Incentive Scheme. The date of grant (i.e. 23 September 2021) has been adopted as the measurement date and the estimated value of the reserved share options under the 2020 Share Option Incentive Scheme is RMB7.22 per A share, representing 20.61% of the market price of the A shares on the date of grant. Data used in and results of the calculation are as follows:

Factors	Amount of factors and description
Initial exercise price	RMB34.92 per A share
Market price	RMB35.03 per A share, being the closing price of the A shares on the date of grant
Expected life	The scheme participants shall exercise all his/her options exercisable in the first and second exercise periods within the 2nd and 3rd year from the date of grant, respectively.
Expected price volatility rate	The historical price volatility rate of ZTE A share used for the first and second exercise periods being 29.53%, and 31.46%, respectively.
Expected dividend	RMB0.20 per share
Risk-free interest rate	The risk-free interest rate for the first and second exercise periods shall be 2.39% and 2.50%, respectively.
Value of share options per A share	RMB7.22

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

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

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

(4) Day of grant, validity period, vesting period, exercise period and exercise percentage, outstanding valid period

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 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. The exercise conditions for the third exercise period under the initial grant were fulfilled and the vesting of 49,454,276 share options was completed on 15 November 2023. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB27.78 per share.

The outstanding valid period for share options under the initial grant of the 2020 Share Option Incentive Scheme is the period from the date of publication of this report to 5 November 2024.

B. Share options under the reserved grant

The reserved grant of the 2020 Share Option Incentive Scheme of the Company shall remain in force for 3 years from the date of grant of the initial grant (i.e. 23 September 2021). The valid period shall be from 23 September 2021 to 20 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. The exercise conditions for the second exercise period under the reserved grant of the 2020 Share Option Incentive Scheme were fulfilled and the vesting of 2,402,000 share options was completed on 13 October 2023. The weighted average closing price of A shares on the trading date immediately before the vesting date was RMB33.73 per share.

The outstanding valid period for share options under the reserved grant of the 2020 Share Option Incentive Scheme is the period from the date of publication of this report to 20 September 2024.

(5) 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 45,007,844 share options were exercised out of a total of 50,190,495 share options exercisable by 5,816 participants (as adjusted). The 5,182,651 unexercised options as at the end of the exercisable period under the second exercise period were cancelled in November 2023.

Prior to the commencement of the third exercise period, in November 2023, the Company cancelled 862,742 share options previously granted to participants who were no longer qualified as such or share options for which exercise conditions under the third exercise period had not been fulfilled. The third exercise period comprised the exercise dates within the period from 15 November 2023 to 5 November 2024, during which 49,454,276 share options are exercisable by 5,729 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 2,131,200 share options were exercised out of a total of 2,454,500 share options exercisable by 402 participants (as adjusted). The 323,300 unexercised options as at the end of the exercisable period under the first exercise period were cancelled in September 2023.

Prior to the commencement of the second exercise period, in September 2023, the Company cancelled 52,500 share options previously granted to participants who were no longer qualified as such. The second exercise period comprised the exercise dates within the period from 13 October 2023 to 20 September 2024, during which 2,402,000 share options is exercisable by 397 participants (as adjusted).

The exercise price of the aforesaid cancelled options was RMB0.

3.9.2 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, a total of 45,007,844 share options during the second exercise period under the initial grant of the 2020 Share Option Incentive Scheme were exercised and the number of the Company's A shares increased by 45,007,844 shares accordingly. The exercise price was RMB34.47 per share. 0 share option had been exercised for the third exercise period. 2,131,200 share options had been exercised for the first exercise period under the reserved grant and the number of the Company's A shares increased by 2,131,200 shares accordingly. The exercise price was RMB34.92 per share. 0 share option had been exercised for the second exercise period. 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 did 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 as at 29 December 2023 was RMB26.48 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	Number of unexercised options at the end of the Reporting Period		Weighted average closing price (RMB/share) Note 1
									As a percentage of total share capital	As a percentage of A shares	
1. Share options under the initial grant											
Li Zixue	Chairman	120,000	0	120,000	0	60,000	0	60,000	0.0013%	0.0015%	N/A
Xu Ziyang	Director and President	120,000	0	120,000	0	60,000	0	60,000	0.0013%	0.0015%	N/A
Li Buqing	Director	33,334	0	33,334	0	16,666	0	16,668	0.0003%	0.0004%	N/A
Gu Junying	Director and Executive Vice President	120,000	0	120,000	0	60,000	0	60,000	0.0013%	0.0015%	N/A
Zhu Weimin	Director	33,334	0	33,334	0	16,666	0	16,668	0.0003%	0.0004%	N/A
Fang Rong	Director	33,334	0	33,334	0	16,666	0	16,668	0.0003%	0.0004%	N/A
Sub-total of Directors Note 2		**460,002**	**0**	**460,002**	**0**	**229,998**	**0**	**230,004**	**0.0048%**	**0.0057%**	**N/A**
Wang Xiyu	Executive Vice President	120,000	0	120,000	0	60,000	0	60,000	0.0013%	0.0015%	N/A
Li Ying	Executive Vice President and Chief Financial Officer	120,000	0	120,000	0	60,000	0	60,000	0.0013%	0.0015%	N/A
Xie Junshi	Executive Vice President	120,000	0	120,000	0	60,000	0	60,000	0.0013%	0.0015%	N/A
Ding Jianzhong	Secretary to the Board of Directors and Company Secretary	80,000	0	80,000	0	40,000	0	40,000	0.0008%	0.0010%	N/A
Sub-total of senior management		**440,000**	**0**	**440,000**	**0**	**220,000**	**0**	**220,000**	**0.0046%**	**0.0055%**	**N/A**
Other key employees of the Company		99,607,511	0	99,607,511	45,007,844	5,595,395	0	49,004,272	1.0245%	1.2167%	41.01
Total		**100,507,513**	**0**	**100,507,513**	**45,007,844**	**6,045,393**	**0**	**49,454,276**	**1.0339%**	**1.2278%**	**41.01**
2. Share options under reserved grant											
Other key employees of the Company		4,909,000	0	4,909,000	2,131,200	375,800	0	2,402,000	0.0502%	0.0596%	41.52
Total		**4,909,000**	**0**	**4,909,000**	**2,131,200**	**375,800**	**0**	**2,402,000**	**0.0502%**	**0.0596%**	**41.52**

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

For the Reporting Period, 105,416,513 shares in the Company's A share capital were issuable in respect of share schemes, accounting for 2.63% of the weighted average number of shares in the Company's A share capital in issue during the Reporting Period, among which 47,139,044 shares in the A share capital had been issued as a result of the exercise of share options, 6,421,193 share options had been cancelled, and 51,856,276 share options remain exercisable in future, accounting for 1.18%, 0.16% and 1.29%, respectively, of the weighted average number of the Company's A shares in issue during the Reporting Period.

As at the date of publication of this report, a total of 49,454,276 A share options were unexercised under the initial grant of the 2020 Share Option Incentive Scheme of the Company, accounting for approximately 1.03% of the Company's total share capital in issue and 1.23% of the Company's A shares in issue. A total of 2,402,000 A share options were unexercised under the reserved grant, accounting for approximately 0.05% of the Company's total share capital in issue and 0.06% of the Company's A shares in issue. As at the date of publication of this report, the total number of shares that may be issued under the 2020 Share Option Incentive Scheme is 51,856,276 shares, accounting for approximately 1.08% of the Company's total share capital in issue and 1.29% of the Company's A shares in issue.

3.9.3 Accounting policy, accounting treatment and financial impact

Specific accounting treatments of share options are set out in Note III.19 "Share-based payments" to the financial statements. Accounting treatment and its impact on the financial conditions and operating results of the Company for the Reporting Period are set out in Note XII "SHARE-BASED PAYMENT" to the financial statements.

3.10 AUDITOR

Ernst & Young Hua Ming LLP ("Ernst & Young Hua Ming") acted as the Company's auditor. Ernst & Young Hua Ming has been appointed the Company's auditor for 19 consecutive years since 2005.

Owing to reassignment of duties, Ernst & Young Hua Ming has appointed Ms. Zhu Ting to replace Ms. Zeng Cihua, the previous undersigning accountant. The undersigning accountants of Ernst & Young Hua Ming are Mr. Li Jianguang and Ms. Zhu Ting.

Mr. Li Jianguang has been providing audit services to the Company for four years and the year under review was the fourth year for which he acted in the capacity of undersigning accountant. Ms. Zhu Ting started to provide audit services to the Company in 2023 and the year under review was the first year for which she acted in the capacity of undersigning registered accountant. Ms. Zhu Ting qualified as a registered accountant in 2014 and has practised audit work with Ernst & Young Huaming since 2006. She started to provide audit service to the Company in 2023. She has extensive experience in the practices of reporting and auditing for listed companies and annual report auditing for listed companies, having been involved in audit services for over 15 years.

Fees paid to Ernst & Young Hua Ming and Ernst & Young by the Group for 2023 are set out below:

RMB in ten thousand

Item	Amount	Auditor
Audit fees 2023	830.0	Ernst & Young Hua Ming
Internal control audit fees 2023	126.0	Ernst & Young Hua Ming
Audit fees 2023 for ZTE HK	60.8	Ernst & Young
Audit fees 2023 for other subsidiaries of the Group	77.85	Ernst & Young Hua Ming
Review of 2023 interim financial report	72.0	Ernst & Young Hua Ming
Tax return and tax consultation service for ZTE HK	13.4	Ernst & Young
Total	**1,180.05**	—

3.11 ACCOUNTABILITY AND AUDIT

The Directors of the Company confirm that it is their responsibility to prepare the financial statements and to provide objective and clear assessments in the consolidated financial statements of the annual reports, interim reports and quarterly reports, other inside information announcements and other financial disclosures required under the Hong Kong Listing Rules, and to disclose information to regulatory authorities in accordance with statutory requirements. The Directors have consistently applied appropriate accounting policies and complied with all applicable accounting standards in preparing the financial statements for the year ended 31 December 2023.

The Directors confirm, after making all reasonable enquiries, that as at the date of publication of this report, they were not aware of or have not identified significant uncertainties or conditions that might have an adverse material impact on the ability of the Company to operate as a going concern, and as a result it is appropriate for the Group to prepare its financial statements on a going concern basis.

A statement of the Company's auditor on its reporting responsibility and views on the financial statements of the Company for the year ended 31 December 2023 is set out in the "AUDITORS REPORT" in this report.

3.12 INTERNAL CONTROL AND RISK MANAGEMENT

The Board of Directors of the Company is responsible for reviewing the Company's risk management and internal control systems to ensure their effective implementation. The Board of Directors has delegated to the Audit Committee the responsibility for reviewing the effectiveness of the risk management and internal control systems of the Company and its subsidiaries. The Board of Directors shall ensure the adequacy of resources and budget for accounting, internal audit and financial reporting functions and environmental, social and governance ("ESG") performance and reporting, and that staff are qualified, experienced and well-trained for these purposes.

The Audit Committee under the Board of Directors of the Company held four regular meetings to review the financial report and ensure the compliance of Hong Kong Listing Rules, consider whether the risk management and internal control systems of the Company and its subsidiaries had been operating effectively in 2023 and what further improvements could be made and reported their findings to the Board of Directors of the Company, in accordance with relevant laws and regulations. Such reviews covered the financial, operational and compliance aspects.

3.12.1 Establishment of internal control departments

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

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

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

3.12.2 Establishment and implementation of internal control system

The Company's internal control establishment has basically covered production operations, financial management, organisation, personnel management, information disclosure and ESG. Taking into account its specific conditions, the Company has developed a comprehensive internal control system.

The Company has formulated and implemented the ZTE Corporation Internal Control System to define the functional institutions of the Company's internal control and their powers, stipulate principles for internal control and key internal control factors and methods. The Company has formulated and put into implementation the ZTE Corporate Risk Management Regulations to stipulate that risk management shall be conducted in compliance with the principle of "management in accordance with regulations, assessment in accordance standards, handling of situations in accordance with pre-determined plans, addressing changes with warning and conducting review on risk incidents". A three-tier risk management organisation and allocation of duties comprising the Company, the secondary units and primary units has been formed and risk rating has been implemented in seven dimensions including daily operation, laws and regulations, staff health and safety, corporate reputation, product competitiveness, market share and financial loss. A closed-loop management process comprising risk categorisation, identification, assessment, response, monitoring and reporting is executed. The Company has formulated and put into implementation the ZTE Administrative Measures for Driving Rectifications of Internal Control Deficiencies to regulate the entire process covering the identification and assessment of deficiencies, control over rectification plans, tracking of rectification processes and closing of rectification results. Each year, the Company will review the effectiveness of its risk management and internal control systems and the implementation processes and outcomes of the annual risk management and internal control action plans based on the ZTE Corporation Internal Control System and ZTE Risk Management Regulations with reference to the Internal Control Handbook.

The Company's internal control includes ESG management. Each year, we track key ESG risks through corporate culture development, key mission and systematic closed-loop in accordance with the ZTE Corporation Internal Control System and ZTE Risk Management Regulations. ESG risks identified by the Company included climate change risks, health and safety risks and risks associated with business ethics, among others. In respect of ESG risks identified, the Company has formulated relevant control measures, organising full inspection on a regular basis to eliminate hazards and lower risks, and conducting ongoing supervision to improve and ensure the effectiveness of the Company's ESG risk and internal control system.

The Company has formulated and put into implementation the Administrative Rules for Information Disclosure to strengthen the duty of the Company's internal institutions and staff for information disclosure and to ensure that the information disclosure of the Company is true, accurate, complete and timely. The Company has formulated and put into implementation the System of Registration of Owners of Inside Information to regulate administration of the Company's inside information, procure confidentiality of the inside information and safeguard the principle of fairness in information disclosure. In 2023, the Company implemented the aforesaid systems in a meticulous manner and rigorously conducted the administration of inside information.

The Company has formulated the "ZTE Whistleblowing Handling and Investigation Procedures" to develop compliant whistleblowing channels for both internal and external parties that enable Company staff, partners and other informed parties to report conduct that might compromise the Company's interest. The Company has also formulated a range of systems such as ZTE Staff Code and Accountability Measures that prohibit corruption in any form. The internal audit department of the Company reports relevant work to the Audit Committee and the Board on a quarterly basis.

In 2023, the Company internal control efforts were focused on the following:

(1) The Company was engaged in steady advancement of a risk management-oriented internal control regime to further strengthen the development of internal control organisation at primary level and build a primary risk prevention and control mechanism to facilitate the implementation of internal control at primary level. Internal control responsibility and awareness for staff and management officers was enhanced with ongoing organisation of activities to propagate the probity culture and foster an ambience of integrity and probity. Activities for the development of an environment conducive to internal control, such as internal control education for all staff, seminars on internal control in business operations, sharing of outstanding internal control cases and internal control manager accreditation, were organised on a continuous basis.

(2) Business risk management was further enhanced and the risk framework was optimised to advance comprehensive coverage of risk management and strengthen responsibilities of risk management organisations at various levels, while ongoing efforts were made to regulate the process of risk identification, assessment and management and introduce further breakdowns of standard business risk management actions in in-depth implementation of risk management at primary levels.

(3) Amendments have been made to the internal control system in accordance with the Basic Regulations for Corporate Internal Control and its supplementary guidelines and the rules and regulations of the Company. Amendments to the Internal Control System were completed. Ongoing efforts were made to drive the online operation of key business process controls to enhance the efficiency and effectiveness of management and control.

(4) Deeper effort was made in business audit and self-inspection and self-rectification to encourage self-initiated identification of issues proactive disclosure and conduct substantive inspection with a special emphasis on key control points to enhance the effectiveness of inspection across different business segments.

(5) Key internal control tasks were rolled out to seek improvements in key business areas such as risk control in contract management, subsidiary management, overseas file management, fixed asset management and outsourcing and management, while the operating model of the internal control system was optimised to facilitate ongoing progress in the digitalisation of various business processes. Special internal control assessment and management optimisation in relation to seal management internal control and assessment, management of domestic marketing and engineering outsourcing and procurement of installation materials was completed, as was the Company's five-year retrospective deficiency review in enhancement of overall quality supervision.

(6) Inspection of the Company's derivative trading and securities investment was conducted and support was given to Ernst & Young Hua Ming LLP for their audit of the Company's internal control.

The risk management and internal control systems of the Company have been designed to provide reasonable (but not absolute) assurance against material misstatements or losses and to manage (but not eliminate) risks associated with the malfunctioning of operating systems or failure to attain the Company's objectives. The Board of Directors of the Company has reviewed the effectiveness of the risk management and internal control systems of the Company and its subsidiaries and is of the view that the risk management and internal control systems had been effective and adequate throughout the financial year ended 31 December 2023.

3.12.3 Management control over subsidiaries

The Company instructs its subsidiaries to improve their corporate governance structure, diligence of directors and supervisors and internal control regime in accordance with pertinent laws and regulations and relevant guidelines and requirements for the regulated operation of listed companies to enhance sophistication in corporate management and the ability to conduct regulated operations. The reporting system and review procedures of subsidiaries for material matters have been undergoing continuous optimisation and material matters of subsidiaries such as their financial conditions and production operations has been subject of concern. Information disclosure and the mechanism for reporting material and important risks have been strengthened to prevent and alleviate in a timely manner various types of operational risks and safeguard the legal, compliant and sound operation of subsidiaries.

3.12.4 The 2023 Internal Control Assessment Report

The Company has conducted an assessment on the effectiveness of its internal control as at 31 December 2023 (being the record date for the internal control assessment report) in accordance with the Basic Rules for Corporate Internal Control, its supplementary guidelines and other internal control regulatory requirements and taking into account its internal control system and assessment methods, based on general as well as specific supervision of internal control. Based on the work of identifying significant deficiencies in the Company's internal control in relation to financial reporting and non-financial reporting, as at the record date for the internal control assessment report, the Company was not subject to any significant deficiency in internal control in relation to financial reporting, nor was any significant deficiency identified in internal control in relation to non-financial reporting.

Total assets of units being assessed accounted for more than 90% of the total assets as recorded in the consolidated financial statements of the Company, while the aggregate operating revenue of such units also accounted for more than 95% of the total operating revenue recorded in the consolidated financial statements of the Company. For the principal units under assessment and standards for assessing deficiencies in financial reports and non-financial reports and other details of the Company's internal control, please refer to the "Overseas Regulatory Announcement" published by the Company on 8 March 2024.

3.12.5 Internal control audit report furnished by the auditor

Ernst & Young Hua Ming LLP conducted an audit on the effectiveness of internal control in relation to the financial reporting of the Company for the year ended 31 December 2023 in accordance with relevant requirements under the Corporate Internal Control Audit Guidelines and the Practicing Guidelines for Chinese Certified Public Accountants and is of the view that the Company has maintained effective internal control in financial reporting in all material aspects in accordance with the Basic Rules for Corporate Internal Control and pertinent provisions. For the internal control audit report of the Company, please refer to the "Overseas Regulatory Announcement" published by the Company on 8 March 2024.

3.13 RECTIFICATION OF SELF-INSPECTED ISSUES UNDER SPECIFIC CORPORATE GOVERNANCE INITIATIVES FOR LISTED COMPANY

Corporate governance was generally in compliance with requirements without any material issues requiring rectification.

3.14 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 C1 of the Hong Kong Stock Exchange 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. In accordance with Code C.1.6 of the Corporate Governance Code, Independent Non-executive Directors and other Non-executive Directors should attend the general meeting to gain a comprehensive and fair understanding of the views of the Company's shareholders.

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. Other than Non-executive Director Ms. Fang Rong who was unable to attend the 2022 Annual General Meeting owing to work reasons, all 7 of the rest of the Directors duly attended the 2022 Annual General Meeting.

IV. Environmental and Social Responsibility

In persistent adherence to the principle of sustainability, ZTE has incorporated sustainable development into its corporate strategy and sought in-depth understanding of the demands of stakeholders to facilitate environmental, social and governance ("ESG") implementation with reference to critical issues of substance.

4.1 ENVIRONMENTAL INFORMATION

As an important participant in the global ICT industry, the Company is highly concerned with global climate change, as it consistently drives the progress of green operation and put into practice the principle of contributing to the greater good with the aid of technology. On the basis of digital and intelligent technological innovation, we have built the Shades of Digital Economy and fulfilled green development through four major aspects: green corporate operation, green supply-chain, green ICT digital and intelligent bases and green industry empowerment. The Group was not subject to any administrative punishment owing to environmental issues for 2023.

4.1.1 Green corporate operation

Through the combination of technological innovation schemes and scientific management systems, the Company has enhanced energy efficiency in daily corporate operation, reduced the generation of waste and emission and facilitated reasonable and efficient utilisation of resources in all-round low-carbon operation.

In 2023, the Company continued to promote the construction of the energy management center. Based on the "IoT +IT technology" energy management solution, the Company conducted online monitoring, analysis, and control of all energy consumption in each park; classifies, collects, stores, and handles waste in accordance with the waste management regulations to ensure that waste is disposed correctly, and continuously invest resources to protect the ecological environment of the park.

In 2023, the Group's total expenditure in environmental treatment and protection amounted to approximately RMB52.83 million, which has been applied in the handling of exhaust gas, sewage, hazardous waste and garbage, installation of environmental monitoring equipment, energy-saving conversion of equipment through R&D, production and administration, and green landscape in the plant areas. In 2023, the Group paid environmental taxes with an approximate amount of RMB0.32 million.

4.1.2 Green supply chain

The Company implements end-to-end low-carbon green practices for the supply chain through four major aspects: green procurement, green manufacturing, green logistics and green recycling. We have called on our partners along the industry chain to join us in the building of a green ecosystem. In 2023, the Company was granted the title of "National-grade Green Supply Chain Management Exemplary Enterprise" by MIIT.

In connection with green procurement, the Company has included the dual-carbon requirement in the end-to-end process of supplier management. In 2023, we conducted dual-carbon audit on more than 150 suppliers and issued a "Letter requesting suppliers to commence dual-carbon strategic planning" to its suppliers worldwide to provide instructions to suppliers on dual-carbon governance. In connection with green manufacturing, the Company is focused on energy conservation and reduced consumption at the production site, achieved in an innovative manner through the integration of green manufacturing and smart manufacturing with the aid of technical means. In connection with green logistics, the Company has facilitated innovation in delivery models on the back of its digital and intelligent base for the supply chain as well as efficient green delivery through automated efficiency enhancement, scenario-based management and diversified services. In terms of green cycle, the company maximizes internal repeated consumption and external recycling of resources through internal and external cycles, and reduces the scrapping rate while meeting quality and compliance requirements. In 2023, the Company achieved a 92% ratio for the direct recycling of returned materials.

4.1.3 Green digital and intelligent base

As a driver as well as implementer of intelligent manufacturing, the Company rigorously fulfills its environmental responsibility throughout the life cycle of its products with a special focus on energy efficiency enhancement through technological innovations and solutions, with a view to creating an end-to-end zero carbon network.

In connection with green design and R&D of products, the Company is concerned with the environmental performance of its products throughout their entire life cycle and has incorporated carbon reduction in products into our R&D and management processes to advance the progress of carbon reduction in products. In connection with green infrastructure, the Company has accumulated and put to application a considerable number of technical innovations catered to the shared characteristics of the industry chain on the back of its understanding of and R&D strength in base-level standards and architecture to assist in the construction of green infrastructure facilities. In 2023, ZTE base station GaN achieved a power amplification ratio of over 60%. Based on the SUPER-N2.0 technology, the power amplification efficiency of ZTE's new-generation RRUs is increased by 8%–10% compared with the industry level, maintaining a leading position in the world. In connection with green packaging, the Company has continued to optimise its packaging design and use of packaging materials. We promoted plastics-free packaging and plastics-light packaging and promoted the application of eco-friendly and sustainable materials in the packaging of the Company's products through the application of alternative materials and lightweight design, among others.

4.1.4 Green industry empowerment

The Company aims for "clean energy, excellent ICT and intelligent network at their best" as it creates green, efficient and reliable new "zero carbon" networks for customers. The Company has launched a green precision cloud solution based on the "Digital Nebula" architecture in sophisticated service of 15 major industries, having explored more than 100 5G innovative application to assist in the digital transformation and upgrade as well as energy conservation and emission reduction of countless industrial sectors, including the construction of novel electrical power systems running primarily on new energy. For the past two years, the integrated energy efficiency of all the Company's products sold has improved by more than 27%.

In 2023, the Company also actively participated in the formulation and deliberation of dual-carbon standards in China and overseas, including participation in the formulation of "Technical Requirements and Tiers for Green Packaging of Communication Network Products" and the formulation of the group standard "Technical Standards for the Testing and Representation of Energy Efficiency at Communication Base Stations", among others, in a bid to advance the development of industry standards.

4.1.5 Pollution discharge

During 2023, ZTE and ZTE (Nanjing) Company Limited ("ZTE Nanjing"), a subsidiary of the Company, were major environmental risk control entities as 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, 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	14.728t	35.7795t	Compliant
	Waste mineral oil and waste containing mineral oil	1.8875t	4.623t	Compliant
	Oil/water, hydrocarbon/hydro-mixture or emulsifier	17.0155t	40.845t	Compliant
	Organic resin waste	3.443035t	7.0575t	Compliant
	Waste containing mercury	1.1193t	3.123t	Compliant
	Waste containing lead	37.5816t	78t	Compliant
	Waste acid	0.03t	0.129t	Compliant
	Other waste	266.336595t	298.9965t	Compliant
ZTE Nanjing	Waste box containing lead and tin	3.4495t	4t	Compliant
	Waste empty container	28.3765t	35t	Compliant
	Waste circuit board	173.349t	180t	Compliant
	Waste bonding agent and sealant	6.183t	15t	Compliant
	Waste liquid containing solvent	519.3155t	576t	Compliant
	Waste acid	0.052t	0.15t	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

(6) Environmental protection and related treatments:

ZTE and ZTE Nanjing conduct their production activities in the course of their 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 and Pollution Control Standards for Hazardous Waste Storage, and have conducted environmental impact assessment for construction projects and obtained environmental assessment approval documents from the environmental authorities and obtained relevant permits in accordance with environmental laws and regulations.

ZTE and ZTE Nanjing have installed independent hazardous waste warehouse handled by duly qualified suppliers in accordance with environmental protection requirements. Administrative systems and contingency plans have been formulated to improve its ability to prevent and deal with environmental incidents and regular safety inspections are being conducted. All systems and facilities have been operating in good conditions. Identification and assessment of environmental risks have been organised on a regular basis with the formulation of risk-specific preventive and improvement measures. Respective "Contingency Plans for Environmental Emergencies" have been formulated, announced, subject to assessment by experts and filed with the environmental authorities and drills have been organised regularly. Qualified third-party environmental monitoring institutions have been appointed to conduct tests on a regular basis to ensure compliance in the discharge of various pollutants.

4.2 SOCIAL RESPONSIBILITY

4.2.1 Supporting staff progress with a people-oriented approach

Staff represent one of the Company's three major cornerstones. The Company is committed to fostering a workplace with an ambience of simplicity and transparency and providing a smooth passage for growth for its staff. We have formulated a diversified training regime to help in the growth and self-fulfillment of staff.

To protect staff vocational rights, the Company has fostered a fair and equitable workplace to provide equal opportunity for work and development for employees. We have also created a safe and healthy workplace where safety hazard inspections of the Company's production and operation premises are carried out on a regular basis. Channels and mechanisms for staff communication and dialogue have been established to provide sufficient means for staff to express their views and demands.

In terms of the talent development mechanism, the Company strengthens the capability building of employees, and carries out talent training projects in various forms, such as new employees, production and manufacturing employees, R&D technical talents, leadership talents, and overseas talents. Improve the performance management and incentive mechanism to help employees continuously improve performance, inspire employees to be united, responsible, professional, and pragmatic, and strive to be value contributors.

In terms of employee care and welfare, the Company improves the employee welfare system, provides employees with abundant places for afterwork activities, and sets up yoga rooms, dance rooms, and employee activity centers. Attach importance to the mental health of employees, carry out EAP psychological support projects, and provide psychological assistance for employees through various counseling methods, training, and EAP activities.

4.2.2 Winning customers' trust with openness and transparency

As a global leading provider of integrated communication and information solutions, the Company provides customers with secure and trustworthy products and services to enable global users to benefit from secure and reliable network connectivity and digital living.

The Company regards security as the highest priority in product R&D and delivery, having developed a security governance regime covering the entire life cycle of products and remained highly alert to domestic and international cyber security legislations to ensure implementation of security government requirements in the Company's product security strategy, while consistently enhancing security certification for its products to safeguard the security level of its products and services from multiple angles and dimensions.

The Company regards quality as a cornerstone to the corporate survival and development, as it has continued to improve its quality management regime and advance the certification and audit of its management regimes. In 2023, at a number of major R&D centres and manufacturing bases in Shenzhen, Beijing and Changsha, we completed the certification and audit of a number of management regimes, such as the quality management regime and the environmental management regime. We have built an interactive platform for the propagation of the quality culture in multiple scenarios such as online roadshow of the quality competence centre, quality campaign month and summit meetings on quality themes, in order to create a quality culture involving all employees.

4.2.3 Concerted growth with our partners through win-win cooperation

In 2023, the Company released the SPIRE2.0 strategy to strengthen supply chain resilience and incorporate sustainable development requirements into supply chain management, requiring suppliers, including lower-tier suppliers, to comply with the same standards.

The Company has established a full-cycle supplier management model and incorporated sustainability in its procurement decision-making in implementation of sustainable procurement strategy. During the stage prior to appointment, we conduct analysis of environmental and social risks associated with suppliers and exercise tiered control over suppliers according to the results of risk analysis. During the course of cooperation, we exercise enhanced CSR audit and supervision over suppliers in three ways: uniform audit, special audit and external audit.

The Company has enhanced empowerment and support for suppliers by offering a diverse range of training and empowerment to facilitate enhancement in suppliers' competence and drive mutual development with its partners. In 2023, more than 190 participants from 96 suppliers participated in the "ZTE 2023 Suppliers' Training Camp", where training in CSR management and sunshine procurement, among others, were provided to help suppliers understand the Company's operating processes and rules for procurement-related businesses and improve the CSR capabilities and awareness.

4.2.4 Undertaking responsibilities to make contributions to the global community

ZTE continued to consolidate its achievements in poverty alleviation and assisted in rural revitalisation in active response to the call of national policies. In 2023, ZTE Charity Foundation launched a total of 61 community welfare projects relating to education assistance, medical relief, relief for the underprivilege and rural revitalisation relief were rolled out in more than 70 districts or counties in 50 cities in 23 provinces nationwide. Our staff volunteers were organised to participate in 308 sessions of voluntary service for the benefit of more than 200,000 members of the public, as we continued to share the compassion of ZTE with the community.

In connection with support for the development of education, we continued to improve the quality of our educational aid through both financial assistance and growth support. Financial assistance was provided to 1,550 underprivileged students in regions such as Gansu, Qinghai, Guangxi, Guizhou, Jiangxi and Anhui through two projects: "ZTE Education Assistance for China" and "ZTE Angel Education Assistance Programme". Meanwhile, through the organisation of activities such as urban study and research camp, scientific literacy lessons for schools and school education support camp, we lit up the light of technology for more than 4,000 students, whilst sending more than 5,000 handwritten letters of companionship to students under the "Echo Programme" in active response to the needs of students in growth.

In connection with support for public medical service, we continued to offer assistance according to different types of illnesses with a strong focus on the actual needs of the patients, providing aid and support at the critical points of medical service. In Heilongjiang and Sichuan, the “Bright Babies” service was launched to provide assistance to patients suffering retinopathy of prematurity (ROP), as assistance were extended to 151 patients suffering from ROP, primary immunodeficiency and refractory nephrotic syndrome. Through Vcare, we also provided relief services to the families of 7,701 chronically hospitalised pediatric patients.

In connection with care for the underprivileged, we organised visits to veteran soldiers of the Anti-Japanese war in Baoshan, Yunnan for the 18th year in a row, offering a cash gift of RMB5,000 to each while arranging aged-friendly conversion work for their homes to afford more convenience for the retirement life of these veteran soldiers. Elsewhere, we offered relief to residents of disaster-stricken areas, households falling below the poverty thresholds and groups in distress in the community or welfare homes by way of spending allowance and foodstuff purchase, among others.

In connection with rural revitalisation, we supported rural development through locally customised initiatives in relation to industry aid, digital village and infrastructure construction in active response to the actual needs of rural areas. We launched a number of initiatives in Linxia of Gansu, Liangshan of Sichuan, Xiuwen of Guizhou, Baise of Guangxi and Baisha of Hainan, such as the construction of digital villages, concrete roads, skills training and communal facilities for villagers, to speed up the bridging of gaps in rural development and livelihood, with a view to enhancing the people’s sense of fulfilment, happiness and security.

In 2024, ZTE’s community welfare initiatives will be focused on three aspects: we will continue to help the nation to consolidate its achievements in poverty alleviation and assisted in rural revitalisation. We will continue to share warmth and compassion with the community with reference to education assistance, medical aid, relief for the underprivileged and the fostering of a community welfare culture; in the meantime, scholarships will be offered to tertiary colleges and support will be extended to activities designed to cultivate campus culture, with a view to nurturing high-calibre talents for the nation. Internationally, we will continue to roll out welfare projects in connection with relief for the underprivileged and disaster relief in ongoing fulfillment of our corporate social responsibility.

4.3 CORPORATE GOVERNANCE

The Company has developed a governance structure comprising “three levels of governance bodies and one level of executive arm”, under which the General Meeting, Board of Directors, Supervisory Committee and management each fulfills its role and makes independent decisions in an efficient and transparent manner. In 2023, the Company established the Independent Directors’ Meeting under the Board in accordance with the latest changes and requirements of the governance rules to fulfill the Independent Directors’ role of “participating in decision-making, supervision and check and balance and professional consultation”. The Company has enhanced its internal control development and risk management to drive prudent operation. For details of corporate governance, please refer to “III. CORPORATE GOVERNANCE” in this report.

For details of the Company’s ESG performance, please refer to the “2023 Sustainability Report” published by the Company on the same date as this report.

V. Material Matters

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

5.1 MATERIAL LITIGATION AND ARBITRATION

In 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 RMB45,964,500). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand a compensation amount of BRL31,224,300 (equivalent to approximately RMB45,774,800) 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 to ZTE Brazil 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 RMB122 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 ZTE Brazil'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 RMB259 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 31 December 2023 where BRL amounts are translated at the exchange rate of BRL1:RMB1.4660.

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 Zonson Smart Auto Corporation ("Zonson Smart Auto"). The People's Court of Jinwan District, Zhuhai, Guangdong Province ruled to freeze Zonson Smart Auto's cash at bank amounting to RMB12,307,000. Zonson Smart Auto has appointed an attorney for active response to the case.

   In September 2020, Zonson 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 Zonson 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 Zonson Smart Auto's account with an amount of RMB15,865,000 and seize the land use rights of two sites under the name of Zonson Smart Auto.

   In January 2021, Zonson 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 Zonson Smart Auto.

   In December 2023, Zhuhai Intermediate Court handed down its first trial judgement and the two parties agreed to settle in accordance with the first trial judgement following negotiations. Zonson Smart Auto will pay to MCC20 a total of RMB77,043,414.58, and the two parties shall work in mutual cooperation to fulfill the work completion registration of the project in case within 9 months after the agreement comes into effect. Within 21 days after the fulfillment of the work completion registration, Zonson Smart Auto agreed to return the guarantee amount of RMB11,314,579.43 to MCC20 in a one-off payments. As such, all litigation procedures of the case were concluded.

   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. On 13 December 2023, Xi'an Intermediary People's Court conducted the second hearing of the first trial.

On 23 January 2024, Xi'an Intermediary People's Court handed down the first trial judgement, ruling the payment of RMB8 million in delay default loss and RMB250,000 in legal fees by China Construction No. 8 Bureau to Xi'an Zhongxing Software; approximately RMB348 million in outstanding project work amounts plus interests and RMB5 million in work suspension and stalling loss incurred by China Construction No. 8 delay owing to delay in work schedules by Xi'an Zhongxing Software to China Construction No. 8 Bureau; senior rights to compensation for China Construction No. 8 in respect of project work amounts or auction proceeds relating to its construction work to the extent of the outstanding project work amounts; the rest of the petitions of the two parties were rejected. On 5 February 2024, Xi'an Zhongxing Software filed an appeal against the first trial judgement.

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, Shandong Xingji Real Estate Company Limited ("Xingji Real Estate") 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 Xingji Real Estate 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 Xingji Real Estate. Rencheng Court ruled to freeze bank deposits with an aggregate amount of RMB95 million or seal properties with a 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 Xingji Real Estate, 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.

   On 25 August 2023, Rencheng Court ruled to reject all litigation petitions of Xingji Real Estate. All litigation proceedings of the aforesaid case were thereby concluded.

   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

5.2.1 Material connected transactions of the Group as defined under Shenzhen Listing Rules

In 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 31 December 2023. The Group had no significant 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 2023, there was no deposit, lending, credit facilities or other financial transactions between the financial company controlled by the Company and connected parties.

Details of the Group's connected transactions with connected parties in the ordinary course of business in 2023 as considered and approved by the Board are set out as follows:

RMB in ten thousands

Counterparty	Nature of connection	Subject matter	Price	Transaction limit for 2023 approved by the Board	Transaction amount in 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	cabinet and accessories: RMB1–50,000 per unit; antenna rod: RMB200–2,000 per unit; metal alloy stamp and mould: RMB0.5–45,000 per set; flexible printed circuit (FPC), rigid-flexible printed circuit (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 parts, mould and radiator: RMB40–9,000 per set; robot: RMB10,000–300,000 per set; industrial camera: RMB5,000–200,000 per unit; industrial light source: RMB1,000–100,000 per set; graphic processing controller: RMB5,000–150,000 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 thermometer system: RMB10,000–200,000 per set; data collection system: RMB50,000–5,000,000 per set; smart patrolling and inspection system: RMB50,000–1,000,000 per set; smart plant construction sub-system: RMB100,000–1,000,000 per set; edge controller: RMB2,000–50,000 per set; and smart quality management cloud platform: RMB100,000–1,000,000 per set.	55,000	26,843.1	0.43%
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	68,254.4	5.04%
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	4,850.9	15.11%
Nanchang Zhongzhan Digital and Smart Technology Company Limited (formerly 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	5,032.7	15.68%
ZTE Hotel Shenzhen Investment & Management Company Limited ("ZTE Hotel") or its subsidiaries	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 ZTE Hotel sells products (or services) to other customers purchasing similar products (or services) in similar amounts. Hotel services purchased by the Group from ZTE Hotel 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.	6,000	5,557.6	6.77%
ZTE Hotel or its subsidiaries	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 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 RMB1,050,000/year.	5,754	3,969.1	12.10%

The aforesaid connected parties were able to manufacture products required by the Group on a regular basis 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 valuers.

5.2.2 Continuing connected transactions under the Hong Kong Listing Rules

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

5.2.2.1 Continuing connected transactions for the purchase of raw materials from Zhongxingxin

As considered and approved at the Ninth Meeting of the Ninth Session of the Board of Directors of the Company, the Group entered into the Purchase Framework Agreement with Zhongxingxin on 15 December 2022. The statutory procedures of reporting and announcement have been fulfilled in accordance with relevant clauses under Chapter 14A of the Hong Kong Listing Rules based on the estimated cap for 2023 of connected transactions under the said agreement. For details, please refer to the "CONTINUING CONNECTED TRANSACTIONS PURCHASES OF RAW MATERIALS FROM ZHONGXINGXIN" published by the Company on the Hong Kong Stock Exchange website and the Company's website on 15 December 2022.

(1) Counterparty and connected relationship

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

(2) Purpose of transaction

Zhongxingxin and its subsidiaries and companies in which it directly or indirectly owns 30% equity interests or above (collectively "Zhongxingxin Group") had been selected as long-term suppliers through the Group's qualification and bidding procedures as they had consistently been able to manufacture products in compliance with the Group's demands and supply premium products and services at competitive prices. The Group believes it is very important and beneficial to have reliable and cooperative suppliers. The purchase of raw materials required for the Group's products from Zhongxingxin Group allows the Group to ensure the quality and timely delivery of such parts.

(3) Nature of transaction

Purchases of raw materials by the Group from Zhongxingxin Group, primarily comprising cabinet and accessories, antenna rod, metal alloy stamp and mould, flexible printed circuit (FPC), rigid-flexible printed circuit (R-FPC) and components, LiFePO4 battery, battery accessories, wiring equipment, optical patch cord, optical cable components, machining parts, mould and radiator, robot, industrial camera, industrial light source, graphic processing controller, industrial light source controller, visual processing system, motion control system, industrial thermometer system, data collection system, smart patrolling and inspection system, smart plant construction sub-system, edge controller and smart quality management cloud platform, among others.

(4) Pricing policy and other terms

Before becoming an approved supplier of the Group, Zhongxingxin Group must pass the Group's internally formulated qualification procedures in relation to credential, competence, product quality and price. Zhongxingxin Group were selected through the Group's qualification and bidding procedures as described above.

In general, the Group invites at least more than three qualified suppliers to submit a one-off tender for the supply of each type of raw materials prior to procurement each year based on its estimated annual requirements. The Procurement Department and Tender Department of the Group jointly rate the qualified suppliers in terms of the prices and quality of their products, service quality and credentials. Qualified suppliers are selected for tenders in order of their ratings. Based on the volume of the Group's requirement for such raw materials, it may select one or more qualified suppliers. The price offered to the Group by a qualified supplier who have won the tender will not be higher than those who have not. The type, estimated volume and price for the purchase of raw materials from the selected qualified supplier for the coming year are determined during the stage of tendering. Purchase orders are issued to the selected qualified suppliers based on the actual volume and timing as required in day-to-day business. The qualified suppliers provide raw materials to the Group according to the tender and the actual volume of purchase will generally not exceed the estimated volume determined at the award of the tender. In the event of the actual purchase volume exceeding the estimated volume, the Group will arrange another tender in respect of the excessive requirements according to the aforesaid tender procedure. The Group performs the same tender procedure for connected suppliers and independent third parties. No special concessions are given to connected parties.

Pursuant to and subject to the terms of the Zhongxingxin Purchase Framework Agreement and bidding results, the Group will enter into individual agreements with Zhongxingxin Group by way of the issuance of purchase orders, specifying product types, agreed quantities and prices, delivery schedules, locations and modes, payment methods, packaging, receipt of delivery, default liability, quality specifications and after-sale service terms. Prices shall be determined in accordance with the pricing policy stipulated under the Zhongxingxin Purchase Framework Agreement.

The Directors have confirmed that the accreditation and tender procedures and pricing policy under the Zhongxingxin Purchase Framework Agreement, together with the internal procedures of the Group, can effectively ensure that the prices at which the Group conducts purchases from Zhongxingxin Group are being arrived at through arm's length negotiations and based on normal commercial terms without compromising the interests of the Company and its shareholders as a whole.

(5) Total price of transaction and actual total transaction amount in 2023

The Zhongxingxin Purchase Framework Agreement in respect of the purchase of raw materials by the Group from Zhongxingxin Group shall be effective from 1 January 2023 to 31 December 2023 and the amount of purchase for 2023 shall be capped at RMB550 million (excluding VAT).

The total transaction amount for the Group's purchase of raw materials from Zhongxingxin Group for 2023 was approximately RMB268 million.

(6) Endorsement of the continuing connected transactions

The Independent Non-executive Directors of the Company have reviewed each of the aforesaid continuing connected transactions of the Group and confirmed that:

- the transactions were conducted in the ordinary and usual course of business of the Company;
- the transactions were entered into on normal commercial terms or above;
- the transactions were conducted in accordance with the terms of the agreements governing them and the terms of the transactions are fair and reasonable and in the interests of the shareholders of the Company as a whole; and
- the Company has established adequate and efficient internal control procedures in relation to the aforesaid connected transactions.

The auditor of the Company has examined the aforesaid continuing connected transactions and confirmed that:

- no matters had come to the attention of the auditor causing the auditor to believe that the disclosed continuing connected transactions had not been approved by the Board of Directors of the Company;
- no matters had come to the attention of the auditors causing the auditor to believe that such continuing connected transactions had not been conducted in accordance with the pricing policies of the Group in all material aspects (where goods or services are being supplied or rendered by the Company);
- no matters had come to the attention of the auditor causing the auditor to believe that such continuing connected transactions had not been conducted in accordance with the terms of the agreements governing them in all material aspects; and
- no matters had come to the attention of the auditor causing the auditor to believe that such continuing connected transactions had exceeded the relevant annual caps as disclosed by announcements.

The Board of Directors of the Company has confirmed that:

The auditor has furnished a confirmation in respect of the transactions in relation to matters described under Rule 14A.56 of the Hong Kong Listing Rules.

5.2.2.2 Other connected transactions

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

The following transactions between the Group and its connected parties conducted in 2023 are exempted from compliance with provisions relating to connected transactions pursuant to Rule 14A.76:

Unit: RMB in ten thousands

Counterparty	Connected relationship	Nature of transaction	Amount
Zhongxingxin	Controlling shareholder of the Company	Lease of properties from connected parties	1,074.6
Shenzhen ZTE Cloud Service Co., Ltd.	Subsidiary of Zhongxingxin	Lease of properties to connected parties	334.8
深圳市中興新力精密機電技術有限公司	Subsidiary of Zhongxingxin	Lease of properties to connected parties	1.1
Sindi Technologies Co., Ltd.	Subsidiary of Zhongxingxin	Sales of goods to connected parties	868.5
Shenzhen ZTE Cloud Service Co., Ltd.	Subsidiary of Zhongxingxin	Sales of products to connected parties	11.4
Shenzhen Zhongxing International Investment Company Limited	35% held by a Director of the Company	Lease of properties to connected parties	15.3
Tianjin Zhongxing International Investment Company Limited	Subsidiary of Shenzhen Zhongxing International Investment Company Limited	Lease of properties from connected parties	513.7
Shenzhen Zhongxingxu Technology Company Limited	100% held by the spouse of a Supervisor of the Company	Sales of goods to connected parties	81.9
Beijing Changrui Times Technology Company Limited	100% held by relative of a Director of the Company	Sales of products to connected parties	46.6

Save as disclosed in the above, the Group did not enter into any contracts with Zhongxingxin or its subsidiaries. The connected transactions disclosed above did not constitute contracts of significance.

Details of the Group's connected transactions during the annual reporting period are set out in "FINANCIAL REPORT — Note XI.5 Major transactions between the Group and related parties". Save as the continuing connected transactions and connected transactions disclosed in the above, other connected transactions are set out in "FINANCIAL REPORT — Note XI.5 Major transactions between the Group and related parties" did not constitute connected transactions as defined under Chapter 14A of the Hong Kong Listing Rules. The Company has published relevant disclosures in compliance with Chapter 14A of the Hong Kong Listing Rules in respect of the aforesaid connected transactions. The Company further confirms that its connected transactions or continuing connected transactions were in compliance with the disclosure requirements under Chapter 14A of the Hong Kong Listing Rules.

5.3 MATERIAL CONTRACTS AND THEIR PERFORMANCE

In 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 2023 are as follows:

(1) Overview of guarantee for third parties

As at 31 December 2023, the balance of the Group's third-party guarantee amounted to approximately RMB1,158,793,000, accounting for 1.70% of the Company's net assets. Guarantee provided for parties with a gearing ratio of over 70% amounted to RMB691,668,000. 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 2023	Guarantee incurred during 2023	Guarantee approved at the end of the year	Balance of actual guarantee at the end of the year
Provide to third parties outside the Group	—	—	—	—
Provided by the Company on behalf of subsidiaries and vice versa	232,901.0	46,712.5	838,612.1	93,858.0
Provided by subsidiaries on behalf of fellow subsidiaries	85,160.4	22,021.3	86,688.5	22,021.3
Total	**318,061.4**	**68,733.8**	**925,300.6**	**115,879.3**

(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

Guaranteed party	Date of domestic announcement	Amount guaranteed	Date incurred	Actual amount guaranteed	Type of guarantee	Duration	Whether completed
PT. ZTE Indonesia	19 February 2021	USD40 million	30 June 2021	USD40 million	Joint liability guarantee	Commencing on the date of issuance of the guarantee letter of the Company and ending upon the date on which performance of obligations of ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed	No
		IDR400 billion	30 June 2021	IDR400 billion	Joint liability guarantee	Effective term of 3 years and 6 months or the date on which performance of obligations of 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 guarantee	Commencing on the date of issuance of the guarantee letter of the Company and ending upon the date on which performance of obligations of 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 guarantee	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 guarantee	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
CRS Technology Co., Ltd.	25 June 2022	USD500 million	27 June 2022	USD50,576,300	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	RMB108.20 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 guarantee	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	–	Joint liability guarantee	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	Yes
Netaş Bilişim Teknolojileri A.Ş Note 3	11 March 2023	USD65 million	Note 3	USD19,293,300	Joint liability guarantee	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	USD1,663,100	Joint liability guarantee	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	USD7,140,900	Joint liability guarantee	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	USD2,933,000	Joint liability guarantee	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 RMB108.20 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 31 December 2023, the balance of actual guarantee was USD19,293,300. Netaş and Netaş Bilişim shall provide credit loan guarantee for BDH within the guarantee limit. As at 31 December 2023, the balance of actual guarantee was USD1,663,100. Netaş Bilişim shall provide credit loan guarantee for Netaş within the guarantee limit. As at 31 December 2023, the balance of actual guarantee was USD7,140,900. Netaş shall provide credit loan guarantee for Netaş Telecom Limited Liability Partnership within the guarantee limit. As at 31 December 2023, the balance of actual guarantee was USD2,933,000.

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 line of no more than USD300 million in aggregate for 4 subsidiaries. The computations of the total amount of guarantee on behalf of subsidiaries approved for 2023 and the total amount of guarantee on behalf of subsidiaries approved as at the end of 2023 included a USD300 million guarantee provided for the 4 wholly-owned subsidiaries. As at 31 December 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 31 December 2023: USD1:RMB7.0967; EUR1:RMB7.8616; IDR1:RMB0.00045966.

5.4 PERFORMANCE OF UNDERTAKINGS

5.4.1 Undertakings of the controlling shareholder

(1) Undertaking to avoid competition in same business

Zhongxingxin 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 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 on 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 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.

5.4.2 Company statement on meeting original profit forecasts for assets or projects and the reasons therefor, where such profit forecasts have been made and 2023 falls within the profit forecast period

☐ Applicable √ N/A

5.5 APPROPRIATION OF NON-OPERATING FUNDS AND CREDIBILITY

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

The Company was not subject to bankruptcy or reorganisation in 2023 or withdrawal from listing subsequent to the publication of the annual report.

Save as matters disclosed in this report, there were no other discloseable material matters occurring to the Company or its subsidiaries in 2023 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 2023. 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 31 December 2023, 94 tranches of SCPs issued bv the Company for an aggregate amount of RMB114 billion had been repaid upon maturity. Information on the Company's SCPs issued and outstanding as at the date of the publication of this report is set out as follows:

Unit: RMB100 million

Bond name	Bond abbreviation	Bond code	Issue date	Accrual date	Maturity date	Bond balance	Interest rate
2023							
Tranche XCV SCPs	23中興通訊 SCP095	012384235	23 November 2023	24 November 2023	22 May 2024	10	2.55%
Tranche XCVI SCPs	23中興通訊 SCP096	012384237	23 November 2023	24 November 2023	22 May 2024	15	2.55%
Tranche XCVII SCPs	23中興通訊 SCP097	012384236	23 November 2023	24 November 2023	22 May 2024	10	2.55%
Tranche XCVIII SCPs	23中興通訊 SCP098	012384238	23 November 2023	24 November 2023	22 May 2024	15	2.55%
Tranche XCIX SCPs	23中興通訊 SCP099	012384601	29 December 2023	3 January 2024	29 March 2024	10	2.38%
2024							
Tranche I SCPs	24中興通訊 SCP001	012480038	4 January 2024	5 January 2024	29 March 2024	30	2.24%
Tranche II SCPs	24中興通訊 SCP002	012480055	5 January 2024	8 January 2024	29 March 2024	15	2.24%
Tranche III SCPs	24中興通訊 SCP003	012480054	5 January 2024	8 January 2024	29 March 2024	20	2.24%
Tranche IV SCPs	24中興通訊 SCP004	012480111	10 January 2024	11 January 2024	29 March 2024	20	2.28%
Tranche V SCPs	24中興通訊 SCP005	012480110	10 January 2024	11 January 2024	29 March 2024	20	2.28%
Tranche VI SCPs	24中興通訊 SCP006	012480112	10 January 2024	11 January 2024	29 March 2024	20	2.28%
Tranche VII SCPs	24中興通訊 SCP007	012480156	12 January 2024	15 January 2024	29 March 2024	15	2.28%
Tranche VIII SCPs	24中興通訊 SCP008	012480158	12 January 2024	15 January 2024	29 March 2024	15	2.28%
Tranche IX SCPs	24中興通訊 SCP009	012480157	12 January 2024	15 January 2024	29 March 2024	10	2.28%
Tranche X SCPs	24中興通訊 SCP010	012480220	17 January 2024	18 January 2024	29 March 2024	15	2.31%

Bond name	Bond abbreviation	Bond code	Issue date	Accrual date	Maturity date	Bond balance	Interest rate
Tranche XI SCPs	24中興通訊 SCP011	012480218	17 January 2024	18 January 2024	29 March 2024	15	2.31%
Tranche XII SCPs	24中興通訊 SCP012	012480221	17 January 2024	18 January 2024	29 March 2024	15	2.31%
Tranche XIII SCPs	24中興通訊 SCP013	012480219	17 January 2024	18 January 2024	29 March 2024	15	2.31%
Tranche XIV SCPs	24中興通訊 SCP014	012480240	18 January 2024	19 January 2024	29 March 2024	15	2.31%
Tranche XV SCPs	24中興通訊 SCP015	012480239	18 January 2024	19 January 2024	29 March 2024	20	2.31%
Tranche XVI SCPs	24中興通訊 SCP016	012480242	18 January 2024	19 January 2024	29 March 2024	20	2.31%
Tranche XVII SCPs	24中興通訊 SCP017	012480241	18 January 2024	19 January 2024	29 March 2024	10	2.31%
Tranche XVIII SCPs	24中興通訊 SCP018	012480243	18 January 2024	19 January 2024	29 March 2024	5	2.31%
Tranche XIX SCPs	24中興通訊 SCP019	012480331	24 January 2024	25 January 2024	29 March 2024	10	2.28%
Tranche XX SCPs	24中興通訊 SCP020	012480333	24 January 2024	25 January 2024	29 March 2024	15	2.28%
Tranche XXI SCPs	24中興通訊 SCP021	012480332	24 January 2024	25 January 2024	29 March 2024	15	2.28%
Tranche XXII SCPs	24中興通訊 SCP022	012480386	26 January 2024	29 January 2024	29 March 2024	5	2.31%
Tranche XXIII SCPs	24中興通訊 SCP023	012480635	27 February 2024	28 February 2024	24 May 2024	6	2.18%
Total	–	–	–	–	–	**406**	–

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.

In 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 USE OF PROCEEDS

Unit: RMB100 million

Bond	Total amount of proceeds	Amount utilised	Amount remaining	Operation of dedicated account for proceeds (if any)	Rectification of illicit use of proceeds (if any)	Whether consistent with uses, application plans and other agreed terms stated in issue prospectus
2023 Tranches I to XCIX SCPs	1,200	1,200	—	Nil	Nil	Yes
2024 Tranches I to XXIII SCPs	346	51.33	294.67	Nil	Nil	Yes

The use of proceeds was modified following adjustments to the Company's fund application plans. Proceeds from SCPs 2023 Tranches III and IV amounting to RMB400 million was applied as loan repayments to various financial institutions. Proceeds from SCPs Tranches XXXV amounting to RMB288 million originally intended for loan repayments to financial institutions was instead applied as supplementary working capital. The change in use of proceeds was in accordance with the provisions of national laws and regulations and pertinent policy guidance and will not affect the interest payment and redemption of the SCPs.

The proceeds was not applied to construction projects.

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

Item	31 December 2023	31 December 2022	Year-on-year increase/ decrease
Current ratio	**1.91**	1.76	8.52%
Quick ratio	**1.41**	1.18	19.49%
Gearing ratio	**66.00%**	67.09%	Decreased by 1.09 percentage points

Item	2023	2022	Year-on-year increase/ decrease
Net profit after extraordinary gain/loss attributable to holders of ordinary shares of the listed company (RMB in millions)	**7,399.6**	6,166.9	19.99%
Debt-to-EBITDA ratio	**23.66%**	24.52%	Decreased by 0.86 percentage point
Interest coverage ratio	**4.25**	5.50	(22.73%)
Cash interest coverage ratio	**8.75**	6.21	40.90%
EBITDA interest coverage ratio	**5.82**	7.73	(24.71%)
Loan repayment ratio	**100.00%**	100.00%	—
Interest repayment ratio	**100.00%**	100.00%	—

6.4 INFORMATION OF INTERMEDIARY

Intermediaries for the Company's SCPs Tranches I to XCIX 2023 and SCPs Tranches XXIII 2024 are set out as follows:

Type of intermediary	Name of intermediary
Underwriter	Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China, Bank of China, Postal Savings Bank of China, China Merchants Bank, China Minsheng Bank, CITIC Bank, China Everbright Bank, Bank of Beijing, China Bohai Bank, Guangfa Bank, Bank of Hangzhou, EverGrowing Bank, Huaxia Bank, Bank of Jiangsu, Bank of Communications, Bank of Ningbo, Ping An Bank, Shanghai Pudong Development Bank, Bank of Shanghai, Industrial Bank, Industrial Bank, Export and Import Bank of China, Zheshang Bank, Huishang Bank, etc.
Legal advisor	Beijing Junhe Law Firm
Accountant	Ernst & Young Hua Ming LLP
Rating agency	China Chengxin International Credit Rating Co., Ltd.
Custodian	Interbank Market Clearing House Co., Ltd.
Technical support for centralised book building system	Beijing Financial Assets Exchange Co., Ltd.

For details of the office addresses, contact persons and contact telephone numbers of the aforesaid intermediaries, please refer to the announcements published on the website of Shanghai Clearing (www.shclearing.com) and www.chinamoney.com.cn. There was no change to the aforesaid institutions.

6.5 OTHER INFORMATION

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

As at 31 December 2023, there was no overdue unrepaid bonds or overdue interest-bearing debts other than bonds.

VII. Financial Reports

Audit Report

Ernst & Young Hua Ming (2024) Shen Zi No. 70007912_H01
ZTE CORPORATION

To the Shareholders of ZTE Corporation:

I. AUDIT OPINION

We have audited the accompanying financial statements of ZTE Corporation which comprise the consolidated and company balance sheets as at 31 December 2023, the consolidated and company income statements, statement of changes in equity and cash flow statement for the year ended 31 December 2023 and notes to the financial statements.

In our opinion, the accompanying financial statements of ZTE Corporation have been prepared in accordance with the PRC ASBEs in all material aspects and give a fair view of the consolidated and company financial position of ZTE Corporation as at 31 December 2023 and the consolidated and company results of operation and cash flows of ZTE Corporation for 2023.

II. BASIS FOR OPINION

We conducted our audit in accordance with the Auditing Standards for Certified Public Accountants of China. Our responsibilities under those standards are further described in the section headed "CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS" in our audit report. We are independent of ZTE Corporation in accordance with the Code of Ethics for PRC certified accountants and we have fulfilled our other ethical responsibilities. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

III. KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the section headed "CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS" in our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial statements.

Ernst & Young Hua Ming (2024) Shen Zi No. 70007912_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (Continued)

KEY AUDIT MATTER:	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER:
Revenue recognition of telecommunication system construction contract	
Revenue generated from telecommunication system construction contract recognised amounted to RMB74,008,376,000, representing 60% of the total revenue, in the consolidated financial statements and RMB91,878,193,000, representing 68% of the total revenue, in the company financial statements. Such contracts consisted a number of performance obligations for goods and services including mainly sales of equipment and installation services, among others. Significant judgements and estimates by the management are required for the revenue recognition of telecommunication system construction contracts: I. Whether the promised goods or services represent separate performance obligations. In making such judgment, the management needs to assess whether the promised goods or services are distinct. II. Whether each distinct performance obligation is satisfied over a period of time or at a point in time. The management needs to consider how the promised goods or services is being delivered to customers. III. To allocate the transaction price to each performance obligation on the basis of the relative stand-alone selling prices of the distinct good or service underlying each performance obligation, the management adopts the cost plus approach to estimate stand-alone selling prices, which is primarily based on historic data, past experience, configuration of the projects and the evaluation of risk and uncertainty inherent in the arrangement. In view of the above which makes the revenue recognition of telecommunication system construction contracts relatively complicated, we have identified the recognition of revenue from telecommunication system construction as a key audit matter. *For disclosure of our policy for the revenue recognition, please refer to Note III.20; for disclosure of judgements and estimates for revenue recognition, please refer to Note III.31; for disclosure of categories of revenue, please refer to Note V.40; for disclosure of contract assets, please refer to Note V.8; for disclosure of contract liabilities, please refer to Note V.25.*	Our audit procedures mainly included: We evaluated the process of revenue recognition of telecommunication system construction contracts and the related internal controls, assessed the Group's accounting policies, and tested the effectiveness of the design and execution of key internal controls. In respect of the judgement on whether a performance obligation is distinct and on the timing of the transfer of control, we have assessed the management's judgement, assumptions and methodology upon which it is based, as well as reviewed the key terms of the contract. We obtained the major sales agreements for telecommunication system construction and checked and identified contract terms and conditions related to transfer of control and each performance obligation in contracts to assess whether the accounting policy for revenue recognition is compliant with ABSE requirements. We obtained correspondence in contractual amounts from major customers on a sample basis in conjunction with the accounts receivable correspondence, and performed alternative tests on the sample that did not respond to the letters. We selected samples of telecommunication system construction contract transactions prior to and after the balance sheet date to check supporting documents such as delivery acceptance notes, inspection and acceptance notes and invoices, in order to assess whether the revenue concerned had been recorded under the appropriate accounting period. We implemented the analytic review examination procedure to compare movements in revenue and gross profit margin from different business types, regions and customer types to analyse the reasonableness of movements in revenue and gross profit margin. We performed tests of details on the recognition of revenue from telecommunication system construction contract on a sampling basis and checked the supporting documents relating to the recognition of product sales revenue, including sales agreements, orders, acceptance notes signed by customers, inspection and acceptance notes, sales invoices and payment receipts, etc. In respect of the allocation of transaction price, we have assessed the Company's method for estimating the stand-alone selling prices of each performance obligation and compared the major parameters (e.g., cost, gross margin percentage, etc.) used in the model against historical data and industry conditions. We reviewed and examined the presentation and disclosure relating to revenue in the notes to the consolidated and company financial statements.

Ernst & Young Hua Ming (2024) Shen Zi No. 70007912_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (Continued)

KEY AUDIT MATTER:	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER:

Expected credit loss of trade receivables and contract assets

The carrying amount of trade receivables (long-term trade receivables included) and contract assets as at 31 December 2023 was RMB27,680,059,000, representing 14% of total assets on the consolidated financial statements and RMB44,516,121,000, representing 23% of total assets on the company financial statements.

In accordance with "ASBE No.22 — Recognition and measurement of financial instruments (Revised 2017) Impairment losses of trade receivables and contact assets are accounted for using the expected credit loss ("ECL") approach. For trade receivables and contract assets that contain a significant financing component, ZTE Corporation elects to measure loss provision based on the ECL amount for the whole period, therefore the loss provision for all trade receivables and contract assets shall be measured on the basis of the ECL amount for the whole period. The Management assesses the ECL of some trade receivables and contract assets individually and others by group.

For trade receivables or contract assets that are individually significant with objective evidence that the credit risk are obviously different from others, ECL is measured as the shortfall between the present value of all contract cashflow receivable and the present value of all contract cashflow expected to be received under the individual contract.

For others trade receivables and contract asset, ECLs are assessed by groups with past information in response to credit risk characteristics of different debtors. The management has established a provision matrix based on aging for customers of different credit standings by reference to its historical credit loss experience, on the basis of which ECL is estimated. In assessing the ECL, the management takes into consideration past events, current conditions and reasonable and well-founded information on future economic forecasts.

The ECL of trade receivables and contract assets has a significant impact on the financial statements and is subject to significant management judgement estimation. Accordingly, the ECL of trade receivables and contract assets was identified as a key audit matter.

For disclosure on estimations of trade receivable and contract asset impairment provision, please refer to Note III. 10; for disclosure of significant accounting judgements and estimates for trade receivable and contract asset impairment, please refer to Note III.31; for disclosure of the amount of bad debt provision for trade receivables and long-term receivables, please refer to Note V. 4A and 9; for disclosure of contract asset impairment provision, please refer to Note V.8.

Our audit procedure mainly included:

We evaluated the processes relating to the ECL of trade receivables and contract assets and the related internal controls, tested the effectiveness of design and execution of key internal controls.

Discussion with management to assess receivables which were subject to default and indications of impairment, as well as the status of collection and bad debt risk.

For ECL of individually assessed trade receivables and contract assets, we have examined on a sampling basis the objective evidence relating to the impairment of trade receivables and contract assets and the key assumptions used in the estimate of the present value of all cash shortfalls. We have also reviewed whether amounts have been recovered after the end of reporting period.

For other trade receivables and contract assets, we have assessed whether the provision matrix established by the management was in compliance with the ECL approach and assessed the key parameters used in the provision matrix including mainly: credit rating, historical rates of bad debts, migration rates and forward-looking information, etc.

We have obtained debtors' credit information on a sampling basis to ascertain whether the classification of debtors is in compliance with the Company's policy. We have tested the management's ageing analysis based on aging by examining the original documents (such as bills and bank deposit advice).

We have recalculated the ECL of each type of trade receivables and contract assets according to the provision matrix, and compare it with the management's calculation. We also checked whether the payment was collected after the deadline.

Ernst & Young Hua Ming (2024) Shen Zi No. 70007912_H01
ZTE CORPORATION

III. KEY AUDIT MATTERS (Continued)

KEY AUDIT MATTER:	HOW OUR AUDIT ADDRESSED THE KEY AUDIT MATTER:
Impairment provision for inventories	
As at 31 December 2023, the carrying amount of inventories was RMB41,131,259,000, representing 20% of total assets, on the consolidated financial statements and RMB12,535,588,000, representing 6% of total assets, on the company financial statements. The impairment provision of inventories was made based on their respective estimated net realisable value. The assessment of the estimated net realisable value was calculated based on the management's estimated selling prices, estimated costs to be incurred upon completion of production, costs to be incurred to make the sale and the relevant tax. The estimated selling price is determined with reference to the contract price if the inventories are held for particular contracts. For those which are not earmarked to particular contracts, the management will estimate their respective realisable value based on judgments on the method by which they are subsequently realised. The amount of inventory impairment loss has a significant impact on the financial statements and is subject to significant management judgements and estimates. Therefore, impairment provision for inventories was identified as a key audit matter. *For disclosure of the accounting policy on impairment provision please refer to Note III.11; for disclosure of significant judgement and estimates on impairment provision please refer to Note III.31; for disclosure of impairment provision for inventories, please refer to Note V.7.*	Our audit procedure mainly included: We obtained an understanding of the processes of impairment provision of inventories and the related internal controls; performed testing on key controls to assess the design and execution effectiveness of key internal controls. We observed the stocktaking process and external confirmation procedures to ascertain whether the damaged, slow-moving and obsolete inventories were identified. We tested the aging analysis of inventories by checking the original documents on a sampling basis. We evaluated the key assumptions, such as selling prices, cost to be incurred upon completion, selling expense and the relevant taxes, which were used by the management in calculating net realisable value. For inventories held for particular contracts, we checked the respective contract price on a sampling basis. For those without earmarked prices or was cancelled or modified, we inspected key assumptions used by management in estimating the recoverable amount on a sampling basis and checked whether inventories were sold subsequent to the reporting period. We communicated and discussed with management whether there are inventories with no market demand, which are not expected to be consumed in the future, and assess the adequacy of the provision for inventory write-downs. Movement of inventory impairment provision for the year was checked. Recalculation based on detailed inventory list was carried out to verify the accuracy of the charge of inventory impairment provision.

Ernst & Young Hua Ming (2024) Shen Zi No. 70007912_H01
ZTE CORPORATION

IV. OTHER INFORMATION

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

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

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

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

V. RESPONSIBILITIES OF THE MANAGEMENT AND THE GOVERNANCE BODY FOR THE FINANCIAL STATEMENTS

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

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

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

VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

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

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

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

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

Ernst & Young Hua Ming (2024) Shen Zi No. 70007912_H01
ZTE CORPORATION

VI. CERTIFIED ACCOUNTANT'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS (Continued)

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

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

(5) Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

(6) Obtain sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within ZTE Corporation to express an audit opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the governance body regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the governance body with a statement that we have complied with relevant ethical requirements regarding independence and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the governance body, we determine those matters that were of most significance in the audit of the financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our audit report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Ernst & Young Hua Ming LLP

PRC certified public accountant:
Li Jianguang (李劍光)
(Project Partner)

PRC certified public accountant:
Zhu Ting (朱婷)

Beijing, PRC

8 March 2024

Consolidated Balance Sheet

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

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

Assets	Note V	31 December 2023	31 December 2022
Current assets			
Cash	1	**78,543,219**	56,346,367
Trading financial assets	2	**153,285**	513,784
Derivative financial assets	3	**85,341**	132,125
Trade receivables	4A	**20,821,526**	17,751,390
Factored trade receivables	4A	**3,503**	81,525
Receivable financing	4B	**4,074,078**	3,712,142
Prepayments	5	**242,440**	278,724
Other receivables	6	**1,146,400**	1,346,935
Inventories	7	**41,131,259**	45,234,990
Contract assets	8	**4,844,974**	4,851,066
Other current assets	19	**7,458,528**	7,624,795
Total current assets		**158,504,553**	137,873,843
Non-current assets			
Long-term receivables	9	**2,013,559**	2,562,213
Factored long-term receivables	9	**10,509**	186,025
Investment in associates and joints	10	**2,157,550**	1,754,030
Other non-current financial assets	11	**831,930**	1,028,262
Investment properties	12	**1,473,823**	2,010,627
Property, plant and equipment	13	**13,372,364**	12,913,313
Construction in progress	14	**987,803**	964,004
Right-of-use assets	15	**1,557,313**	1,079,521
Intangible assets	16	**7,697,446**	7,341,866
Development costs		**1,301,545**	2,584,570
Goodwill	17	**—**	—
Deferred tax assets	18	**4,145,923**	3,718,544
Other non-current assets	19	**6,904,000**	6,936,756
Total non-current assets		**42,453,765**	43,079,731
TOTAL ASSETS		**200,958,318**	180,953,574

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

Consolidated Balance Sheet

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

Liabilities	Note V	31 December 2023	31 December 2022
Current liabilities			
Short-term loans	21	**7,560,358**	9,962,315
Bank advances on factored trade receivables	4A	**3,687**	84,550
Derivative financial liabilities	22	**184,544**	201,717
Short-term bonds payable	23	**5,012,890**	—
Bills payable	24A	**9,442,739**	10,629,852
Trade payables	24B	**18,931,425**	19,074,746
Contract liabilities	25	**14,889,658**	17,699,861
Taxes payable	26	**1,413,093**	1,447,082
Other payables	27	**3,844,735**	2,889,964
Employee benefits payable	28	**16,176,919**	13,222,179
Provisions	29	**2,568,768**	2,549,490
Non-current liabilities due within one year	30	**3,001,598**	661,744
Total current liabilities		**83,030,414**	78,423,500
Non-current liabilities			
Long-term loans	31	**42,576,057**	35,125,988
Bank advances on factored long-term trade receivables	9	**11,062**	195,210
Lease liabilities	33	**960,459**	788,649
Long-term employee benefits payable	28	**141,762**	144,874
Deferred income		**2,315,842**	2,322,076
Deferred tax liabilities	18	**77,865**	87,144
Other non-current liabilities	32	**3,513,412**	4,322,910
Total non-current liabilities		**49,596,459**	42,986,851
Total liabilities		**132,626,873**	121,410,351

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

Consolidated Balance Sheet

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

Shareholder's equity	Note V	**31 December 2023**	31 December 2022
Shareholder's equity			
Share capital	34	**4,783,252**	4,736,113
Capital reserves	35	**27,603,291**	25,892,832
Other comprehensive income	36	**(2,199,965)**	(2,352,743)
Surplus reserve	37	**3,053,382**	3,029,811
Special reserve	38	**53,394**	26,553
Retained profits	39	**34,714,953**	27,308,621
Total equity attributable to holders of ordinary shares of the parent		**68,008,307**	58,641,187
Non-controlling interests		**323,138**	902,036
Total shareholders' equity		**68,331,445**	59,543,223
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**200,958,318**	180,953,574

The financial statements have been signed by:

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

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

Consolidated Income Statement

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

	Note V	2023	2022
Operating revenue	40	**124,250,878**	122,954,418
Less: Operating costs	40	**72,650,278**	77,227,569
Taxes and surcharges	41	**1,335,662**	950,767
Selling and distribution costs	42	**10,171,866**	9,173,329
Administrative expenses	43	**5,631,779**	5,332,728
Research and development costs	44	**25,289,211**	21,602,300
Finance costs	46	**(1,101,192)**	163,207
Including: Interest expense		**3,141,567**	1,945,963
Interest income		**4,084,555**	2,439,825
Add: Other income	47	**1,805,981**	1,892,972
Investment income	48	**(205,027)**	1,087,498
Including: Share of gains of associates and joint ventures		**265,161**	93,722
Losses from derecognition of financial assets at amortised cost		**(278,004)**	(213,542)
Gains from changes in fair values	49	**(702,284)**	(1,141,849)
Credit impairment losses	50	**(75,796)**	(369,304)
Asset impairment losses	51	**(858,366)**	(1,190,030)
Gains from asset disposal	52	**20,597**	11,029
Operating profit		**10,258,379**	8,794,834
Add: Non-operating income	53	**173,063**	195,804
Less: Non-operating expenses	53	**228,302**	238,982
Total profit		**10,203,140**	8,751,656
Less: Income tax	54	**962,291**	960,046
Net profit		**9,240,849**	7,791,610
Analysed by continuity of operations			
Net profit from continuing operations		**9,240,849**	7,791,610
Analysed by ownership			
Holders of ordinary shares of the parent		**9,325,753**	8,080,295
Non-controlling interests		**(84,904)**	(288,685)
Other comprehensive income, net of tax		**149,253**	(67,167)
Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax	36	**152,778**	(65,722)
Other comprehensive income that cannot be reclassified to profit or loss			
Change arising from the re-measurement of defined benefit plans		**985**	1,509
		985	1,509
Other comprehensive income that will be reclassified to profit or loss			
Effective portion of hedge instruments		**(598)**	—
Exchange differences on translation of foreign operations		**152,391**	(67,231)
		151,793	(67,231)
Other comprehensive income attributable to non-controlling interests, net of tax		**(3,525)**	(1,445)
Total comprehensive income		**9,390,102**	7,724,443
Attributable to:			
Holders of ordinary shares of the parent		**9,478,531**	8,014,573
Non-controlling interests		**(88,429)**	(290,130)
Earnings per share (RMB/share)			
Basic	55	**RMB1.96**	RMB1.71
Diluted	55	**RMB1.96**	RMB1.71

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

Consolidated Statement of Changes in Equity

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

2023

	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 year'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 year									
(I) Total comprehensive income	–	–	152,778	–	–	9,325,753	9,478,531	(88,429)	9,390,102
(II) Shareholder's capital injection and capital reduction									
1. Ordinary share injection from shareholders	47,139	2,003,527	–	–	–	–	2,050,666	31,068	2,081,734
2. Equity settled share expenses charged to equity	–	(290,383)	–	–	–	–	(290,383)	–	(290,383)
3. Acquisition of non-controlling interest	–	–	–	–	–	–	–	–	–
4. Disposal of subsidiaries	–	–	–	–	–	–	–	(19,067)	(19,067)
5. Others	–	(2,685)	–	–	–	–	(2,685)	–	(2,685)
(III) Profit appropriation									
1. Surplus reserve	–	–	–	23,571	–	(23,571)	–	–	–
2. Distribution to shareholders	–	–	–	–	–	(1,895,850)	(1,895,850)	(502,470)	(2,398,320)
(IV) Special reserve									
1. Allocated for the year	–	–	–	–	85,326	–	85,326	–	85,326
2. Utilised for the year	–	–	–	–	(58,485)	–	(58,485)	–	(58,485)
III. Current year's closing balance	4,783,252	27,603,291	(2,199,965)	3,053,382	53,394	34,714,953	68,008,307	323,138	68,331,445

2022

	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 year'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 year									
(I) Total comprehensive income	–	–	(65,722)	–	–	8,080,295	8,014,573	(290,130)	7,724,443
(II) Shareholder's capital injection and capital reduction									
1. Ordinary share injection from shareholders	5,317	120,912	–	–	–	–	126,229	60,790	187,019
2. Equity settled share expenses charged to equity	–	414,024	–	–	–	–	414,024	–	414,024
3. Acquisition of non-controlling interest	–	(2,068)	–	–	–	–	(2,068)	(5,535)	(7,603)
4. Disposal of subsidiaries	–	–	–	–	–	–	–	(54,096)	(54,096)
5. Others	–	–	–	–	–	–	–	–	–
(III) Profit appropriation									
1. Surplus reserve	–	–	–	2,657	–	(2,657)	–	–	–
2. Distribution to shareholders	–	–	–	–	–	(1,420,213)	(1,420,213)	(614,564)	(2,034,777)
(IV) Special reserve									
1. Allocated for the year	–	–	–	–	75,853	–	75,853	–	75,853
2. Utilised for the year	–	–	–	–	(49,300)	–	(49,300)	–	(49,300)
III. Current year'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

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

Consolidated Cash Flow Statement

31 December 2023
Prepared under PRC ASBEs
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	Note V	2023	2022
I. Cash flows from operating activities			
Cash received from sale of goods or rendering of services		**128,264,163**	136,874,889
Refunds of taxes		**5,355,413**	7,518,815
Cash received relating to other operating activities	56	**10,666,423**	6,089,720
Sub-total of cash inflows		**144,285,999**	150,483,424
Cash paid for goods and services		**74,064,351**	96,473,887
Cash paid to and on behalf of employees		**28,697,009**	26,152,518
Cash paid for various types of taxes		**8,652,058**	9,001,574
Cash paid relating to other operating activities	56	**15,466,882**	11,277,745
Sub-total of cash outflows		**126,880,300**	142,905,724
Net cash flows from operating activities	56	**17,405,699**	7,577,700
II. Cash flows from investing activities			
Cash received from sale of investments		**10,547,704**	13,449,728
Cash received from return on investment		**1,287,109**	1,106,970
Net cash received from the disposal of property, plant and equipment, intangible assets and other long-term assets		**104,486**	24,173
Net cash received from the disposal of subsidiaries and other operating units		**38,486**	116,836
Sub-total of cash inflows		**11,977,785**	14,697,707
Cash paid to acquisition of property, plant and equipment, intangible assets and other long-term assets		**4,004,683**	4,951,916
Cash paid for acquisition of investments		**28,874,455**	11,010,174
Other cash paid in relation to investing activities	56	**—**	27,016
Sub-total of cash outflows		**32,879,138**	15,989,106
Net cash flows from investing activities		**(20,901,353)**	(1,291,399)
III. Cash flows from financing activities			
Cash received from capital injection		**1,676,157**	171,231
Including: Capital injection into subsidiaries by minority shareholders		**33,000**	61,650
Cash received from borrowings		**274,690,500**	148,942,904
Other cash received relating to financing activities	56	**2,200**	—
Sub-total of cash inflows		**276,368,857**	149,114,135
Cash repayment of borrowings		**263,526,293**	143,536,892
Cash payments for distribution of dividends, profits and for interest expenses		**4,836,200**	3,687,580
Including: Distribution of dividends, profits by subsidiaries to minority shareholders		**523,466**	554,733
Other cash paid relating to financing activities	56	**634,774**	434,835
Sub-total of cash outflows		**268,997,267**	147,659,307
Net cash flows from financing activities		**7,371,590**	1,454,828
IV. Effect of changes in foreign exchange rate on cash and cash equivalents		**65,502**	260,017
V. Net increase in cash and cash equivalents		**3,941,438**	8,001,146
Add: cash and cash equivalents at beginning of year		**47,071,729**	39,070,583
VI. Net balance of cash and cash equivalents at the end of year	56	**51,013,167**	47,071,729

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

Balance Sheet

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

Assets	Note XVI	31 December 2023	31 December 2022
Current assets			
Cash	1	**61,975,191**	38,079,828
Trading financial assets		**24,227**	—
Derivative financial assets		**61,944**	127,765
Trade receivables	2	**35,943,738**	29,741,726
Factored trade receivables		**4,073,264**	3,448,350
Receivable financing		**3,503**	82,430
Prepayments		**16,657**	51,015
Other receivables	3	**31,653,053**	32,289,047
Inventories		**12,535,588**	16,414,551
Contract assets		**3,739,259**	3,769,504
Other current assets		**1,868,178**	2,015,773
Total current assets		**151,894,602**	126,019,989
Non-current assets			
Long-term trade receivables	4	**4,833,124**	5,422,831
Factored long-term trade receivables		**10,509**	191,551
Investment in associates, joints and subsidiaries	5	**17,979,249**	17,342,618
Other non-current financial assets		**650,319**	614,422
Investment properties		**1,104,000**	1,611,000
Property, plant and equipment		**6,190,094**	5,748,004
Construction in progress		**327,044**	549,962
Right-of-use assets		**1,007,848**	529,228
Intangible assets		**2,499,545**	2,912,146
Development costs		**305,732**	223,784
Deferred tax assets		**1,550,517**	1,417,731
Other non-current assets		**4,738,904**	4,668,062
Total non-current assets		**41,196,885**	41,231,339
TOTAL ASSETS		**193,091,487**	167,251,328

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

Balance Sheet

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

Liabilities and shareholders' equity	Note XVI	31 December 2023	31 December 2022
Current liabilities			
Short-term loans		**4,961,423**	5,500,000
Bank advances on factored trade receivables		**3,687**	84,550
Derivative financial liabilities		**183,217**	201,697
Bills payable		**12,661,855**	13,950,730
Trade payables		**34,859,532**	30,639,060
Short-term bonds payable		**5,012,890**	—
Contract liabilities		**13,177,282**	14,273,269
Employee benefits payable		**8,867,734**	7,345,309
Taxes payable		**136,420**	172,074
Other payables		**9,694,757**	6,633,041
Provisions		**1,343,283**	1,891,295
Non-current liabilities due within one year		**1,497,603**	148,185
Total current liabilities		**92,399,683**	80,839,210
Non-current liabilities			
Long-term loans		**37,189,305**	30,478,854
Bank advances on factored long-term trade receivables		**11,062**	195,210
Lease liabilities		**621,273**	412,934
Long-term employee benefits payable		**141,762**	144,874
Deferred income		**141,204**	107,174
Other non-current liabilities		**1,700,411**	1,883,469
Total non-current liabilities		**39,805,017**	33,222,515
Total liabilities		**132,204,700**	114,061,725
Shareholder's equity			
Share capital		**4,783,252**	4,736,113
Capital reserves		**27,685,429**	25,943,902
Other comprehensive income		**768,139**	747,247
Surplus reserve		**2,391,626**	2,368,055
Special reserve		**37,173**	11,044
Retained profits		**25,221,168**	19,383,242
Shareholders' equity attributable to holders of ordinary shares		**60,886,787**	53,189,603
Total shareholders' equity		**60,886,787**	53,189,603
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**193,091,487**	167,251,328

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

Income Statement

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

	Note XVI	2023	2022
Operating revenue	6	134,905,616	123,670,533
Less: Operating costs	6	110,477,624	102,193,758
Taxes and surcharges		474,431	293,034
Selling and distribution costs		6,912,693	6,036,022
Administrative expenses		4,056,020	4,517,098
Research and development costs		7,900,044	5,020,197
Finance costs		(703,173)	(1,094,912)
Including: Interest expense		2,214,235	1,336,155
Interest income		2,691,596	1,771,087
Add: Other income		129,818	269,773
Investment income	7	2,433,069	1,928,764
Including: Share of gains of associates and joint ventures		247,984	57,562
Losses from derecognition of financial assets at amortised cost		(121,027)	(93,159)
Gains from changes in fair values		(216,356)	(234,573)
Credit impairment losses		(125,508)	(750,320)
Asset impairment loss		(276,299)	(212,317)
Asset disposal		1,562	6,713
Operating profit		7,734,263	7,713,376
Add: Non-operating income		106,486	189,181
Less: Non-operating expenses		54,176	111,570
Total profit		7,786,573	7,790,987
Less: Income tax		29,226	85,637
Net profit		7,757,347	7,705,350
Including: net profit from continuing operations		7,757,347	7,705,350
Analysed by ownership			
Attributable to holders of ordinary shares		7,757,347	7,705,350
Other comprehensive income, net of tax		20,892	33,056
Other comprehensive income that cannot be reclassified to profit and loss			
Change in net assets arising from the re-measurement of defined benefit plans		985	1,509
Other comprehensive income that will be reclassified to profit or loss			
Effective portion of hedge instruments		(598)	–
Exchange differences on translation of foreign operations		20,505	31,547
Total comprehensive profit		7,778,239	7,738,406
Attributable to:			
Holders of ordinary shares		7,778,239	7,738,406

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

Statement of Changes in Equity

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

	2023							
	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 year	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 year								
(I) Total comprehensive income	–	–	20,892	–	–	7,757,347	7,778,239	7,778,239
(II) Shareholder's capital injection and capital reduction								
1. Ordinary share injection from shareholders	47,139	2,034,595	–	–	–	–	2,081,734	2,081,734
2. Equity settled share expenses charged to equity	–	(290,383)	–	–	–	–	(290,383)	(290,383)
3. Others	–	(2,685)	–	–	–	–	(2,685)	(2,685)
(III) Profit appropriation								
1. Surplus reserve	–	–	–	23,571	–	(23,571)	–	–
2. Distribution to shareholders	–	–	–	–	–	(1,895,850)	(1,895,850)	(1,895,850)
(IV) Special reserve								
1. Allocated for the year	–	–	–	–	66,850	–	66,850	66,850
2. Utilised for the year	–	–	–	–	(40,721)	–	(40,721)	(40,721)
III. Current year's closing balance	4,783,252	27,685,429	768,139	2,391,626	37,173	25,221,168	60,886,787	60,886,787

	2022							
	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 year	4,730,796	25,387,579	714,191	2,365,398	–	13,100,762	46,298,726	46,298,726
II. Changes during the year								
(I) Total comprehensive income	–	–	33,056	–	–	7,705,350	7,738,406	7,738,406
(II) Shareholder's capital injection and capital reduction								
1. Capital injection from shareholders	5,317	142,299	–	–	–	–	147,616	147,616
2. Equity settled share expenses charged to equity	–	414,024	–	–	–	–	414,024	414,024
3. Others	–	–	–	–	–	–	–	–
(III) Profit appropriation								
1. Surplus reserve	–	–	–	2,657	–	(2,657)	–	–
2. Distribution to shareholders	–	–	–	–	–	(1,420,213)	(1,420,213)	(1,420,213)
(IV) Special reserve								
1. Allocated for the year	–	–	–	–	60,344	–	60,344	60,344
2. Utilised for the year	–	–	–	–	(49,300)	–	(49,300)	(49,300)
III. Current year's closing balance	4,736,113	25,943,902	747,247	2,368,055	11,044	19,383,242	53,189,603	53,189,603

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

Cash Flow Statement

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

		2023	2022
I.	**Cash flows from operating activities**		
	Cash received from sale of goods or rendering of services	138,713,573	139,150,027
	Refunds of taxes	3,574,077	2,499,286
	Cash received relating to other operating activities	2,620,662	2,010,479
	Sub-total of cash inflows	144,908,312	143,659,792
	Cash paid for goods and services	117,804,700	123,320,198
	Cash paid to and on behalf of employees	8,711,107	8,006,627
	Cash paid for various types of taxes	1,371,611	1,524,782
	Cash paid relating to other operating activities	7,297,704	6,307,168
	Sub-total of cash outflows	135,185,122	139,158,775
	Net cash flows from operating activities	9,723,190	4,501,017
II.	**Cash flows from investing activities**		
	Cash received from sale of investments	6,910,510	9,245,583
	Cash received from return on investments	3,505,718	871,471
	Net cash received from the disposal of property, plant and equipment, intangible assets and other long-term assets	55,755	674,743
	Cash received relating to other investing activities	6,289,076	1,130,154
	Sub-total of cash inflows	16,761,059	11,921,951
	Cash paid to acquisition of property, plant and equipment, intangible assets and other long-term assets	1,777,228	2,095,448
	Cash paid for acquisition of investments	24,915,207	7,911,473
	Other cash paid in relation to investing activities	4,516,038	3,827,663
	Sub-total of cash outflows	31,208,473	13,834,584
	Net cash flows from investing activities	(14,447,414)	(1,912,633)
III.	**Cash flows from financing activities**		
	Cash received from investment	1,623,191	109,583
	Cash received from loans	148,715,280	95,860,655
	Other cash received in relation to operating activities	34,195	3,036,552
	Sub-total of cash inflows	150,372,666	99,006,790
	Cash repayment of borrowings	135,673,474	82,372,112
	Cash payments for distribution of dividends and profits or for interest expenses	3,578,325	2,586,575
	Other cash paid in relation to financing activities	409,794	3,189,565
	Sub-total of cash outflows	139,661,593	88,148,252
	Net cash flows from financing activities	10,711,073	10,858,538
IV.	**Effect of changes in foreign exchange rate on cash and cash equivalents**	(19,720)	68,103
V.	**Net increase/(decrease) in cash and cash equivalents**	5,967,129	13,515,025
	Add: cash and cash equivalents at the beginning of the year	30,896,841	17,381,816
VI.	**Net balance of cash and cash equivalents at the end of the year**	36,863,970	30,896,841

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

Notes to Financial Statements

31 December 2023
Prepared under PRC ASBEs
(English translation for reference only)
RMB'000

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 provider of integrated telecommunications and IT solutions with a full range of end-to-end ICT products and solutions 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 8 March 2024.

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, practice notes, interpretations and other relevant regulations subsequently announced and revised (collectively "ASBEs"). In addition, these financial statements have also presented financial information disclosure in accordance with "Rules for the Preparation of Information Disclosure by Companies with Publicly Issued Securities No. 15 — General Provisions for Financial Reporting".

The financial statements are prepared on a going concern basis.

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, inventory impairment provision, government grants, revenue recognition and measurement, deferred development costs, depreciation of property, plant and equipment, 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 Company and the Group as at 31 December 2023 and their results of operations and cash flows for 2023.

2. Accounting period

The accounting period of the Group is based on the calendar year, namely, from 1 January to 31 December.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

3. Reporting currency

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

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

4. Methods for determining criteria of materiality and bases for election

	Criteria of materiality
Material receivables for which bad debt provision is made individually	Individual provision amount accounting for more than 10% of the total amount of individually made bad debt provision for various receivables and with an amount exceeding RMB100 million
The amount of bad debt provision for receivables recovered or reversed is material	Individual amount recovered or reversed accounting for more than 10% of the total amount of various receivables and with an amount exceeding RMB100 million
Actual write-off of material receivables	Individual write-off amount accounting for more than 10% of the total amount of bad debt provision for receivables and with an amount exceeding RMB100 million
Material change to carrying value of contract assets	The change in the carrying value of contract assets accounting for more than 30% of the initial balance of contract assets
Material contract liabilities aged over one year	Individual item accounting for more than 10% of the total amount of contract liabilities aged over 1 year and with an amount exceeding RMB100 million
Material change in carrying value of contract liabilities	The change in the carrying value of contract liabilities accounting for more than 30% of the initial balance of contract liabilities
Material trade payables and other payables	Individual item accounting for more than 10% of the total amount of trade payables/other payables aged over 1 year and with an amount exceeding RMB100 million
Material construction in progress	Individual item with budget exceeding RMB500 million
Material provisions	Individual provision item accounting for more than 10% of the total amount of provision and with an amount exceeding RMB300 million
Material non-wholly owned subsidiary	Net assets of the subsidiary accounting for more than 5% of the Group's net assets or non-controlling interests in an individual subsidiary accounting for more than 1% of the Group's net assets and with an amount exceeding RMB1,000 million
Material capitalized R&D project	The ending balance of individual item accounting for more than 10% of the ending balance of development expenditure and with an amount exceeding RMB500 million
Material outsourcing R&D in progress project	Individual item accounting for more than 10% of the total R&D investment
Material change to contract	Varied/adjusted amount accounting for 30% or more of the original contract amount and accounting for 1% or more of the total amount of income for the current period
Material investing activities	Individual investing accounting for more than 10% of the total amount of cash inflow or outflow received or paid in relation to investing activities and with an amount exceeding RMB1,000 million

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

4. Methods for determining criteria of materiality and bases for election (continued)

	Criteria of materiality
Material joint ventures or associates	Carrying value of investment in associates and joints of an individual investee accounting for more than 5% of the Group's net assets and with an amount exceeding RMB1,000 million, or investment income or loss of investment in associates and joints under equity method exceeding 10% of the Group's consolidated net profit
Material subsidiaries	The net asset of a subsidiary accounting for more than 5% of the Group's net assets, or the net profit of a subsidiary accounting for more than 10% of the Group's consolidated net profit
Material activities that do not involve cash inflows and outflows for the current period	Individual activity that does not involve cash inflows and outflows for the current period, having an impact on the financial statements for the current period more than 10% of net asset, or is expected to have an impact on future cash flows more than 10% of the corresponding total cash inflows or outflows

5. 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 combination cost 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 combination cost 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 and the combination cost is conducted. If the review indicates that the combination cost 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)

6. 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). An investor is considered having control over the investee if, and only if, the following three factors are present: the investor: exercises power over the investee; is entitled to realisable return for participation in relevant activities of the investee; is capable of exercising power over the investee in a manner affecting the amount of its return.

Where the accounting policies or accounting periods of subsidiaries are inconsistent with those adopted by the Company, the financial statements of the subsidiaries are adjusted as necessary to conform with the Company's accounting policies and accounting period. 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.

Change in non-controlling interest as a result of not loss of control is accounted for as equity transaction.

7. 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

8. 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.

9. Foreign currency translation

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

Foreign currency transactions are translated to the functional currency at the spot exchange rate prevailing on the date of transaction upon initial recognition. 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. Foreign currency non-monetary items measured at historical cost continue to be translated using the exchange rate at initial recognition without changing the carrying amount in functional currency. Foreign currency non-monetary items measured at fair value are translated using the spot exchange rate at the record date for the fair value. The differences arising from the above translations are recognised in current profit or loss or other comprehensive income according to the nature of the 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.

10. 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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. 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 one 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. 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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. 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, other than those relating to hedge accounting, and 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 one year from the balance sheet date and expect to be held for over one 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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (continued)

(2) Subsequent measurement (continued)

(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. Financial liabilities at fair value through current profit or loss are subsequently measured at fair value. Other than fair value changes arising from the change in the Group's inherent credit risk which are included in other comprehensive income, other fair value changes are included in current profit or loss. If the inclusion of fair value changes arising from the change in the Group's inherent credit risk in other comprehensive income will result in or increase the accounting mismatch in profit or loss, the Group will include all fair value changes (including amounts arising from change in its inherent credit risk) in current profit or loss.

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.

For receivables, contract assets and bills receivable 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;

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10. Financial instruments (continued)

(3) Impairment of financial instruments (continued)

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 financial instruments by aging portfolio based on common risk characteristics. The Group determines the age of amounts according to the date of payment agreed in the contract. In addition to the assessment of expected credit loss of financial instruments on a group basis, the Group also assesses expected credit loss individually. Where there is objective evidence indicating the credit risk of an individual trade receivable or contract asset is significantly different from that of other trade receivables or contract assets, provision for credit loss impairment is recognised as the difference between the present value of all contract cash flow receivable under the individual contract and the present value of all cash flow expected to be received.

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 IX.2.

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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (continued)

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

(a) Transfer and derecognition of financial assets (continued)

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.

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 in financial assets refer to the purchase or disposal of financial assets in accordance with contracts which stipulate the delivery of financial assets according to time schedules typically determined by the law or market 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 recognised amount;

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

10. Financial instruments (continued)

(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.

11. Inventories

Inventories include raw materials, materials sub-contracted for processing, work-in-progress, finished goods, dispatched goods, contract performance cost.

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. Turnover materials include low-value consumables and packaging materials, which are amortised on a one-off or 50–50 basis according to their useful life and value.

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 items in the case of terminal products or inventory aging portfolio in the case of non-terminal products. For inventories relating to product series manufactured and sold in the same region or having identical or similar end use or purpose of which separate measurement from other items is impracticable, impairment provision shall be recognised on a combined basis.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

11. Inventories (continued)

The net realisable value of terminal products is determined on the basis of the estimated selling prices of different models. For non-terminal products, the net realisable value of the inventories is determined using empirical data on estimated net realisable value analysed by inventory age and type on the basis of historic loss and business risks, taking into consideration of the risk associated with slow-moving or obsolete products in different inventory age bands and the risk relating to future market demand, generational replacement of products and variation in projects.

Contract performance cost classified as current assets is presented under inventory.

12. Investment in associates and joints

Investment in associates and joints include equity investments in subsidiaries, joint ventures and associates.

(1) Initial measurement of investment in associates and joints

Investment in associates and joints are initially measured at the initial investment cost upon acquisition.

(a) Investment in associates and joints formed through business combination

For investment in associates and joints 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).

For investment in associates and joints 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 initial investment cost of investment in associates and joints 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 investment in associates and joints. For investment in associates and joints acquired by way of the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Investment in associates and joints (continued)

(2) Subsequent measurement of investment in associates and joints

(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, investment in associates and joints are measured at initial cost on acquisition. When additional investments are made or investments are recouped, the cost of investment in associates and joints 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 investment in associates and joints 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 investment in associates and joints. 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 investment in associates and joints.

Under the equity method, after the investment in associates and joints 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 investment in associates and joints is adjusted accordingly. When recognising the Group's share of the net profit or loss of the invested entity, the Group makes adjustments to investee's net profits based on fair values of the investees' identifiable assets at the acquisition date in accordance with the Group's accounting policy and accounting period, eliminating pro-rata profit or loss from internal transactions with associates and joint ventures attributable 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 investment in associates and joints 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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

12. Investment in associates and joints (continued)

(2) Subsequent measurement of investment in associates and joints (continued)

(b) Equity method (continued)

The Group also adjusts the carrying amount of investment in associates and joints 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.

13. Investment properties

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

Investment properties of the Group included houses and buildings and land use rights 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.

14. Property, plant and equipment

Property, plant and equipment is recognised when, and only when, it is probable that future economic benefits that are associated with the property, plant and equipment will flow to the Group and the cost can be measured reliably. Subsequent expenditures related to property, plant and equipment are recognised in the carrying amount of the property, plant and equipment 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.

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

14. Property, plant and equipment (continued)

Other than those formed from safe production expense already provided for, property, plant and equipment 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 property, plant and equipment and makes adjustments if necessary.

15. Construction in progress

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

Construction-in-progress is transferred into property, plant and equipment when it is ready for its intended use according to the following criteria:

	Criteria for transfer to property, plant and equipment
Houses and buildings	Commencement of actual use/delivery upon completion and inspection, whichever earlier
Machinery equipment	Commencement of actual use/delivery upon completion of installation and inspection, whichever earlier

16. Borrowing costs

Borrowing costs that can be directly attributed to the acquisition or production of assets qualified for capitalisation are capitalized. Other borrowing costs are charged to current profit or loss.

The capitalization of borrowing costs commences when the capital expenditure and borrowing cost have already been incurred and the acquisition or production activities required for the asset to reach its usable or sellable state have commenced.

When the asset qualified for capitalisation so acquired or produced reaches its usable or sellable state, borrowing costs should cease to be capitalized and subsequent borrowing costs shall be charged to current profit or loss.

Borrowing costs directly attributable to the acquisition or construction of assets qualified for capitalisation, i.e., property, plant and equipment, 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.

Except for expected suspension under normal situation of qualifying assets, capitalisation should be suspended during periods in which abnormal interruption has lasted for more than 3 months during the process of acquisition, construction or production. The borrowing cost incurred during interruption should be recognised as expenses and recorded in the income statement until the construction resumes.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

17. Intangible assets

Intangible assets are amortised using the straight-line method over their useful lives as follows:

	Estimated useful life	Basis
Land use rights	30–70 years	Term of land use right
Patents	2–10 years	Term/estimated useful life of patent, whichever shorter
Software	2–5 years	Actual useful life/estimated useful life of software, whichever shorter
Franchise	2–10 years	Term/estimated useful life of franchise, whichever shorter
Development expenses	3–5 years	Generational cycle of technology/life cycle of product, whichever shorter

The Group classifies the expenses for internal research and development as research costs and development costs. R&D investment is the expense directly related to R&D activities, including remuneration of R&D staff, R&D materials, depreciation cost, technological cooperation fee and assessment and testing fee, etc. 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 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 the ability to use or sell 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 in current profit or loss when incurred.

Capitalisation of a project of the Group commences when it progresses into the development phase after fulfillment of the above conditions, satisfaction of technical feasibility and economic feasibility studies, project formation and listing upon assessment.

18. Provisions

The Group recognises as provision an obligation that is related to contingent matters when the obligation is a present obligation of the Group that would probably result in an outflow of economic benefits from the Group and 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 and adjusted as appropriate to reflect the current best estimated value.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

19. Share-based payments

Share-based payments can be distinguished into equity-settled share-based payments and cash-settled share-based payments. Equity-settled share-based payments are transactions of the Group settled through the payment of shares 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 XII. Share-based payment.

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

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 granted, 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.

20. Revenue from customer contracts

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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Revenue from customer contracts (continued)

(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 technical 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 or the customer is able to control the asset in progress during the course of the Group's contract performance, the Group considers such contractual performance obligations to be obligations performed over a period of time, and revenue shall be recognised according to 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 both the aforesaid equipment sales and installation service that are distinctly separable and combinations of equipment sales and installation services that are not individually separable is transferred to the customer upon the latter's inspection and acceptance, the Group recognises revenue from the standalone contractual performance obligation at the point of time after performance of the relevant standalone contractual obligation upon completion of the customer's inspection and acceptance.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Revenue from customer contracts (continued)

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

(a) Standalone selling price

For contracts containing two or more performance obligations, the Group allocates the transaction price to the respective standalone performance obligations and measures revenue according to the transaction price allocated to such standalone performance obligations according to a relative percentage of the standalone price for the commodity or service pledged under the respective standalone performance obligations on the date of inception of the contract.

Where there is definitive evidence showing contract discounts relate to one or more (but not all) performance obligations under a contract, the contract discount is allocated to the one or more relevant performance obligations.

(b) 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.

(c) 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.

(d) 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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

20. Revenue from customer contracts (continued)

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

(e) 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 one year.

(f) 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.18. 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 and recognised upon the customer obtaining control of the service. 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.

21. 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.10.

(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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

22. 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 one 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, property, plant and equipment 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.

23. 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 formation in other manners of long-term assets are asset-related government grants; where the instruments are not specific, judgement should be exercised based on the basic conditions required for receiving the grant, whereby grants designated to be used for acquisition or formation in other manners of long-term assets as a basic condition are recognised as asset-related government grants. 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 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 set off against related costs.

Government grants relating to assets shall be written off against the carrying value of the asset concerned. 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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

23. Government grants (continued)

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. Where discounted interest funds are paid to the Group directly by financial authorities, the corresponding discounted interest is charged against relevant borrowing costs.

24. Deferred tax

The Group recognises deferred tax based on temporary differences between the carrying amount of assets or liabilities in the balance sheet and their tax base on the balance sheet date, as well as 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, using the balance sheet liability method.

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

(1) where the taxable temporary difference arises from the following: initial recognition of goodwill or initial recognition of an asset or liability in a standalone transaction that: is not a business combination, at the time of the transaction affects neither the accounting profit nor the taxable profit or deductible loss, and gives rise to initial recognition of assets and liabilities which have not resulted in taxable temporary difference and deductible temporary difference of an equivalent amount;

(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 losses and unused tax credits, 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 losses and unused tax credits can be utilised except:

(1) where the deductible temporary difference arises from an individual transaction that: is not a business combination, at the time of the transaction affects neither the accounting profit nor the taxable profit or deductible loss, and gives rise to initial recognition of assets and liabilities which have not resulted in taxable temporary difference and deductible temporary difference of an equivalent amount;

(2) deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures are recognised when it is probable that the temporary differences will reverse in the foreseeable future and 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 its liabilities.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

24. 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.

25. 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 recognises 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 recognised 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)

25. 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.

(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.

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25. 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.

26. Impairment

Impairment of assets other than inventories, investment properties measured at fair value, deferred tax assets, contract assets and financial assets is determined 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 or which are not yet ready for use are tested at least annually regardless of whether there are indications of impairment.

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

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

In connection with impairment tests for goodwill, the carrying value of goodwill is allocated to relevant cash generating units ("CGU") or 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 business segments determined by the Group.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

26. Impairment (continued)

The carrying value and recoverable amount of CGUs or CGU groups that comprise goodwill 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.

27. 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.

(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.

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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

27. Employee remuneration (continued)

(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.

28. Fair value measurement

At each balance sheet date, the Group measures the fair value of investment properties, derivative financial instruments 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.

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 property, plant and equipment are formed: cost of an expense nature should be directly set off against the special reserve. Cost that contributes to the formation of property, plant and equipment should be aggregated and recognised as property, plant and equipment 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 recognised.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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 periods.

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.

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.

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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

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 their disclosure, as well as the disclosure of contingent liabilities as at the balance sheet date. However, the consequence arising from the uncertain nature of such assumptions and estimations 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 based on the correlation between the equipment sold and the installation service and the contract terms, among other factors. 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) Performance of obligation at a point of time

For the Group's performance obligations in respect of installation services under contract and communication system equipment sold in a block together with installation, 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.

(c) 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.

(d) 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.

(e) 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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

31. Significant accounting judgements and estimates (continued)

(1) Judgement (continued)

(f) 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 might cause a material adjustment to the carrying amounts of assets and liabilities in subsequent accounting years, are discussed below.

(a) Impairment of investment in associates and joints, property, plant and equipment, construction in progress and intangible assets and development expenditure

The Group assesses at each balance sheet date whether there is an indication that investment in associates and joints, property, plant and equipment, construction in progress and intangible assets and development expenditure 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. The net amount of fair value after disposal cost is determined by reference to prices under sales agreements for similar assets in an arms-length transaction or observable market prices less the incremental cost directly attributable to the asset disposal. The estimated future cash flow of the asset 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 the selection of 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 property, plant and equipment, 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.

(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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

31. Significant accounting judgements and estimates (continued)

(2) Estimation uncertainty (continued)

(c) Depreciation and amortisation

The Group depreciates items of property, plant and equipment and amortises items of intangible assets on the straight line basis over their estimated useful lives from the date on which the asset reaches a usable state, and after taking into account their estimated residual value, commencing from the date the items of property, plant and equipment are placed into productive use. It reflects the management's estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment and intangible assets.

(d) 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 the aid of tax planning strategies, to determine the amount of the deferred tax assets that should be recognised.

(e) 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.

(f) 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.

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (continued)

31. Significant accounting judgements and estimates (continued)

(2) Estimation uncertainty (continued)

(g) 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.

(h) 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. For details, please refer to Note V.12.

(i) 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. It requires the Group to determine comparable listed companies, elect market multiples and make estimates of liquidity discount and therefore involves uncertainty. The market-based valuation method is adopted to arrive at the fair value of non-listed equity investment at fair value through profit or loss. 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, such as enterprise value to EBIT ("EV/EBIT"), price to book ("P/B") or price to earnings ("P/E"), etc., in respect of each identified comparable company. 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 X.3.

(j) Incremental loan interest rate of lessee

For leases where the interest rate embedded in the lease cannot be determined, the Group uses the lessee's incremental loan interest rate as the discount rate to calculate the present value of the lease payments. In determining the incremental loan interest rate, the Group uses the observable interest rate as the reference basis for determining the incremental loan interest rate according to the prevailing economic conditions. On this basis, the reference rate is adjusted to arrive at the applicable incremental loan interest rate in accordance with its own circumstances, the condition of the subject asset, the lease term and the amount of the lease liability and other specific circumstances of the leasing business.

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.
Stamp duty	Calculated and paid according to taxable amounts and applicable tax rates stated on documentary evidence of taxable amount
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 of the People's Republic of China promulgated on 1 January 2008, enterprise income tax was payable by the Group on its taxable income.

2. Tax concession

Company name	Concessionary tax rate	Applicable period
ZTE Corporation	15% (National-grade hi-tech enterprise)	2023–2025
Shenzhen Zhongxing Software Company Limited	15% (National-grade hi-tech enterprise)	2023–2025
Shanghai Zhongxing Software Company Limited	15% (National-grade hi-tech enterprise)	2023–2025
Xi'an Zhongxing New Software Company Limited	15% (National-grade hi-tech enterprise)	2023–2025
Zonson Smart Auto Corporation	15% (National-grade hi-tech enterprise)	2021–2023
Sanechips Technology Co., Ltd.	15% (National-grade hi-tech enterprise)	2023–2025
Chongqing Zhongxing Software Company Limited	15% (National-grade hi-tech enterprise)	2023–2025
Guangdong ZTE Newstart Technology Co., Ltd.	15% (National-grade hi-tech enterprise)	2023–2025
Shenzhen Zhongxing Telecom Technology & Service Company Limited	15% (National-grade hi-tech enterprise)	2022–2024
Xi'an ZTE Terminal Technology Co., Ltd.	15% (Concessions under the West China Development Policy)	2021–2030
CRS Technology Co., Ltd.	15% (National-grade hi-tech enterprise)	2021–2023
Nanjing Zhongxing Software Company Limited	15% (National-grade hi-tech enterprise)	2023–2025
Nanjing Zhongxing New Software Company Limited	15% (National-grade hi-tech enterprise)	2021–2023

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V. NOTES TO KEY ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and Bank Balances

	2023	2022
Cash	2,034	1,604
Bank Deposit	77,252,663	55,447,343
Other cash	1,288,522	897,420
Total	78,543,219	56,346,367
Including: total amount of offshore funds	3,767,355	3,255,180

As at 31 December 2023, the Group's funds placed overseas and subject to remittance restrictions amounted to RMB81,955,000 (31 December 2022: RMB49,764,000).

2. Trading financial assets

	2023	2022
Investment in equity instrument at fair value through current profit and loss	153,285	513,784

3. Derivative financial assets

	2023	2022
Derivative financial assets at fair value through current profit or loss	85,341	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 for hedging purpose, they were dealt with at fair value through current profit or loss.

4A. Trade receivables/factored trade receivables

Trade receivables are recognised according to the payment schedules agreed under contracts, typically with a credit period of 0-90 days, which may be extended to a maximum of 1 year depending on the credit records of customers. No interest is accrued on trade receivables.

Aging analysis of trade receivables was as follows:

	31 December 2023	31 December 2022
Not overdue	17,409,393	11,372,753
Within 1 year	3,207,010	6,183,920
1 year to 2 years	1,299,538	1,362,246
2 years to 3 years	759,316	747,221
Over 3 years	5,102,441	5,154,936
	27,777,698	24,821,076
Bad debt provision	6,956,172	7,069,686
Total	20,821,526	17,751,390

RMB'000

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

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

2023

	Book balance		Bad debt provision		Book value
	Amount	Percentage	Amount	Percentage	
Standalone impairment provision	**1,900,628**	**6.84%**	**1,900,628**	**100.00%**	**–**
Recognition of impairment provision by group with credit risk characteristics	**25,877,070**	**93.16%**	**5,055,544**	**19.54%**	**20,821,526**
Total	**27,777,698**	**100.00%**	**6,956,172**	**25.04%**	**20,821,526**

2022

	Book balance		Bad debt provision		Book value
	Amount	Percentage	Amount	Percentage	
Standalone impairment provision	1,793,742	7.23%	1,793,742	100.00%	–
Recognition of impairment provision by group with credit risk characteristics	23,027,334	92.77%	5,275,944	22.91%	17,751,390
Total	24,821,076	100.00%	7,069,686	28.48%	17,751,390

As at 31 December 2023, bad debt provisions for trade receivables on a group basis were as follows:

	Book balance	Impairment provision	Percentage of provision
Not overdue	**17,409,393**	**274,771**	**1.58%**
Within 1 year	**3,111,945**	**231,651**	**7.44%**
1–2 years	**1,296,928**	**514,563**	**39.68%**
2–3 years	**683,629**	**659,384**	**96.45%**
Over 3 years	**3,375,175**	**3,375,175**	**100%**
Total	**25,877,070**	**5,055,544**	**19.54%**

Movements in bad debt provisions for trade receivables is as follows:

	Opening balance	Charge/ (reversed) for the year	Write-off for the year	Effect of exchange rate	Closing balance
31 December 2023	**7,069,686**	**134,040**	**(188,737)**	**(58,817)**	**6,956,172**

As at 2023, RMB51,446 (2022: RMB186,221) was reversed for trade receivables which were individually significant and for which bad-debt provision had been made separately. There was a write-off in the amount of RMB12,600 (2022: RMB347,020) in respect of trade receivables which were individually significant and for which bad-debt provision had been made separately.

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

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

Top 5 accounts of trade receivables and contract assets as at 31 December 2023 were as follows:

	Closing balance of trade receivables	Closing balance of contract assets	Closing balance of trade receivables and contract assets	As a percentage of total Closing balance of trade receivables and contract assets	Closing balance of bad-debt provision for trade receivables and contract assets
Customer 1	3,861,132	607,223	4,468,355	13.57%	10,301
Customer 2	3,074,682	380,173	3,454,855	10.49%	4,431
Customer 3	2,215,828	563,073	2,778,901	8.44%	25,142
Customer 4	847,682	140,696	988,378	3.00%	190,083
Customer 5	650,599	389	650,988	1.98%	26,487
Total	10,649,923	1,691,554	12,341,477	37.47%	256,444

Transfer of trade receivables

The transfer of trade receivables that did not qualify for derecognition was separately reflected in "Factored trade receivables" and "Bank advances on factored trade receivables". As at 31 December 2023, factored trade receivables amounted to RMB3,503,000 (31 December 2022: RMB81,525,000); and bank advances on factored trade receivables amounted to RMB3,687,000 (31 December 2022: RMB84,550,000). For details of the transfer of trade receivables, please refer to Note IX.5.

Factored trade receivables

	31 December 2023			31 December 2022		
	Book balance	Bad debt provision	Carrying value	Book balance	Bad debt provision	Carrying value
Factored trade receivables	3,687	(184)	3,503	84,550	(3,025)	81,525

Movements in bad provision for factored trade receivables

	Opening balance	Charge/(reversed) for the year	Write-off for the year	Effect of exchange rate	Closing balance
31 December 2023	3,025	(2,841)	–	–	184

RMB'000

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

4B. Receiving financing

	2023	2022
Commercial acceptance bills	2,862,982	2,736,128
Bank acceptance bills	1,211,096	976,014
Total	4,074,078	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 are as follows:

	2023		2022	
	Derecognised	Not derecognised	Derecognised	Not derecognised
Commercial acceptance bills	1,734	–	1,231,037	–
Bank acceptance bills	–	–	932,421	–
Total	1,734	–	2,163,458	–

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

	Opening balance	Provision/(reversal) for the year	Write-back for the year	Closing balance
2023	2,403	174	–	2,577

5. Prepayments

(1) Aging analysis of prepayments was as follows:

	2023		2022	
	Book balance	Percentage	Book balance	Percentage
Within 1 year	242,440	100.00%	278,724	100.00%

(2) Top 5 accounts of prepayments as at 31 December 2023 were as follows:

Supplier	Amount	As a percentage of total amounts of prepayments
Supplier 1	49,351	20.36%
Supplier 2	19,460	8.03%
Supplier 3	14,832	6.12%
Supplier 4	14,544	6.00%
Supplier 5	9,013	3.72%
Total	107,200	44.23%

RMB'000

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

6. Other receivables

	2023	2022
Other receivables	1,146,400	1,346,935

Aging analysis of other receivables was as follows:

	2023	2022
Within 1 year	1,167,738	1,120,069
1 year to 2 years	71,714	328,520
2 years to 3 years	96,431	26,405
3 years to 4 years	21,124	49,245
4 years to 5 years	9,849	—
	1,366,856	1,524,239
Less: Bad debt provision for other receivables	(220,456)	(177,304)
Total	1,146,400	1,346,935

Book balance of other receivables analysed by nature were as follows:

	2023	2022
Staff loans	16,363	74,828
Transactions with third parties	1,350,493	1,449,411
Total	1,366,856	1,524,239

2023

	Book balance		Bad debt provision		Book value
	Amount	Percentage	Amount	Percentage	
Recognition of impairment provision by group with credit risk characteristics	1,366,856	100%	(220,456)	16.13%	1,146,400

As at 31 December 2023, bad debt provisions for other receivables on a group basis were as follows:

	Book balance	Impairment provision	Percentage of provision
Aging risk portfolio	1,366,856	(220,456)	16.13%

RMB'000

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

6. Other receivables (continued)

2023 (continued)

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 respective 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 (credit losses not incurred)	Stage 3 Financial assets with credit impairment occurred (credit losses incurred)	Total
Opening balance	1,118	—	176,186	177,304
Provision for the year	983	—	149,943	150,926
Reversed during the year	—	—	(66,083)	(66,083)
Write-off during the year	—	—	(39,608)	(39,608)
Exchange rate effect	—	—	(2,083)	(2,083)
Closing balance	**2,101**	**—**	**218,355**	**220,456**

Change in bad debt provisions for other receivables were as follows:

	Opening balance	Charge/ (reversed) for the year	Write-back for the year	Exchange rate movement	Closing balance
Aging risk portfolio	**177,304**	**84,843**	**(39,608)**	**(2,083)**	**220,456**

As at 31 December 2023, top five accounts of other receivables are as follows:

	Closing balance	As a percentage of the total amount of other receivables	Nature	Age	Closing balance of bad debt provision
Third-party entity 1	**116,623**	**8.53%**	**Transactions with third parties**	**Within 1 year** **1–2 years**	**46,871** **69,752**
Third-party entity 2	**92,000**	**6.73%**	**Transactions with third parties**	**2–3 years**	**92,000**
Third-party entity 3	**48,944**	**3.58%**	**Transactions with third parties**	**Within 1 year**	**–**
Third-party entity 4	**9,650**	**0.71%**	**Transactions with third parties**	**Within 1 year**	**–**
Third-party entity 5	**7,195**	**0.53%**	**Transactions with third parties**	**Within 1 year**	**–**
Total	**274,412**	**20.08%**			**208,623**

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

7. Inventories

	2023			2022		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Raw materials and materials under subcontract processing	29,063,295	3,171,930	25,891,365	27,894,546	2,294,517	25,600,029
Work in progress	2,585,816	40,641	2,545,175	1,875,619	23,517	1,852,102
Inventory	2,908,425	310,209	2,598,216	4,456,591	357,989	4,098,602
Dispatch of goods	6,795,052	785,023	6,010,029	9,997,136	1,092,659	8,904,477
Contract performance costs	4,816,828	730,354	4,086,474	5,671,534	891,754	4,779,780
Total	46,169,416	5,038,157	41,131,259	49,895,426	4,660,436	45,234,990

Movements in inventory impairment provision is as follows:

	Opening balance	Charge/ (reversal) for the year	Write-back during the year	Others	Closing balance
Raw materials and materials under subcontract processing	2,294,517	877,884	(220)	(251)	3,171,930
Work in progress	23,517	19,420	(2,297)	1	40,641
Inventory	357,989	(23,165)	(2,489)	(22,126)	310,209
Dispatch of goods and contract cost	1,984,413	(71,042)	(404,729)	6,735	1,515,377
Total	4,660,436	803,097	(409,735)	(15,641)	5,038,157

The reversal or write-back of inventory impairment provision for the year was attributable to the increase in net realisable value or the write-back of corresponding inventory impairment provision upon completion of commodity sales.

Inventory impairment provision on a group basis as follows:

	2023			2022		
	Book balance	Provision for impairment	Percentage of provision	Book balance	Provision for impairment	Percentage of provision
Terminal products	3,139,812	261,637	8.33%	3,114,591	290,202	9.32%
Non-terminal products						
Raw materials	27,797,811	3,023,916	10.88%	26,856,845	2,153,153	8.02%
Work in progress	2,231,609	32,349	1.45%	1,706,456	18,456	1.08%
Inventory	1,620,792	204,879	12.64%	2,660,078	214,212	8.05%
Dispatching of goods	11,379,392	1,515,376	13.32%	15,557,456	1,984,413	12.76%
Total	46,169,416	5,038,157	10.91%	49,895,426	4,660,436	9.34%

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

7. Inventories (continued)

The specific basis for the net realizable value of the terminal products is the estimated selling price less further processing costs and estimated selling expenses and related taxes. For raw materials of non-terminal products, work in progress and finished products, the net realizable value of the relevant inventories is comprehensively assessed with reference to the risk of historical obsolescence and future market demand and product replacement risk, combined with the inventory age. At the same time, based on the principle of prudence, full provision is made for raw materials of more than 5 years, work in progress of more than 1 year, and finished products of more than 2 years. The net realizable value of delivered goods and contract performance costs is determined based on the inventory age, historical experience data and business risk estimates.

8. Contract assets

	2023			2022		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Contract assets	5,161,577	(316,603)	4,844,974	5,190,315	(339,249)	4,851,066

Contract assets refer to the right to receive consideration for commodities that have been transferred to customers. Contract assets arise when the performance of contract obligations is ahead of the payment schedule agreed under the contract.

2023

	Book balance		Impairment provision		Book value
	Amount	Percentage	Amount	Percentage	
Standalone impairment provision	125,755	2.44%	125,755	100%	–
Recognition of impairment provision by group with credit risk characteristics	5,035,822	97.56%	190,848	3.79%	4,844,974
Total	5,161,577	100%	316,603	6.13%	4,844,974

2022

	Book balance		Impairment provision		Book value
	Amount	Percentage	Amount	Percentage	
Standalone impairment provision	133,131	2.56%	133,131	100%	–
Recognition of impairment provision by group with credit risk characteristics	5,057,184	97.44%	206,118	4.08%	4,851,066
Total	5,190,315	100%	339,249	6.54%	4,851,066

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

8. Contract assets (continued)

2022 (continued)

Contract assets for which impairment provisions were individually made were as follows:

	2023 Book balance	2023 Bad debt provision	2023 Percentage of provision	2023 Reason	2022 Book balance	2022 Impairment provision
Customer 1	42,745	42,745	100%	Significant financial difficulty experienced by the debtors	48,131	48,131
Customer 2	36,441	36,441	100%	Significant financial difficulty experienced by the debtors	35,613	35,613
Others	46,569	46,569	100%	Significant financial difficulty experienced by the debtors	49,387	49,387
Total	125,755	125,755			133,131	133,131

As at 31 December 2023, contract assets for which impairment provisions were made on a group basis were follows:

	Book balance	Impairment provision	Percentage of provision
Contract assets	5,035,822	190,848	3.79%
Total	5,035,822	190,848	

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

	Opening balance	Provisions/ (reversal) for the year	Write-back for the year	Exchange rate movements	Closing balance
2023	339,249	(22,947)	–	301	316,603

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

(1) Long-term receivables

	2023 Book Balance	2023 Bad debt provision	2023 Carrying value	2022 Book Balance	2022 Bad debt provision	2022 Carrying value	Range of discount rate
Installment payments for the provision of telecommunication system construction projects	2,048,547	34,988	2,013,559	2,729,098	166,885	2,562,213	4.10%–6.16%
Total	2,048,547	34,988	2,013,559	2,729,098	166,885	2,562,213	

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

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

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

	Opening balance	Provisions/ (reversal) for the year	Write-off for the year	Effect of exchange rate	Closing balance
31 December 2023	**166,885**	**(131,788)**	**—**	**(109)**	**34,988**

Long-term receivables was provided based on expected credit loss during the entire life taking into account the credit risk characteristics of different customers. All long-term trade receivables had not expired during the year. The rate of expected credit loss was 1.71%.

(3) Transfer of long-term receivables

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 2023, factored trade receivables amounted to RMB10,509,000 (2022: RMB186,025,000) and bank advances on factored trade receivables amounted to RMB11,062,000 (2022: RMB195,210,000). For details of the transfer of long-term receivables, please refer to Note IX.5.

(a) Factored long-term receivables

	2023			2022		
	Book balance	Provision for impairment	Carrying value	Book balance	Provision for impairment	Carrying value
Factored long-term receivables	**11,062**	**(553)**	**10,509**	195,210	(9,185)	186,025

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

	Opening balance	Provision (reversal) for the year	Write-off for the year	Exchange rate effect	Closing balance
2023	**9,185**	**(8,632)**	**—**	**—**	**553**

10. Investment in associates and joints

		2023	2022
Equity method			
Joint ventures	(1)	**856,886**	527,718
Associates	(2)	**1,417,922**	1,323,149
Less: provision for impairment of investment in associates and joints		**117,258**	96,837
Total		**2,157,550**	1,754,030

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

10. Investment in associates and joints (continued)

(1) Joint Ventures

	Shareholding percentage	Opening book balance	Movement during the year: 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 year
Puxing Mobile Telecom Equipment Co., Ltd.	33.85%	10,752	–	–	–	–	–	–	–	10,752	–
DataService Technology Co., Ltd.	49.00%	34,922	–	–	4,072	–	–	(2,940)	–	36,054	–
Shaanxi Zhongtou Zhanlu Phase I Equity Investment Partnership Enterprise (Limited Partnership)	40.00%	64,007	–	–	4,156	–	–	–	–	68,163	–
Shaanxi Zhongtou Zhanlu Phase II Equity Investment Partnership Enterprise (Limited Partnership)	40.25%	–	48,300	–	12,422	–	–	–	–	60,722	–
Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership)	40.00%	418,037	–	–	169,883	–	–	–	–	587,920	–
Beijing Shunyi Jianguang Zhanlu Emerging Industry Equity Investment Partnership (Limited Partnership)	58.75%	–	93,530	–	(255)	–	–	–	–	93,275	–
		527,718	141,830	–	190,278	–	–	(2,940)	–	856,886	–

(2) Associates

	Shareholding percentage	Opening book balance	Movement during the year: 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	Closing book balance	Impairment provision as at the end of the year
New Idea Investment Pte. Ltd*	20.00%	–	–	(14,551)	–	–	–	–	14,551	–	–
HENGYANG ICT REAL-ESTATE CO., LTD	30.00%	34,972	–	–	–	–	–	–	(34,972)	–	(52,446)
WHALE CLOUD TECHNOLOGY CO., LTD.	27.62%	978,245	–	–	74,689	1,165	(2,685)	–	–	1,051,414	–
Jetflow Technologies Co., Ltd	31.69%	13,651	–	–	(2,752)	–	–	–	–	10,899	(19,877)
Xingyun Times Technology Co., Ltd.	23.26%	126,865	–	–	(5,424)	–	–	–	–	121,441	–
Zhongxing (Wenzhou) Urban Rail Transportation Communication Technical Co. Ltd.	45.90%	31,827	–	–	10,488	–	–	(5,279)	–	37,036	–
Qingdao Hongtu Zhanlu Phase II Private Equity Investment Fund Partnership (Limited Partnership)	33.33%	10,000	50,000	–	436	–	–	–	–	60,436	–
Other investments**		30,752	–	(8,487)	(2,554)	3	–	(276)	–	19,438	(44,935)
		1,226,312	50,000	(23,038)	74,883	1,168	(2,685)	(5,555)	(20,421)	1,300,664	(117,258)

* New Idea Investment Pte. Ltd ceased to be accounted for as an associate for the period owing to the loss of significant influence following the disposal of entire equity interests in this company.

** GD ZTE Chengzhi IT Company Limited ceased to be accounted for as an associate for the period owing to the loss of significant influence following the disposal of entire equity interests in this company.

Shandong Xingji Real Estate Company Limited ceased to be accounted for as an associated for the period owing to the loss of significant influence following the disposal of entire equity interests in this company.

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

10. Investment in associates and joints (continued)

(3) Provision for impairment in investment in associates and joints:

	Opening balance	Increase during the year	Decrease during the year	Closing balance
New Idea Investment Pte. Ltd	14,551	–	(14,551)	–
HENGYANG ICT REAL-ESTATE CO., LTD	17,474	34,972	–	52,446
Jetflow Technologies Co., Ltd	19,877	–	–	19,877
Other investments	44,935	–	–	44,935
	96,837	34,972	(14,551)	117,258

(4) An impairment test was conducted on HENGYANG ICT REAL-ESTATE CO., LTD as there had been indications of impairment. The recoverable amount was determined as the net amount of fair value less disposal cost:

	Carrying value	Recoverable amount	Impairment	Determination of fair value and disposal cost
HENGYANG ICT REAL-ESTATE CO., LTD	34,972	–	34,972	Fair value assessed by management to be 0 based on operating conditions of the investee

11. Other non-current financial assets

	2023	2022
Financial assets at fair value through current profit and loss	831,930	1,028,262

12. Investment properties

	Buildings and land use rights
Opening balance	2,010,627
Fair value change (Note V.49)	(211,643)
Acquisition	4,839
Other transfers	(330,000)
Closing balance	1,473,823

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

As at 2023, investment properties with a carrying value of RMB818,000,000 (2022: RMB1,286,000,000) had yet to obtain title registration certificates.

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

13. Property, plant and equipment

	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	52,460	–	1,043,669	328,304	20,483	57,316	1,502,232
Transfer from construction in progress/others	1,119,349	–	–	–	–	–	1,119,349
Disposal or retirement	(69,741)	–	(645,755)	(190,146)	(27,384)	(26,857)	(959,883)
Disposal of subsidiaries	–	–	(1,217)	(132)	–	(238)	(1,587)
Exchange rate adjustments	(18,753)	3,100	11,519	4,853	(1,100)	3,814	3,433
Closing balance	11,589,238	34,217	8,627,399	2,970,453	234,950	373,270	23,829,527
Cumulative depreciation							
Opening balance	2,598,045	–	4,390,154	1,831,887	141,759	249,754	9,211,599
Provision	448,879	–	1,317,617	279,803	17,315	25,002	2,088,616
Disposal or retirement	(33,645)	–	(638,252)	(165,397)	(25,112)	(18,558)	(880,964)
Disposal of subsidiaries	–	–	(508)	(4)	–	(121)	(633)
Exchange rate adjustments	(17,296)	–	9,787	4,800	(1,109)	2,163	(1,655)
Closing balance	2,995,983	–	5,078,798	1,951,089	132,853	258,240	10,416,963
Impairment provision							
Opening balance	33,636	–	894	5,511	–	1,030	41,071
Provision	–	–	–	–	–	–	–
Disposal or retirement	(297)	–	–	–	–	(952)	(1,249)
Disposal of subsidiaries	–	–	–	–	–	–	–
Exchange rate adjustments	(2)	–	380	–	–	–	378
Closing balance	33,337	–	1,274	5,511	–	78	40,200
Book value							
As at the end of the year	8,559,918	34,217	3,547,327	1,013,853	102,097	114,952	13,372,364
As at the beginning of the year	7,874,242	31,117	3,828,135	990,176	101,192	88,451	12,913,313

As at 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 RMB3,824,428,000 (2022: RMB3,644,785,000).

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

14. Construction in progress

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

	Budget	Opening balance	Increase during the year	Transfer to property, plant and equipment	Other reduction	Impairment provision	Closing balance	Source of funds	Construction contribution as a percentage of budget	Work progress
Xi'an Terminal Project	830,925	116	282,417	282,533	–	–	–	Internal funds	100%	Completed
Shenzhen Super Headquarters Project	688,251	156,661	140,979	–	–	–	297,640	Internal funds	43%	Under construction
Others		807,227	392,307	506,816	2,555	–	690,163	Internal funds		Under construction
		964,004	815,703	789,349	2,555	–	987,803			

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

15. 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	359,511	6,848	476,569	842,928
Decrease	(41,483)	—	—	(41,483)
Disposal of subsidiaries	—	—	—	—
Exchange rate adjustment	12,769	553	33	13,355
Closing balance	1,872,192	74,137	480,533	2,426,862
Cumulative depreciation				
Opening balance	482,124	47,766	2,651	532,541
Charge	330,852	9,338	16,648	356,838
Decrease	(21,974)	—	—	(21,974)
Disposal of subsidiaries	—	—	—	—
Exchange rate adjustment	2,050	89	5	2,144
Closing balance	793,052	57,193	19,304	869,549
Book value				
As at the end of the year	1,079,140	16,944	461,229	1,557,313
As at the beginning of the year	1,059,271	18,970	1,280	1,079,521

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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	209,709	76,663	1,114	17,147	–	304,633
In-house R&D	–	–	–	–	2,777,157	2,777,157
Disposal or retirement	(141,984)	(174)	(112,848)	(36,638)	–	(291,644)
Disposal of subsidiaries	(232)	(8,443)	–	–	–	(8,675)
Exchange rate adjustments	12,085	–	3,100	22,700	–	37,885
Closing balance	1,426,264	460,093	2,748,597	2,136,843	20,085,052	26,856,849
Cumulative amortization						
Opening balance	650,594	288,931	486,652	1,496,958	12,950,857	15,873,992
Provision	308,039	59,388	99,719	81,367	2,038,863	2,587,376
Disposal or retirement	(119,017)	(43)	(41,755)	(36,638)	–	(197,453)
Disposal of subsidiaries	(171)	(3,237)	–	–	–	(3,408)
Exchange rate adjustments	12,512	1	–	10,127	–	22,640
Closing balance	851,957	345,040	544,616	1,551,814	14,989,720	18,283,147
Provision for impairment						
Opening balance	95,018	81,359	–	542,874	102,384	821,635
Charge	–	–	–	–	55,382	55,382
Disposal or retirement	(6,296)	–	–	–	–	(6,296)
Exchange rate adjustments	2,265	–	–	3,270	–	5,535
Closing balance	90,987	81,359	–	546,144	157,766	876,256
Book value						
As at the end of the year	483,320	33,694	2,203,981	38,885	4,937,566	7,697,446
As at the beginning of the year	601,074	21,757	2,370,579	93,802	4,254,654	7,341,866

As at 2023, the Group was in the process of obtaining the land use right certificate of land blocks located in Shenzhen and Nanjing in the PRC, with a carrying value of approximately RMB87,373,000 (2022: RMB88,908,000).

As at 2023, intangible assets formed through internal research and development accounted for 64% of the book value of intangible assets as at the end of the period (2022: 58%).

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

16. Intangible assets (continued)

Products had been withdrawn from market owing to market performance falling short of expectations and impairment testing was conducted on items in development expense which were subject to impairment.

	Carrying value	Recoverable amount	Impairment amount	Method for determining fair value and disposal cost
Project 1	169	–	169	
Project 2	6,197	–	6,197	
Project 3	899	–	899	
Project 4	1,780	–	1,780	
Project 5	18,222	–	18,222	Product taken off from market and fir value assessed by Company to be 0
Project 6	1,478	–	1,478	
Project 7	719	–	719	
Project 8	4,915	–	4,915	
Project 9	3,902	–	3,902	
Project 10	12,425	–	12,425	
Project 11	4,676	–	4,676	
Total	55,382	–	55,382	

17. Goodwill

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

Goodwill arising from business combination was allocated to the Zonson Smart Auto Corporation asset group (Zhuhai Guangtong Bus Co., Ltd.), Suzhou Laxense Technology Co., Ltd. asset group and NETAS TELEKOMUNIKASYON A.S. asset group for impairment test. On the basis of the results of such impairment test, full impairment provision was made in respect of the goodwill arising from such assets groups for previous years.

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18. Deferred tax assets/liabilities

(1) Deferred tax assets and deferred tax liabilities, which are not offset:

	2023		2022	
	Deductible temporary differences	Deferred tax assets	Deductible temporary differences	Deferred tax assets
Deferred tax assets				
Unrealised profits arising on consolidation	1,713,412	291,280	2,374,988	403,748
Provision for impairment in inventory	5,750,049	1,160,521	3,393,228	794,195
Estimated construction contract losses	2,069,862	310,479	2,022,756	323,641
Amortisation of development costs	4,198,715	622,217	3,612,418	577,987
Provision for warranties and returned goods	219,194	50,415	136,486	31,392
Long-term employee benefits payable	141,762	32,605	144,874	33,321
Deductible tax losses	3,867,771	599,883	5,993,531	958,965
Deferred income	1,709,991	382,136	1,479,251	347,067
Accruals	5,998,820	967,283	3,246,588	519,454
Share option scheme expenses	—	—	38,453	5,768
Lease liabilities	1,483,448	222,517	1,180,188	177,028
Total	27,153,024	4,639,336	23,622,761	4,172,566

(2) Deferred tax liabilities which are not offset:

	2023		2022	
	Deductible temporary differences	Deferred tax liabilities	Deductible temporary differences	Deferred tax liabilities
Deferred tax liabilities				
Revaluation gain of investment properties	873,386	131,008	1,085,029	162,754
Investment in equity instruments through profit or loss at fair value	242,839	54,555	456,121	94,202
Fair-value adjustment of business combination not under common control	87,387	13,108	115,811	16,889
Rights-of-use assets	1,557,313	233,597	1,079,521	161,928
Others	926,733	139,010	699,400	105,393
Total	3,687,658	571,278	3,435,882	541,166

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

18. Deferred tax assets/liabilities (continued)

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

	2023		2022	
	Amount of set-off	Amount after set-off	Amount of set-off	Amount after set-off
Deferred tax assets	493,413	4,145,923	454,022	3,718,544
Deferred tax liabilities	493,413	77,865	454,022	87,144

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

	2023	2022
Deductible tax losses	13,078,567	9,934,725

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

	2023	2022
2023	–	112,496
2024	176,887	193,890
2025	238,231	763,497
2026	513,150	714,065
Beyond 2027	12,150,299	8,150,777
Total	13,078,567	9,934,725

As it is not probable that the company incurring the aforesaid loss is expected to report profit in future, there is no profit available to offset the loss and the Group did not recognize deferred tax asset in respect of the aforesaid tax loss.

19. Other current assets/other non-current assets

(1) Other current assets

	2023	2022
Prepaid output tax and credit tax available for set off	7,326,347	7,462,588
Others	132,181	162,207
Total	7,458,528	7,624,795

(2) Other non-current assets

	2023	2022
Prepayments for projects, equipment and land	698,055	669,153
Risk compensation fund	37,957	186,227
Guarantee deposit	22,575	294,005
Restricted cash (Note)	3,120,522	2,913,604
Prepaid income tax	198,662	114,916
Others	2,826,229	2,758,851
Total	6,904,000	6,936,756

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

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

20. Assets under restrictions on ownership or right of use

2023

	Book balance	Carrying value	Type of restriction	Status
Cash	1,288,522	1,288,522	Note 1	Note 1
Property, plant and equipment	505,437	441,677	Secured	Note 3
Intangible assets	160,790	138,012	Secured	Note 4
Other non-current assets restricted cash	3,158,479	3,158,479	Note 5	Note 5
Total	5,113,228	5,026,670		

2022

	Book balance	Carrying value	Type of restriction	Status
Cash	897,420	897,420	Note 1	Note 1
Trade receivables and contract assets	40,253	40,253	Secured	Note 2
Property, plant and equipment	525,757	478,585	Secured	Note 3
Intangible assets	245,553	215,678	Secured	Note 4
Other non-current assets restricted cash	3,099,831	3,099,831	Note 5	Note 5
Total	4,808,814	4,731,767		

Note 1: As at 31 December 2023, the Group's cash subject to ownership restriction amounted to RMB1,288,522,000 (2022: RMB897,420,000), including guarantee of RMB1,202,428,000 (31 December 2022: RMB750,057,000), dues from the People's Bank of China of RMB57,518,000 (31 December 2022: RMB107,092,000) and others of RMB28,576,000 (2022: RMB40,271,000).

Note 2: As at 31 December 2023, no trade receivables and contract assets (31 December 2022: trade receivables of RMB40,253,000) were pledged to secure bank borrowing.

Note 3: As at 31 December 2023, property, plant and equipment with a total carrying value of RMB441,677,000 (31 December 2022: RMB478,585,000) were pledged to secure bank borrowing. No property, plant and equipment were pledged in connection with asset acquisitions (31 December 2022: Nil). The depreciation charge for 2023 of property, plant and equipment under security was RMB16,587,000 (31 December 2022: RMB16,649,000).

Note 4: As at 31 December 2023, intangible assets with a total carrying value of RMB138,012,000 (31 December 2022: RMB215,677,000) were pledged to secure bank borrowing. No intangible assets were pledged in connection with asset acquisitions (2022: Nil). The amortisation charge for 2023 of property, plant and equipment under security was RMB3,216,000 (31 December 2022: RMB4,911,000).

Note 5: As at 31 December 2023, restricted funds represented a RMB3,120,522,000 (31 December 2022: 2,913,604,000) deposit in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed, the details of which are set out in Note XIII. As at 31 December 2023, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB37,957,000 (31 December 2022: RMB186,227,000), which were funds to be released after one year and accounted for as other non-current assets.

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.

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

21. Short-term loans

		2023		2022	
		Original currency	**RMB equivalent**	Original currency	RMB equivalent
Credit loans	RMB	**2,363,898**	**2,363,898**	4,329,808	4,329,808
	USD	**23,512**	**166,856**	22,294	155,068
	EUR	**19,750**	**155,269**	18,684	138,530
	TRY	**602,325**	**145,203**	726,491	270,244
	KZT	**95,000**	**1,483**	298,460	4,503
Bills discounting loans	RMB	**474,183**	**474,183**	153,154	153,154
Letter of credit loans	RMB	**4,130,000**	**4,130,000**	4,901,008	4,901,008
Pledged loans	RMB	**—**	**—**	10,000	10,000
Guaranteed loans Note 1	RMB	**108,200**	**108,200**	—	—
Secured loans Note 2	RMB	**15,266**	**15,266**	—	—
Total			**7,560,358**		9,962,315

There was no overdue borrowing as at 31 December 2023.

Note 1: The loan comprised mainly a bank loan extended to JINZHUAN Information Technology Co., Ltd. backed by the guarantee of ZTE Corporation.

Note 2: The secured loan comprised mainly an RMB15,266,000 loan extended to Zonson Smart Auto Corporation secured by land use rights and property, plant and equipment with carrying values of RMB13,630,000 and RMB43,620,000, respectively. For details of the collaterals for the secured loans and their carrying values please refer to Note V.20.

22. Derivative financial liabilities

	2023	2022
Cash flow hedge instrument (Note IX.4)	**1,315**	—
Financial liabilities at fair value through current profit and loss	**183,229**	201,717
Total	**184,544**	201,717

Derivative financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details please refer to Note V.3.

23. Short-term bond payable

	2023	2022
SCPs	**5,012,890**	—
Total	**5,012,890**	—

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

23. Short-term bond payable (continued)

The balance of bond payable as at 31 December 2023 is set out as follows:

	Nominal value	Coupon rate	Date of issue	Term of bond	Issue amount	Opening balance	Issued during the year	Interest accrual per nominal value	Depreciation and amortisation	Repaid during the year	Balance at year-end	Whether in default
23中興通訊SCP095	1,000,000	2.55%	2023-11-23	180 days	1,000,000	–	1,000,000	2,578	–	–	1,002,578	No
23中興通訊SCP096	1,500,000	2.55%	2023-11-23	180 days	1,500,000	–	1,500,000	3,867	–	–	1,503,867	No
23中興通訊SCP097	1,000,000	2.55%	2023-11-23	180 days	1,000,000	–	1,000,000	2,578	–	–	1,002,578	No
23中興通訊SCP098	1,500,000	2.55%	2023-11-23	180 days	1,500,000	–	1,500,000	3,867	–	–	1,503,867	No
Total					5,000,000	–	5,000,000	12,890	–	–	5,012,890	

24A. Bills payable

	2023	2022
Bank acceptance bills	**5,700,328**	5,682,845
Commercial acceptance bills	**3,742,411**	4,947,007
Total	**9,442,739**	10,629,852

For 2023, there were no bills payable due and unsettled (2022: Nil).

24B. Trade payables

An aging analysis of the trade payables are as follows:

	2023	2022
0 to 6 months	**17,796,855**	18,111,180
6 to 12 months	**171,120**	222,962
1 year to 2 years	**418,887**	199,932
2 years to 3 years	**99,710**	203,604
Over 3 years	**444,853**	337,068
Total	**18,931,425**	19,074,746

For 2023, there were no material trade payables aged over 1 year or overdue (2022: Nil).

25. Contract liabilities

	2023	2022
Contracted consideration received	**14,889,658**	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.

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

26. Tax payable

	2023	2022
Value-added tax	370,284	375,631
Enterprise income tax	637,445	594,909
Including: PRC tax	472,166	341,853
Overseas tax	165,279	253,056
Personal income tax	283,872	338,967
City maintenance and construction tax	33,290	30,621
Education surcharge	29,058	27,235
Other taxes	59,144	79,719
Total	1,413,093	1,447,082

27. Other payables

	2023	2022
Dividend payables	6,400	4,240
Other payables	3,838,335	2,885,724
Total	3,844,735	2,889,964

(1) Dividend payables

	2023	2022
Dividend payables to minority shareholders	6,400	4,240

As at 31 December 2023, there were no dividend payables over 1 year.

(2) Other payables

	2023	2022
Accruals	1,351,466	1,130,002
Deferred income from staff housing	73,737	48,142
Payables to external parties	1,938,142	1,303,854
Deposits	236,822	159,209
Others	238,168	244,517
Total	3,838,335	2,885,724

As at 31 December 2023, there were no other payables of a material nature aged over 1 year or overdue.

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

28. Employee benefits payable/Long-term employee benefits payable

(1) Employee benefits payable

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Short-term remuneration	12,860,749	30,013,215	(27,799,711)	15,074,253
Retirement benefits (Defined contribution scheme)	217,322	2,057,505	(1,970,727)	304,100
Termination benefits	144,108	1,019,622	(365,164)	798,566
Total	13,222,179	33,090,342	(30,135,602)	16,176,919

(a) Short-term remuneration analysed as follows:

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus and allowance	10,306,360	26,854,543	(24,905,028)	12,255,875
Staff welfare	12,890	28,649	(26,435)	15,104
Social insurance	58,177	1,263,538	(1,217,642)	104,073
Including: Medical	54,715	1,185,390	(1,142,278)	97,827
Work injuries	898	35,014	(33,576)	2,336
Maternity	2,564	43,134	(41,788)	3,910
Housing funds	3,527	972,474	(931,977)	44,024
Labour union fund and employee education fund	2,479,795	894,011	(718,629)	2,655,177
Total	12,860,749	30,013,215	(27,799,711)	15,074,253

(b) Defined contribution plans are analysed as follows:

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Pension insurance	215,349	2,000,551	(1,915,875)	300,025
Unemployment insurance	1,973	56,954	(54,852)	4,075
Total	217,322	2,057,505	(1,970,727)	304,100

(2) Long-term employee benefits payable

	2023	2022
Net liabilities from defined benefit plan	141,762	144,874

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

28. Employee benefits payable/Long-term employee benefits payable (continued)

(2) Long-term employee benefits payable (continued)

Change in the present value of obligations under defined benefit plan:

	2023	2022
Opening balance	**144,874**	147,539
Charged to current profit or loss		
Interest expenses	**3,895**	3,987
Charged to other comprehensive income		
Benefit cost recognised in other comprehensive income	**(985)**	(1,509)
Pension paid	**(6,022)**	(5,143)
Closing balance	**141,762**	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.

The latest actuarial valuation of assets under the plan and the present value of obligations under defined benefit plans were determined by 韜睿惠悦管理諮詢(深圳)有限公司 using the expected benefit accrual unit approach at 2023.

(a) Major actuarial assumptions applied as at the balance sheet date are as follows:

	2023	2022
Discount rate	**2.50%**	2.75%
Expected salary increase	**5.50%**	5.50%

(b) A quantitative sensitivity analysis of significant assumptions applied is set out as follows:

2023

	Increase	**Increase/ (decrease) in obligations under defined benefit plan**	**Decrease**	**Increase/ (decrease) in obligations under defined benefit plan**
Discount rate	**0.25%**	**(2,564)**	**0.25%**	**2,631**
Expected salary increase	**1.00%**	**6,458**	**1.00%**	**(6,045)**

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

28. Employee benefits payable/Long-term employee benefits payable (continued)

(2) Long-term employee benefits payable (continued)

(b) (continued)

2022

	Increase	Increase/ (decrease) in obligations under defined benefit plan	Decrease	Increase/ (decrease) in obligations under defined benefit plan
Discount rate	0.25%	(2,841)	0.25%	2,921
Expected salary increase	1.00%	7,458	1.00%	(6,934)

The above sensitivity analysis is based on inference of the impact of reasonable changes in key assumptions at the balance sheet date on the net amount of defined benefits. Sensitivity analysis is based on the change of the material assumption on the premise that other assumptions remain unchanged. As the changes of the assumptions are often correlated, the sensitivity analysis may not represent the actual changes of the obligations under defined benefit plans.

(c) Relevant plans recognised in the income statement are as follows:

	2023	2022
Net interest	**3,895**	3,987
Charged to administrative expenses	**3,895**	3,987

29. Provisions

	Opening balance	**Increase during the year**	**Decrease during the year**	**Closing balance**
Expected contract loss (Note)	**2,022,756**	**1,609,453**	**(1,562,347)**	**2,069,862**
Outstanding litigation	**390,248**	**26,340**	**(58,179)**	**358,409**
Provision for warranties	**136,486**	**108,676**	**(104,665)**	**140,497**
Total	**2,549,490**	**1,744,469**	**(1,725,191)**	**2,568,768**

Note: Unavoidable cost for the performance of contract in excess of expected economic benefits of the contract.

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

30. Non-current liabilities due within one year

	2023	2022
Long-term loans due within one year	1,676,430	270,205
Lease liabilities due within one year	522,989	391,539
Other non-current liabilities due within one year	802,179	—
Total	3,001,598	661,744

31. Long-term loans

	2023	2022
Credit loans	42,456,659	34,998,425
Secured loans	119,398	127,563
Total	42,576,057	35,125,988

As at 31 December 2023, the annual interest rate for the aforesaid loans was 1.72%–5.64% (31 December 2022: 2.4%–5.64%).

Note 1: The secured loan comprised mainly an RMB139,307,000 (2022: RMB127,563,000) loan, which included an RMB19,909,000 Long-term loans due within one year, extended to Zonson Smart Auto Corporation secured by land use rights and property, plant and equipment with carrying values of RMB124,382,000 and RMB398,057,000, respectively. For details of the collaterals for the secured loans and their carrying values please refer to V. Note 20.

Aging analysis of bank loans

	2023	2022
Shown as:		
Bank loan repayable:		
Within 1 year	9,236,788	10,232,520
Within 2 years	17,962,009	7,437,773
Within 3–5 years, inclusive	20,471,048	27,688,215
Beyond 5 years	4,143,000	—
Total bank loans	51,812,845	45,358,508

32. Other non-current liabilities

	2023	2022
Deferred income relating to staff housing	8,507	217,985
Long-term payable	3,461,757	4,072,561
Financial liabilities through current profit or loss at fair value	43,148	32,364
Total	3,513,412	4,322,910

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

33. Lease liabilities

	2023	2022
Lease liabilities	960,459	788,649

34. Share capital

	Opening balance ('000 shares)	Increase/decrease during the year ('000 shares)			Closing balance ('000 shares)
		Issue of new share	Others	Sub-total	
Restricted shares	728	–	–	–	728
Unrestricted shares	4,735,385	47,139	–	47,139	4,782,524
Total number of shares	4,736,113	47,139	–	47,139	4,783,252

Note: The total share capital of the Company was increased by 47,139,044 shares following the exercise of 47,139,044 A share options by scheme participants under the 2020 Share Option Scheme of the Company in 2023.

35. Capital reserves

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Share premium (Note 1)	24,402,389	2,034,596	(33,754)	26,403,231
Share-based payment (Note 2)	1,410,443	165,555	(455,938)	1,120,060
Capital investment by government	80,000	–	–	80,000
Total	25,892,832	2,200,151	(489,692)	27,603,291

Note 1: The share capital premium was increased by RMB1,578,658,000 following the exercise of the Company's share option incentives during the year representing the difference between the exercise price and the nominal value of the share capital; RMB455,938,000 was transferred from the capital reserve to the share capital premium; decreased by RMB2,685,000 following external increase or reduction of share capital of an associate during the period; decreased by RMB31,069,000 following additional capital contribution by minority shareholders.

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 RMB158,409,000 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 RMB7,146,000 were recognised in respect thereof. For the period, a total of RMB455,938,000 was transferred from share-based payment to share capital premium as a result of the exercise of options under share option incentive scheme. For details please refer to Note XII.

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

36. Other comprehensive income

Cumulative balance of other comprehensive income attributable to shareholders of the parent company on the face of the consolidated balance sheet:

	Opening balance	Increase/ decrease	Closing balance
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)	985	(73,872)
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)	(598)	(68,580)
Differences arising from foreign currency translation	(3,047,023)	152,391	(2,894,632)
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
Total	(2,352,743)	152,778	(2,199,965)

Amount of other comprehensive income:

	Pre-tax amount	Less: transfer of amount included in other comprehensive income in previous period to current profit or loss	Less: transfer of amount included in other comprehensive income in previous period to current retained profit	Less; income tax	Attributable to shareholders of the parent company	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	985	–	–	–	985	–
Share of investee results in other comprehensive income under equity method which cannot be reclassified to profit or loss	–	–	–	–	–	–
Other comprehensive income that will be reclassified as profit or loss						
Effective portion of hedging instruments	(703)	–	–	(105)	(598)	–
Differences arising from foreign currency translation	148,866	–	–	–	152,391	(3,525)
Fair value at date of reclassification of owned properties reclassified as investment properties at fair value in excess of book value	–	–	–	–	–	–
Total	149,148	–	–	(105)	152,778	(3,525)

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

37. Surplus reserves

	Opening balance	Opening balance as adjusted	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserves	**3,029,811**	**–**	**23,571**	**–**	**3,053,382**

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.

38. Special reserve

	Opening balance	Increase during the year	Decrease during the year	Closing balance
Safe production cost	**26,553**	**85,326**	**(58,485)**	**53,394**

39. Retained profits

	2023	2022
Retained profits at the beginning of the year	**27,308,621**	20,651,196
Net profit attributable to shareholders of the parent	**9,325,753**	8,080,295
Surplus reserve	**(23,571)**	(2,657)
Distributions to shareholders	**(1,895,850)**	(1,420,213)
Retained profits at the end of the year	**34,714,953**	27,308,621

\# Profit distribution

	2023	2022
Dividend payable on ordinary shares approved, declared and distributed during the year	**1,895,850**	1,420,213
Proposed dividend payable ordinary shares for 2023	**3,266,961**	–

Pursuant to the 2022 Profit Distribution Proposal passed at the 2022 General Meeting of the Company held on 6 April 2023: a cash dividend of RMB4 (before tax) for per 10 shares or RMB0.40 (before tax) for per share shall be distributed to all shareholders based on the total share capital as at the record date for profit distribution and dividend payment. Based on the total share capital of 4,739,624,618 shares in issue as at the record date for profit distribution and dividend payment, the actual amount of profit distribution was RMB1,895,849,847.20 (before tax). The Company has completed the dividend payment in May 2023.

On 8 March 2024, pursuant to the 2023 Profit Distribution Proposal recommended by the Board, a cash dividend of RMB6.83 (before tax) per 10 shares or RMB0.683 (before tax) for per share shall be paid based on the total share capital in issue as at the record date for profit distribution and dividend payment. The aforesaid matter is subject to consideration and approval at the general meeting. Based on the Company's total share capital of 4,783,251,552 shares in issue as at 8 March 2024, the total amount of actual profit distribution shall be RMB3,266,960,810.02. The finalized amount of profit distribution shall be subject to the total share capital in issue as at the record date for profit distribution and dividend payment.

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

40. Operating revenue and operating costs

	2023		2022	
	Revenue	**Cost**	Revenue	Cost
Principal business	**120,588,521**	**69,897,269**	119,599,655	74,349,571
Other business	**3,662,357**	**2,753,009**	3,354,763	2,877,998
Total	**124,250,878**	**72,650,278**	122,954,418	77,227,569

(1) Operating revenue is analysed as follows:

	2023	2022
Revenue from customer contract	**124,137,050**	122,831,583
Rental income — operating leases	**113,828**	122,835
Total	**124,250,878**	122,954,418

(2) Breakdown of revenue from customer contracts:

	2023	2022
Types of key products		
Sale of products	**40,247,113**	40,514,974
Provision of service	**9,881,561**	8,795,786
Telecommunications system contracts with customers	**74,008,376**	73,520,823
Total	**124,137,050**	122,831,583
Operating area		
PRC	**86,371,512**	85,123,483
Asia (excluding PRC)	**14,131,004**	14,915,193
Africa	**6,221,506**	5,512,707
Europe and Oceania	**17,413,028**	17,280,200
Total	**124,137,050**	122,831,583
Timing of transfer		
Transferred at a point in time	**114,255,489**	114,035,797
Transferred over a period	**9,881,561**	8,795,786
Total	**124,137,050**	122,831,583

Breakdown of operating cost for the year as follows:

	2023
Types of key products	
Sale of products	**30,432,824**
Provision of service	**4,407,736**
Telecommunications system contracts with customers	**37,809,718**
Total	**72,650,278**
Operating area	
PRC	**49,063,562**
Asia (excluding PRC)	**8,603,957**
Africa	**2,819,950**
Europe and Oceania	**12,162,809**
Total	**72,650,278**
Timing of transfer	
Transferred at a point in time	**68,250,747**
Transferred over a period	**4,399,531**
Total	**72,650,278**

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

40. Operating revenue and operating costs (continued)

(3) Revenue included in the opening book value of contract liabilities recognised for the year is set out as follows:

	2023	2022
Revenue included in the opening book value of contract liabilities recognised for the year	**16,685,433**	13,005,856

(4) Information pertaining to the Group's performance of contract obligations is as follows:

	Timing of performance	Material payment terms	Nature of commodities under commitment to transfer	Whether the principal responsible party	Expected refund to customer committed	Type of quality assurance offered and relevant obligation
Sales of commodity	Upon delivery	Payment upon receipt	Mainly sales of communication equipment	Yes	Nil	Statutory quality assurance, service-based quality assurance
Provision of service	Over the period of service	Payment upon inspection and acceptance of service progress	Mainly sales of repair, maintenance and technical services relating to communication equipment	Yes	Nil	Nil
Network construction – sales of equipment	Upon delivery	Payment upon receipt	Mainly sales of communication equipment	Yes	Nil	Statutory quality assurance, service-based quality assurance
Network construction – installation service	Per progress of service	Payment upon initial inspection and acceptance	Mainly sales of installation services relating to communication equipment	Yes	Nil	Nil
Network construction – equipment sales and installation service that cannot be separately distinguished	Upon delivery	Payment upon delivery; Payment upon initial inspection and acceptance	Mainly sales of integrated communication network solution	Yes	Nil	Service-based quality assurance

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

40. Operating revenue and operating costs (continued)

(4) (continued)

The contract payment is typically due within one year without any significant financing component. Certain contracts may offer variable consideration such as cash discount and price guarantee. Estimation on variable consideration is typically not subject to restrictions.

As at 31 December 2023, the estimated timing for performance obligation yet to be performed or yet to be completed which has been recognised as income is as follows:

	2023
Within 1 year	**14,256,976**
Over 1 year	**7,442,700**
Total	**21,699,676**

41. Taxes and surcharges

	2023	2022
City maintenance and construction tax	**478,436**	295,690
Education surcharge	**347,360**	218,518
Property tax	**144,761**	100,200
Stamp duty	**226,030**	191,313
Others	**139,075**	145,046
Total	**1,335,662**	950,767

42. Selling and distribution costs

	2023	2022
Wages, welfare and bonuses	**5,681,307**	5,159,122
Advertising and promotion expenses	**1,707,480**	1,310,767
Service charges	**516,796**	609,116
Travelling expenses	**783,037**	694,525
Hospitality expenses	**486,278**	333,011
Office expense	**223,780**	245,729
Others	**773,188**	821,059
Total	**10,171,866**	9,173,329

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

43. Administrative expenses

	2023	2022
Wages, welfare and bonuses	**3,050,333**	2,485,731
Office expenses	**160,433**	201,601
Amortization and depreciation charges	**562,476**	447,227
Travelling expenses	**97,430**	69,076
Audit fees#	**11,801**	11,175
Others	**1,749,306**	2,117,918
Total	**5,631,779**	5,332,728

44. Research and development expenses

	2023	2022
Wages, welfare and bonuses	**17,817,017**	15,120,783
Amortization and depreciation charges	**3,314,216**	2,854,493
Technical cooperation fee	**1,186,053**	1,192,169
Direct material costs	**884,443**	767,486
Office expenses	**548,493**	438,626
Others	**1,538,989**	1,228,743
Total	**25,289,211**	21,602,300

45. Expenses by nature

Supplementary information of the Group's operating costs, selling and distribution costs, research and development expenses and administration expenses by nature were as follows:

	2023	2022
Cost of goods and services	**66,490,016**	74,146,849
Staff remuneration (including share-based payment)	**32,065,537**	25,328,440
Depreciation and amortization	**4,925,859**	4,351,392
Rental not included in the measurement of lease liabilities	**165,094**	162,187
Others	**10,096,628**	9,347,058
Total	**113,743,134**	113,335,926

46. Financial expenses

	2023	2022
Interest expenses	**3,141,567**	1,945,963
Less: Interest income	**4,084,555**	2,439,825
(Gain)/loss on foreign currency exchange	**(384,130)**	480,908
Bank charges	**225,926**	176,161
Total	**(1,101,192)**	163,207

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

47. Other income

	2023	2022
Refund of VAT on software products (Note)	1,431,243	1,334,195
Refund of handling charges for personal tax	30,878	22,412
Others	343,860	536,365
Total	1,805,981	1,892,972

Note: Refund of VAT on software products represents the refund of the portion of tax payment under an effective tax rate in excess of 3% in respect of software product sales by some subsidiaries of the Company pursuant to the principles of the State Council document entitled "Certain Policies to Further Encourage the Development of Software Enterprise and the IC Industry" and the approval reply of the state taxation authorities.

48. Investment income

	2023	2022
Loss from investment in associates and joints under equity method	265,161	93,722
Investment income from financial assets at fair value through profit or loss during the period of holding	25,601	27,648
Investment (loss)/income from disposal of derivative investment	(640,047)	304,713
Investment income arising from disposal of financial assets at fair value through profit or loss	457,101	1,009,436
Investment income/(loss) from disposal of investment in associates and joints	96,013	(27,221)
Loss on derecognition of financial assets at amortised cost and financial assets at fair value through other comprehensive income	(408,856)	(320,800)
Total	(205,027)	1,087,498

49. Gain from changes in fair values

	2023	2022
Financial assets at fair value through profit or loss	(452,098)	(884,919)
Financial liabilities at fair value through profit or loss	(10,784)	—
Derivative financial instruments	(27,759)	(253,630)
Investment properties at fair value	(211,643)	(3,300)
Total	(702,284)	(1,141,849)

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

50. Credit impairment losses

	2023	2022
Impairment loss of trade receivables	134,040	250,694
Impairment loss/(reversal) of receivable financing	174	(925)
Impairment loss of other receivables	84,843	102,096
(Reversal)/loss of impairment of long-term receivables	(131,788)	13,236
(Reversal)/loss of impairment of factored trade receivables	(2,841)	1,768
(Reversal)/loss of impairment of long-term factored receivables	(8,632)	2,435
Total	75,796	369,304

51. Asset impairment losses

	2023	2022
Inventories provisions	803,097	792,346
Goodwill impairment loss	—	—
Investment in associates and joints impairment loss	34,972	21,280
Impairment of contract assets (reversal)	(22,947)	(34,857)
Prepayment impairment (reversal)/loss	(7,383)	1,734
Intangible asset impairment loss	55,382	392,696
Impairment loss of construction in progress	—	620
Property, plant and equipment impairment loss	—	12,366
(Reversal)/loss from impairment of other non-current assets	(4,755)	3,845
Total	858,366	1,190,030

52. Gains from asset disposal

	2023	2022
Gains from disposal of right-of-use assets	10,345	9,338
Gains from disposal of property, plant and equipment	2,638	—
Gains from disposal of intangible assets	7,614	1,691
Total	20,597	11,029

53. Non-operating income/non-operating expenses

(1) Non-operating income

	2023	2022	Amount of extraordinary gain/loss recognised for 2023
Income from contract penalty and reward	20,242	14,847	20,242
Others	152,821	180,957	152,821
Total	173,063	195,804	173,063

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

53. Non-operating income/non-operating expenses (continued)

(2) Non-operating expenses

	2023	2022	Amount of extraordinary gain/loss recognised for 2023
Compensation	60,287	101,854	60,287
Others	168,015	137,128	168,015
Total	228,302	238,982	228,302

54. Income tax

	2023	2022
Current income tax	1,404,225	1,559,843
Deferred income tax	(441,934)	(599,797)
Total	962,291	960,046

Reconciliation between income tax and total profit was as follows:

	2023	2022
Total profit	10,203,140	8,751,656
Tax at statutory tax rate (Note)	2,550,785	2,187,914
Effect of different tax rates applicable to subsidiaries	(460,068)	(559,215)
Effect of adjustment to income tax for previous periods	15,325	18,680
Effect of non-taxable income	(44,388)	(18,205)
Effect of add-on deductibles on R&D expense and non-deductible cost, expense and loss	(1,575,022)	(876,300)
Effect of deductible loss from unrecognised deferred tax asset of previous periods	(93,208)	(67,585)
Effect of deductible temporary difference from unrecognised deferred tax asset of the current period or effect of deductible loss	568,867	274,757
Tax charge at the Group's effective rate	962,291	960,046

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.

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

55. Earnings per share

Calculations of basic and diluted earnings per shares were as follows:

	2023	2022
Earnings		
Net profit attributable to ordinary shareholders of the Company for the period	**9,325,753**	8,080,295
Shares		
Weighted average number of ordinary shares of the Company ('000 shares)	**4,763,565**	4,736,106
Diluted effect — weighted average number of ordinary shares ('000 shares)	**—**	108
Adjusted weighted average number of ordinary shares of the Company in issue ('000 shares)	**4,763,565**	4,736,214
Basic/diluted earnings per share	**1.96**	1.71

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

56. Notes to major items in cash flow statement

(1) Cash relating to operating activities

	2023	2022
Cash received in connection with other operating activities:		
Interest income	**3,049,006**	1,681,323
Cash paid in connection with other operating activities:		
Expense for the period	**10,340,538**	9,805,051

(2) Cash relating to investing activities

	2023	2022
Receipt of material cash relating to investing activities:		
Release of time deposit of over three months	**9,872,234**	12,091,022
Payment of material cash relating to investing activities:		
New time deposit of over three months	**27,128,171**	10,246,568
Cash paid in connection with other investing activities:		
Net cash outflow on disposal of subsidiaries	**—**	27,016

(3) Cash relating to financing activities

	2023	2022
Cash received in relation to other financing activities:		
Project construction and financing	**2,200**	—
Other cash paid in relation to other financing activities:		
Cash payment of principal of lease	**631,619**	426,824
Repayment of investment by non-controlling interests	**3,155**	8,011

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

56. Notes to major items in cash flow statement (continued)

(3) Cash relating to financing activities (continued)

Movements in liabilities from financing activities are as follows:

	Opening balance	Movement during the year Cash movement	Non-cash movement	Closing balance
Short-term bond payable	—	5,000,000	12,890	5,012,890
Short-term loan	9,962,315	(2,657,780)	255,823	7,560,358
Long-term loan (including non-current liabilities due within one year)	35,396,193	8,821,987	34,307	44,252,487
Lease liabilities (including non-current liabilities due within one year)	1,180,188	(631,619)	934,879	1,483,448
	46,538,696	10,532,588	1,237,899	58,309,183

(4) Supplemental information on cash flow statement

(a) Reconciliation of net profit to cash flows from operating activities:

	2023	2022
Net profit	9,240,849	7,791,610
Add: Credit impairment losses	75,796	369,304
Asset impairment losses	858,366	1,190,030
Depreciation of property, plant and equipment	2,023,110	1,672,607
Depreciation of right-of-use assets	356,838	327,746
Amortisation of intangible assets	2,545,911	2,385,853
Gain on disposal of property, plant and equipment, intangible assets and other long-term assets	(20,597)	(11,029)
Loss from changes in fair value	702,284	1,141,849
Finance costs	2,404,096	2,128,667
Investment income	205,027	(1,087,498)
(Increase) in deferred tax assets	(427,379)	(523,803)
(Decrease) in deferred tax liabilities	(9,279)	(63,204)
Decrease/(increase) in inventories	3,285,350	(9,710,583)
(Increase)/decrease in operating receivables	(2,412,582)	2,676,520
(Decrease) in operating payables	(1,196,544)	(1,436,716)
Cost of share-based payment	165,555	472,608
Decrease in cash not readily available for payments	(391,102)	253,739
Net cash flow from operating activities	17,405,699	7,577,700

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

56. Notes to major items in cash flow statement (continued)

(4) Supplemental information on cash flow statement (continued)

(b) Net change in cash and cash equivalents:

	2023	2022
Cash balance at year end	**2,034**	1,604
Less: cash balance at beginning of year	**1,604**	1,685
Add: cash equivalents at year end	**51,011,133**	47,070,125
Less: cash equivalents at beginning of year	**47,070,125**	39,068,898
Net increase in cash and cash equivalents	**3,941,438**	8,001,146

(5) Information on subsidiaries and other business units disposed of:

	2023	2022
Cash and cash equivalents received during the year on disposal of subsidiaries and other business units during the year	**10,000**	199,668
Less: cash and cash equivalents held by subsidiaries and other business units on the date of loss of control	**4,514**	171,932
Add: cash and cash equivalents received during the year on disposal of subsidiaries and other business units during previous years	**33,000**	89,100
Net cash received on disposal of subsidiaries and other business units	**38,486**	116,836

(6) Cash and cash equivalents

	2023	2022
Cash		
Including: Cash on hand	**2,034**	1,604
Bank deposit readily available for payment	**51,011,133**	47,070,125
Cash and cash equivalents at end of year	**51,013,167**	47,071,729
Including: restricted cash and cash equivalents utilized by the Company or intra-group subsidiaries	**256,783**	371,855

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

56. Notes to major items in cash flow statement (continued)

(7) Presented as cash and cash equivalents despite restrictions in scope of application

	2023	2022	Reason
Specific funds for specific use only	**256,783**	371,855	Subject to restrictions in application only but not frozen, pledged or subject to other encumbrances, therefore still considered cash and cash equivalents

(8) Funds not considered cash and cash equivalents

	2023	2022	Reason
Time deposit of over three months and interest	**26,241,530**	8,377,218	Low liquidity, not easily realisable, not readily available for payment
Security deposit	**1,202,428**	750,057	
Dues from the People's Bank of China	**57,518**	107,092	
Others	**28,576**	40,271	
	27,530,052	9,274,638	

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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:

		31 December 2023		
		Original currency	Exchange rate	RMB Equivalent
Cash	USD	553,804	7.0967	3,930,183
	EUR	90,873	7.8616	714,407
	IDR	253,334,743	0.0005	116,448
	PKR	3,566,563	0.0252	89,707
	THB	456,846	0.2076	94,859
Trade receivables	USD	529,411	7.0967	3,757,070
	EUR	155,580	7.8616	1,223,104
	IDR	2,313,389,489	0.0005	1,063,374
	MXN	1,689,723	0.4195	708,757
	MYR	147,937	1.5444	228,479
Other receivables	USD	29,911	7.0967	212,270
	EUR	6,834	7.8616	53,730
	IRR	165,255,209	0.0002	27,923
	PKR	728,712	0.0252	18,329
	NGN	1,724,061	0.0079	13,653
Trade payables	USD	654,582	7.0967	4,645,374
	IDR	1,540,683,275	0.0005	708,191
	EUR	63,308	7.8616	497,704
	INR	2,932,356	0.0854	250,372
	MXN	205,169	0.4195	86,059
Other payables	MXN	783,206	0.4195	328,517
	USD	35,911	7.0967	254,848
	EUR	21,135	7.8616	166,156
	THB	238,274	0.2076	49,475
	GBP	3,042	9.0328	27,478
Short-term loan	USD	23,512	7.0967	166,856
	EUR	19,750	7.8616	155,269
	TRY	602,325	0.2411	145,203
	KZT	95,000	0.0156	1,483
				19,735,278

The Group's principal places of business overseas include Mexico, Brazil and Thailand, among others. Its operating entities in these countries adopt their respective principal currency for conducting business as their functional currencies.

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

58. Lease

(1) As lessee

	2023	2022
Interest expense on lease liabilities	68,147	60,430
Short-term leases through current profit or loss using simplified approach	165,094	162,187
Total cash outflow relating to leases	631,619	426,824

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 5 years. Some lease contracts provide for options of renewal and termination.

(2) As lessor

(a) Finance leasing：

Profit/loss relating to finance leasing is set out as follows

	2023	2022
Interest income from finance leasing	72,852	69,942

Minimum lease payments tp be received ting lease: according to the lease contract signed with lessees are as follows:

	2023	2022
Within 1 year	440,000	1,824,100
Over 1 year	1,482,270	—
Less: unrealised finance income	107,400	72,852
Lease investment, net	1,814,870	1,751,248

(b) Operating lease:

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

	2023	2022
Lease income	113,828	122,835

Minimum lease payments tp be received ting lease: according to the lease contract signed with lessees are as follows:

	2023	2022
Within 1 year (including 1 year)	111,291	117,774
1 to 2 years (including 2 years)	109,989	94,895
2 to 3 years (including 3 years)	52,811	58,731
3 to 4 years (including 4 years)	50,769	58,508
4 to 5 years (including 5 years)	42,190	58,085
More than 5 years	200,937	86,147
	567,987	474,140

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VI. R&D EXPENDITURE

Analysed by nature as follows:

	2023	2022
Wages, benefits and bonuses	19,007,377	16,633,859
Amortisation and depreciation	3,320,219	2,908,473
Technical cooperation fees	1,420,625	1,382,643
Direct materials	944,805	829,431
Office	548,493	438,626
Others	1,541,824	1,230,680
Total	26,783,343	23,423,712
Including: R&D expenditure as expense	25,289,211	21,602,300
R&D expenditure capitalised	1,494,132	1,821,412

Expenditure of R&D projects qualifying for capitalization as follows:

	Opening balance	Increase in in-house development for the year	Decrease in recognition of intangible assets for the year	Closing balance
System products	2,584,570	1,494,132	(2,777,157)	1,301,545

VII. CHANGES TO THE SCOPE OF CONSOLIDATION

1. Disposal of subsidiaries

The Group completed the disposal of equity interest in Yingbo Super Computer (Nanjing) Technology Company Limited in December 2023 and the said company has been excluded from the Group's consolidated statements with effect from December 2023.

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VII. CHANGES TO THE SCOPE OF CONSOLIDATION (continued)

2. Change in scope of consolidation for other reasons

Name	Reason	Date of inclusion into/exclusion form consolidated statements
ZTE RWANDA Limited	New incorporation	March 2023
ZTE (Chengdu) Co., Ltd.	New incorporation	May 2023
Chengdu CRS Xingxin Semiconductor Technology Co., Ltd.	New incorporation	May 2023
ZONSON SMART AUTO ITALIA S.R.L.	New incorporation	August 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
ZTE GEORGIA LLC	Commenced bankruptcy procedure and excluded from scope of consolidation	September 2023
CLAA IoT (Quzhou) Company Limited	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	November 2023
Shenzhen Xinglutong Technology Company Limited	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	December 2023
Newinfo Holdings Limited	Completed deregistration with industrial and commercial administration authorities and excluded from scope of consolidation	December 2023

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VIII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of the major subsidiaries of the Group are as below:

Type of subsidiary	Place of registration principal places of business	Nature of business	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	HKD2,483,747,800	100%	–
Shenzhen Zhongxing Software Company Limited*	Shenzhen	Servicing	RMB51.08 million	100%	–
Xi'an ZTE Terminal Technology Co., Ltd.*	Xi'an	Manufacturing	RMB300 million	100%	–
Sanechips Technology Co., Ltd.*	Shenzhen	Manufacturing	RMB131,578,900	87.22%	12.78%
ZTE (Nanjing) Co.,Ltd.*	Nanjing	Manufacturing	RMB1,000 million	100%	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited*	Shenzhen	Telecommunications services	RMB200 million	90%	10%
CRS Technology Co., Ltd.*	Xi'an	Manufacturing	RMB1,000 million	–	100%

* Such subsidiaries are companies with limited liability incorporated under the laws of the PRC.

2. Interests in joint ventures and associates

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.

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VIII. INTERESTS IN OTHER ENTITIES (continued)

2. Interests in joint ventures and associates (continued)

The following table sets out summarized financial information of insignificant joint ventures and associates of the Group:

	2023	2022
Joint ventures		
Aggregate carrying value of investments	856,886	527,718

	2023	2022
Aggregate amounts of the following attributable to shareholdings:		
Net income	190,278	36,610
Other comprehensive income	—	—
Total comprehensive income	190,278	36,610

	2023	2022
Associates		
Aggregate carrying value of investments	1,300,664	1,226,312

	2023	2022
Aggregate amounts of the following attributable to shareholdings:		
Net income/(loss)	74,883	57,112
Other comprehensive income	1,168	(34)
Total comprehensive income	76,051	57,078

As at 2023, there were no contingent liabilities associated with the investments in joint ventures and associates (2022: Nil).

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

As at 31 December 2023, financial assets at fair value through current profit or loss amounted in aggregate to RMB1,070,556,000 (31 December 2022: RMB1,674,171,000), presented mainly under derivative financial assets, trading financial assets and other non-current financial assets. Financial assets at fair value through other comprehensive income amounted in aggregate to RMB4,074,078,000 (31 December 2022: RMB3,712,142,000), presented mainly under receivable financing. Financial assets at amortised cost amounted in aggregate to RMB105,923,863,000 (31 December 2022: RMB80,993,825,000), presented mainly under cash, trade receivables, other receivables, long-term receivables and other non-current assets. Financial liabilities at fair value through current profit or loss amounted in aggregate to RMB227,692,000 (31 December 2022: RMB234,081,000), presented mainly under derivative financial liabilities and other non-current financial liabilities. Financial liabilities at amortised cost amounted in aggregate to RMB93,172,985,000 (31 December 2022: RMB82,244,664,000), presented mainly under bank borrowings, lease liabilities, bills payable, trade payables, short-term bond payables, other payables and other non-current liabilities.

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. 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 risk management policy to address 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 commercial acceptance bills receivable, traduce receivables, other receivables. The credit risk associated with such financial assets and contract assets arises from default of the counterparty, with a maximum exposure equal to the carrying value of these instruments.

The Group does not require collaterals as it only conducts transactions with approved third parties with sound credit standing. Credit risk concentration is managed according to customers/counterparties, geographic region and industry. As at 31 December 2023, the Group was subject to specific credit risk concentration, as 14% (31 December 2022: 10%) and 38% (31 December 2022: 31%) of the Group's trade receivables were attributable to the largest customer and top five customers, respectively, in terms of trade receivable balance. The Group did not hold any collateral or other credit enhancement in respect of such trade receivable balances.

(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. The principal criteria of the Group for making the judgment that a credit risk has significantly increased is an overdue by more than 30 days and significant change in one of more of the indicators set out below: material adverse change in the debtor's businesses conditions, internal or external credit rating, actual or estimated operating results, among others.

(b) Definition of credit-impaired financial assets

The main criterion adopted by the Group in determining the occurrence of credit impairment is an overdue of more than 90 days, although the Group will also consider that credit impairment has occurred under certain circumstances if internal or external information indicates that it may not be able to collect a contract amount in full before consideration is given to any credit enhancement held.

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) Credit risk exposure

For details of the risk matric model provided for trade receivables, contract assets and other receivables for which impairment provision for expected credit loss for the entire period has been made, please refer to Note V.4A, V.6 and V.8.

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Risks of financial instruments (continued)

(2) Liquidity risk

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of a variety of financing means. Funds raised by the Group through operations and borrowings are considered operational financing.

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarised as follows:

2023

	Within 1 year	1–2 years	2–3 years	Over 3 years	Total
Bank loans	10,489,761	18,849,732	18,102,696	7,071,925	54,514,114
Lease liabilities	522,989	185,682	214,908	559,869	1,483,448
Derivative financial liabilities	184,544	–	–	–	184,544
Bills payable	9,442,739	–	–	–	9,442,739
Trade payables	18,931,425	–	–	–	18,931,425
Short-term bonds payable	5,012,890	–	–	–	5,012,890
Bank advances on factored trade receivables and factored long-term trade receivable	3,687	3,687	3,687	3,688	14,749
Other payables (excluding accruals and staff housing fund contributions)	2,413,132	–	–	–	2,413,132
Other non-current liabilities	600,000	1,534,252	12,928	2,091,690	4,238,870
Total	47,601,167	20,573,353	18,334,219	9,727,172	96,235,911

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
Total	42,387,650	8,819,464	22,690,133	13,860,234	87,757,481

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. 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. The Group manages its interest rate risk by closely monitoring interest rate changes and reviewing its borrowings on a regular basis.

As at 31 December 2023, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR and Euribor.

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 2.00% to 50.00% (9.00%–50.00% for TRY contract loans). Approximately 11.94% (2022: 20.58%) of the Group's interest bearing borrowings were subject to interests at fixed rates.

Interest-bearing borrowings with floating interest rate were mainly denominated in USD and EUR. The sensitivity analysis of interest rate risks is set out in the following table, reflecting the impact of reasonable and probable change in interest rates on net profit or loss (through the impact on floating rate loans) and other comprehensive income (net of tax) assuming that other variables remain constant.

	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
2023	**25**	**(96,950)**	**–**	**(96,950)**
	(25)	**96,950**	**–**	**96,950**
2022	25	(73,125)	–	(73,125)
	(25)	73,125	–	73,125

(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.

RMB'000

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

2. Risks of financial instruments (continued)

(3) Market risk (continued)

(b) Foreign currency risk (continued)

The increase or decrease in value of assets or liabilities priced in foreign currency held by the Group owing to exchange rate volatility will affect the Group's operating results. Based on the risk exposure of monetary assets and liabilities and estimates of future foreign currency income and expenditure, the Group adopts forward exchange contracts to offset exchange rate risks. The Group conducts hedging transactions in respect of exchange rate risk exposure according to annual caps for foreign exchange derivative trades approved and authorized by the Board and the General Meeting. Derivative trades of the Group companies are centrally managed by the Derivative Investment Committee which will adjust the foreign exchange hedging strategy according to market movements. A Derivative Investment Work Group has been established under the said committee to be in charge of specific transactions.

The following table sets out a sensitivity analysis of exchange rate risks that demonstrates the impact of a reasonably possible change in USD and EUR exchange rates on the Group's net profit or loss and other comprehensive income, with all other variables held constant.

	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
2023				
Weaker RMB against USD	**5%**	**297,734**	**–**	**297,734**
Stronger RMB against USD	**(5%)**	**(297,734)**	**–**	**(297,734)**
2022				
Weaker RMB against USD	5%	297,370	–	297,370
Stronger RMB against USD	(5%)	(297,370)	–	(297,370)

	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
2023				
Weaker RMB against EUR	**5%**	**96,317**	**–**	**96,317**
Stronger RMB against EUR	**(5%)**	**(96,317)**	**–**	**(96,317)**
2022				
Weaker RMB against EUR	5%	127,737	–	127,737
Stronger RMB against EUR	(5%)	(127,737)	–	(127,737)

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

3. 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 2023 and 2022.

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:

	2023	2022
Interest-bearing bank borrowings	**51,812,845**	45,358,508
Lease liabilities	**1,483,448**	1,180,188
Short-term bonds payable	**5,012,890**	—
Bank advances on factored receivables and long-term trade receivables	**14,749**	279,760
Total interest-bearing liabilities	**58,323,932**	46,818,456
Owners' equity	**68,331,445**	59,543,223
Total equity and interest-bearing liabilities	**126,655,377**	106,361,679
Gearing ratio	**46.0%**	44.0%

4. Hedge

(1) 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 such USD 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. The ineffective portion of hedge arose primarily from differences in forward exchange rate. The amount of ineffective hedge recognised for the year was insignificant.

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 are set out as follows:

2023

	Within 6 months	6–12 months	After 1 year	Total
Nominal amount of USD forward contract	**—**	**464,640**	**—**	**464,640**
Average RMB to USD exchange rate	**—**	**7.04**	**—**	**7.04**

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

4. Hedge (continued)

(1) Cash flow hedge (continued)

Carrying value of hedging instruments and fair-value change are set out as follows:

2023

	Nominal amount of hedging instruments	Carrying value of hedging instruments Assets	Carrying value of hedging instruments Liabilities	Balance sheet items including hedged instruments	Fair-value change of hedging instruments adopted as basis for recognition of ineffective hedge portion during the period
Exchange rate risk — USD forward exchange contract	464,640	–	1,315	Derivative financial liabilities	7,222

Carrying value of hedged items and related adjustments are set out as follows:

2023

	Carrying value of hedged item Asset	Carrying value of hedged item Liability	Cumulative amount of fair-value hedge adjustment of hedged item (charged to carrying value of hedged item) Asset	Cumulative amount of fair-value hedge adjustment of hedged item (charged to carrying value of hedged item) Liability	Balance sheet item under which the hedged item is included	Fair-value change of the hedged item adopted for the year as basis for recognising ineffective portion of hedge	Cash flow hedge reserve
Exchange rate risk — future expense settled in USD	–	–	–	–	N/A	(7,080)	(703)

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IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

4. Hedge (continued)

(1) Cash flow hedge (continued)

Fair-value change in hedging instruments recognised in current profit or loss and other comprehensive income are set out as follows:

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	11,355	142	Investment gain	11,916	Administrative expense

(2) The Company was engaged in hedging transactions as a means of risk management. The achievement of the risk management objectives was expected although hedge accounting was not applied.

Item	Reason for not applying hedge accounting	Effect on financial statements
Fair-value hedge	The Company places a strong emphasis on risk management relating to derivative products. For the year, it was not applied for the time being taking into consideration the cost and efficiency of processing financial information relating to hedge accounting. It will be applied when the conditions are ready.	Profit or loss from fair-value change (27,759); Investment gain (640,189)

RMB'000

IX. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (continued)

5. Transfers of financial assets

Means of transfer	Nature of financial assets transferred	Amount of financial assets transferred	Derecognition status	Bases of judgement for derecognition
Bill discounting	Bill receivables	13,416,935	Derecognised	Substantially all risks and rewards had been transferred
Factoring	Trade receivables	3,210,102	Derecognised	Substantially all risks and rewards had been transferred
Total		16,627,037		

As at 31 December 2023, financial assets derecognised as a result of transfer were as follows:

	Means of transfer	Amount of financial assets derecognised	Profit or loss relating to derecognition
Bills receivable	Bill discounting	13,416,935	90,959
Trade receivables	Factoring	3,210,102	278,004
Total		16,627,037	368,963

As at 31 December 2023, transferred financial assets under continuous involvement were as follows:

	Means of transfer	Amount of assets under continuous involvement	Amount of liability arising from continuous involvement
Trade receivables	Factoring	3,503	3,687
Long-term receivables	Factoring	10,509	11,062
Total		14,012	14,749

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X. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

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	—	85,341	—	85,341
Trading financial assets	129,058	—	24,227	153,285
Other non-current financial assets	—	—	831,930	831,930
Receivable financing	—	4,074,078	—	4,074,078
Investment properties				
Leased buildings and land use rights	—	—	1,473,823	1,473,823
Total	129,058	4,159,419	2,329,980	6,618,457
Derivative financial liabilities	—	(184,544)	—	(184,544)
Other non-current liabilities	—	—	(43,148)	(43,148)
Total	—	(184,544)	(43,148)	(227,692)

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 and land use rights	—	—	2,010,627	2,010,627
Total	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)
Total	—	(201,717)	(32,364)	(234,081)

X. DISCLOSURE OF FAIR VALUES (continued)

2. Estimation of fair value

(1) Level-1 fair value measurement

The fair value of investment in listed equity instruments with unrestricted period is determined based on quoted active market prices.

(2) Level-2 fair value measurement

The management has assessed the receivable financing with the present value of cash flow method and the fair value approximates the carrying value.

The Group has entered into derivative financial instrument contracts with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include forward exchange contracts and are measured using valuation techniques similar to forward pricing, model interchange and the present value method. 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 a forward exchange contract or an interest rate swap is identical with its fair value. As at 31 December 2023, the mark-to-market value of the derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default. Changes in the credit risk associated with the counterparties had no material impact on the assessment of the effectiveness of designated derivative hedge in hedging relationships and other financial instruments measures at fair value.

(3) Level-3 fair value measurement

Fair value of non-listed equity investment is estimated using the market-based method and assumptions based on unobservable market prices or interest rates. The estimation requires the Group to determine comparable public companies based on industry, scale, gearing and strategy and compute appropriate price multiples in respect of each comparable listed company, such as enterprise value multiples and price to earnings ("P/E"), etc. Such multiples are adjusted based on specific facts and conditions of the enterprise taking into account factors such as differences in liquidity and scale with the comparable listed companies.

The fair value of listed equity investment subject to a moratorium is measured according to quoted prices in an active stock market, discounted at a percentage for the lack of liquidity during the moratorium.

The fair value of equity sell-back rights in other non-current liabilities is measured according to the binomial tree model.

For the measurement of fair value of investment properties, the Group will consider information from a variety of sources, including (a) the current prices in an active market of properties of a different nature, conditions or locations, adjusted to reflect the differences; (b) recent prices of similar properties in a less active market, adjusted to reflect any change in economic conditions since the date on which transactions are conducted at such prices; and (c) discounted cash flow forecast made on the basis of reliable estimates of future cash flow, supported by the terms of any current leases or other contracts and (if practicable) external evidence (such as the current market rental rate for similar properties of identical locations and conditions) and discounted to reflect market assessment on the amount of cash flow and timing uncertainty.

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X. 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:

2023

	Fair value at end of year	Valuation techniques	Unobservable inputs	Range
Commercial properties	RMB1,473,823,000	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	RMB856,157,000	Market method	Liquidity discount rate	5.80%–50%
			P/E	5.20–15.47
			P/B	0.76–2.1
Other non-current liabilities	RMB43,148,000	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%

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%

RMB'000

X. 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:

2023

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Acquisition	Disposal	Closing balance	Change in assets/liabilities held at year-end included under unrealised gain for the period in profit or loss
Investment properties	2,010,627	–	(330,000)	(211,643)	4,839	–	1,473,823	(211,643)
Trading financial assets	96,382	–	(96,382)	24,227	–	–	24,227	24,227
Other non-current financial assets	1,028,262	–	–	(58,255)	4,360	(142,437)	831,930	(49,471)
Other non-current liabilities	32,364	–	–	10,784	–	–	43,148	10,784

2022

	Opening balance	Transfer into Level 3	Transfer out of Level 3	Through profit or loss	Acquisition	Disposal	Closing balance	Change in assets held at year-end included under unrealised gain for the period in profit or 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 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 financial and non-financial assets is analyzed as follows:

	2023 Relating to financial assets	2022 Relating to financial assets
Total profit or loss for the period included in profit and loss	(34,028)	(47,054)
Change in assets held at year-end included in unrealized profit or loss for the period	(25,244)	30,406

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X. DISCLOSURE OF FAIR VALUES (continued)

4. Fair value measurement adjustment (continued)

	2023 Relating to non-financial assets	2022 Relating to non-financial assets
Total profit or loss for the period included in profit and loss	(211,643)	(3,300)
Change in assets held at year-end included in unrealized profit or loss for the period	(211,643)	(3,300)

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to financial liabilities is analyzed as follows:

	2023 Relating to financial liabilities	2022 Relating to financial liabilities
Total profit or loss for the period included in profit and loss	10,784	—
Change in assets held at year-end included in unrealized profit or loss for the period	10,784	—

During the year, there were no transfers of fair value measurements between Level 1 and Level 2.

XI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

Name of controlling shareholder	Place of registration	Nature of business	Registered capital	Percentage of shareholding	Percentage of voting rights
Zhongxingxin Telecom Company Limited	Shenzhen, Guangdong	Manufacturing	RMB100 million	20.09%	20.09%

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Zhongxingxin Telecom Company Limited.

2. Subsidiaries

Details of significant subsidiaries are set out in Note VII. and Note VIII.1.

XI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

3. Joint ventures and associates

	Relationship
Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited	an associate of the Company
上海博色信息科技有限公司	an associate of the Company
Whale Cloud Technology Co., Ltd.	an associate of the Company
廣東中城信息技術有限公司	an associate of the Company
安徽奇英智能科技有限公司	an associate of the Company
Shijiazhuang Smart Industry Company Limited	an associate of the Company
江西國投信息科技有限公司	an associate of the Company
Zhongxing Feiliu Information Technology Company Limited	an associate of the Company
鐵建聯合(北京)科技有限公司	an associate of the Company
山東興濟置業有限公司	an associate of the Company
INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	an associate of the Company
中山優順置業有限公司	an associate of the Company
Huanggang Education Valley Investment Holdings Co., Ltd.	an associate of the Company
Hengyang ICT Real Estate Co., Ltd.	an associate of the Company
Puxing Mobile Tech Company Limited	a joint venture of the Company
德特賽維技術有限公司	a joint venture of the Company
Shananxi Zhongtou Zhanlu Equity Investment Partnership Phase I (Limited Partnership)	a joint venture of the Company
Shaanxi Zhongtou Zhanlu Tranche II Equity Investment Partnership Enterprise (Limited Partnership)	a joint venture of the Company

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XI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties

	Relationship
Sindi Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing New Cloud Service Company Limited	Subsidiary of the Company's controlling shareholder
Shenzhen Xinyu Tengyue Electronics Co., Ltd	Subsidiary of the Company's controlling shareholder
Pylon Technologies Co., Ltd.	Subsidiary of the Company's controlling shareholder
Shenzhen Zhongxing Xinli Precision M&E Technology Company Limited	Subsidiary of the Company's controlling shareholder
Anhui Zhongxing Juli Precision M&E Technology Company Limited	Subsidiary of the Company's controlling shareholder
Shenzhen New Video Smart Technology Company Limited	Subsidiary of the Company's controlling shareholder
Shenzhen Xingkai Communication Equipment Limited	Subsidiary of the Company's controlling shareholder
Beijing Changrui Time Technology Limited	Company controlled by a connected natural person of the Company
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 director and senior management
GD Ouke Air-conditioning & Refrigeration Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as senior management during the past 12 months
Shenzhen Techrise Electronics Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and senior management
Shenzhen Aerospace Guangyu Industrial Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and senior management
Shenzhen Zhongxing Information Company Limited	Company for which a connected natural person of the Company acted as director
Shenzhen Zhongxing WXT Equipment 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 during the past 12 months
Shenzhen Zhongxing Yihe Investment Development Company Limited	Company for which a connected natural person of the Company acted as chairman
Shenzhen ZTE International Investment Company Limited	Company for which a connected natural person of the Company acted as chairman

XI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
Shenzhen Zhongxing Energy Conservation & Environmental Service Company Limited	Company for which a connected natural person of the Company acted as vice chairman
Shenzhen Zhongxing Tenglong Eco-Tech Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as chairman
Shanghai Zhongxing Keyuan Industrial Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as chairman during the past 12 months
Zhongxing Intelligent Technology (Wuhu) Company Limited	Subsidiary of a 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
Beijing Zhongxing Xieli Technology Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director
ZTE Development Company Limited	Company for which a connected natural person of the Company acted as director and executive vice president
Zhongxing Herun Investment (Shenzhen) Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Huatong Technology Co., Ltd.	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Nanchang Zhongzhan Digital Smart Technology Company Limited (formerly known as 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
ZTE Hotel Harbourview Hotel Investment Development Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president
Chongqing Zhongxing Zhongtou Property Service Company Limited	Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president

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XI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

4. Other related parties (continued)

	Relationship
Xiazhi Technology 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
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
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
Xi'an Microelectronics Technology Research Institute	Entity at which a connected natural person of the Company acted as head
Shenzhen Zhongxingxu Technology Company Limited	Company controlled by a connected natural person of the Company
ZTE Hotel Nanjing Management Company Limited	Subsidiary of an associate of the Company
ZTE Hotel Xi'an Management Company Limited	Subsidiary of an associate of the Company
ZTE Hotel Shanghai Investment & Management Company Limited	Subsidiary of an associate of the Company

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XI. 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

	2023	2022
Transactions with controlling shareholder and its subsidiaries:		
Shenzhen Zhongxing New Cloud Service Company Limited	114	—
Sindi Technologies Co., Ltd.	8,685	—
	8,799	—
Transactions with companies where connected natural persons held office and their subsidiaries:		
航天歐華信息技術有限公司	682,544	940,007
Shenzhen Zhongxing Information Company Limited	433	2,835
Shenzhen Zhongxing WXT Equipment Company Limited	—	2
Beijing Changrui Times Technology Company Limited	466	—
Shenzhen Zhongxingxu Technology Company Limited	819	2,655
	684,262	945,499
Transactions relating to associates and joint ventures of the Company and their subsidiaries:		
ZTE Hotel Shenzhen Investment & Management Company Limited	82	51
ZTE Hotel Nanjing Management Company Limited	701	1,233
ZTE Hotel Xi'an Management Company Limited	1,223	1,913
ZTE Hotel Shanghai Investment & Management Company Limited	1,774	1,358
Puxing Mobile Telecom Equipment Co., Ltd.	1,622	1,624
Shanghai Ume Technologies Company Limited	508	2,572
WHALE CLOUD TECHNOLOGY CO., LTD	4,923	168
DataService Technology Co., Ltd.	970	—
Shaanxi Zhongtou Zhanlu Phase I Equity Investment Partnership (Limited Partnership)	1,980	—
Anhui Qiying Intelligent Technology Company Limited*	3,160	—
Shaanxi Zhongtou Zhanlu Phase II Equity Investment Partnership (Limited Partnership)	2,164	—
GD Zhongcheng IT Company Limited	—	174
SHIJIAZHUANG SMART INDUSTRY CO., LTD	344	36
Jiangxi Guotou Information Technology Co., Ltd.	—	5,817
	19,451	14,946
	712,512	960,445

* In 2023, the Group completed the disposal of all equity interest in Yingbo Super Computer (Nanjing) Technology Company Limited, which had been excluded from the Group's consolidated financial statements as from December 2023. Amounts disclosed in the table above represent transactions with Yingbo Super Computer (Nanjing) Technology Company Limited with Anhui Qiying Intelligent Technology Company Limited from January to November 2023.

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XI. 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

	2023	2022
Transactions with controlling shareholder and its subsidiaries:		
Sindi Technologies Co., Ltd.#	147,857	130,303
Shenzhen Xinyu Tengyue Electronics Co., Ltd#	19,857	24,421
Pylon Technologies Co., Ltd.#	922	16,382
Shenzhen Zhongxing Xinli Precision M&E Technology Company Limited#	99,206	127,608
Anhui Zhongxing Juli Precision M&E Technology Company Limited#	–	373
Shenzhen New Video Smart Technology Company Limited#	587	4,019
	268,429	303,106
Transactions with companies where connected natural persons held office and their subsidiaries:		
GD Ouke Air-conditioning & Refrigeration Company Limited	25,963	3,478
Shenzhen Techrise Electronics Company Limited	–	42
Shenzhen Aerospace Guangyu Industrial Company Limited	10	10
Beijing Zhongxing Xieli Technology Company Limited	7,619	3,778
Huatong Technology Co., Ltd.	48,509	53,429
Nanchang Zhongzhan Digital Smart Technology Company Limited	50,327	45,560
Zhongxing Software Technology (Shenyang) Company Limited	90	2,135
ZTE Hotel Harbourview Hotel Investment Development Company Limited	933	448
Shenzhen Aerospace Property Management Co., Ltd.	326	–
Shenzhen Zhongxing Tenglong Eco-Tech Company Limited	9,583	330
Shanghai Zhongxing Keyuan Industrial Company Limited	–	47
Xiazhi Technology Company Limited	115	–
Shenzhen Zhongxing Yihe Investment Development Company Limited	–	79
	143,475	109,336

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XI. 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 (continued)

	2023	2022
Transactions relating to associates and joint ventures of the Company and their subsidiaries:		
ZTE Hotel Shenzhen Investment & Management Company Limited	21,215	8,992
ZTE Hotel Nanjing Management Company Limited	15,904	12,515
ZTE Hotel Xi'an Management Company Limited	11,980	6,569
ZTE Hotel Shanghai Investment & Management Company Limited	6,477	9,485
Jetflow Technologies Co., Ltd.	178	—
WHALE CLOUD TECHNOLOGY CO., LTD.	210,151	235,492
	265,905	273,053
	677,809	685,495

Continuing connected transaction subject to annual reporting under the Hong Kong Listing Rules.

Note: For the year, the Group conducted commodity trade with connected parties based on market prices.

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XI. 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	2023 Lease income	2022 Lease income
Transactions with controlling shareholder and its subsidiaries:			
Shenzhen Zhongxing New Cloud Service Company Limited	Office	3,348	3,476
Shenzhen Zhongxing Xinli Precision M&E Technology Company Limited	Quarters	11	11
		3,359	3,487
Transactions with companies where connected natural persons held office and their subsidiaries:			
Shenzhen ZTE International Investment Company Limited	Office	153	151
Huatong Technology Co., Ltd.	Office	34	27
Huatong Software Technology (Nanjing) Company Limited	Office	—	92
Shenzhen Zhongxing Energy Conservation & Environmental Service Company Limited	Office	294	200
Shanghai Zhongxing Keyuan Industrial Company Limited	Office	436	331
Zhongxing Intelligent Technology (Wuhu) Company Limited	Office	85	—
		1,002	801
Transactions relating to associates and joint ventures of the Company and their subsidiaries:			
ZTE Hotel Shenzhen Investment & Management Company Limited	Property and equipment & facilities	8,088	12,873
ZTE Hotel Nanjing Management Company Limited	Property and equipment & facilities	5,162	6,855
ZTE Hotel Xi'an Management Company Limited	Property and equipment & facilities	14,117	18,639
ZTE Hotel Shanghai Investment & Management Company Limited	Property and equipment & facilities	12,311	16,361
Jetflow Technologies Co., Ltd.	Office	614	703
		40,292	55,431
		44,653	59,719

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XI. 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

	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	215	–	8,101	1,079	31,326
Transactions with companies where connected natural persons held office and their subsidiaries:						
Chongqing Zhongxing Development Company Limited	Office	1,681	–	7,612	231	–
Sanhe Zhongxing Property Service Company Limited	Office	3,091	–	–	–	–
Sanhe Zhongxing Development Company Limited	Office	354	–	16,920	2,988	75,192
Tianjin ZTE International Investment Company Limited	Office	1,299	–	3,911	1,093	26,002
		6,640	–	36,544	5,391	132,520

Note: The Group recognised lease income of RMB44,653,000 (2022: RMB59,719,000) for the year according to the lease contracts for the lease of office and equipment to the aforesaid connected parties.

The Group recognized short-term lease and low-value asset lease expense of RMB6,640,000 and paid rental of RMB36,544,000 (2022: recognized short-term lease and low-value asset lease expense of RMB5,901,000 and paid rental of RMB31,587,000) for the year according to the lease contracts for the lease of office from the aforesaid connected parties.

(3) Other major related transactions

Remuneration of key management employees

	2023	2022
Short-term staff remuneration	62,797	67,999
Retirement benefit	335	314
Total	63,132	68,313

Note: Share option expense or share-based payment expense recognised for 2023 in respect of the initial grant under the 2020 Share Option Incentive Scheme, reserved grant under the 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership scheme amounted to RMB1,432,000 (2022: RMB14,514,000). For details, please refer to Note XII. 1.

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XI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

5. Major transactions between the Group and related parties (continued)

(4) Asset transfer with related parties

	Transaction	2023	2022
Shenzhen Zhongxing WXT Equipment Company Limited	Disposal of equity	2,327	–
Zhongxing Herun Investment (Shenzhen) Company Limited	Disposal of equity	4,358	–
Total		6,685	–

6. Commitments of the Group with related parties

(1) Information on purchases with related parties in 2024–2025 of the Group as purchaser was as follows:

Supplier	Subject of purchase	Date of agreement	Duration of agreement	Estimated purchase 2024	2025
Zhongxingxin Telecom Company Limited and its subsidiaries	Raw materials	December 2023	1 year	450,000	–
Huatong Technology Co., Ltd.	Software outsourcing	December 2022	2 years	85,000	–
Nanchang Zhongzhan Digital Smart Technology Company Limited	Software outsourcing	December 2022	2 years	85,000	–
ZTE Hotel Shenzhen Investment & Management Company Limited and its subsidiaries	Hotel service	December 2023	2 years	65,000	65,000
Total				685,000	65,000

Note: For details of purchases occurring during the year, please refer to Note XI.5(1).

(2) Information on sales with related parties in 2024 of the Group as seller was as follows:

Customer	Subject of sales	Date of agreement	Duration of agreement	Estimated sales 2024
航天歐華信息技術有限公司	Full range of government and corporate business products	December 2023	1 year	1,150,000

Note: For details of sales occurring during the year, please refer to Note XI.5(1).

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XI. 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 2024–2025 was as follows:

Lessee	Date of agreement	Lease term	Estimated least income 2024	2025
Shanghai Zhongxing Keyuan Industrial Company Limited	July 2022	2 years	218	–
Shenzhen Zhongxing New Cloud Service Company Limited	February 2023	22 months	1,029	–
Shenzhen Zhongxing New Cloud Service Company Limited	June 2022	2 years	1,096	–
Shenzhen Zhongxing New Cloud Service Company Limited	May 2023	19 months	1,144	1,144
Shenzhen Zhongxing Xinli Precision M&E Technology Company Limited	July 2023	1 year	6	–
Shenzhen Zhongxing Energy Conservation & Environmental Service Company Limited	January 2023	1 year	147	–
Shenzhen ZTE International Investment Company Limited	November 2020	7 years	159	161
Zhongxing Intelligent Technology (Wuhu) Company Limited	June 2023	30 months	146	146
Huatong Technology Co., Ltd.	March 2022	3 years	34	–
ZTE Hotel Shenzhen Investment & Management Company Limited and its subsidiaries	December 2023	2 years	50,824	50,824
			54,803	52,275

Note: For details of rental income occurring during the year, please refer to Note XI.5(2).

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XI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties

Item	Name of related companies	2023 Book balance	2023 Bad debt provision	2022 Book balance	2022 Bad debt provision
Bills receivable	航天歐華信息技術有限公司	283,374	–	288,405	–
Trade receivables	Puxing Mobile Telecom Equipment Co., Ltd.	–	–	4,700	4,700
	DataService Technology Co., Ltd.	–	–	308	1
	WHALE CLOUD TECHNOLOGY CO., LTD.	769	420	995	946
	Tiejian Union (Beijing) Technology Co., Ltd.	7,424	7,424	7,424	7,424
	Shanghai Ume Technologies Company Limited	–	–	2,030	3
	ZTE Hotel Shenzhen Investment & Management Company Limited	42,202	26,250	38,282	15,775
	ZTE Hotel Xi'an Management Company Limited	25,907	9,592	27,823	2,237
	ZTE Hotel Nanjing Management Company Limited	5,007	868	7,110	403
	ZTE Hotel Shanghai Investment & Management Company Limited	67,530	43,756	65,240	33,653
	航天歐華信息技術有限公司	745	36	–	–
	Shenzhen Xingkai Communication Equipment Limited	22,060	17,868	22,060	15,001
	Shenzhen Zhongxing Information Company Limited	80	–	2,434	367
	Anhui Qiying Intelligent Technology Company Limited	2,004	18	–	–
	Sindi Technologies Co., Ltd.	1,124	11	–	–
	SHIJIAZHUANG SMART INDUSTRY CO., LTD.	389	389	–	–
	Shanghai Zhongxing Keyuan Industrial Company Limited	115	–	–	–
	Jetflow Technologies Co., Ltd.	645	441	–	–
	Zhongxing Intelligent Technology (Wuhu) Company Limited	51	–	–	–
	Beijing Changrui Times Technology Company Limited	414	77	–	–
		176,466	107,150	178,406	80,510
Prepayment	Shenzhen Zhongxing Xinli Precision M&E Technology Company Limited	731	–	731	–
Other receivables	Shandong Xingji Real Estate Company Limited	5,000	5,000	20,591	19,591

RMB'000

XI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related companies	2023	2022
Bills payable	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	6,156	9,116
	Sindi Technologies Co., Ltd.	64,266	55,139
	Shenzhen Zhongxing Xinli Precision M&E Technology Company Limited	42,956	49,417
	GD Ouke Air-conditioning & Refrigeration Company Limited	25,602	621
	Pylon Technologies Co., Ltd.	808	390
	Shenzhen Zhongxing Tenglong Eco-Tech Company Limited	5,841	—
	Jetflow Technologies Co., Ltd.	201	—
	Shenzhen New Video Smart Technology Company Limited	83	220
		145,913	114,903
Trade payables	Shenzhen Xinyu Tengyue Electronics Co., Ltd.	3,202	3,394
	Sindi Technologies Co., Ltd.	17,310	26,204
	Shenzhen Zhongxing WXT Equipment Company Limited	483	483
	Shenzhen Zhongxing Information Company Limited	6,365	9,692
	Puxing Mobile Telecom Equipment Co., Ltd.	217	217
	Shenzhen Zhongxing Xinli Precision M&E Technology Company Limited	26,344	20,787
	GD Ouke Air-conditioning & Refrigeration Company Limited	102	846
	WHALE CLOUD TECHNOLOGY CO., LTD.	152,100	156,172
	Pylon Technologies Co., Ltd.	2,202	2,246
	航天歐華信息技術有限公司	2,237	3,762
	Nanchang Zhongzhan Digital Smart Technology Company Limited	45	—
	Shenzhen Zhongxing Tenglong Eco-Tech Company Limited	453	—
	Zhongxing Software Technology (Shenyang) Company Limited	—	96
		211,060	223,899
Contract liabilities	Nanchang Zhongzhan Digital Smart Technology 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	10,975	4,855
	Zhongxing Software Technology (Shenyang) Company Limited	3	3
	WHALE CLOUD TECHNOLOGY CO., LTD.	8,458	9,328
	Anhui Qiying Intelligent Technology Company Limited	13	436
	Shenzhen Zhongxingxu Technology Company Limited	—	925
		26,551	22,640

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XI. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (continued)

7. Balances of amounts due from/to related parties (continued)

Item	Name of related companies	2023	2022
Other payables	Shenzhen Zhongxing WXT Equipment Company Limited	12	2,712
	Zhongxingxin Telecom Company Limited	10	10
	INTLIVE TECHNOLOGIES (PRIVATE) LIMITED	5,332	5,243
	ZHONGSHAN YOUSHUN PROPERTY COMPANY LIMITED	2,000	2,000
	Huanggang Jiaoyugu Investment Holding Co., Ltd.	—	161
	HENGYANG ICT REAL-ESTATE CO., LTD.	198	198
	Shandong Xingji Real Estate Company Limited	272	272
	Shenzhen Zhongxing New Cloud Service Company Limited	—	45
	Shenzhen Zhongxing Energy Conservation & Environmental Service Company Limited	229	29
	Shenzhen ZTE International Investment Company Limited	26	26
	Huatong Technology Co., Ltd.	36	6
	Shenzhen Aerospace Property Management Co., Ltd.	30	30
	Puxing Mobile Telecom Equipment Co., Ltd.	8,634	—
	GD Ouke Air-conditioning & Refrigeration Company Limited	50	—
	Shenzhen Zhongxing Xinli Precision M&E Technology Company Limited	2	—
	Nanchang Zhongzhan Digital Smart Technology Company Limited	260	—
	ZTE Development Company Limited*	900	—
	GD Zhongcheng IT Company Limited	—	1,165
		17,991	11,897
Lease liabilities	Sanhe Zhongxing Development Company Limited	66,312	5,108
	Tianjin ZTE International Investment Company Limited	27,861	4,678
	Zhongxingxin Telecom Company Limited	26,906	2,602
	Chongqing Zhongxing Development Company Limited	1,043	8,424
		122,122	20,812

* In 2023, the Group completed the disposal of all equity interest in Yingbo Super Computer (Nanjing) Technology Company Limited, which had been excluded from the Group's consolidated financial statements as from December 2023. Amounts disclosed in the table above represent the balances of Yingbo Super Computer (Nanjing) Technology Company Limited with Anhui Qiying Intelligent Technology Company Limited and ZTE Development Company Limited as at November 2023.

Other than lease liabilities, 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

XII. SHARE-BASED PAYMENT

1. Share option incentive schemes

(1) 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 share options would be granted to 6,123 participants under the first 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 first 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 who have a direct impact or outstanding contributions to the Company's overall business results and ongoing development, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company's shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of 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

RMB'000

XII. SHARE-BASED PAYMENT (continued)

1. Share option incentive schemes (continued)

(2) 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 in 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	2023.9.23–2024.9.20	Cumulative net profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion

(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 employees.

RMB'000

XII. SHARE-BASED PAYMENT (continued)

1. Share option incentive schemes (continued)

(3) 2020 Management Stock Ownership Scheme (continued)

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.

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 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. The share option expense recognised by the Group for 2022 amounted to RMB23,377,000 based on the best estimates of expected number of exercisable shares at the end of the period. In 2023, no share option expense was recognised as the vesting period had expired.

(4) Equity instruments granted are as follows:

Volume: in unit of 1,000

	Grant during the year		Exercised during the year		Unlocked during the year		Cancelled during the year	
	Volume	Amount	Volume	Amount	Volume	Amount	Volume	Amount
Sales employees	–	–	13,750	474,255	15,127	–	1,874	–
Management employees	–	–	8,180	282,119	8,997	–	1,112	–
R&D employees	–	–	25,209	869,468	27,732	–	3,435	–
Total	–	–	47,139	1,625,842	51,856	–	6,421	–

(5) Equity instruments issued and outstanding at the end of the year are as follows:

	Share option	
	Range of exercise price	Remaining term of contract
Sales, management and R&D employees	RMB34.47–34.92	9–10 months

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XII. SHARE-BASED PAYMENT (continued)

1. Share option incentive schemes (continued)

(6) Details of equity-settled share-based payments are as follows:

	2023
Method of determining fair value of equity instruments as at date of grant	Binomial tree model
Material parameters for fair value of equity instruments as at date of grant	Expected dividend, historical volatility rate, risk-free interest rate
Basis for determining the volume of exercisable equity instruments	Best estimate of expected exercisable volume at year-end
Reason for material difference between estimate for the year and estimate for the previous year	Nil
Cumulative amount of equity-settled share-based payment charged to capital reserve	1,120,060

(7) Share-based payment expenses incurred during the year are as follows:

	Expense on equity-settled share-based payment
Sales employees	48,288
Management employees	28,738
R&D employees	88,529
Total	165,555

XIII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

	2023	2022
Contracted but not provided of		
Capital expenditure commitments	2,322,794	2,290,979
Investment commitments	495,170	191,347
Including: investment commitment to joint ventures	438,670	80,500
	2,817,964	2,482,326

XIII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events

2.1. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB45,964,500). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand a compensation amount of BRL31,224,300 (equivalent to approximately RMB45,774,800) 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 to ZTE Brazil 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 concluded.

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 RMB122 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 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 RMB259 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 31 December 2023 where BRL amounts are translated at the exchange rate of BRL1: RMB1.4660.

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XIII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.2. 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 Xian 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.

On 13 December 2023, Xi'an Intermediary People's Court conducted the second hearing of the first trial.

On 23 January 2024, Xi'an Intermediary People's Court handed down the first trial judgement, ruling the payment of RMB8 million in delay default loss and RMB250,000 in legal fees by China Construction No. 8 Bureau to Xi'an Zhongxing Software; approximately RMB348 million in outstanding project work amounts plus interests and RMB5 million in work suspension and stalling loss incurred by China Construction No. 8 delay owing to delay in work schedules by Xi'an Zhongxing Software to China Construction No. 8 Bureau; senior rights to compensation for China Construction No. 8 in respect of project work amounts or auction proceeds relating to its construction work to the extent of the outstanding project work amounts; the rest of the petitions of the two parties were rejected. On 5 February 2024, Xi'an Zhongxing Software filed an appeal against the first trial judgement.

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.

XIII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.3. On 15 April 2018, the U.S. Department of Commerce's Bureau of Industry and Security ("BIS") signed an order activating a previously suspended 7-year denial order (commencing on 15 April 2018 and ending on 13 March 2025) (the "15 April 2018 Denial Order"). The 15 April 2018 Denial Order restricted and prohibited the Company and ZTE Kangxun (its wholly-owned subsidiary) ("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.

XIII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.3. (continued)

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.

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 led by Chief Export Compliance Officer and composed of 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 Services (GTS) System, self-developed the Export Compliance Screen System (ECSS), 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 special compliance coordinator to conduct various monitoring and compliance audits; and made continuous investment on the work on export control compliance.

XIII. COMMITMENTS AND CONTINGENT EVENTS (continued)

2. Contingent events (continued)

2.3. (continued)

In 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.

2.4. As at 31 December 2023, an amount of RMB10,049,921,000 (2022: RMB11,213,625,000) was outstanding under the bank guarantee letters issued by the Group.

XIV. POST-BALANCE SHEET DATE EVENTS

Profit distribution subsequent to the balance sheet date:

On 8 March 2024, in accordance with the profit distribution proposal recommended by the Board, a cash dividend of RMB6.83 (before tax) for every 10 shares or RMB0.683 (before tax) per share was paid to all shareholders based on the total share capital as at the record date for profit distribution and dividend payment. In the event of changes in the total share capital after the announcement of the profit distribution proposal but before its implementation, the total share capital shall be readjusted on the basis of the total share capital as at the record date for profit and dividend distribution for the purpose of the profit distribution proposal for 2023 according to the existing proportion for distribution. The aforesaid matter is subject to consideration and approval at the general meeting.

XV. 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.

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XV. OTHER SIGNIFICANT MATTERS (continued)

1. Segment reporting (continued)

(1) Operating segment (continued)

2023

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
2023				
Revenue from external transactions	82,758,906	27,908,529	13,469,615	124,137,050
Rental income	—	—	113,828	113,828
Sub-total	82,758,906	27,908,529	13,583,443	124,250,878
Segment results	32,978,187	3,627,234	3,487,651	40,093,072
Unallocated revenue				1,979,044
Unallocated cost				(32,533,045)
Finance costs				1,101,192
Gain from changes in fair values				(702,284)
Investment gain from associates and joint ventures				265,161
Total profit				10,203,140
Total assets				
2023				
Segment assets	50,040,841	16,202,542	8,213,338	74,456,721
Unallocated assets				126,501,597
Sub-total				200,958,318
Total liabilities				
2023				
Segment liabilities	11,217,558	2,806,140	1,841,168	15,864,866
Unallocated liabilities				116,762,007
Sub-total				132,626,873
Supplemental information				
2023				
Depreciation and amortisation expenses	3,280,932	1,106,419	538,508	4,925,859
Capital expenditure	3,303,424	1,114,004	542,200	4,959,628
Asset impairment losses	(571,726)	(192,801)	(93,839)	(858,366)
Credit impairment losses	(50,485)	(17,025)	(8,286)	(75,796)

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XV. OTHER SIGNIFICANT MATTERS (continued)

1. Segment reporting (continued)

(1) Operating segment (continued)

2022

	Carriers' network	Consumer business	Government and corporate business	Total
Segment revenue				
2022				
Revenue from external transactions	80,040,647	28,286,048	14,504,888	122,831,583
Rental income	—	—	122,835	122,835
Sub-total	80,040,647	28,286,048	14,627,723	122,954,418
Segment results	30,403,591	2,695,713	2,503,449	35,602,753
Unallocated revenue				2,088,776
Unallocated cost				(27,728,539)
Finance costs				(163,207)
Gain from changes in fair values				(1,141,849)
Investment gain from associates and joint ventures				93,722
Total profit				8,751,656
Total assets				
2022				
Segment assets	48,909,213	16,531,799	8,938,339	74,379,351
Unallocated assets				106,574,223
Sub-total				180,953,574
Total liabilities				
2022				
Segment liabilities	12,271,166	3,465,853	2,242,602	17,979,621
Unallocated liabilities				103,430,730
Sub-total				121,410,351
Supplemental information				
2022				
Depreciation and amortisation expenses	2,832,661	1,001,051	517,680	4,351,392
Capital expenditure	3,784,552	1,337,446	691,641	5,813,639
Asset impairment losses	(774,684)	(273,770)	(141,576)	(1,190,030)
Credit impairment losses	(240,409)	(84,960)	(43,935)	(369,304)

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XV. OTHER SIGNIFICANT MATTERS (continued)

1. Segment reporting (continued)

(2) Geographic Information

Total revenue

	2023	2022
The PRC	86,485,340	85,246,318
Asia (excluding the PRC)	14,131,004	14,915,193
Africa	6,221,506	5,512,707
Europe, America and Oceania	17,413,028	17,280,200
	124,250,878	122,954,418

Total non-current assets

	2023	2022
The PRC	24,098,843	23,654,703
Asia (excluding the PRC)	1,338,546	1,337,111
Africa	528,577	445,055
Europe, America and Oceania	424,328	377,511
	26,390,294	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 RMB34,725,344,000 was derived from Carriers' network and consumer business revenue from one major customer (2022: RMB37,132,449,000 from one major customer).

2. #Directors' and Supervisors' remuneration

Directors' and Supervisors' remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1)(a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

Directors' and Supervisors' remuneration set out as follows:	2023	2022
Director's fee	1,800	1,614
Salaries, allowances and welfare	7,673	7,609
Performance-related rewards (bonuses)*	31,691	35,050
Retirement benefit scheme contributions	261	269
	41,425	44,542

Note: Share option expense or share-based payment expense recognised for 2023 in respect of share options or units granted to Directors and Supervisors of the Company under the initial grant of the 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership scheme amounted to RMB732,000 (2022: RMB8,555,000).

* Certain Executive Directors of the Company are entitled to bonus payments which are determined based on their work performance.

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XV. OTHER SIGNIFICANT MATTERS (continued)

2. #Directors' and Supervisors' remuneration (continued)

During the year, no Director or Supervisor waived or agreed to waive any emolument. No emoluments were paid by the Group to the Directors or Supervisors as an inducement to join or upon joining the Group or as compensation for loss of office (2022: nil).

None of the Directors and Supervisors of the Company or entities which are connected to the Directors and Supervisors was or had been materially interested, either directly or indirectly, in any transactions, arrangements and contracts of significance to which the Group is a party subsisting during or at the end of 2023.

Executive directors, Non-executive Directors, Independent Non-executive Directors and Supervisors

	Director's fee	Salaries, allowances and welfare	Performance-related rewards (bonuses)	Retirement benefit scheme contributions	Total	Share option scheme cost
2023						
Executive directors:						
Li Zixue	–	1,839	6,842	41	8,722	Note 1, Note 2
Xu Ziyang *(President)*	–	1,734	9,500	46	11,280	Note 1, Note 2
Gu Junying	–	1,650	7,137	63	8,850	Note 1, Note 2
		5,223	23,479	150	28,852	
Non-executive directors:						
Li Buqing	200	–	–	–	200	Note 1
Zhu Weimin	200	–	–	–	200	Note 1
Fang Rong	200	–	–	–	200	Note 1
	600	–	–	–	600	
Independent Non-executive Directors:						
Cai Manli	400	–	–	–	400	
Gordon Ng	400	–	–	–	400	
Zhuang Jiansheng	400	–	–	–	400	
	1,200	–	–	–	1,200	
Supervisors:						
Xie Daxiong	–	1,234	5,138	19	6,391	Note 2
Xia Xiaoyue	–	632	1,714	46	2,392	
Li Miaonuo	–	584	1,360	46	1,990	
Jiang Mihua	–	–	–	–	–	
Hao Bo	–	–	–	–	–	
	–	2,450	8,212	111	10,773	
	1,800	7,673	31,691	261	41,425	

There were no other emoluments payable to the Independent Non-executive Directors during the year (2022: Nil).

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XV. OTHER SIGNIFICANT MATTERS (continued)

2. #Directors' and Supervisors' remuneration (continued)

Executive directors, Non-executive Directors, Independent Non-executive Directors and Supervisors (continued)

	Director's fee	Salaries, allowances and welfare	Performance-related rewards (bonuses)	Retirement benefit scheme contributions	Total	Share option scheme cost
2022						
Executive directors:						
Li Zixue	–	1,758	7,688	35	9,481	Note 1, Note 2
Xu Ziyang *(President)*	–	1,610	10,643	42	12,295	Note 1, Note 2
Gu Junying	–	1,560	8,002	57	9,619	Note 1, Note 2
	–	4,928	26,333	134	31,395	
Non-executive directors:						
Li Buqing	175	–	–	–	175	Note 1
Zhu Weimin	175	–	–	–	175	Note 1
Fang Rong	175	–	–	–	175	Note 1
	525	–	–	–	525	
Independent Non-executive Directors:						
Cai Manli	363	–	–	–	363	
Gordon Ng	363	–	–	–	363	
Zhuang Jiansheng	363	–	–	–	363	
	1,089	–	–	–	1,089	
Supervisors:						
Xie Daxiong	–	1,214	5,687	45	6,946	Note 2
Xia Xiaoyue	–	582	1,577	45	2,204	
Li Miaonuo*	–	548	1,453	45	2,046	
Jiang Mihua*	–	–	–	–	–	
Hao Bo*	–	–	–	–	–	
Li Quancai**	–	337	–	–	337	
Shang Xiaofeng**	–	–	–	–	–	
Zhang Sufang**	–	–	–	–	–	
	–	2,681	8,717	135	11,533	
	1,614	7,609	35,050	269	44,542	

* Appointed with effect from 30 March 2022

** Resigned with effect from 30 March 2022

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XV. OTHER SIGNIFICANT MATTERS (continued)

2. #Directors' and Supervisors' remuneration (continued)

Executive directors, Non-executive Directors, Independent Non-executive Director and Supervisors (continued)

Note 1: As at the end of the year, Executive Directors Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying respectively held 60,000 (2022: 120,000) share options under the initial grant of the 2020 Share Option Incentive Scheme. Non-executive Directors Mr. Li Buqing, Mr. Zhu Weimin and Ms. Fang Rong respectively held 17,000 (2022: 33,000) share options under the initial grant of the 2020 Share Option Incentive Scheme. The fair value of share options granted under the initial grant of the 2020 Share Option Incentive Scheme was RMB1,444,549,000. The Company recognised share option expense of RMB158,409,000 for 2023 (2022: RMB427,934,000), including share option expense for Executive Directors and Non-executive Directors of RMB732,000 (2022: RMB1,215,000).

Note 2: Executive Directors Mr. Li Zixue, Mr. Xu Ziyang and Mr. Gu Junying and Supervisor Mr. Xie Daxiong did not carry out any subscription in 2023. The Company recognised share option expense of RMB0 under the 2020 Management Stock Ownership Scheme for the period (2022: RMB23,377,000), including share option expense for Executive Directors and Supervisors of RMB0 (2022: RMB7,340,000).

For details of the aforesaid matters pertaining to the Company's 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership Scheme, please refer to Note XII.1.

The Company did not provide any loans to Directors, Supervisors and their related parties, nor did it provide any loans to employees participating in share option schemes and personnel acquiring shares in the Company.

3. #Five highest paid employees of the Group for the year

The five highest paid employees of the Group during the year included 1 Director (2022: 1 Director), details of his remuneration is set out in the above: Details of the rest of the four paid employees are set out in as follows:

	2023	2022
Salaries, allowances and welfare	5,645	5,279
Performance-related rewards (bonuses)	33,033	37,722
Retirement benefit scheme contributions	185	180
	38,863	43,181

Note: Share option expense or share-based payment expense recognised for 2023 under the initial grant of the 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership Scheme in relation to the aforesaid four paid employees amounted to RMB765,000 (2022: RMB6,156,000).

Number of the aforesaid four employees receiving remuneration (before personal income tax) within the following scope is as follows:

	2023	2022
RMB8,500,001-RMB9,000,000	1	—
RMB9,000,001-RMB9,500,000	1	—
RMB9,500,001-RMB10,000,000	1	1
RMB10,000,001-RMB10,500,000	—	1
RMB10,500,001-RMB11,000,000	1	—
RMB11,000,001- RMB11,500,000	—	1
RMB11,500,001- RMB12,000,000	—	1
	4	4

No emoluments were paid by the Group to any of the five highest paid employees of the Company as an inducement to join or upon joining the Group or as compensation for loss of office (2022: Nil).

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XV. OTHER SIGNIFICANT MATTERS (continued)

4. #Net current assets/(liabilities)

	2023 Group	2022 Group	2023 Company	2022 Company
Current assets	158,504,553	137,873,843	151,894,602	126,019,989
Less: current liabilities	83,030,414	78,423,500	92,399,683	80,839,210
Net current assets/ (liabilities)	75,474,139	59,450,343	59,494,919	45,180,779

5. #Total assets less current liabilities

	2023 Group	2022 Group	2023 Company	2022 Company
Total assets	200,958,318	180,953,574	193,091,487	167,251,328
Less: current liabilities	83,030,414	78,423,500	92,399,683	80,839,210
Total assets less current liabilities	117,927,904	102,530,074	100,691,804	86,412,118

XVI. MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Cash and Bank Balances

	2023	2022
Cash	1,106	787
Bank Deposit	39,799,977	35,698,020
Other cash	882,058	422,852
Funds placed with the Finance Company	21,292,050	11,222,976
	61,975,191	38,079,828
Including: total amount of offshore funds	430,443	185,194

As at 31 December 2023, the Company's funds placed overseas and subject to remittance restrictions amounted to RMB73,000 (31 December 2022: RMB30,000).

2. Trade receivables

(1) The aging analysis of trade receivables is set out as follows:

	2023	2022
Not overdue	16,278,135	12,196,160
Within 1 year	11,770,438	11,286,154
1–2 years	4,091,017	2,823,754
2–3 years	1,400,995	1,789,390
Over 3 years	8,559,056	7,877,687
	42,099,641	35,973,145
Less: bad debt provision for trade receivables	6,155,903	6,231,419
Total	35,943,738	29,741,726

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XVI. MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

2. Trade receivables (continued)

2023

	Book balance		Bad debt provision		Book value
	Amount	Percentage	Amount	Percentage	
Standalone impairment provision	1,690,977	4.02%	1,690,977	100.00%	–
Recognition of impairment provision by group with credit risk characteristics	40,408,664	95.98%	4,464,926	11.05%	35,943,738
Total	42,099,641	100.00%	6,155,903	14.62%	35,943,738

2022

	Book balance		Bad debt provision		Book value
	Amount	Percentage	Amount	Percentage	
Standalone impairment provision	1,716,579	4.77%	1,716,579	100.00%	–
Recognition of impairment provision by group with credit risk characteristics	34,256,566	95.23%	4,514,840	13.18%	29,741,726
Total	35,973,145	100.00%	6,231,419	17.32%	29,741,726

As at 31 December 2023, bad debt provisions for trade receivables on a group basis were as follows:

	Book balance	Impairment provision	Percentage of provision
Not overdue	16,278,135	53,670	0.33%
Within 1 year	11,677,467	223,219	1.91%
1–2 years	4,089,964	346,588	8.47%
2–3 years	1,348,980	301,859	22.38%
Over 3 years	7,014,118	3,539,590	50.46%
Total	40,408,664	4,464,926	11.05%

(2) Movements in bad-debt provisions for trade receivables:

	Opening balance	Provision/ (reversal) for the year	Write off for the year	Exchange rate movement	Closing balance
2023	6,231,419	22,223	(117,699)	19,960	6,155,903

As at 2023, RMB50,700,000 (2022: RMB183,920,000) 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 a write-off in the amount of RMB0 (2022: RMB301,693,000) in respect of bad-debt provision for trade receivables.

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XVI. MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

2. Trade receivables (continued)

Top 5 accounts of trade receivables and contract assets as at 31 December 2023 were as follows:

	Closing balance of trade receivables	Closing balance of contract assets	Closing balance of trade receivables and contract assets	As a percentage of total closing balance of trade receivables and contract assets	Closing balance of bad-debt provision for trade receivables and contract assets
Customer 1	3,763,180	607,186	4,370,366	9.49%	8,005
Customer 2	3,038,810	378,542	3,417,352	7.42%	3,321
Customer 3	1,931,343	546,440	2,477,783	5.38%	2,465
Customer 4	567,271	—	567,271	1.23%	129,007
Customer 5	448,603	88,899	537,502	1.17%	107,779
Total	9,749,207	1,621,067	11,370,274	24.69%	250,577

Transfer of trade receivables that did not qualify for derecognition was separately classified as "Factored trade receivables" and "Bank advances on factored trade receivables".

3. Other receivables

	2023	2022
Dividend receivable	2,823,753	2,786,303
Other receivables	28,829,300	29,502,744
Total	31,653,053	32,289,047

(1) The aging analysis of other receivables:

	2023	2022
Within 1 year	20,584,027	23,168,611
1–2 years	4,364,164	3,322,903
2–3 years	2,310,947	1,919,949
3–4 years	959,975	1,097,731
4–5 years	658,639	—
	28,877,752	29,509,194
Bad debt provision	(48,452)	(6,450)
Total	28,829,300	29,502,744

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XVI. MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

3. Other receivables (continued)

(2) The book balance of other receivables is analysed by nature as follows:

	2023	2022
Staff loans	**–**	24,378
Transactions with third parties	**28,877,752**	29,484,816
Total	**28,877,752**	29,509,194

2023

	Book balance		Bad debt provision		Book value
	Amount	Percentage	Amount	Percentage	
Recognition of impairment provision by group with credit risk characteristics	**28,877,752**	**100.00%**	**(48,452)**	**0.17%**	**28,829,300**

As at 31 December 2023, bad debt provisions for other receivables on a group basis were as follows:

	Book balance	Impairment provision	Percentage of provision
Aging risk portfolio	**28,877,752**	**(48,452)**	**0.17%**

Change in bad debt provisions for other receivables were as follows:

	Opening balance	Charge/ (reversed) for the year	Write-back for the year	Closing balance
Aging risk portfolio	**6,450**	**46,255**	**(4,253)**	**48,452**

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XVI. MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

4. Long-term trade receivables

	2023	2022
Loans granted to subsidiaries (Note 1)	2,963,702	3,038,980
Installment payments for the provision of telecommunication system construction projects	1,894,521	2,419,781
	4,858,223	5,458,761
Less: Bad debt provision for long-term receivables	25,099	35,930
Total	4,833,124	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 management are of the view that the advances effectively constituted net investments in overseas business operations.

Movements in bad debt provision for long-term receivables during the year are as follows:

	Opening balance	Provision/ (reversal) for the year	Closing balance
2023	35,930	(10,831)	25,099
2022	21,846	14,084	35,930

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".

5. Investment in associates, joints and subsidiaries

		2023	2022
Equity method			
Joint Ventures	(1)	728,001	463,711
Associates	(2)	1,050,567	937,766
Less: Provision for impairment in Investment in associates, joints and subsidiaries		–	–
Total		1,778,568	1,401,477
Cost method			
Subsidiaries	(3)	16,814,207	16,322,307
Less: Provision for impairment in Investment in associates, joints and subsidiaries	(4)	613,526	381,166
Total		16,200,681	15,941,141
Total		17,979,249	17,342,618

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XVI. MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Investment in associates, joints and subsidiaries (continued)

(1) *Joint Ventures*

		Movements during the year								
	Opening balance	Increase of investment	Decrease of investment	Investment gains/ losses under equity method	Other Comprehensive income	Other equity movements	Cash Dividend declared	Allowance for impairment provision	Closing book balance	Impairment provision at the end of the year
Puxing Mobile Telecom Equipment Co., Ltd.	10,752	–	–	–	–	–	–	–	10,752	–
DataService Technology Co., Ltd.	34,922	–	–	4,072	–	–	(2,940)	–	36,054	–
Zhuhai Red Earth Zhanlu Equity Investment Partnership (L.P.)	418,037	–	–	169,883	–	–	–	–	587,920	–
Beijing Shunyi Jianguang Zhanlu Emerging Industry Equity Investment Partnership (Limited Partnership)	–	93,530	–	(255)	–	–	–	–	93,275	–
Total	463,711	93,530	–	173,700	–	–	(2,940)	–	728,001	–

(2) *Associates*

		Movements during the year									
	Opening balance	Increase of investment	Decrease of investment	Investment gains/losses under equity method	Other Comprehensive income	Other equity movements	Cash Dividend declared	Allowance for impairment provision	Others	Closing book balance	Impairment provision at the end of the year
Whale Cloud Technology Co., Ltd.	747,035	–	–	74,689	1,165	(2,685)	–	–	–	820,204	–
Jetflow Technologies Co.,Ltd	8,743	–	–	(2,752)	–	–	–	–	–	5,991	–
Xingyun Times Technology Co., Ltd.	126,865	–	–	(5,424)	–	–	–	–	–	121,441	–
Qingdao Hongtu Zhanlu Phase II Private Equity Investment Fund Partnership (Limited Partnership)	10,000	50,000	–	436	–	–	–	–	–	60,436	–
Zhongxing (Wenzhou) Urban Rail Transportation Communication Technical Co. Ltd.	29,529	–	–	10,488	–	–	(5,279)	–	–	34,738	–
Other investments	15,594	–	(4,687)	(3,153)	3	–	–	–	–	7,757	–
Total	937,766	50,000	(4,687)	74,284	1,168	(2,685)	(5,279)	–	–	1,050,567	–

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XVI. MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Investment in associates, joints and subsidiaries (continued)

(3) Subsidiaries

	Investment cost	Opening balance	Increase/ decrease during the year	Closing balance	Percentage of shareholding	Percentage of voting rights	Cash dividend for the year
Shenzhen Zhongxing Software Company Limited	263,293	263,293	–	263,293	100%	100%	2,100,000
Shenzhen ZTE Kangxun Telecom Company Limited	580,000	580,000	–	580,000	100%	100%	–
Sanechips Technology Co., Ltd.	2,702,784	2,702,784	–	2,702,784	87%	87%	–
Shenzhen Zhongxing Telecom Technology & Service Company Limited	45,000	45,000	–	45,000	100%	100%	–
Xi'an Zhongxing New Software Company Limited	340,000	340,000	–	340,000	100%	100%	700,000
ZTE (H.K.) Limited	2,226,963	2,226,963	–	2,226,963	100%	100%	–
ZTE (Heyuan) Company Limited	500,000	500,000	–	500,000	100%	100%	–
ZTE Group Finance Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100%	100%	–
Zhongxing Photonics Technology Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100%	100%	–
ZTE (Nanjing) Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100%	100%	–
Nubia Technology Limited	1,124,402	1,124,402	–	1,124,402	78%	78%	–
Shenzhen Renxing Technology Co., Ltd.	720,000	720,000	–	720,000	100%	100%	–
ZTE Intelligent Technology (Nanjing) Co., Ltd.	1,000,000	1,000,000	–	1,000,000	100%	100%	–
Zonson Smart Auto Corporation	790,500	790,500	–	790,500	86%	86%	–
ZTE (Chengdu) Co., Ltd.	500,000	–	500,000	500,000	100%	100%	–
Suzhou Zhonghe Chunsheng No.3 Investment Centre (Limited Partnership)	–	–	–	–	–	*	105,000
ZXNE CORPORATION	232,360	232,360	–	232,360	100%	100%	–
Other investment	2,788,905	2,797,005	(8,100)	2,788,905	–	–	126,750
Total	16,814,207	16,322,307	491,900	16,814,207	–	–	3,031,750

* The subsidiary was a limited partnership enterprise in which the Company had a shareholding of less than 50%. However, the general partner exercising management and control of such limited partnership enterprise was a company controlled by the Company, hence the Company was in a position to control such company.

(4) Provision for Investment in associates, joints and subsidiaries

	Opening balance	Increase/ decrease during the year	Closing balance
Shenzhen Zhongxing Telecom Technology & Service Company Limited	9,656	–	9,656
ZXNE CORPORATION	–	232,360	232,360
Other investment	371,510	–	371,510
Total	381,166	232,360	613,526

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XVI. MAJOR ITEMS IN THE FINANCIAL STATEMENTS (continued)

5. Investment in associates, joints and subsidiaries (continued)

(5) In view of indication of impairment, an impairment test was conducted in respect of the long-term equity investments of ZXNE CORPORATION. The recoverable amount was determined on the basis of the present value of estimated future cash flow:

	Carrying value	Recoverable amount	Impairment amount	Determination of present value of estimated future cash flow
ZXNE CORPORATION	232,360	—	232,360	Management assessed future cash flow to be 0 as deregistration with industrial and commercial authorities was expected in future

6. Operating revenue and costs

	2023		2022	
	Revenue	Cost	Revenue	Cost
Principal operations	119,523,236	110,262,281	109,579,399	101,954,623
Other businesses	15,382,380	215,343	14,091,134	239,135
Total	134,905,616	110,477,624	123,670,533	102,193,758

7. Investment income

	2023	2022
Investment loss from investment in associates, joints and subsidiaries under equity method	247,984	57,562
Investment income from investment in associates, joints and subsidiaries under cost method	3,031,750	2,005,700
Investment gain earned during the period of holding financial assets at fair value through profit or loss for the period	23,053	20,696
Investment (loss)/income from disposal of investment in associates, joints and subsidiaries	(27,134)	(204,567)
Investment income from disposal of derivative investment	(603,215)	262,028
Investment loss from disposal of financial assets at fair value through profit or loss for the period	12,510	(12,239)
Loss on derecognition of financial assets at amortised cost and financial assets at fair value through other comprehensive income	(251,879)	(200,416)
Total	2,433,069	1,928,764

Supplementary Information

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1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

	2023
Gain from the disposal of non-current assets	20,597
Investment gain from disposal of investment in associates and joints	96,013
Gains from fair-value change in trading financial assets, derivative financial assets, other non-current financial assets, trading financial liabilities, derivative financial liabilities and other non-current liabilities held and investment gains from disposal of trading financial assets, derivative financial assets, other non-current financial assets, trading financial liabilities and derivative financial liabilities, excluding the effective-value protection hedge business relating to the ordinary business of the Company (Note 2)	(337,021)
Write-back of provision for individually tested receivable impairment	51,446
Gain from fair-value change of investment properties	(211,643)
Other gains other than income from software VAT rebate and income from refund of handling charge for withholding personal tax	343,860
Net of other non-operating income and expenditure other than the above	(55,239)
Other gains/losses falling under the definition of extraordinary gain/loss	2,353,649
	2,261,662
Effect of income tax	(339,249)
Effect of non-controlling interest (after tax)	3,815
	1,926,228

Note 1: The Group recognises extraordinary items in accordance with "Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items" (Revised 2023) (CSRC Announcement [2023] No. 65). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss) and items set out as extraordinary gain/(loss) but defined as recurring gain/(loss) items are as follows:

	2023	Reason
Refund of VAT on software products	1,431,243	In line with national policies and received on an ongoing basis
Handling charge for withholding personal tax	30,878	In line with national policies and received on an ongoing basis
Investment gain and gain/loss from fair-value change of ZTE Capital Company Limited ("ZTE Capital")	(29,184)	Within the scope of business of ZTE Capital

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. Gain/loss arising from effective hedge items for value protection in relation to the Company's ordinary business for the year amounted to RMB(307,382,000).

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

	Weighted average return on net assets	Earnings per share	
		Basic	Diluted
Net profit attributable to ordinary shareholders of the Company	15.19%	RMB1.96	RMB1.96
Net profit after extraordinary items attributable to ordinary shareholders of the Company	12.05%	RMB1.55	RMB1.55

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 copy of the auditors' report affixed with seal of the accountants' firm and duly signed under the hand and seal of the certified public accountants;
- Original copies of all of the Company's documents and announcements published in 2023; and
- Articles of Association.

By order of the Board
Li Zixue
Chairman

8 March 2024