

ZTE 中兴通讯股份有限公司
ZTE CORPORATION

stock code : 000063.SZ 763.HK

INTERIM REPORT
2021



Important

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

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

This report has been considered and approved at the Thirty-ninth Meeting of the Eighth Session of the Board of Directors of the Company. Mr. Xu Ziyang, Director, was unable to attend the Meeting due to work reasons and has authorised Mr. Gu Junying, Director, to vote on his behalf.

The interim financial reports of the Group for the six months ended 30 June 2021 were unaudited.

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.

No profit distribution or conversion of capital reserves will be implemented in respect of the interim period of 2021.

This report contains forward-looking statements in relation to subjects such as future plans, which do not constitute any specific undertakings to investors by the Company. Investors should beware of investment risks. The attention of investors is drawn to the potential risks inherent in the operations of the Company set out in the section headed “Report of the Board of Directors (IV) Business outlook for the second half of 2021 and risk exposures” in this report.

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

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

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Definitions

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

| | |
|--------------------------|--|
| Company or ZTE | ZTE Corporation, a limited company incorporated in China, the shares of which are listed on the Shenzhen Stock Exchange and the Hong Kong Stock Exchange, respectively |
| Articles of Association | The Articles of Association of ZTE Corporation (June 2021) |
| Company Law | Company Law of the People’s Republic of China |
| Securities Law | Securities Law of the People’s Republic of China |
| Group | ZTE and one or more of its subsidiaries |
| Board of Directors | The board of directors of the Company |
| Directors | Members of the board of directors of the Company |
| Supervisory Committee | The supervisory committee of the Company |
| Supervisors | Members of the supervisory committee of the Company |
| China or PRC | The People’s Republic of China |
| MOF | PRC Ministry of Finance |
| CSRC | China Securities Regulatory Commission |
| Shenzhen CSRC | The CSRC Shenzhen Bureau |
| Shenzhen Stock Exchange | The Shenzhen Stock Exchange |
| Shenzhen Listing Rules | Rules Governing the Listing of Stocks on the Shenzhen Stock Exchange |
| Hong Kong Stock Exchange | The Stock Exchange of Hong Kong Limited |
| Hong Kong Listing Rules | Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited |
| SFO | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| Companies Ordinance | Companies Ordinance (Chapter 622 of the laws of Hong Kong) |
| PRC ASBEs | PRC Accounting Standards for Business Enterprise (Generally accepted accounting principles in China) |
| HKFRSs | Hong Kong Financial Reporting Standards (including Hong Kong Accounting Standards (“HKASs”) and Interpretations) |
| ZTE HK | ZTE (H.K.) Limited |
| Zhongxing Software | Shenzhen Zhongxing Software Company Limited |
| China Eagle Electronic | Huizhou China Eagle Electronic Technology Inc. |

| | |
|------------------------------------|--|
| Huaheng Biotech | Anhui Huaheng Biotechnology Co., Ltd. |
| Anji Technology | Anji Microelectronics Technology (Shanghai) Co., Ltd. |
| NOVORAY | Jiangsu NOVORAY New Material Co., Ltd |
| Chipsea Technologies | Chipsea Technologies (Shenzhen) Corporation |
| Leadyo | Guangdong Leadyo IC Testing Co., Ltd. |
| Circuit Fabology | Circuit Fabology Microelectronics Equipment Co., Ltd. |
| Hajime | Shanghai Hajime Advanced Material Technology Co., Ltd |
| Enablence Technologies | Enablence Technologies Inc. |
| ZTE Capital | Shenzhen ZTE Capital Management Company Limited |
| Jiaxing Fund | Jiaxing Xinghe Equity Investment Partnership (Limited Partnership) |
| Zhonghe Chunsheng Fund III | Suzhou Zhonghe Chunsheng Partnership Investment Fund III (Limited Partnership) |
| Zhongxingxin | Zhongxingxin Telecom Company Limited |
| Zhongxing Hetai | Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited |
| Xi'an Microelectronics | Xi'an Microelectronics Technology Research Institute |
| Aerospace Guangyu | Shenzhen Aerospace Guangyu Industrial Company Limited |
| Zhongxing WXT | Shenzhen Zhongxing WXT Equipment Company Limited |
| Guoxing Ruike | Zhuhai Guoxing Ruike Capital Management Centre (Limited Partnership) |
| ZTE Microelectronics | ZTE Microelectronics Technology Company Limited |
| 2017 Share Option Incentive Scheme | the share option incentive scheme considered and approved at the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 of the Company |
| 2020 Share Option Incentive Scheme | the share option incentive scheme considered and approved at the Second Extraordinary General Meeting 2020 of the Company |

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 | Fifth-generation mobile communications, which is a general reference to the ensemble of post-4G broadband wireless communication technologies. The general view of the industry is that 5G is capable of providing faster data throughput (1,000 times faster than currently available) and more connections (100 times more than currently available), more efficient utilisation of energy (10 times of the current level of efficiency) and shorter end-to-end time delay (1/5 of the current length of time delay). It goes beyond human-to-human communication to cover a wide range of applications such as ultra-intensive networks, machine-to-machine communication and the internet of vehicles. |
| ICT | New products and services arising from the integration of IT (information technology) and CT (communications (i.e., the transmission of information) technology). |
| 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. |
| AI | Artificial Intelligence, the use of machine to aid or replace human in doing certain tasks by simulating the sight, hearing, senses and thinking of human. |
| PowerPilot | 5G green energy efficiency solution |
| Openlab | Open laboratories |
| 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. |
| AIVO | A (AI), I (Insight), V (Value), O (Operation) |
| WAN | Wide area network |
| Data centre or DC | An Internet-based infrastructure centre that operates and maintains equipment for centralised collection, storage, processing and dispatch of data, and provides related services. |
| SRv6 | SRv6 (Segment Routing IPv6), a protocol for forwarding IPv6 data packs on the network designed on the basis of the source router concept. SRv6 adopts the existing IPv6 forwarding technology and facilitates processing similar to label forwarding by expanding the header fields of the IPv6 text. SRv6 is capable of further simplifying the network protocol to allow more flexible service route planning. |
| CN2 | ChinaNet Next Carrying Network |
| SDN | Software Defined Network, a new type of innovative network architecture. |
| FlexE | Flex Ethernet, which facilitates flexible speed, greater bandwidth and passage separation. FlexE is one of the recognised key technologies for 5G bearer networks and the core of third-generation ethernet technologies. |

| | |
|-------------------|--|
| OXC | Optical cross-connect, which offers the advantages of greater scalability compared to ROADM, “0” fibre jump, a high level of systems integration, easy maintenance, occupation of less server room space and lower equipment cost. |
| CLOS architecture | An architecture for multi-level circuit exchange network representing an improvement to the Crossbar structure, through which unobstructed network could be provided. CLOS has the merits of cost savings and efficiency enhancement. |
| PON | Passive Optical Network, a network that provides optical access services to users through the use of passive optical network technology and facilitates conservation of optical fibre resources on the main line through the adoption of a point-to-multipoint topological structure. It also offers flow management and security control functions. |
| MEC | Mobile Edge Computing, through which services and cloud computing functions required by telecom users IT can be provided from a nearby point using wireless access networks to create a telecom service environment featuring high performance, low latency and high bandwidth, accelerating the fast download of contents, services and applications in the network to allow uninterrupted premium network experience on the part of consumers. |
| ONT | Optical Network Terminal |
| FOV | Field of Vision shows the included angles between the edge of the part observable by human eyes and the centre of the pupil in an image generated by a device, such as horizontal FOV, vertical FOV and diagonal FOV. The greater the FOV, the stronger the sense of immersion generated by a VR device. |
| CDN | Content Delivery Network, a network structure capable of redirecting on a real-time basis a user’s request to the closest service node available to such user based on network flow and information of various service nodes such as connection, load, distance from the user and response time. |
| Big Video | Ultra-high-definition videos such as 4K/8K/VR/AR, as opposed to standard-definition and high-definition videos, which feature richer contents and more exacting requirements for channels, signifying the big video era for the video business. In particular, 4K is a range of resolution, namely, a display quality approximating 4,096 pixels in horizontal resolution. |
| 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 computer technology and wearable device. |

Corporate Information

- | | | |
|----|--|--|
| 1. | Legal name (in Chinese) Chinese abbreviation Legal name (in English) English abbreviation | 中興通訊股份有限公司 中興通訊 ZTE Corporation ZTE |
| 2. | Legal representative | Li Zixue |
| 3. | Secretary to the Board of Directors/Company Secretary Securities affairs representatives Correspondence address Telephone Facsimile E-mail | Ding Jianzhong Qian Yu No. 55, Keji Road South, Shenzhen, Guangdong Province The People's Republic of China +86 755 26770282 +86 755 26770286 IR@zte.com.cn |
| 4. | Registered and office address Postal code Website E-mail Principal place of business in Hong Kong | ZTE Plaza, Keji Road South, Hi-Tech Industrial Park, Nanshan District Shenzhen, Guangdong Province The People's Republic of China 518057 http://www.zte.com.cn IR@zte.com.cn 31/F, Tower Two, Times Square, 1 Matheson Street, Causeway Bay Hong Kong |
| 5. | Authorised representatives | Gu Junying Ding Jianzhong |
| 6. | Media designated for information disclosure by the Company Authorised websites on which this report is made available Place where this report is available for inspection | China Securities Journal, Securities Times, Shanghai Securities News http://www.cninfo.com.cn http://www.hkexnews.hk No. 55, Keji Road South, Shenzhen, Guangdong Province The People's Republic of China |
| 7. | Listing information | A shares Shenzhen Stock Exchange Abbreviated name of stock: 中興通訊 Stock code: 000063 H shares Hong Kong Stock Exchange Abbreviated name of stock: ZTE Stock code: 763 |
| 8. | Change in other relevant information | <input type="checkbox"/> Applicable <input checked="" type="checkbox"/> N/A |

Highlights of Accounting Data and Financial Indicators

(I) STATEMENT ON THE ALIGNMENT IN PREPARATION OF FINANCIAL STATEMENTS IN ACCORDANCE WITH THE PRC ASBES

Pursuant to the “Resolutions on the Alignment in Preparation of Financial Statements in Accordance with the PRC ASBES and Cessation to Re-appoint Overseas Financial Report Auditor” considered and approved at the Thirty-third Meeting of the Eighth Session of the Board of Directors and 2020 Annual General Meeting of the Company, it was approved that the preparation of financial statements and disclosure of relevant financial information will be aligned in accordance with the PRC ASBES and Ernst & Young will cease to be re-appointed as the Company’s overseas financial report auditor, starting from the announcement of the half-yearly financial report and interim results of 2021. Accordingly, starting from the interim period of 2021, the Company will prepare its financial statements under the PRC ASBES only, and will cease to prepare the same under HKFRSs.

(II) STATEMENT ON RETROSPECTIVE ADJUSTMENTS TO OR RESTATED ACCOUNTING DATA OF THE PREVIOUS YEAR BY THE COMPANY BECAUSE OF CHANGES IN ACCOUNTING POLICIES OR FOR THE RECTIFICATION OF ACCOUNTING ERRORS

Applicables N/A

(III) MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS OF THE GROUP

Unit: RMB in thousands

| Item | End of the reporting period (30 June 2021) | End of last year (31 December 2020) | Changes as at the end of the reporting period compared with the end of last year |
|---|--|-------------------------------------|--|
| Total assets | 165,902,117 | 150,634,906 | 10.14% |
| Owners’ equity attributable to holders of ordinary shares of the listed company | 46,948,087 | 43,296,808 | 8.43% |
| Share capital (thousand shares) | 4,613,435 | 4,613,435 | — |
| Net assets per share attributable to holders of ordinary shares of the listed company (RMB/share) | 10.18 | 9.39 | 8.41% |
| Gearing ratio (%) | 69.76% | 69.38% | Increased by 0.38 percentage point |

Highlights of Accounting Data and Financial Indicators

Unit: RMB in thousands

| Item | Reporting period (Six months ended 30 June 2021) | Same period of last year (Six months ended 30 June 2020) | Changes compared with the same period of last year |
|---|---|--|--|
| Operating revenue | 53,070,970 | 47,199,373 | 12.44% |
| Operating profit | 5,545,716 | 2,840,600 | 95.23% |
| Total profit | 5,526,976 | 2,840,971 | 94.55% |
| Net profit attributable to holders of ordinary shares of the listed company | 4,078,613 | 1,857,289 | 119.60% |
| Net profit after extraordinary items attributable to holders of ordinary shares of the listed company | 2,112,429 | 902,115 | 134.16% |
| Basic earnings per share (RMB/share) ^{Note 1} | 0.88 | 0.40 | 120.00% |
| Diluted earnings per share (RMB/share) ^{Note 2} | 0.88 | 0.40 | 120.00% |
| Basic earnings per share after extraordinary items (RMB/share) ^{Note 1} | 0.46 | 0.20 | 130.00% |
| Weighted average return on net assets | 9.04% | 5.28% | Increased by 3.76 percentage points |
| Weighted average return on net assets after extraordinary items | 4.68% | 2.56% | Increased by 2.12 percentage points |
| Net cash flows from operating activities | 7,028,435 | 2,040,770 | 244.40% |
| Net cash flows from operating activities per share (RMB/share) | 1.52 | 0.44 | 245.45% |

Note 1: Basic earnings per share and basic earnings per share after extraordinary items for the reporting period and for the same period last year have been calculated on the basis of the weighted average number of ordinary shares in issue as at the end of the respective periods;

Note 2: As the 2017 share options granted by the Company have given rise to 17,177 thousand and 22,143 thousand potentially dilutive ordinary shares for the six months ended 30 June 2021 and the six months ended 30 June 2020, respectively, dilutive earnings per share has been calculated on the basis of basic earnings per share taking into account the said factor.

Extraordinary gains or losses items and amounts deducted are set out as follows:

Unit: RMB in thousands

| Extraordinary item | Amount |
|--|------------------|
| Non-operating income, other income and others | 1,421,331 |
| Gains/(Losses) from fair value change | 206,206 |
| Investment income | 798,432 |
| Gain on asset disposal | 47,494 |
| Less: Non-operating expenses | 161,914 |
| Less: Effect of income tax | 346,732 |
| Less: Extraordinary gains/(losses) attributable to non-controlling interests | (1,367) |
| Total | 1,966,184 |

(IV) DIFFERENCE IN ACCOUNTING DATA BETWEEN DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

Applicable N/A

Summary of the Company's Business

I. PRINCIPAL BUSINESSES

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

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

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

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

II. THE INDUSTRY IN WHICH WE OPERATE

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

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

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

III. TECHNOLOGICAL INNOVATION

As a world-leading listed manufacturer of integrated communication equipment and provider of global integrated communication and information solutions, the Group has adopted a core 5G development strategy with a special focus on ICT infrastructure facilities. Over the years, we have been driving digital transformation of the community with ongoing investment and innovation, in an effort to serve as the "path-builder for digital economy". The Group is equipped with the ability to provide a complete range of end-to-end 5G solutions and well-positioned to advance its large-scale global 5G deployment and commercial application on the back of its experience and leading technologies in chip, database, operating systems, wireless product, core network, bearer, fixed-line, video, energy, terminal and industrial applications. We deliver value to customers on an ongoing basis and work closely with industry partners to actively drive 5G service applications and practices to empower the intelligentised transformation and upgrade of all sectors across the board.

Summary of the Company's Business

The Group has been engaged in the R&D of chips for over 25 years. In line with the objective to stay atop of the industry with a special focus on proprietary key technologies for the end-to-end process of chip production, we have continued to increase investment in core IP, architectural design, advanced seal packaging and efficient development in digitalisation in ongoing improvement of our fundamental capability in the R&D of chips to fulfill the role of a core platform for innovation. The Group's full range of high-performance products based on our advanced proprietary chip have helped carriers to build evolution-ready 5G networks with maximum cost efficiency.

In connection with database, the Group has developed GoldenDB (distributed database) as one of its proprietary innovative strategic products targeting the ICT sector. The product has been in stable operation for more than three years as a core commercial application system at large commercial banks. With its current commercial application covering a full range of bank services at major state-owned banks, joint-stock banks, agricultural credit unions, city commercial banks and agricultural commercial banks, it has become a mature and stable domestically manufactured financial-grade distributed database leading in commercial application, and effort has been made to accelerate development of the carriers' market for this product. GoldenDB was one of the first products with leading performance among peers to have passed the accreditation test of the National Financial Technology Accreditation Centre in Beijing with high scores, while a new edition for the year, GoldenDB v6.0, was launched as a replacement version for core systems at major state-owned banks. Internal core R&D and management in respect of the GoldenDB distributed database, as an exemplary model of the Group's innovative R&D projects, has been enhanced. Applications for more than 200 core patents have been made, and the project has won the 2020 PMI (China) Project Management Award.

In connection with operating systems, the Group has achieved a range of results in core technologies such as internal core, virtualisation and R&D tools, on the back of close to 20 years of proprietary R&D effort. Systems developed by us are at the forefront of the world market in terms of real-time performance, reliability and security, and we have developed a complete range of solutions for all scenarios covering equipment types such as built-in device, server, desk-top system and terminal. The Group's operating system products are extensively used in the communication, automobile, electricity and railway transportation sectors, as more than 200 million sets have been delivered worldwide by far. We are committed to the provision of 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.

In connection with wireless products, the Group is committed to creating green and intelligent 5G networks of excellence with high performance catered to carrier customers and industry customers. We have improved users' senses, lowered network construction and increased the efficiency of frequency spectrum on the network side by employing innovative technologies such as the novel three-dimensional 5G coverage plan, enhanced distributed antenna system and FAST. The Group teamed up with China Unicom to publish the world's first wireless intelligent scheduling scheme and completed demonstration for commercial application in Dalian. The first 5G ATG ground-to-air inter-connection scheme in the industry launched by the Group won the "Ground-to-Air Communication Vanguard Award" presented at the Third China Civil Airline Aircraft Internet Connection Conference. PowerPilot, the Group's base station energy conservation scheme built upon AI technology, enabled 20% power saving over the entire network and won the "Mobile Technology Innovation and Breakthrough Award" at the GTI Forum. Deployed for commercial application at over 800,000 stations of more than 30 networks globally, the scheme is capable of reducing annual carbon emission by 450,000 tonnes. As at 30 June 2021, the Group had delivered more than 300,000 5G base stations in China and assisted large-scale 5G commercial application by the domestic big three carriers in more than 240 cities, building benchmark 5G networks in cities such as Beijing, Shanghai, Guangzhou and Shenzhen to deliver the experience of consecutive coverage above the Gb level.

For industry clients, we have empowered the industries with station-based computing-power engine and wireless compartmentalised slicing, affording small and medium enterprises more autonomy and flexibility for private 5G networks. Our 5G cloud core network enhancement plan is capable of fulfilling differentiated requirements of the industry through framework enhancement, capability enhancement, maintenance enhancement and three-dimensional safeguarding, empowering full-scenario 5G industry applications with precision. The distributed precision cloud base supports full-scenario deployment and offers consistent open capacity service planning for upper level applications, while fulfilling the requirement of centralised cloud management and edge operation to assist in carriers' creation of an industry-oriented shared ecosystem.

The continued roll-out of 5G network construction has resulted in the co-existence of 2/3/4/5G networks in the market and further complexity of the network. The Group launched the AIVO3.0 digitalisation solution that could support full-scenario intelligent operation and rapidly incubate industry applications. Currently, the digitalisation solution has been implemented in sectors such as marine operations, smart factory, government affairs and port operation.

In the IP segment, the Group continued to upgrade its product competitiveness through proprietary chips and software/hardware platforms. We provided WAN (city area + backbone)/DC end-to-end SRv6 programmable solution to assist carriers' creation of ultra-wide, minimal and intelligent IP networks. ZXR10 T8000, our flagship core router, has entered the core nodes of the CN2 backbone network of China Telecom, while our IP products have won a 70% share for the SDN sections in China Mobile's phase III network cloud. Through the built-in FlexE network processor and switch triplet chip, our 5G bearer supporting ultra-low latency has been runaway leaders among peers in terms of real-scenario test indicators, underpinned by outstanding performance in power consumption tests and an approximately 30% domestic market share.

In connection with optical transmission, the Group has forged a foundation for enhancing product competitiveness through software/hardware platforms based on proprietary chips by increasing pre-R&D investment in architecture, platform, chip and key technologies. The new optical network with intelligent features and wide bandwidth has provided an ultra-wide, flexible and intelligent high-speed information passage for the interconnection among clouds. Our unique Flex Shaping technology has facilitated a 30% improvement in 100G+ transmission distance, making 100G+ deployment substantially easier and upgrade substantially cheaper. Our smart OXC system has been named for the 2021 Lightwave Optical Transmission Core Sector Award. Our domestic market share for 200G+ optical transmission was well within the top two, as OXC has been put to commercial application in the provincial backbone transmission network of China Mobile and large-scale deployment in the provincial backbone and local networks of more than ten provinces, including Zhejiang, Guangdong, Jiangsu, Yunnan and others.

In fixed-line access, we introduced the first high-end router platform based on CLOS distributed architecture for OLT (Optical Line Terminal). TITAN, our flagship product in optical access, was given a Leader rating by GlobalData, as it claims the largest capacity and highest level of integration among peers, with a five-in-one multi-module PON card single chip supporting 16-port PON access and providing a level of integration twice as much as our peers do. Our optical access technology has twice won the National Class II Scientific and Technological Progress Award. As at 30 June 2021, the Group had dispatched more 24 million units of PON OLT ports globally, while accounting for more than 40% in each of the markets of the domestic big three carriers, including new market shares of over 40% for 10G PON products. Our unique built-in blade server enabling integration of edge computing and access equipment completed the verification process for OLT built-in MEC on-site network with China Unicom Shandong as the first of its kind in the industry to do so, while also receiving the Layer123 Global Assembly Innovation Award and BBWF Innovation Award. Leaping growth was reported for home information terminal, with over 500 million units dispatched as at 30 June 2021 while ranking first globally in terms of the volume of PON ONT dispatched. Our Wi-Fi6 products were put to large-scale application in Japan, Italy, Thailand and Spain. We completed trial operation and started commercial application of our HOL (Home Optical LAN) in more than 20 provinces in the country.

Summary of the Company's Business

In the video business, the Group has been strongly engaged in the development of an integrated video-enabled cloud platform that removes the barriers between different businesses and achieves functional upgrade of existing businesses and new business incubation through a micro-service framework featuring shared use of bottom-level resources, with an ongoing focus on breakthroughs in core technologies such as low bitrate HD, ultra-low latency, large-scale bearer, intelligent applications, FOV, 2D (two-dimensional) and 3D (three-dimensional), with a view to enhancing user experience and facilitating rapid business innovation. In our safe office solution, the Smart W100 signature computer and SVC & AVC integrated cloud meeting platform have helped industry users to rapidly realise digital transformation and enhance efficiency. As a new passage for safe office, the uSmart W100 signature computer has received the Red Dot Award 2021 of Germany. The video service has been focused on the financial sector, striving to provide customers with sophisticated and stable video cloud liaison centre leading in commercial applications to promote reform in financial technology. Thanks to the competitive edge of CDN products and its leading position in commercial application, more than 150 bureau outlets have been deployed globally with over 200 million users for the Big Video system in ongoing growth of market share.

In the communication energy sector, as a pioneer in 5G power supply solutions, 1UX2U rectifier and 5G power source with 1U high-density power distribution groups, the first of its kind in the industry, have increased the power density of the complete set by 25%. Committed to ongoing innovation in smart power supply for the communication industry and in active support of the nation's "double carbon" strategy, the Group was engaged with full effort in the construction of a "green, efficient, intelligent and reliable" "zero carbon" energy network and the technological research and product R&D on "intelligent solar power, intelligent conversion, intelligent lithium battery, intelligent power distribution and intelligent temperature control", with a view to supplying high-quality, low-carbon green energy solution to global clients and leading the digital and intelligent transformation of traditional network energy infrastructure to assist the evolution of global carrier networks to low-carbon and zero-carbon operation from power generation to power consumption. As at 30 June 2021, the Group's energy products and services were supplied to more than 160 countries and regions, and its full range of 5G power sources are providing power supply assurance to more than 300,000 5G stations around the world.

Data centre is one of the key products of the Group designed to assist the digitalisation-driven transformation of industries. As a pioneer in full-module data centre, the Group built on the central idea of prefabrication to break away from the fetters of the traditional data centre solution and creatively construct a future-oriented prefabrication data centre solution, which can shorten the delivery period by 40% and reduce initial investment by 30%, helping customers to fly high in digitalisation in terms of eco-friendliness, reliability, speed and intelligent features. As at 30 June 2021, the Group's data centre products had more than 300 project cases globally, with over 100,000 racks deployed in server rooms with an aggregate GFA of more than 1.10 million square metres.

In 5G industry application, the 5G precision cloud net pedestal + building-block business components + digital magical cube model for application developed by the Group on the back of its practical implementation is capable of rapid replication to empower third parties, thereby helping industries to transform and upgrade. In the first half of 2021, the Group became one of the first companies to pass the "Trusted Digitalisation Service Assessment" of CAICT and received the certificate of "Competence in Digital Infrastructure Integrated Cloud Platform Service", as we published the "Sophistication model for competence and operational effect in corporate IT digitalisation", "Requirements for trusted digitalisation service competence" and "Digital transformation solution" to provide specific standards and solutions for digital transformation of industries. We also teamed up with 500+ partners to engage in extensive 5G+ innovative practices in 15 sectors, such as electronic manufacturing, steel, metallurgy, mining, electric power, rail transportation, port, new media and cultural tourism, establishing more than 60 exemplary projects across the globe.

In connection with industrial operation, the Group succeeded in “manufacturing 5G by employing 5G”, as it built an exemplary base for 5G intelligent manufacturing in Binjiang, Nanjing and passed solutions for 5G+ visual quality inspection of machinery, 5G+ intelligent warehousing and logistics and 5G+ data collection and analysis, helping clients such as SANY, Yunnan Shenhua, Moutai Group and Angang Steel to add value with an all-encompassing approach involving endpoints, networks, clouds, and operations. In the energy sector, the Group has launched the 5G smart mining network solution and created a dedicated mining network ecosystem with industry leaders such as China Coal Technology Engineering, while assisting Shaanxi Coal and Shanxi Coal to develop exemplary projects. Our 5G private power network solution has been extensively employed by State Grid and Southern Power Grid, while an integrated model zone for 5G intelligent power grid, the largest of its kind in China, has been built in Guangzhou in association with Southern Power Grid and China Mobile. In the transportation sector, the Group has served as the enabler of intelligent transport pivoting on its connection and hash-rate capabilities, facilitating the sector debut of the city rail 5G wireless communication solution at Guangzhou Metro and Fuzhou Metro. Elsewhere, the world’s first smart port has been built in association with China Unicom and Tianjin Port with the successful commencement of 5G remote bridge control and 5G smart cargo handling service. In new media and cultural tourism, the 5G cloud XR commercial complex solution has been developed in cooperation with China Telecom for application at more than 100 commercial complexes nationwide. The “packaged 5G+ video solution for the 2nd National Youth Games” implemented jointly with Shanxi Cable and Broadcasting and China Mobile Shanxi has received a class I award at the first Hi-tech Video Innovation and Application Contest 2021. In cyber security, the “Project for testing, inspection and defense against advanced, continuous threats and attacks” developed under the leadership of the Group has received the United Nations WSIS Champion Award, making us the only Chinese company in the information security sector to have received this honour. We have also witnessed the debut of the “Cloud-based quantum security service middleware”, as well as completed the interconnection of experimental bureaus in Beijing and Shanghai in cooperation with CAS Quantum Communication Network Corporation.

The Group is positioned within the first quadrant in terms of global patents and a major contributor and participant in the technology research and standard formulation for global 5G. As at 30 June 2021, the Group had approximately 80,000 patents under application globally, and approximately 40,000 patents had been licensed globally. Among them, there were close to 4,400 chips were under patent application and approximately 1,950 chip patents had been licensed. We had filed patent applications for close to 4,400 chips and granted patents for over 1,950 of them. According to the report published by international patent data company IPlytics in February 2021, ZTE ranked third globally in terms of the number of declared 5G SEP (standard essential patents) disclosed to ETSI. In the first half of 2021, one patent of the Group won the 22nd China Patent Gold Award as the only gold awardee in the communication industry. The Group has by far garnered 9 gold awards, 2 silver awards and 36 excellence awards in the China Patent Awards and 22 awards in the Guangdong Provincial Patent Awards.

The Group is a member of more than 70 international organisations and forums for standardisation, 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), and CCSA (The China Communications Standards Association), a board member in numerous organisations such as GSA (Global Suppliers’ Alliance) and ETSI, while more than 60 specialists served in key roles such as chairmen and reporters of leading international standardisation organisation, having submitted more than 100,000 propositions and research papers for international or domestic standardisation by far.

Report of the Board of Directors

FINANCIAL RESULTS

Please refer to page 83–84 of this report for the results of the Group for the six months ended 30 June 2021.

(I) REVIEW OF BUSINESS FOR THE FIRST HALF OF 2021

1. Overview of the domestic telecommunications industry for the first half of 2021

The domestic telecommunication industry sustained stable development during the first half of 2021. According to the data published by the Ministry of Industry and Information Technology of the PRC (“MIIT”), the domestic telecommunications sector reported revenue of RMB753.3 billion for the first six months of 2021, representing year-on-year growth of 8.7%. Rapid growth was also sustained in domestic mobile Internet access traffic flow with an average mobile Internet access traffic volume (DOU) of 13.5 GB per user per month for June 2021, representing year-on-year growth of 33.4%.

Large-scale commercial application of 5G independent networks in China has been realised. As at 30 June 2021, a total of 961,000 5G base stations had come into operation, covering all cities in the nation at the prefecture level or above. Approximately 365 million users were connected to 5G terminals, while there were 14.23 million users of fixed-line Internet broadband access with a speed of 1 GB or above. 5G was firstly applied in a number of sectors, such as industry, transportation, energy, medical care, education and media. The application scenarios for “5G+ Industrial Internet” continued to expand with the completion of close to 1,600 “5G+ Industrial Internet” projects in China, playing an important role in the digital, Internet-based and intelligent transformation and upgrade of the physical economy.

Source: MIIT

2. Overview of the global telecommunications industry for the first half of 2021

Global telecommunication investment was generally stable, with ongoing growth in the number of carriers investing in 5G networks. According to the statistics of Global mobile Suppliers Association (GSA), 169 carriers in 70 countries or regions across the globe had launched 5G commercial services as at mid-March 2021, increasing by 11 countries and 29 carriers as compared to December 2020.

During the first half of 2021, global smart phone sales sustained rapid growth. According to the data published by consulting company Omdia, approximately 650 million smart phones were dispatched during the first half of 2021, a 17.4% growth, year-on-year. Global smartphone penetration rate was further increased, while mobile applications (including video, social media, online shopping, mobile payment and online education) became vastly popular. Digital transformation became increasingly important for corporations, which sought to improve corporate operating efficiency through business process and management optimisation and enhance user experience by bolstering innovative ability with the aid of information technology.

3. Operating results of the Group for the first half of 2021

For the first half of 2021, the Group reported operating revenue of RMB53.071 billion, representing a year-on-year increase of 12.44%, as it persisted in the focus on its principal businesses and pursued vigorous business expansion based on technological innovation with an emphasis on operational quality, amidst challenges as well as opportunities in both the internal and external environments. Year-on-year growth in operating revenue was reported for both the domestic market and the international market, as well as for government and corporate business and consumer business, while carriers’ network was largely unchanged as compared to the same period last year. Net profit attributable to holders of ordinary shares of the listed company for the first half of 2021 amounted to RMB4.079 billion, increasing by 119.60%, year-on-year. Basic earnings per share amounted to RMB0.88.

(1) By market*The domestic market*

For the reporting period, the Group's operating revenue from the domestic market amounted to RMB35.955 billion, accounting for 67.75% of the Group's overall operating revenue. During the first half of 2021, the Group achieved growth in both market pattern and market share, as it seized opportunities for development in 5G and new infrastructure to empower digital transformation in various industries.

The international market

For the reporting period, the Group's operating revenue from the international market amounted to RMB17.116 billion, accounting for 32.25% of the Group's overall operating revenue. During the first half of 2021, uncertainties prevailed in the epidemic situation in overseas countries, posing considerable pressure and challenge for overseas telecommunication network investment, 5G progress and network construction in the short term. However, the pandemic has also driven the demand for communication, as individuals and corporations have spent more time on online socialising, online shopping and remote office. The Group reported overall stability in its international operations, overcoming difficulties and addressing uncertainties as it mitigated the impact of overseas epidemic through the employment of ICT technologies, staff localisation and efficient industry chain coordination.

(2) By business segment

For the reporting period, the Group's operating revenue for carriers' network, government and corporate business and consumer business amounted to RMB35.052 billion, RMB5.667 billion and RMB12.352 billion, respectively.

Carriers' network

The Group has been focusing on customer value with ongoing effort in innovative breakthrough. In connection with wireless products, the Group was actively involved in global 5G construction and 4G modernisation conversion through a range of innovative products and solutions, helping carriers to build wireless networks with superior performance and efficiency. In connection with wireline products, our technological edge was becoming apparent with further optimisation in our domestic and international market pattern, as our full range of end-to-end 5G bearer products were deployed in large-scale, while we continued to maintain a leading position the optical network carriers' market. Our end-to-end FTTP solution continued to receive the highest "Leader" rating by GlobalData, while we won the bids for the supply of core routers to China Telecom's CN2 backbone network and China Mobile's centralised procurement for high-end routers. In connection with video products, the total number of video system users exceeded 200 million, as we continued to gain in market share. The Group actively implemented the "double carbon" strategy to help carriers in the building of end-to-end low-carbon green networks and consistently empowered energy conservation and emission reduction for vertical sectors.

Government and corporate business

During the first half of 2021, the Group's government and corporate business was focused on the energy, transport, government affair, finance, Internet and major corporation sectors. Notable overall business growth was reported, as we actively deployed our business in new infrastructure, 5G industry application and corporate digital transformation and upgrade on the back of the "precision cloud network" and "empowering platform". Our core products and solutions, such as transmission, wireless, data centre, server and storage, corporate network, office security and distributed database were given extensive applications in the government and corporate market, thereby forming a sound cloud network ecosystem.

Report of the Board of Directors

Consumer business

During the first half of 2021, the Group conducted a series of renovation of the brands, products and channels under its consumer business. The ZTE handset continued to take on a tech-savvy, high-quality and youthful brand image with the launch of the ZTE Axon 30 5G Series, its flagship product for the year. The series features ZTE Axon 30 Ultra 5G, which is equipped with a Trinity image system supported by three main cameras and four arrays. Our 5G mobile Internet products have established their presence in more than 30 countries and regions, while our home information terminal and integrated innovative terminal retained their global leading position in the industry.

(II) MANAGEMENT DISCUSSION AND ANALYSIS OF OPERATIONS

The financial data below are extracted from the Group's unaudited financial statements. The following discussion and analysis should be read in conjunction with the Group's financial statements and the accompanying notes thereto.

1. Breakdown of indicators by industry, business segment and region and comparison with the same period last year

Unit: RMB in thousands

| Revenue mix | Operating revenue | As a percentage of operating revenue | Operating costs | Gross profit margin | Year-on-year increase/decrease in operating revenue | Year-on-year increase/decrease in operating costs | Year-on-year increase/decrease in gross profit margin (percentage points) |
|--|-------------------|--------------------------------------|-------------------|---------------------|---|---|---|
| I. By industry | | | | | | | |
| Manufacturing of communication equipment | 53,070,970 | 100% | 33,892,782 | 36.14% | 12.44% | 7.88% | 2.71 |
| Total | 53,070,970 | 100% | 33,892,782 | 36.14% | 12.44% | 7.88% | 2.71 |
| II. By business | | | | | | | |
| Carriers' network | 35,051,703 | 66.05% | 20,038,165 | 42.83% | 0.23% | (9.98%) | 6.49 |
| Government and corporate business | 5,666,935 | 10.68% | 4,074,653 | 28.10% | 17.65% | 17.93% | (0.17) |
| Consumer business | 12,352,332 | 23.27% | 9,779,964 | 20.82% | 66.63% | 71.51% | (2.26) |
| Total | 53,070,970 | 100% | 33,892,782 | 36.14% | 12.44% | 7.88% | 2.71 |
| III. By region | | | | | | | |
| The PRC | 35,954,824 | 67.75% | 22,653,606 | 36.99% | 13.24% | 3.39% | 6.00 |
| Asia (excluding the PRC) | 7,140,276 | 13.45% | 4,473,451 | 37.35% | 3.14% | 16.01% | (6.95) |
| Africa | 2,351,270 | 4.43% | 1,160,071 | 50.66% | (6.80%) | 1.10% | (3.86) |
| Europe, Americas and Oceania | 7,624,600 | 14.37% | 5,605,654 | 26.48% | 27.03% | 24.46% | 1.52 |
| Total | 53,070,970 | 100% | 33,892,782 | 36.14% | 12.44% | 7.88% | 2.71 |

(1) Analysis of change in revenue

The Group reported RMB53,070,970 thousand in operating revenue for the first half of 2021, increasing by 12.44% as compared with the same period last year. Operating revenue generated from the domestic business amounted to RMB35,954,824 thousand, increasing by 13.24% as compared with the same period last year. Operating revenue generated from the international business amounted to RMB17,116,146 thousand, increasing by 10.80% as compared with the same period last year.

Analysed by business segment, the Group reported a year-on-year increase in operating revenue for the first half of 2021, reflecting mainly the growth in revenue from government and corporate business and consumer business over the same period last year. Operating revenue from carriers' network was largely unchanged compared to the same period last year. The government and corporate business reported a 17.65% year-on-year increase in operating revenue compared to the same period last year, reflecting mainly the growth in revenue of domestic subsidiaries and the domestic server business over the same period last year. The consumer business reported a 66.63% year-on-year increase in operating revenue compared to the same period last year, reflecting mainly the growth in revenue from home terminals and handset products over the same period last year.

(2) Analysis of operating cost and gross profit

Operating cost of the Group for the first half of 2021 increased by 7.88%, year-on-year, to RMB33,892,782 thousand, reflecting mainly the year-on-year growth in cost for government and corporate business and consumer business.

The Group's overall gross profit margin increased by 2.71 percentage points, year-on-year, to 36.14% for the first half of 2021, which was attributable mainly to the growth in gross profit margin for carriers' network. The gross profit margin for carriers' network increased by 6.49 percentage points to 42.83%, compared to 36.34% for the same period last year, reflecting mainly the increase in the gross profit margin of 5G products. The gross profit margin for government and corporate business was 28.10%, largely unchanged compared to 28.27% for the same period last year. The gross profit margin for consumer business was 20.82%, decreasing by 2.26 percentage points compared to 23.08% for the same period last year, reflecting mainly the decline in the gross profit margin of home terminal products and handset products in the international market.

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

Unit: RMB in thousands

| Six months ended 30 June 2021 | | | Six months ended 30 June 2020 ^{Note} | | | Year-on-year increase/ decrease in gross profit margin (percentage points) | | |
|----------------------------------|--------------------|---------------------------|--|--------------------|---------------------------|--|--|------|
| Operating revenue | Operating costs | Gross profit margin | Operating revenue | Operating costs | Gross profit margin | Year-on-year increase/ decrease in operating revenue | Year-on-year increase/ decrease in operating costs | |
| 53,070,970 | 33,892,782 | 36.14% | 47,121,021 | 31,359,866 | 33.45% | 12.63% | 8.08% | 2.69 |

Note: Figures of operating revenue and operating costs for the six months ended 30 June 2020 are stated after exclusion of operating revenue and operating costs of subsidiaries deconsolidated for the six months ended 30 June 2021.

Xi'an Zhongxing Jingcheng Technology Company Limited, ZTE Switzerland AG and Xiamen Zhenkun New Energy Auto Company Limited completed industrial and commercial deregistration in February 2021, March 2021 and June 2021, respectively, and have been excluded from the consolidated financial statements of the Group as from the dates of completion of industrial and commercial deregistration.

The Company completed the disposal of 90% equity interests in its subsidiary, Caltta Technologies Co., Ltd. ("Caltta") and Netas Bilisim Teknolojileri Anonim Sirketi, a subsidiary of the Company, completed the disposal of 100% equity interests in NetRD Bilgi Teknolojiler iver Telekomunikasyon A.S. in March 2021. Caltta and its subsidiaries and NetRD Bilgi Teknolojiler iver Telekomunikasyon A.S. have been excluded from the consolidated financial statements of the Group as from March 2021.

Report of the Board of Directors

2. Research and development expenditure of the Group

Unit: RMB in thousands

| Item | Six months ended 30 June 2021 | Six months ended 30 June 2020 | Year-on-year increase/ decrease |
|--|----------------------------------|----------------------------------|---|
| Amount of R&D expenditure | 8,861,406 | 6,637,376 | 33.51% |
| R&D expenditure as a percentage of operating revenue | 16.70% | 14.06% | Increased by 2.64 percentage points |
| Amount of capitalised R&D expenditure | 1,059,622 | 1,112,693 | (4.77%) |
| Capitalised R&D expenditure as a percentage of R&D expenditure | 11.96% | 16.76% | Decreased by 4.80 percentage points |

The year-on-year growth in the Group's research and development costs for the first half of 2021 was attributable mainly to the Group's continuous investment in core technologies such as 5G wireless, core network, bearer, access and chips. Research and development expenditure as a percentage of operating revenue increased by 2.64 percentage points to 16.70% as compared to 14.06% for the same period last year.

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

Unit: RMB in thousands

| Item | Six months ended 30 June 2021 | Six months ended 30 June 2020 | Year-on-year increase/ decrease |
|-----------------------------------|----------------------------------|----------------------------------|---------------------------------------|
| Selling and distribution expenses | 4,169,804 | 3,940,595 | 5.82% |
| Administrative expenses | 2,543,538 | 2,265,126 | 12.29% |
| Finance expenses | 480,702 | 632,833 | (24.04%) |
| Income tax | 976,350 | 517,590 | 88.63% |

The year-on-year growth in the Group's selling and distribution expenses for the first half of 2021 was attributable mainly to the increase in the Group's advertising and promotion expenses for the period. Selling and distribution expenses as a percentage of operating revenue decreased by 0.49 percentage point to 7.86%, compared to 8.35% for the same period last year.

The year-on-year growth in administrative expenses of the Group for the first half of 2021 reflected the combined effect of lower expenses for the same period last year under the impact of the epidemic and the increase in share option incentive cost for the current period. Administrative expenses as a percentage of operating revenue was 4.79%, generally unchanged as compared to 4.80% for the same period last year.

The year-on-year decrease in finance costs of the Group for the first half of 2021 was attributable mainly to the decrease in the Group's net interest expense for the period.

The year-on-year growth in the Group's income tax expense for the first half of 2021 was attributable mainly to the increase in the Group's profit for the period.

4. Other items of the Company's profit components

Unit: RMB in thousands

| Item | Six months ended 30 June 2021 | Six months ended 30 June 2020 | Year-on-year increase/ decrease |
|---|----------------------------------|----------------------------------|---------------------------------------|
| Other gains | 1,267,706 | 860,171 | 47.38% |
| Investment income | 703,109 | 30,257 | 2,223.79% |
| Gains/losses from changes in fair value | 874,661 | 377,724 | 131.56% |
| Credit impairment losses (loss indicated as a negative value) | (125,249) | (274,761) | (54.42%) |
| Asset impairment losses (loss indicated as a negative value) | 40,928 | (146,085) | (128.02%) |

The year-on-year growth in other gains for the first half of 2021 was attributable mainly to the increase in the Group's software VAT refund for the period.

The year-on-year growth in investment income for the first half of 2021 was attributable mainly to the Group's transfer of equity interest in Caltta during the period.

The year-on-year growth in gains/losses from changes in fair value for the first half of 2021 was attributable mainly to gain on fair-value remeasurement at the end of period of the Group's derivative investment for the period versus loss for the same period last year.

The year-on-year decrease in credit impairment losses for the first half of 2021 was attributable mainly to the decrease in impairment for the Group's trade receivables for the period.

The year-on-year decrease in asset impairment losses for the first half of 2021 was attributable mainly to the reversal of impairment provision for the Group's dispatch of goods for the period.

5. Breakdown of the Group's cash flow

Unit: RMB in thousands

| Item | Six months ended 30 June 2021 | Six months ended 30 June 2020 | Year-on-year increase/ decrease |
|--|----------------------------------|----------------------------------|---------------------------------------|
| Sub-total of cash inflows from operating activities | 63,326,655 | 56,586,446 | 11.91% |
| Sub-total of cash outflows from operating activities | 56,298,220 | 54,545,676 | 3.21% |
| Net cash flows from operating activities | 7,028,435 | 2,040,770 | 244.40% |
| Sub-total of cash inflows from investing activities | 5,077,686 | 1,810,774 | 180.42% |
| Sub-total of cash outflows from investing activities | 11,759,123 | 9,458,696 | 24.32% |
| Net cash flows from investing activities | (6,681,437) | (7,647,922) | 12.64% |
| Sub-total of cash inflows from financing activities | 20,796,602 | 47,536,790 | (56.25%) |
| Sub-total of cash outflows from financing activities | 12,007,418 | 33,606,453 | (64.27%) |
| Net cash flows from financing activities | 8,789,184 | 13,930,337 | (36.91%) |
| Net increase in cash and cash equivalents | 8,981,054 | 8,469,212 | 6.04% |
| Closing balance of cash and cash equivalents | 40,384,110 | 36,975,012 | 9.22% |

Report of the Board of Directors

For the reasons underlying the difference between the net cash flow and net profit generated by the Group's operating activities during the reporting period, please refer to the section headed "Supplemental information on cash flow statement" under Note V.57 to the financial statements.

The year-on-year growth in Group's net cash inflow from operating activities for the first half of 2021 was attributable mainly to the increase in the Group's cash received for the sales of goods and provision of labour service for the period.

The year-on-year decrease in Group's net cash outflow from investing activities for the first half of 2021 was attributable mainly to the disposal of subsidiaries and decrease in net investment expenses for the period.

The year-on-year decrease in Group's net cash inflow from financing activities for the first half of 2021 was attributable mainly to the Group's non-public issuance of A shares for the same period last year.

Cash and cash equivalents of the Group as of 30 June 2021 amounted to RMB40,384,110 thousand held mainly in RMB, with the remaining held in USD, EUR, JPY and other currencies.

6. Analysis of the Group's assets and liabilities

(1) Change in assets and liabilities

Unit: RMB in thousands

| Item | As at 30 June 2021 | | As at 31 December 2020 | | Year-on-year increase/decrease in percentage of total assets (percentage points) |
|-------------------------------------|--------------------|---------------------------------|------------------------|---------------------------------|--|
| | Amount | As a percentage of total assets | Amount | As a percentage of total assets | |
| Total assets | 165,902,117 | 100% | 150,634,906 | 100% | — |
| Cash | 50,050,246 | 30.17% | 35,659,832 | 23.67% | 6.50 |
| Trade receivables | 14,566,155 | 8.78% | 15,891,020 | 10.55% | (1.77) |
| Contract assets | 7,338,889 | 4.42% | 8,926,411 | 5.93% | (1.51) |
| Inventories | 34,618,885 | 20.87% | 33,689,306 | 22.36% | (1.49) |
| Investment properties | 2,036,112 | 1.23% | 2,035,234 | 1.35% | (0.12) |
| Long-term equity investments | 1,757,495 | 1.06% | 1,713,803 | 1.14% | (0.08) |
| Fixed assets | 11,613,744 | 7.00% | 11,913,942 | 7.91% | (0.91) |
| Construction in progress | 1,169,589 | 0.70% | 1,039,900 | 0.69% | 0.01 |
| Right-of-use assets | 887,511 | 0.53% | 1,047,210 | 0.70% | (0.17) |
| Short-term loans | 12,925,345 | 7.79% | 10,559,160 | 7.01% | 0.78 |
| Contract liabilities | 18,051,874 | 10.88% | 14,998,172 | 9.96% | 0.92 |
| Long-term loans due within one year | 5,656,000 | 3.41% | 2,104,677 | 1.40% | 2.01 |
| Long-term loans | 24,243,486 | 14.61% | 22,614,304 | 15.01% | (0.40) |
| Lease liabilities | 637,791 | 0.38% | 718,186 | 0.48% | (0.10) |

(2) Major overseas assets

Applicable N/A

(3) Assets and liabilities measured at fair value

Unit: RMB in thousands

| Item | Opening balance | Gains/ losses arising from fair value change for the period | Cumulative fair value change dealt with in equity | Impairment charge for the period | Amount purchased for the period | Amount disposed of for the period | Closing balance |
|---|------------------|---|---|----------------------------------|---------------------------------|-----------------------------------|-------------------|
| Financial assets | | | | | | | |
| Including: 1. Financial assets at fair value through profit or loss (excluding derivative financial assets) | 1,036,906 | 586,708 | — | — | 194,000 | 814,703 | 1,246,342 |
| 2. Derivative financial assets | 36,118 | 143,840 | (4) | — | — | — | 179,954 |
| 3. Other debt investment | 1,970,624 | — | — | 3,025 | 8,644,545 | 3,860,727 | 6,751,417 |
| 4. Investment in other equity instruments | 1,536,741 | 21,090 | — | — | — | 25,136 | 1,372,893 |
| Sub-total of financial assets | 4,580,389 | 751,638 | (4) | 3,025 | 8,838,545 | 4,700,566 | 9,550,606 |
| Investment properties | 2,035,234 | 878 | — | — | — | — | 2,036,112 |
| Productive living assets | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — |
| Total | 6,615,623 | 752,516 | (4) | 3,025 | 8,838,545 | 4,700,566 | 11,586,718 |
| Financial liabilities ^{Note} | (153,961) | 122,145 | (37) | — | — | — | (31,853) |

Note: Financial liabilities included trading financial liabilities.

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

There was no significant change to the measurement attributes of the principal assets of the Group during the reporting period.

(4) For details of assets of the Company subject to restrictions in ownership or use as at the end of the reporting period, please refer to Note V.58 "Assets subject to restrictions in ownership or use" to the financial statements.

7. Analysis of investments**(1) Overview**

The Company's long-term equity investments at the end of the reporting period amounted to approximately RMB1,757,495 thousand, representing a 23.34% decrease compared to approximately RMB2,292,452 thousand as at 30 June 2020. Other third-party investments amounted to approximately RMB2,619,235 thousand, representing a 0.87% increase compared to approximately RMB2,596,764 thousand as at 30 June 2020.

(2) The Company did not conduct any significant equity investment or significant non-equity investment during the reporting period.

Report of the Board of Directors

(3) Investment in financial assets

① Investment in securities

A. Investment in securities as at the end of the reporting period

Unit: RMB in ten thousands

| Type of securities | Stock code | Stock name | Initial investment | Accounting method | Book value at the beginning of the period | Gains/loss arising from fair value change for the period | Cumulative fair value change accounted for in equity | Amount purchased during the period | Amount disposed during the period | Gain/loss for the reporting period | Book value at the end of the period | Accounting classification | Source of funds |
|--|------------|--|--------------------|------------------------|---|--|--|------------------------------------|-----------------------------------|------------------------------------|-------------------------------------|-------------------------------------|-----------------|
| Stock | 002579 | China Eagle Electronic ^{Note 1} | 1,382.31 | Fair-value measurement | 1,208.08 | 135.32 | — | — | 324.64 | 80.78 | 959.44 | Available-for-sale financial assets | Issue fund |
| Stock | 688639 | Huaheng Biotech ^{Note 1} | 2,396.88 | Fair-value measurement | 9,545.46 | 16,419.22 | — | — | — | 16,621.81 | 25,964.68 | Available-for-sale financial assets | Issue fund |
| Stock | 688019 | Anji Technology ^{Note 2} | 1,679.35 | Fair-value measurement | 26,609.50 | (1,755.33) | — | — | 3,633.59 | 1,511.57 | 24,665.40 | Available-for-sale financial assets | Issue fund |
| Stock | 688300 | NOVORAY ^{Note 2} | 1,000.83 | Fair-value measurement | 4,683.00 | (2,952.91) | — | — | 5,212.07 | 1,240.41 | 869.64 | Available-for-sale financial assets | Issue fund |
| Stock | 688595 | Chipsea Technologies ^{Note 2} | 1,955.00 | Fair-value measurement | 11,422.78 | 4,067.62 | — | — | — | 4,126.32 | 15,490.40 | Available-for-sale financial assets | Issue fund |
| Stock | 688135 | Leadyo ^{Note 2} | 1,999.78 | Fair-value measurement | 6,858.73 | 2,153.04 | — | — | — | 2,218.22 | 9,011.77 | Available-for-sale financial assets | Issue fund |
| Stock | 688630 | Circuit Fabology ^{Note 2} | 2,000.00 | Fair-value measurement | 3,781.41 | 30,904.47 | — | — | — | 30,904.47 | 34,685.88 | Available-for-sale financial assets | Issue fund |
| Stock | 301000 | Hajime ^{Note 3} | 3,037.50 | Fair-value measurement | 3,279.11 | 9,707.89 | — | — | — | 9,707.89 | 12,987.00 | Available-for-sale financial assets | Issue fund |
| Stock | ENA: TSV | Enablence Technologies ^{Note 4} | 3,583.26 | Fair-value measurement | 714.87 | 28.15 | — | — | — | 28.15 | 743.02 | Other non-current financial assets | Internal funds |
| Other securities investments held at the end of the period | | | — | — | — | — | — | — | — | — | — | — | — |
| Total | | | 19,034.91 | — | 68,102.94 | 58,707.47 | — | — | 9,170.30 | 66,439.62 | 125,377.23 | — | — |

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 Fund, a partnership reported in the consolidated financial statements of the Company. Figures corresponding to China Eagle Electronic and Huaheng Biotech are provided with Jiaxing Fund as the accounting subject.

Note 2: The Company and Changshu Changxing Capital Management Company Limited, a wholly-owned subsidiary of ZTE Capital, held in aggregate 25.83% equity interests in Zhonghe Chunsheng Fund III, a partnership reported in the consolidated financial statements of the Company. Figures corresponding to Anji Technology, NOVORAY, Chipsea Technologies, Leadyo and Circuit Fabology are provided with Zhonghe Chunsheng Fund III as the accounting subject.

Note 3: Figures corresponding to Hajime are provided with Jiaxing Fund and Zhonghe Chunsheng Fund III as the accounting subject.

Note 4: The initial investment for the acquisition of Enablence Technologies shares by ZTE HK, a wholly-owned subsidiary of the Company, on 6 January 2015 amounted to CAD2.70 million, equivalent to approximately RMB13,931,000 based on the Company's foreign currency statement book exchange rate (CAD1: RMB5.15963) on 31 January 2015. The initial investment amount for the acquisition of shares in Enablence Technologies on 2 February 2016 was CAD4.62 million, equivalent to approximately RMB21,901,600 based on the Company's foreign currency statement book exchange rate (CAD1: RMB4.74060) on 29 February 2016. The book value of the investment as at the end of the reporting period was approximately HKD8,932,700, equivalent to approximately RMB7,430,200 based on the Company's foreign currency statement book exchange rate (HKD1: RMB0.8318) on 30 June 2021.

B. Details in investment in securities during the reporting period

a. Shareholdings in China Eagle Electronic

During the first half of 2021, Jiaxing Fund transferred 265,900 shares in China Eagle Electronic (a company listed on the Shenzhen Stock Exchange). As at the end of the reporting period, Jiaxing Fund held 957,300 shares (after the equity distribution in 2020) in China Eagle Electronic, a company listed on the Shenzhen Stock Exchange, accounting for 0.16% of the total share capital of China Eagle Electronic.

b. Shareholdings in Huaheng Biotech

On 22 April 2021, Huaheng Biotech, an investee company of Jiaxing Fund, was listed on the STAR Market of the Shanghai Stock Exchange. As at the end of the reporting period, Jiaxing Fund held 6,011,600 shares in Huaheng Biotech, accounting for 5.57% of the total share capital of Huaheng Biotech.

c. Shareholdings in Anji Technology

During the first half of 2021, Zhonghe Chunsheng Fund III transferred 100,500 shares in Anji Technology (a company listed on the STAR Market of the Shanghai Stock Exchange). As at the end of the reporting period, Zhonghe Chunsheng Fund III held 793,000 shares in Anji Technology, accounting for 1.49% of the total share capital of Anji Technology.

d. Shareholdings in NOVORAY

During the first half of 2021, Zhonghe Chunsheng Fund III transferred 859,700 shares in NOVORAY (a company listed on the STAR Market of the Shanghai Stock Exchange). As at the end of the reporting period, Zhonghe Chunsheng Fund III held 140,300 shares in NOVORAY, accounting for 0.16% of the total share capital of NOVORAY.

e. Shareholdings in Chipsea Technologies

As at the end of the reporting period, Zhonghe Chunsheng Fund III held 1,956,500 shares in Chipsea Technologies (a company listed on the STAR Market of the Shanghai Stock Exchange), accounting for 1.96% of the total share capital of Chipsea Technologies.

f. Shareholdings in Leadyo

As at the end of the reporting period, Zhonghe Chunsheng Fund III held 1,776,000 shares in Leadyo (a company listed on the STAR Market of the Shanghai Stock Exchange), accounting for 1.30% of the total share capital of Leadyo.

g. Shareholdings in Circuit Fabology

On 1 April 2021, Circuit Fabology, an investee company of Zhonghe Chunsheng Fund III, was listed on the STAR Market of the Shanghai Stock Exchange. As at the end of the reporting period, Zhonghe Chunsheng Fund III held 4,999,900 shares in Circuit Fabology, accounting for 4.14% of the total share capital of Circuit Fabology.

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h. Shareholdings in Hajime

On 28 May 2021, Hajime, an investee company of Jiaxing Fund and Zhonghe Chunsheng Fund III, was listed on the GEM of the Shenzhen Stock Exchange. As at the end of the reporting period, Jiaxing Fund and Zhonghe Chunsheng Fund III held 2,000,000 shares in Hajime, accounting for 3.75% of the total share capital of Hajime.

i. Shareholdings in Enablence Technologies

ZTE HK, a wholly-owned subsidiary of the Company, entered into a Subscription Agreement with Enablence Technologies on 4 December 2014. ZTE HK subscribed for 18 million shares issued by Enablence Technologies on 6 January 2015 for a total investment of CAD2.70 million. ZTE HK entered into a Subscription Agreement with Enablence Technologies on 27 January 2016. On 2 February 2016, ZTE HK subscribed for 77 million shares issued by Enablence Technologies for a total investment of CAD4.62 million. As at the end of the reporting period, ZTE HK held 95,000,000 shares in Enablence Technologies, accounting for 14.80% of its total share capital.

j. Save as aforesaid, the Group did not invest in non-listed financial enterprises such as commercial banks, securities companies, insurance companies, trusts or futures companies, or conduct securities investment such as dealing in stocks of other listed companies during the reporting period.

② Entrusted fund management

a. General information of the Group's entrusted fund management during the reporting period is set out in the table below:

Unit: RMB ten thousand

| Product type | Source of funds | Amount incurred ^{Note 1} | Outstanding balance | Overdue and unrecovered amount | Impairment amount provided for financial management products that has not been recovered after the due date |
|------------------------|-----------------|-----------------------------------|---------------------|--------------------------------|---|
| Bank financial product | Internal funds | 67,900 | — | — | — |
| Total | | 67,900 | — | — | — |

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

b. High-risk entrusted fund management with individually material amounts, low level of security, poor liquidity or non-guaranteed repayment.

Applicable N/A

c. Any principal amount under the Group's entrusted fund management expected to be irrecoverable or other situations that might result in impairment.

Applicable N/A

③ Derivative investments

Unit: RMB in ten thousands

| Name of party operating the derivative investment | Connected relationship | Whether a connected transaction | Type of derivative investment ^{Note 1} | Initial investment amount in the derivative investment | Start date | End date | Opening balance of investment amount ^{Note 2} | Amount purchased during the period | Amount disposed of during the period | Impairment provision amount (if any) | Closing balance of investment amount | Closing balance of investment amount as a percentage of net assets ^{Note 3} of the Company at the end of the period (%) | Actual profit or loss for the reporting period |
|---|------------------------|---------------------------------|---|--|------------|------------|--|------------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|--|--|
| Financial institution | N/A | No | Foreign exchange derivatives | - | 2020/7/14 | 2022/6/30 | 676,363.83 | 854,864.47 | 886,478.04 | - | 644,750.26 | 13.73% | 19,464.86 |
| Financial institution | N/A | No | Interest rate derivatives | - | 2021/6/26 | 2022/12/26 | 2,954.29 | - | 738.57 | - | 2,215.72 | 0.05% | 1.98 |
| Total | | | | - | - | - | 679,318.12 | 854,864.47 | 887,216.61 | - | 646,965.98 | 13.78% | 19,466.84 |

Source of funds for derivative investment Internal funds

Litigation (if applicable)

Not involved in any litigation

Date of announcement of the Board of Directors in respect of the approval of derivative investments (if any)

“Announcement Resolutions of the Fifteenth Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement on the Application for Derivative Investment Limits for 2020”, both dated 27 March 2020, and “Announcement Resolutions of the Thirty-third Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement on the Application for Derivative Investment Limits for 2021,” both dated 16 March 2021.

Date of announcement of the general meeting in respect of the approval of derivative investments (if any)

“Announcement on Resolutions of the 2019 Annual General Meeting” dated 19 June 2020 and “Announcement on Resolutions of the 2020 Annual General Meeting” dated 25 June 2021.

Risk analysis and control measures (including but not limited to market risks, liquidity risks, credit risks, operational risks and legal risks) in respect of derivative positions during the reporting period

Value-protection derivative investments were conducted by the Company during the first half of 2021. The major risks and control measures are discussed as follows:

1. Market risks: Gains or losses arising from the difference between the exchange rate for settlement of value protection derivative investment contracts and the exchange rate prevailing on the maturity date will be accounted for as gains or losses on revaluation for each accounting period during the effective period of the value-protection derivative investments. Effective gains or losses shall be represented by the accumulative gains or losses on revaluation on the maturity date;
2. Liquidity risks: The value-protection derivative investments of the Company were based on the Company’s budget of foreign exchange income and expenditure and foreign exchange exposure and these investments matched the Company’s actual foreign exchange income and expenditure to ensure sufficient fund for settlement on completion. Therefore, their impact on the Company’s current assets was insignificant;

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3. Credit risks: The counterparties of the derivative investment trades of the Company are banks with sound credit ratings and long-standing business relationships with the Company and therefore the transactions were basically free from performance risks;
4. Other risks: Failure of personnel in charge to operate derivative investments in accordance with stipulated procedures or fully understand information regarding derivatives in actual operation may result in operational risks; obscure terms in the trade contract may result in legal risks;
5. Control measures: The Company addressed legal risks by entering into contracts with clear and precise terms with counterparty banks and strictly enforcing its risk management system. The Company has formulated the “Risk Control and Information Disclosure System relating to Investments in Derivatives” that contains specific provisions for the risk control, approval procedures and subsequent management of derivative investments, so that derivative investments will be effectively regulated and risks relating to derivative investments duly controlled.

Changes in the market prices or fair values of invested derivatives during the reporting period, including the specific methods, assumptions and parameters adopted in the analysis of the fair values of the derivatives

The Company has recognised gains/losses from investments in derivatives during the reporting period. Total gain recognised for the reporting period amounted to RMB195 million, comprising gain from fair-value change of RMB266 million and recognised investment loss of RMB71 million. The calculation of the fair value was based on forward exchange rates quoted by Reuters on a balance sheet date in line with the maturity date of the product.

Statement on whether the accounting policy and accounting audit principles for derivatives for the reporting period were significantly different from the previous reporting period

There was no significant change in the Company’s accounting policy and accounting audit principles for derivatives for the reporting period as compared to that of the previous reporting period.

Specific opinion of Independent Non-executive Directors on the Company’s derivative investments and risk control

Independent Non-executive Directors’ Opinion:

The Company has conducted value protection derivative investments by using financial products to enhance its financial stability, so as to mitigate the impact of exchange rate volatility on its assets, liabilities and profitability. The Company has conducted stringent internal assessment of its derivative investments made and has established corresponding regulatory mechanisms and assigned dedicated staff to be in charge thereof. The counterparties with which the Company and its subsidiaries have entered into contracts for derivative investments are organisations with sound operations and good credit standing. The derivative investments made by the Company and its subsidiaries have been closely related to their day-to-day operational requirements and in compliance with the provisions of relevant laws and regulations and of the Articles of Association.

Note 1: Derivative investments are classified according to the types of such derivative investments. Foreign exchange derivatives included forward foreign exchange and interest rate derivative included interest rate swap contracts.

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

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

8. Material disposals of assets and equity interests by the Group during the reporting period

Details of acquisition and disposal of subsidiaries, associates and joint ventures of the Group in the first half of 2021 are set out in the section headed “Material Matters” in this report.

9. Analysis of principal subsidiaries and investee companies

(1) *For the reporting period, there were 2 subsidiaries whose net profit accounted for more than 10% of the net profit reported in the Group’s consolidated statements, among which Zhongxing Software reported a year-on-year decrease in net profit by more than 30%, attributable mainly the increase in expenses.*

Unit: RMB in thousands

| Name of company | Corporate type | Principal operations | Industry in which it operates | Registered capital | Total assets | Net assets | Operating revenue | Operating profit | Net profit |
|--------------------|----------------|--|-------------------------------|--------------------|--------------|------------|-------------------|------------------|------------|
| Zhongxing Software | Subsidiary | Software development | Software development | RMB51.08 million | 11,275,586 | 2,594,658 | 10,180,311 | 1,035,911 | 825,103 |
| ZTE Capital | Subsidiary | Entrusted management of venture investment funds | Investment fund | RMB30 million | 1,912,170 | 1,885,186 | — | 684,981 | 681,614 |

(2) *For information of other subsidiaries and principal investee companies, please refer to Note XIV.4 and Note VII to the financial statements.*

(3) *For details of acquisitions and disposals of subsidiaries acquired during the reporting period and their impact, please refer to Note VI to the financial statements.*

10. There was no structured entity under the control of the Company within the meaning of “ASBEs No. 41 – Disclosure of Interests in Other Entities.”

11. Other information disclosed under the requirements of the Hong Kong Listing Rules

(1) Debt-equity ratio and the basis of calculation

Debt-equity ratio is calculated by dividing interest-bearing liabilities by the sum of interest-bearing liabilities and equity (including non-controlling interests).

The Group’s debt-equity ratio for the first half of 2021 was 47.8%, increasing by 3.6 percentage points as compared to 44.2% for 2020, attributable mainly to the increase in the Group’s loan balance as compared to the previous year.

(2) Capital resources and use

In the first half of 2021, the Group’s development funds were financed mainly by cash generated from its operations and bank loans. The Group’s cash requirements related primarily to production and operating activities, repayment of due liabilities, capital expenditure, interest and dividend payments and other contingent cash requirements. The Group has adopted a prudent capital management policy and sufficient funds are in place to meet its debt repayment obligations as due, capital expenditure and the requirements of normal production operations.

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(3) *Indebtedness*

The Group's bank loans were mainly settled in RMB, USD and EUR. As at 30 June 2021, the Group's bank loans amounted to RMB42,384,730 thousand in aggregate, and were applied mainly as working capital. Bank loans subject to interests at fixed rates amounted to approximately RMB10,698,909 thousand, while the remaining portion was subject to floating interest rates, the details of which are as follows:

① *Analysed by maturity profile*

Unit: RMB in thousands

| Item | 30 June 2021 | 31 December 2020 |
|-----------------------|-------------------------|---------------------|
| Short-term bank loans | 18,141,244 | 12,210,703 |
| Long-term bank loans | 24,243,486 | 22,614,304 |
| Total | 42,384,730 | 34,825,007 |

② *Analysed by security*

Unit: RMB in thousands

| Item | 30 June 2021 | 31 December 2020 |
|----------------------|-------------------------|---------------------|
| Secured bank loans | 292,578 | 452,384 |
| Unsecured bank loans | 42,092,152 | 34,372,623 |
| Total | 42,384,730 | 34,825,007 |

(4) *Foreign exchange risk and relevant 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, 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. For details, please refer to the section headed "Report of the Board of Directors (II) 7. Analysis of investments — Derivative investments" in this report.

(5) Contractual obligations

Unit: RMB in thousands

| Item | 30 June 2021 | | | |
|------------|--------------|---------------------|------------|----------------------|
| | Total | Less than 1 year | 2-5 years | More than 5 years |
| Bank loans | 42,384,730 | 18,141,244 | 24,168,767 | 74,719 |

(6) Capital commitments

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

Unit: RMB in thousands

| Item | 30 June 2021 | 31 December 2020 |
|---|-----------------|---------------------|
| Land and buildings: Contracted, but not provided for | 2,669,929 | 2,837,222 |
| Investment in associates: Contracted, but not provided for | 141,190 | 13,000 |

(7) Contingent liabilities

Details of the Group's contingent liabilities, please refer to the section headed "Contingent events" under Note XII.2 to the financial statements.

(8) Plans for investments or acquisition of capital assets

Details of the Group's investment, performance and prospects and future plans for investments or acquisition of capital assets as at 30 June 2021, please refer to "Report of the Board of Directors (II) 7 Analysis of Investments" and "Materials Matters" in this report.

(9) Save as disclosed herein, there has been no material change in information disclosed in the interim report from the information disclosed in the 2020 Annual Report of the Company in relation to matters set out in Appendix 16 of the Hong Kong Listing Rules.

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(III) RECORDS OF RECEPTION OF INVESTORS, COMMUNICATIONS AND PRESS INTERVIEWS DURING THE REPORTING PERIOD

✓ Applicable □ N/A

| Nature | Time | Location | Mode | Audience received | Key contents discussed | Information furnished |
|----------------------|----------------------|----------|--|---|--------------------------------------|---|
| Results presentation | March 2021 | Shenzhen | Live Internet video broadcast | Investors and securities houses including UBS, Lombarda China Fund, New China Assets, China Merchants Securities, Tianfeng Securities, Haitong Securities, CSC, Changjiang Securities, Nomura Securities and GF Fund | Day-to-day operations of the Company | Published announcements and regular reports |
| Results presentation | May 2021 | Shenzhen | Telephone conference | Essence Fund, Essence Securities, Aeon Life, Bao Ying Fund, Bosera Fund, Caitong Securities AMC, Dacheng Fund, UOB Kay Hian, Springs Capital, Orient Securities, Soochow Securities, Founder Securities, Jefferies, Goldman Sachs, Perseverance AMC, ICBC Credit Suisse, Guanfeng AMC, Everbright Securities, Guangfa Fund, Guota Junan International, Guosheng Securities, Guotai Jun'an, Guosen HK, Guosen Securities, Haitong Securities, Citi, HuaAn Funds, CR Yuanta Fund, Huatai Securities, China AMC, HSBC Qianhai, Value Partners, CCB International, BOC International, Greenwood Assets, Macquarie, Morgan Stanley, Southern AMC, Panjing Investment, Ping An AMC, Credit Suisse, Credit Suisse Founder, UBS, Foresight Fund, Shenwan Hongyuan, Schroder, Tai Ping Assets, Tianfeng Securities, Tianhong AMC, Western Securities, New China AMC, CITIC-Prudential Fund, First State Cinda, Cinda Securities, DBS Bank, Industrial Securities, Nomura, Galaxy International, Galaxy Securities, Infore Capital, Maxwealth Fund, GTS Fund, Great Wall Wealth AMC, Great Wall Securities, Changjiang Securities, China Merchants Securities, China Merchants International, Zheshang Securities, China Life, CICC, Lombarda China Fund, China Securities, CITIC Securities, BOCI, BOC Securities AMC, BOC Fund, Dymon Asia, GIC | Day-to-day operations of the Company | Published announcements and regular reports |
| External meeting | January to June 2021 | Shenzhen | Investors' telephone conference of Essence Securities | Customers of Essence Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' conference of Haitong Securities | Customers of Haitong Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of China Merchants International | Customers of China Merchants International | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of Soochow Securities | Customers of Soochow Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' conference of Sinolink Securities | Customers of Sinolink Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of UBS | Customers of UBS | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of Southwest Securities | Customers of Southwest Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of Haitong Securities | Customers of Haitong Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of Everbright Securities | Customers of Everbright Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' conference of Zheshang Securities | Customers of Zheshang Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of Bank of America Securities | Customers of Bank of America Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Xiamen | Investors' conference of Industrial Securities | Customers of Industrial Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' conference of China Securities | Customers of China Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Hangzhou | Investors' conference of China Merchants Securities | Customers of China Merchants Securities | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of Credit Suisse | Customers of Credit Suisse | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of Morgan Stanley | Customers of Morgan Stanley | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of Nomura | Customers of Nomura | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of Jefferies | Customers of Jefferies | Day-to-day operations of the Company | Published announcements and regular reports |
| | | Shenzhen | Investors' telephone conference of CICC | Customers of CICC | Day-to-day operations of the Company | Published announcements and regular reports |

(IV) BUSINESS OUTLOOK FOR THE SECOND HALF OF 2021 AND RISK EXPOSURES

1. Business outlook for the second half of 2021

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

In connection with carriers' network, the Group will persist in its globalisation strategy with steady enhancement of its product pattern and market share in the domestic and international markets. We will increase investment in core technologies such as chip, algorithm and network architecture to assure our technological edge, while helping carriers to build highly competitive premium 5G networks in a speedy manner by supplying end-to-end solutions.

In connection with the government and corporate business, the Group will embrace new market opportunities. As the 14th Five-Year-Period commences in 2021, increased investment in new infrastructure and acceleration of digital transformation across various industries will result in new development opportunities in the government and corporate market. The Group is committed to serving as the "path-builder for digital economy" by empowering government institutions and corporations with ICT technologies. Following our vigorous development of the government and corporate market in recent years, a sound foundation has been formed. The Group will continue to maintain its commitment of resources to the government and corporate business and actively drive the sales of core products to fortify the fixed-line/cloud network ecosystem and support expansion in this sector with full effort.

In connection with the consumer business, the Group is progressively integrating handset, broadband Internet, terminal chip module and eco-competence to form a "big terminal" and create a full-scenario smart ecosystem. In the second half of 2021, the mobile terminal business will seize development opportunities in the 5G handset and data product markets, sustaining stable operation in the overseas market while increasing brand investment in the domestic market to drive sales growth through the joint efforts of online and offline channels. As an industry leader in terms of competitive edge in home terminals, the Group will continue to forge its technological edge and increase the gross profit of the products.

In the second half of 2021, the Group will make persistent effort to cement its existing foundation and foster new strengths, with a view to attaining qualitative growth. We will continue to enhance our core competitiveness and enhance business expansion in 5G industry application, corporate digitalisation, and vehicle electronics on the back of our deployment in three major business segments: carriers' network, government and corporate business and consumer business, in order to lay the foundation for future development through ongoing innovation. The Group will continue to advance digital transformation and increase its effort to attract and incentivise core talents, while making improvements to the compliance and management regime by strengthening internal control governance. For the future, the Group advocates an open and transparent approach to business for co-existence and mutual success, such that the benefit of the digital economy could be globally shared and greater value could be delivered to customers.

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, as well as the differences in macro-economy, policy and regulation and political and social backgrounds among the countries where the Group's businesses are operated, the Group will continue to be exposed to risks relating to legal compliance, taxation, exchange rates and political developments (such as war and domestic unrest), which might affect the operations of

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the Group. The Group ensures compliance primarily through the establishment of a complete compliance management regime to identify and control and comply with trade and taxation policy requirements in these countries (including export control and GDPR (General Data Protection Regulation)); we also work with independent professional organisations to analyse and address country risks. We take out necessary export insurance for businesses in regions with higher evaluated risks, and we also resort to financing to avoid possible losses.

(2) Risk associated with intellectual property rights

The Group has always attached great importance to product technology research and development as well as the protection and management of intellectual property rights. Trademarks of the Group's products and services, "ZTE" or "ZTE中興", are all protected by trademark registration, and intellectual property right protection in various forms, including but not limited to application for patent right or copyright, has been adopted wherever possible in respect of such products and services. While the Group has adopted highly stringent measures to protect its intellectual property rights, potential disputes over intellectual property rights between the Group and other telecommunications equipment manufacturers, franchisee companies and carriers under partnerships with the Group cannot be totally avoided. The Group will continue to drive the solution of related issues with an open-minded, cooperative and mutually beneficial approach.

(3) Exchange rate risks

The Group's consolidated financial statements are expressed in RMB. The exchange rate risk of the Group arises mainly from foreign exchange exposures associated with the sales, purchases and financing settled in currencies other than RMB and the volatility of exchange rates, which might affect the operations of the Group. The Group adopts ongoing measures to strengthen foreign exchange risk management 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 requirement of the Group's operational development and overall control is achieved by raising the Group's cash turnover ratio and increasing its free cash flow. Structured management of interest-bearing liabilities is achieved mainly through portfolio control of a mixture of long-term/short-term domestic and overseas loans denominated in RMB or foreign currencies with 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.

Corporate Governance

(I) COMPLIANCE OF THE COMPANY'S CORPORATE GOVERNANCE WITH RELEVANT REQUIREMENTS OF THE CSRC

The Company has been making improvements to its corporate governance regimes and structures, regulating corporate operations and optimising internal control structures on an ongoing basis in accordance with the requirements of the Company Law, the Securities Law, Corporate Governance Standards for Listed Companies and relevant laws and regulations of the CSRC. The Company conducts internal control in accordance with the requirements of provisions such as the "Notice on the Publication of the Corporate Internal Control Supplementary Guide" (《關於印發企業內部控制配套指引通知》). During the reporting period, the general meeting, Board of Directors and Supervisory Committee of the Company were operated in compliance with the law, and the corporate governance of the Company was in compliance with provisions set out in the regulatory documents on corporate governance of listed companies issued by the CSRC.

The Company focused its efforts on the following internal control work in the first half of 2021:

- (1) The conclusion and assessment of the internal control work for 2020 were completed, on which basis the 2020 Internal Control Audit Work Report and 2020 Internal Control Assessment Report were published; the internal control work plans for 2021 was formulated and internal control assessment for 2021 was commenced with stronger effort in pre-emptive supervision and inspection as well as supervision and inspection during the process.
- (2) Ongoing intensive development of our internal control regime to further strengthen the development of internal control organisation at primary level; institutional development was strengthened and the internal control white paper was optimised; inspection was implemented through a three-tier line of defense comprising business execution, ability building and supervision of implementation, utilising internal control self-assessment, business audit and self-rectification tools.
- (3) Risk evaluation methods were optimised and risk classification and hierarchy was developed to strengthen duties of risk management units at all levels, while standardising the risk control process for identifying, assessing and addressing risks with in-depth implementation of risk control practices at primary levels; key internal control tasks for various segments were streamlined and launched and the operating model of the internal control system was optimised to enhance the management duties of the internal control ability development modules and improve the process for rectifying deficiencies.
- (4) The organisational ability relating to internal control was enhanced with stronger internal control empowerment, while activities to foster the culture of internal control among all employees, such as lectures on internal control, seminars on internal control in business operations, sharing of internal control cases and a new round of internal control manager accreditation were organised on a continuous basis.

(II) DURING THE PERIOD FROM 1 JANUARY TO 30 JUNE 2021, THE COMPANY WAS IN FULL COMPLIANCE WITH THE PRINCIPLES AND CODE PROVISIONS OF THE CORPORATE GOVERNANCE CODE SET OUT IN APPENDIX 14 OF THE HONG KONG STOCK EXCHANGE LISTING RULES.

(III) INFORMATION ON THE CONVENING OF GENERAL MEETING

On 25 June 2021, the Company convened the 2020 Annual General Meeting (the "Meeting") by way of a combination of on-site and online voting. Shareholders (proxies) representing 28.83% of the total number of shares of the Company entitled to vote at the meeting attended the Meeting. A total of 18 resolutions including "2020 Annual Report"; "2020 Report of the Board of Directors"; "2020 Report of the Supervisory Committee" and "Proposal for Profit Distribution for 2020" were considered and approved at the Meeting. For details, please refer to the "Announcement of Resolutions of the 2020 Annual General Meeting" published by the Company on 25 June 2021.

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(IV) SECURITIES TRANSACTIONS BY DIRECTORS AND SUPERVISORS

The Directors and Supervisors of the Company confirmed that the Company had adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Hong Kong Listing Rules. Having made due enquiries with all Directors and Supervisors of the Company, the Company was not aware of any information that reasonably suggested that the Directors and Supervisors had not complied with the requirements in the Model Code during the reporting period.

(V) THE AUDIT COMMITTEE

The Audit Committee of the Company has discussed with the management the accounting standards and practices adopted by the Group, and has also discussed and reviewed this report, including the financial statements of the Group for the six months ended 30 June 2021.

(VI) PROFIT DISTRIBUTION OR CONVERSION OF CAPITAL RESERVE

According to the Articles of Association of ZTE, aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years; the profit distribution plan of the Company shall 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 and an independent opinion should be furnished by the Independent Non-executive Directors; after the announcement of the profit distribution plan is published in accordance with the law, the views and propositions of shareholders, the minority shareholders in particular, should be sufficiently heard. If the Board of Directors has not drawn up a cash profit distribution proposal, the reasons for not making the profit distribution and the use of funds not applied to profit distribution and retained at the Company should be disclosed in regular reports, and the Independent Non-executive Directors should furnish an independent opinion thereon.

According to the “Profit Distribution Proposal for 2020” considered and approved at the Thirty-third Meeting of the Eighth Session of the Board of Directors of the Company held on 16 March 2021: a dividend of RMB2 in cash (before tax) for every 10 shares shall be distributed to all shareholders based on the total share capital (including A shares and H shares) as at the record date for profit distribution and dividend payment. The proposal was approved at the 2020 Annual General Meeting of the Company held on 25 June 2021. A dividend of RMB2 in cash (before tax) for every 10 shares was distributed based on the total share capital of 4,637,709,675 shares (comprising 3,882,207,141 A shares and 755,502,534 H shares) as at the record date. The record date for A shares is 19 August 2021. The record date for H shares is 8 July 2021. Profit distribution for 2020 was completed on 20 August 2021.

The aggregate profit distribution of the Company in the form of cash in 2018-2020 accounted for 243.20% of the annual average profit available for distribution in the past three years, in compliance with Article 232 of the Articles of Association which states that “the aggregate profit distribution of the Company in the form of cash in the past three years shall not be less than 30% of the annual average profit available for distribution in the past three years.”

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

The Company does not propose any profit distribution or conversion of capital reserve for the six months ended 30 June 2021.

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

(1) Summary of the 2017 Share Option Incentive Scheme

(1) Approval procedures fulfilled and grant of options

The 2017 Share Option Incentive Scheme has been implemented by the Company to further refine the corporate governance structure of the Company, improve corporate incentive systems of the Company, enhance loyalty and sense of responsibility of the management and key personnel of the Company and retain talent, so as to facilitate sustainable development of the Company and ensure the realisation of its development targets. The 2017 Share Option Incentive Scheme implemented by the Company has been considered and approved by the Remuneration and Evaluation Committee, the Seventeenth Meeting of the Seventh Session of the Board of Directors, the Fourteenth Meeting of the Seventh Session of the Supervisory Committee, the 2016 Annual General Meeting, the First A Shareholders' Class Meeting of 2017 and the First H Shareholders' Class Meeting of 2017 of the Company for the grant of not more than 150 million share options to the Directors, senior management and key business personnel of the Company. The source of shares under the 2017 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. Scheme participants of the 2017 Share Option Incentive Scheme include Directors, senior management and key employees who have a direct impact on, or have made outstanding contributions to, the Company's overall results and sustainable development (excluding Independent Non-executive Directors, Supervisors and substantial shareholders interested in 5% or above of the Company's shares or the de facto controller, or their respective spouses and immediate or close family members).

Pursuant to the "Resolution on Matters pertaining to the grant of share options under the 2017 Share Option Incentive Scheme" and "Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme" considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors on 6 July 2017, the Company revoked the qualification to participate in the share option incentive scheme of 17 participants and cancelled a total of 398,800 share options previously proposed to be granted. As a result, the number of participants was adjusted from 2,013 to 1,996 and the number of share options to be granted was adjusted from 150 million to 149,601,200 under the share option incentive scheme. The date of grant was set for 6 July 2017 (Thursday). The Company granted 149,601,200 share options to 1,996 scheme participants. The initial exercise price of the share options granted shall be RMB17.06 per A share.

(2) Adjustments to scheme participants, number of share options and exercise price

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

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

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

At the Twenty-second Meeting of the Eighth Session of the Board of Directors of the Company held on 28 August 2020, the “Resolution on the cancellation of certain share options” and “Resolution on the adjustment of the exercise price under the 2017 Share Option Incentive Scheme in accordance with the rules” were considered and passed, pursuant to which the cancellation of 66 share options unexercised as at the close of the exercise period under first exercise period and the adjustment of the exercise price of share options under the 2017 Share Option Incentive Scheme to RMB16.86 per share were approved. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Cancellation of Certain Share Options” and “Overseas Regulatory Announcement Announcement on the adjustment of the exercise price under the 2017 Share Option Incentive Scheme in accordance with the rules” published by the Company on 28 August 2020.

On 2 September 2020, as examined and confirmed by China Securities Depository and Clearing Company Limited Shenzhen Branch, the Company has completed procedures for the cancelation of 66 granted share options. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Completion of Cancellation of Certain Share Options” published by the Company on 2 September 2020.

Pursuant to the “Resolution on the adjustments to the participants and number of share options granted under the 2017 Share Option Incentive Scheme”, “Resolution on the fulfillment of exercise conditions for the third exercise period under the 2017 Share Option Incentive Scheme” and “Resolution on the cancellation of certain share options” considered and passed at the Thirty-sixth Meeting of the Eighth Session of the Board of Directors of the Company held on 29 June 2021, the number of participants under the 2017 Share Option Incentive Scheme was adjusted from 1,687 to 1,573, the volume of share options granted was adjusted from 39,726,486 to 37,289,056, and the fulfillment of the exercise conditions for the third exercise period of the 2017 Share Option Incentive Scheme of the Company was confirmed. A total of 2,437,430 share options, comprising share options previously granted to original participants who were no longer qualified as participants and share options not exercisable as a result of the non-fulfillment of exercise conditions were cancelled. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Adjustment of Participants and Number of Share Options under the 2017 Share Option Incentive Scheme”, “Overseas Regulatory Announcement Announcement on the Fulfillment of Exercise Conditions for the Third Exercise Period under the 2017 Share Option Incentive Scheme” and “Overseas Regulatory Announcement Announcement on the Cancellation of Certain Share Options” published by the Company on 29 June 2021.

On 7 July 2021, as examined and confirmed by China Securities Depository and Clearing Company Limited Shenzhen Branch, the Company has completed procedures for the cancelation of 2,437,430 granted share options. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Completion of Cancellation of Certain Share Options” published by the Company on 7 July 2021.

At the Thirty-eighth Meeting of the Eighth Session of the Board of Directors of the Company held on 24 August 2021, the “Resolution on the adjustment of the exercise price under the 2017 Share Option Incentive Scheme in accordance with the rules” were considered and passed, pursuant to the adjustment of the exercise price of share options under the 2017 Share Option Incentive Scheme to RMB16.66 per share was approved. For details, please refer to the “Overseas Regulatory Announcement Announcement on the adjustment of the exercise price under the 2017 Share Option Incentive Scheme in accordance with the rules” published by the Company on 24 August 2021.

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

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

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

Pursuant to the “Resolution on the fulfillment of exercise conditions for the first exercise period under the 2017 Share Option Incentive Scheme” and the “Resolution on the Non-fulfillment of exercise conditions for the second exercise period under the 2017 Share Option Incentive Scheme” considered and passed at the Fifth Meeting of the Eighth Session of the Board of Directors of the Company held on 1 July 2019, it was confirmed that the exercise conditions for the first exercise period had been fulfilled and the exercise conditions for the second exercise period had not been fulfilled under the 2017 Share Option Incentive Scheme. The first exercise period under the 2017 Share Option Incentive Scheme of the Company shall comprise the exercise dates within the period from 16 July 2019 to 5 July 2020. There were 1,684 participants entitled to exercise a total of 39,664,153 exercisable share options. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Commencement of the First Exercise Period under the 2017 Share Option Incentive Scheme” published by the Company on 14 July 2019.

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Pursuant to the “Resolution on the fulfillment of exercise conditions for the third exercise period under the 2017 Share Option Incentive Scheme” considered and passed at the Thirty-sixth Meeting of the Eighth Session of the Board of Directors of the Company held on 29 June 2021, the fulfillment of exercise conditions for the third exercise period was confirmed. The third exercise period under the 2017 Share Option Incentive Scheme of the Company shall be from 14 July 2021 to 5 July 2022. The number of participants under the 2017 Share Option Incentive Scheme was 1,573, and the volume of share options exercisable 37,289,056. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Commencement of Exercise for the Third Exercise Period under the 2017 Share Option Incentive Scheme” published by the Company on 13 July 2021.

(4) Details of share options held by scheme participants during the reporting period

| Name of participant | Position of participant | Number of unexercised options at the beginning of the reporting period | Number of options granted during the reporting period | Number of options exercisable during the reporting period | Number of options exercised during the reporting period | Number of options cancelled during the reporting period | Number of options lapsed during the reporting period | Number of outstanding options at the end of the reporting period |
|--|---|--|---|---|---|---|--|--|
| Xu Ziyang | Director and President | 84,000 | 0 | 0 | 0 | 0 | 0 | 84,000 |
| Sub-total of Directors^{Note} | | 84,000 | 0 | 0 | 0 | 0 | 0 | 84,000 |
| Wang Xiyu | Executive Vice President | 87,468 | 0 | 0 | 0 | 0 | 0 | 87,468 |
| Li Ying | Executive Vice President and Chief Financial Officer | 52,800 | 0 | 0 | 0 | 0 | 0 | 52,800 |
| Xie Junshi | Executive Vice President | 112,468 | 0 | 0 | 0 | 0 | 0 | 112,468 |
| Ding Jianzhong | Secretary to the Board of Directors and Company Secretary | 33,160 | 0 | 0 | 0 | 0 | 0 | 33,160 |
| Sub-total of senior management | | 285,896 | 0 | 0 | 0 | 0 | 0 | 285,896 |
| Other key personnel of the Company | | 39,356,590 | 0 | 0 | 0 | 0 | 0 | 39,356,590 |
| Total | | 39,726,486 | 0 | 0 | 0 | 0 | 0 | 39,726,486 |

Note: To avoid repetition in counting, the number of share options of Mr. Xu Ziyang, Director and President, was included in the sub-total of Directors.

During the period after the end of the reporting period up to the date of the publication of this report, the Company completed the cancellation of 2,437,430 granted share options. The number of share options exercised in the third exercise period of 2017 Share Option Incentive Scheme was 24,274,777.

As at the date of announcement of this report, there were a total of 13,014,279 A share options outstanding under the 2017 Share Option Incentive Scheme, accounting for approximately 0.28% of the Company’s total share capital in issue and approximately 0.34% of the Company’s total A shares in issue.

As at the date of announcement of the 2020 Annual Report of the Company, there were a total of 39,726,486 A share options outstanding under the 2017 Share Option Incentive Scheme, accounting for approximately 0.86% of the Company’s total share capital in issue at that time and approximately 1.03% of the Company’s total A shares in issue at that time.

(5) Impact of accounting policies on the financial conditions and operating results of the Company

Specific accounting treatments of share options and the impact on the Company’s financial conditions and operating results for the year and in future are set out in Note XI to the financial statements.

2. Summary of the 2020 Share Option Incentive Scheme

(1) Approval procedures fulfilled and grant of options

The 2020 Share Option Incentive Scheme adopted by the Company is aimed at further refining the corporate governance structure and improving the incentive systems of the Company, enhance the sense of responsibility and mission of the management and key business personnel of the Company for the sound and sustainable development of the Company and safeguard the realisation of development targets of the Company. The 2020 Share Option Incentive Scheme implemented by the Company has been approved by the Remuneration and Evaluation Committee, the Twenty-fifth Meeting of the Eighth Session of the Board of Directors, the Eighteenth Meeting of the Eighth Session of the Supervisory Committee and the Second Extraordinary General Meeting of 2020 of the Company. A total of not more than 163,492,000 share options, including 158,492,000 share options under the initial grant and 5,000,000 reserved share options as reserved entitlements was granted to the Directors, senior management and key business personnel of the Company. The source of shares under the 2020 Share Option Incentive Scheme comprises shares of the Company issued to the scheme participants by the Company by way of placing. The participants of the 2020 Share Option Incentive Scheme include Directors, senior management and key business personnel (excluding any independent non-executive Directors, Supervisors, substantial Shareholders or de facto controllers which individually or together hold Shares representing 5% voting rights of the Company or above, and their spouses, parents and children).

Pursuant to the “Resolution on the adjustments to the participants and number of share options granted under the 2020 Share Option Incentive Scheme” and “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 of the Company held on 6 November 2020, the Company revoked the qualification to participate in the share option incentive scheme of 1 participant and cancelled a total of 20,000 share options previously proposed to be granted. As a result, the number of participants was adjusted from not more than 6,124 to 6,123, the number of share options to be granted was adjusted from not more than 163,492,000 to 163,472,000, of which the number of share options to be granted initially was adjusted from not more than 158,492,000 to 158,472,000 and the number of reserved share options remained 5,000,000 under the share option incentive scheme. The date of grant was set for 6 November 2020 (Friday). The initial exercise price of the share options granted shall be RMB34.47 per A share.

(2) Adjustments to the number of participants and share options and the exercise prices

On 2 August 2021, the “Resolution on the adjustments of participants and number of share options under the 2020 Share Option Incentive Scheme” and “Resolution on the Cancellation of Certain Share Options” was considered and passed at the Thirty-seventh Meeting of the Eighth Session of the Board of Directors of the Company. As 1 participant has waived participation in the 2020 Share Option Incentive Scheme due to personal reasons, the Company shall disqualify the aforesaid person from participation in the 2020 Share Option Incentive Scheme and a total of 26,000 share options granted to but unexercised by the aforesaid person shall be withdrawn and cancelled by the Company without compensation. After the adjustment, the number of participants for the initial grant was adjusted from 6,123 to 6,122, the number of share options to be granted was adjusted from 163,472,000 to 163,446,000, of which the number of share options to be granted initially was adjusted from 158,472,000 to 158,446,000 and the number of reserved share options remained 5,000,000 under the share option incentive scheme. For details, please refer to the “Overseas Regulatory Announcement on the Adjustment of Participants and Number of Share Options under the 2020 Share Option Incentive Scheme” and “Overseas Regulatory Announcement on the Cancellation of Certain Share Options” published by the Company on 2 August 2021.

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On 5 August 2021, as examined and confirmed by China Securities Depository and Clearing Company Limited Shenzhen Branch, the Company has completed procedures for the cancellation of 26,000 granted share options. For details, please refer to the “Overseas Regulatory Announcement on the Completion of Cancellation of Certain Share Options” published by the Company on 5 August 2021.

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

The initial grant of 2020 Share Option Incentive Scheme of the Company shall remain in force for 4 years from the date of grant of the initial grant (i.e. 6 November 2020). 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/share. There shall be a vesting period of 1 years from the date of grant, after which share options can be exercised according to the following proportion, subject to the fulfillment of the exercise conditions:

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

(4) Details of share options held by the participants during the reporting period

| Name of participant | Position of participant | Number of unexercised options at the beginning of the reporting period | Number of options granted during the reporting period | Number of options exercisable during the reporting period | Number of options exercised during the reporting period | Number of options cancelled during the reporting period | Number of options lapsed during the reporting period | Number of outstanding options at the end of the reporting period |
|--|---|--|---|---|---|---|--|--|
| Li Zixue | Chairman | 180,000 | 0 | 0 | 0 | 0 | 0 | 180,000 |
| Xu Ziyang | Director and President | 180,000 | 0 | 0 | 0 | 0 | 0 | 180,000 |
| Li Buqing | Director | 50,000 | 0 | 0 | 0 | 0 | 0 | 50,000 |
| Gu Junying | Director and Executive Vice President | 180,000 | 0 | 0 | 0 | 0 | 0 | 180,000 |
| Zhu Weimin | Director | 50,000 | 0 | 0 | 0 | 0 | 0 | 50,000 |
| Fang Rong | Director | 50,000 | 0 | 0 | 0 | 0 | 0 | 50,000 |
| Sub-total of Directors^{Note} | | 690,000 | 0 | 0 | 0 | 0 | 0 | 690,000 |
| Wang Xiyu | Executive Vice President | 180,000 | 0 | 0 | 0 | 0 | 0 | 180,000 |
| Li Ying | Executive Vice President and Chief Financial Officer | 180,000 | 0 | 0 | 0 | 0 | 0 | 180,000 |
| Xie Junshi | Executive Vice President | 180,000 | 0 | 0 | 0 | 0 | 0 | 180,000 |
| Ding Jianzhong | Secretary to the Board of Directors and Company Secretary | 120,000 | 0 | 0 | 0 | 0 | 0 | 120,000 |
| Sub-total of senior management | | 660,000 | 0 | 0 | 0 | 0 | 0 | 660,000 |
| Other key personnel of the Company | | 157,122,000 | 0 | 0 | 0 | 0 | 0 | 157,122,000 |
| Total | | 158,472,000 | 0 | 0 | 0 | 0 | 0 | 158,472,000 |

Note: To avoid repetition in counting, the numbers of share options of Mr. Xu Ziyang, Director and President and Mr. Gu Junying, Director and Executive Vice President were included in the sub-total of Directors.

During the period after the end of the reporting period to the publication of this report, the Company completed the cancellation of 26,000 granted share options. As at the date of announcement of this report, there were a total of 158,446,000 A share options granted initially outstanding under the 2020 Share Option Incentive Scheme of the Company, accounting for approximately 3.42% of the Company's total share capital in issue and approximately 4.08% of the Company's total A shares in issue; a total of 5,000,000 reserved A share options under the 2020 Share Option Incentive Scheme are yet to be granted, accounting for approximately 0.11% of the Company's total share capital in issue and approximately 0.13% of the Company's A shares in issue.

As at the date of announcement of the 2020 Annual Report of the Company, there were a total of 158,472,000 A share options granted initially outstanding under the 2020 Share Option Incentive Scheme of the Company, accounting for approximately 3.44% of the Company's total share capital in issue at that time and approximately 4.11% of the Company's total A shares in issue at that time; a total of 5,000,000 reserved A share options under the 2020 Share Option Incentive Scheme are yet to be granted, accounting for approximately 0.11% of the Company's total share capital in issue at that time and approximately 0.13% of the Company's A shares in issue at that time.

(5) Impact of accounting policies on the financial conditions and operating results of the Company

Specific accounting treatments of share options and the impact on the Company's financial conditions and operating results for the year and in future are set out in Note XI to the financial statements.

For other information on the Company's 2017 Share Option Incentive Scheme and 2020 Share Option Incentive Scheme, please refer to the section headed "Material Matters – (VII) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME" in the Company's 2020 Annual Report.

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(VIII) MANAGEMENT STOCK OWNERSHIP SCHEME OF THE COMPANY

The Management Stock Ownership Scheme of the Company has been approved by the Remuneration and Evaluation Committee, Twenty-fifth Meeting of the Eighth Session of the Board of Directors, Eighteenth Meeting of the Eighth Session of the Supervisory Committee and the Second Extraordinary General Meeting of 2020 of the Company. The source of funds shall be the Management Stock Ownership Scheme Special Fund amounting to RMB114,765,557.00 set aside by the Company. The source of shares under the Management Stock Ownership Scheme shall be 2,973,900 repurchased A shares of the Company placed in the Company's designated securities repurchase account, accounting for 0.06% of the total share capital of the Company. There were 27 participants.

The total amount of funds paid for the Management Stock Ownership Scheme was RMB114,765,557.00 and the total number of units was 114,766,000 at RMB1.00 each. The Directors, Supervisors and senior management of the Company subscribed for a total of 62,606,000 units (with Chairman Mr. Li Zixue subscribing for 12,000,000 units, Director and President Mr. Xu Ziyang subscribing for 12,000,000 units, Director and Executive Vice President Mr. Gu Junying subscribing for 9,000,000 units, Supervisory Committee Chairman Mr. Xie Daxiong subscribing for 3,026,000 unit, Executive Vice President Mr. Wang Xiyu subscribing for 10,000,000 units, Executive Vice President and Chief Financial Officer Ms. Li Ying subscribing for 8,000,000 units, Executive Vice President Mr. Xie Junshi subscribing for 7,000,000 units and Secretary to the Board of Directors Mr. Ding Jianzhong subscribing for 1,580,000 units), and other participants subscribed for a total of 52,160,000 units. The non-trading transfer of Company shares held in the Company's designated securities repurchase account to the securities account titled "ZTE Corporation – Tranche I Employee Stock Ownership Scheme" were conducted on 16 December 2020, with 2,973,900 shares transferred. Each participant received shares according to the aforesaid subscription shares. The lock-up period for Company shares transferred to the Management Stock Ownership Scheme shall be from 18 December 2020 to 17 December 2021.

The Company has established a Management Stock Ownership Scheme Management Committee with Mr. Xu Ziyang as chairman and Mr. Gu Junying and Ms. Li Ying and members. The Management Stock Ownership Scheme Management Committee has, as appointor, entered into the "CICC ZTE Corporation Management Stock Ownership Scheme Standalone Asset Management Plan Asset Management Contract" with China International Capital Corporation Limited (as manager) and Guotai Junan Securities Co., Ltd. (as trustee). For details, please refer to the "Announcement Resolutions of the Twenty-fifth Meeting of the Eighth Session of the Board of Directors" and "Proposed Adoption of Management Stock Ownership Scheme" published on 12 October 2020, the Company's circular dated 20 October 2020, the "Announcement on Resolutions of the Second Extraordinary General Meeting of 2020" published on 6 November 2020, "Overseas Regulatory Announcement Announcement on the establishment of the Management Stock Ownership Scheme Management Committee of the Company" and "Overseas Regulatory Announcement Announcement on the signing of the ZTE Corporation Management Stock Ownership Scheme Asset Management Contract" published on 30 November 2020, and the "Overseas Regulatory Announcement Announcement on the completion of non-trading transfer relating to the Management Stock Ownership Scheme of the Company" published on 17 December 2020 by the Company.

Details of the accounting treatment of the Management Stock Ownership Scheme have been disclosed in Note XI to the financial statements.

Environmental and Social Responsibility

(I) ENVIRONMENTAL INFORMATION OF THE GROUP

1. Development of the Group's environmental initiatives

As a company actively practising green development, the Group takes heed of the impact of its operations on the environment and has streamlined and improved the environmental management system in relation to its production and operation that seek to procure environmental protection at the source of product manufacturing, endeavouring to reduce the full-cycle environmental impact of its products to a minimum. In active fulfillment of its environmental duties, the Group gives full consideration to the environmental effect of all operating segments. The Group also gives thorough consideration to the environmental concerns arising throughout the life cycle of its products, such that a green strategy is underpinning all business segments of the Company. Meanwhile, the Group is dedicated to close-loop management for the full life cycle of the products in cooperation with its partners to address the challenge of climate change, while seeking to make contributions to the circular economy and actively participate in the de-carbonising transformation of the global economy, expediting commercial application of green 5G in multiple sectors to assist green development across the board.

As a member of the United Nations Global Compact, the Company is engaged in persistent implementation of sustainability on a global basis, with a view to harmony and co-existence of the community, environment and stakeholders. The Company has established an energy conservation and discharge reduction committee to oversee energy conservation, discharge reduction and consumption reduction at the company level. Through the integration of work in the product aspect and the operational aspect, its work in energy conservation and discharge reduction has become more specific and operable. Moreover, to develop and improve its contingency setup featuring central command, swift response and high efficiency, procure genuine improvement in its ability to deal with different types of emergencies prevent and mitigate the damage of contingency events, protect the lives of staff and environmental safety and safeguard the stable and sound development of the Company, the Company has formulated contingency plans for unforeseen incidents and set up a contingency team, which will deal with contingencies according to stipulated response procedures. In the meantime, the Company has established an ISO14001 environmental management regime and received the relevant accreditation, whereby it would conduct environmental inspection and tests and internal and external audit annually in accordance with the regime.

2 During the reporting period, ZTE Smart Auto Company Limited, a wholly-owned subsidiary of the Company and a major pollutant discharging unit announced by environmental protection authorities, has adopted effective measures to ensure compliance of production operations with pertinent environmental laws and regulations, the details of which are as follows.

(1) Discharge of pollutants

| Name of subsidiary | Name of major pollutants and typical pollutants | Mode of discharge | Number of discharge outlets | Distribution of discharge outlets | Concentration of discharge (mg/m ³) | Applicable pollutant discharge standards | Total volume of discharge | Approved total discharge volume | Excessive discharge |
|--------------------------------|---|---------------------|-----------------------------|-----------------------------------|--|--|---------------------------|---------------------------------|---------------------|
| ZTE Smart Auto Company Limited | VOCs | Organised discharge | 8 | JW-FQ-0723-02 to 04, 17 to 21 | 0.74-4.2 | Emission Standard for Volatile Organic Compounds from Surface Coating (Vehicle Manufacturing Industry) (DB44/816-2010) | 0.00351t | 9.44t/a | Compliant |
| | Particulates | Organised discharge | 21 | JW-FQ-0723-01 to 10, 13 to 21 | 3.7-17.4 | Emission Limits for Air Pollutants (DB44/27 - 2001) (level II Emission Limits for period II) | 0.06004t | / | Compliant |
| | | | | JW-FQ-0723-11 to 12 | 3.9-4.9 | Emission Limits for Air Pollutants from Boilers (DB44/765-2019) | | | |
| Benzene | Organised discharge | 3 | JW-FQ-0723-02 to 04 | 0.0038-0.0104 | Emission Standard for Volatile Organic Compounds from Surface Coating (Vehicle Manufacturing Industry) (DB44/816-2010) | 0.00002t | / | Compliant | |

Environmental and Social Responsibility

| Name of subsidiary | Name of major pollutants and typical pollutants | Mode of discharge | Number of discharge outlets | Distribution of discharge outlets | Concentration of discharge (mg/m ³) | Applicable pollutant discharge standards | Total volume of discharge | Approved total discharge volume | Excessive discharge |
|--------------------|---|------------------------|-----------------------------|---|---|--|---------------------------|---------------------------------|---------------------|
| | Toluene + Xylene | Organised discharge | 3 | JW-FQ-0723-02 to 04 | 0.0261-0.0389 | Emission Standard for Volatile Organic Compounds from Surface Coating (Vehicle Manufacturing Industry) (DB44/816-2010) | 0.00019t | / | Compliant |
| | Nitrogen oxides | Organised discharge | 13 | JW-FQ-0723-04 to 10, 13 to 16 | 8-24 | Emission Standard for Volatile Organic Compounds from Surface Coating (Vehicle Manufacturing Industry) (DB44/816-2010) | 0.11650t | / | Compliant |
| | | | | JW-FQ-0723-11 to 12 | 12-18 | Emission Limits for Air Pollutants from Boilers (DB44/765-2019) | | | |
| | Sulphur dioxide | Organised discharge | 13 | JW-FQ-0723-04 to 16 | / | Emission Standard for Volatile Organic Compounds from Surface Coating (Vehicle Manufacturing Industry) (DB44/816-2010) | / | / | Compliant |
| | Fume | Organised discharge | 2 | JW-FQ-0723-22 to 23 | 0.7-0.8 | Fume Emission Limits for Food Catering Industry (Trial) (GB 18483-20021) | 0.04955t | / | Compliant |
| | Particulates | Intermittent discharge | / | Upward wind direction reference points 1# to 4# | 0.1-0.35 | Emission Limits for Air Pollutants (DB44/27 – 2001) (level II Emission Limits for period II) | / | / | Compliant |
| | Benzene | Intermittent discharge | / | Upward wind direction reference points 1# to 4# | 0.0009-0.0014 | Emission Standard for Volatile Organic Compounds from Surface Coating (Vehicle Manufacturing Industry) (DB44/816-2010) | / | / | Compliant |
| | Toluene | Intermittent discharge | / | Upward wind direction reference points 1# to 4# | 0.0031-0.0057 | Emission Standard for Volatile Organic Compounds from Surface Coating (Vehicle Manufacturing Industry) (DB44/816-2010) | / | / | Compliant |
| | Xylene | Intermittent discharge | / | Upward wind direction reference points 1# to 4# | 0.0007-0.0073 | Emission Standard for Volatile Organic Compounds from Surface Coating (Vehicle Manufacturing Industry) (DB44/816-2010) | / | / | Compliant |
| | VOCs | Intermittent discharge | / | Upward wind direction reference points 1# to 4# | 0.19 – 0.32 | Emission Standard for Volatile Organic Compounds from Surface Coating (Vehicle Manufacturing Industry) (DB44/816-2010) | / | / | Compliant |
| | Ammonia | Intermittent discharge | / | Upward wind direction reference points 1# to 4# | / | Emission Limits for Odorous Pollutants (GB14554-963) | / | / | Compliant |
| | Hydrogen sulfide | Intermittent discharge | / | Upward wind direction reference points 1# to 4# | / | Emission Limits for Odorous Pollutants (GB14554-963) | / | / | Compliant |

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

ZTE Smart Auto Company Limited has installed corresponding pollution treatment facilities such as bag filter, paint and mist purification system, glass, fiber and cotton filter and activated carbon adsorption tower in accordance with environmental protection requirements, formulated administrative systems and contingency plans, and conducted regular safety inspections. All systems and facilities have been operating in good conditions and exhaust gas is discharged only after processing and meeting relevant standards.

(3) *Environmental impact assessment of construction projects and other administrative permission relating to environmental protection*

ZTE Smart Auto Company Limited has conducted environmental impact assessment in respect of its construction projects and obtained the approval documents of environmental authorities in accordance with environmental protection laws and regulations.

(4) *Contingency plans for unforeseen environmental incidents*

The “Contingency Plan for Environmental Emergencies” formulated by ZTE Smart Auto Company Limited has passed the assessment by experts and completed filing with the environmental authorities.

(5) *Environmental self-monitoring plan*

ZTE Smart Auto Company Limited has appointed a qualified third party to conduct environmental monitoring. As at the end of the reporting period, the emission benchmarks were not exceeded.

(6) *Administrative punishments relating to environmental issues during the reporting period*

ZTE Smart Auto Company Limited was not subjected to any administrative punishment relating to environmental issues during the reporting period.

(II) DETAILS OF EFFORT TO CEMENT AND EXPAND THE POSITIVE OUTCOMES OF OUR INITIATIVES IN POVERTY AID AND RURAL REVIVAL

In adherence to its fundamental objectives of “championing the spirit of community welfare, fulfilling corporate responsibility and promoting public welfare development”, ZTE Charity Foundation is engaged in public welfare projects in three major areas: poverty aid through education, medical care for the poor and relief for the underprivileged. Meanwhile, in active response to the call of the community, we address the actual needs of society and leverage our role as a charitable group.

During the reporting period, the Company launched educational assistance and voluntary service projects in Gansu, Shandong, Chongqing, Sichuan and Yunnan to help rural development. Specifically: (1) in respect of educational assistance, it continued to carry out the Xinghua Education Assistance Project, and signed another educational assistance agreement to donate RMB15 million in five years. In addition, the Company launched the Xinghuo Project in Gulang County, Wuwei City, Gansu Province to provide teachers with growth and empowerment support and help the village to optimize the education ecology. (2) in respect of relief for the underprivileged, the Company will continue to carry out the Anti-Japanese War Veteran Project, investigate the wishes of the veterans, and formulate customized assistance programs. Meanwhile, it initiated a donation project of mobile phones for the elderly to donate more than 8,000 mobile phones for the rural elderly in Xingguo County of Jiangxi Province, the former impoverished counties of Guizhou Province and Gansu Province, so as to connect the elderly to the times. (3) It focuses on public welfare + voluntary service activities, encourages employees and their families to participate in public welfare activities, and provide books and living materials donations for schools in Daliangshan, Sichuan and Heze, Shandong.

Based on the actual needs of society, the Company will continue to implement projects such as Xinghua Education Assistance Project and care for veterans, and respond to the call to support rural revitalization. It will continue to promote the participation of employees in voluntary services, create a culture of charity, and convey love and warmth to the society with practical actions.

Material Matters

(I) MATERIAL LITIGATION AND ARBITRATION

During the reporting period, the Group did not incur any material litigation or arbitration. Details of progress during and subsequent to the reporting period of immaterial litigation and arbitration proceedings incurred prior to the reporting period are set out as follows:

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 RMB40,509,300). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand an compensation amount of BRL31,224,300 (equivalent to approximately RMB40,342,100) together with accrued interests and legal fees payable immediately by the Brazilian company. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling the Brazilian company to pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB40,342,100) together with accrued interests and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional enforcement procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB40,342,100) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB107 million). The Company has appointed a legal counsel to conduct active defense in respect of the said case.

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

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

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

On 28 December 2020, the Guangdong Higher Court made a ruling on the case to reject the aforesaid natural person's petition for litigation and to require the aforesaid natural person to pay the case admission fees.

On 25 January 2021, the aforesaid natural person filed an appeal demanding the Guangdong Higher Court to withdraw the first trial judgement and rule in support of all the claims of the aforesaid natural person instead.

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

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

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

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

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

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

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

Note: The exchange rates are based on the book exchange rates of the Company as at 30 June 2021 where BRL amounts are translated at the exchange rate of BRL1: RMB1.2920.

(II) APPROPRIATION OF NON-OPERATING CAPITAL OF THE LISTED COMPANY BY THE CONTROLLING SHAREHOLDER AND OTHER CONNECTED PARTIES DURING THE REPORTING PERIOD

Applicable N/A

(III) BANKRUPTCY, REORGANISATION OR RELATED ACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

Applicable N/A

Material Matters

(IV) ISSUANCE OF SHARES BY THE COMPANY FOR ASSET ACQUISITION AND ANCILLARY FUND RAISING

The Company acquired 18.8219% equity interests in ZTE Microelectronics, a subsidiary of the Company, held in aggregate by Guangdong Hengjian Xinxin Investment Partnership Enterprise (Limited Partnership) (“Hengjian Xinxin”) and Shenzhen Huitong Rongxin Investment Co., Ltd (“Huitong Rongxin”) at a transaction price of RMB2,610,827,000 by way of share issue; and meanwhile raised ancillary funds of not more than RMB2.61 billion by the non-public issuance of shares to not more than 35 specific investors. The total amount of ancillary funds to be raised thereunder shall be not more than 100% of the consideration for the proposed acquisition of the target assets by way of share issue. The volume of shares issued under the transaction complied with the pertinent provisions of CSRC and other regulatory authorities and requirements under the general mandate. The ancillary funds raised after deduction of relevant intermediary fees and relevant taxes) were intended to finance research and development projects for core 5G chips and to replenish working capital, provided that not more than 50% of the gross proceeds of ancillary funds raised shall be used for the replenishment of working capital. The aforesaid matter was approved at the Twenty-sixth Meeting of the Eighth Session of the Board of Directors, Twenty-eighth Meeting of the Eighth Session of the Board of Directors and Third Extraordinary General Meeting 2020 of the Company. For details, please refer to the announcements “(1) SHARE TRANSACTION – PROPOSED ACQUISITION OF 18.8219% EQUITY INTEREST IN ZTE MICROELECTRONICS AND (2) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS” published on 28 October 2020, “UPDATE ANNOUNCEMENT ON (1) SHARE TRANSACTION – PROPOSED ACQUISITION OF 18.8219% EQUITY INTEREST IN ZTE MICROELECTRONICS AND (2) PROPOSED NON-PUBLIC ISSUANCE OF A SHARES TO RAISE ANCILLARY FUNDS” published by the Company on 16 November 2020 and the Company’s circular dated 3 December 2020.

On 24 November 2020, the Company received the Letter of Query on the Restructuring of ZTE Corporation (“Letter of Query”). As required by the Letter of Query, the Company has actively organised relevant parties to address questions raised in the Letter of Query. For details, please refer to the “Overseas Regulatory Announcement Response to the Letter of Query on the Restructuring of ZTE Corporation from Shenzhen Stock Exchange” and “Overseas Regulatory Announcement” published by the Company on 1 December 2020.

On 4 January 2021, the Company received the “Form of Admission of Application for CSRC Administrative Approval” issued by CSRC, pursuant to which CSRC decided to admit the application for administrative approval for acquisition of assets by issuance of shares by listed companies submitted by the Company. For details, please refer to the “Overseas Regulatory Announcement Announcement on Admission by CSRC of the Application for the Acquisition of Assets by Issuance of Shares and Ancillary Fund-raising” published by the Company on 4 January 2021.

The Company published the “Overseas Regulatory Announcement Announcement on the Receipt of ‘Notice Regarding the China Securities Regulatory Commission’s First Feedback on the Review of Administrative Permission Items’” on 20 January 2021 and “Overseas Regulatory Announcement Announcement on Extension of Deadline for Reply to the ‘Notice Regarding the China Securities Regulatory Commission’s First Feedback on the Review of Administrative Permission Items’” on 26 February 2021. The Company and relevant intermediaries studied and deliberated on issues raised in the notice and submitted an item-by-item response to the relevant questions. For details of the response, please refer to the “Overseas Regulatory Announcement” published by the Company on 16 March 2021.

On 31 March 2021, the Listed Company Merger, Acquisition and Reorganisation Verification Committee (the “M&A and Reorganisation Committee”) of convened the Sixth Working Meeting in 2021 to verify the acquisition of assets by issuance of shares and ancillary fund-raising by the Company. According to the verification results of the meeting, the acquisition of assets by issuance of shares and ancillary fund-raising by the Company was approved unconditionally. On 26 April 2021, the Company received the “Approval in Relation to the Acquisition of Assets by Issuance of Shares and Ancillary Fund-raising by ZTE Corporation” from the CSRC. For details, please refer to the “Announcement on Unconditional Approval of the Acquisition of Assets by Issuance of Shares and Ancillary Fund-raising by the Company by the M&A and Reorganisation Committee of the CSRC and Resumption of Trading of A Shares of the Company” and “Announcement on the Approval in Relation to the Acquisition of Assets by Issuance of Shares and Ancillary Fund-raising by the CSRC” published by the Company on 31 March 2021 and 26 April 2021, respectively.

(V) NON-PUBLIC ISSUANCE OF A SHARES BY THE COMPANY AND PROGRESS OF INVESTMENT PROJECTS UTILISING ISSUE PROCEEDS

For matters pertaining to the Company's non-public issue of A shares, please refer to the announcements of the Company dated 31 January 2018, 1 February 2018, 28 March 2018, 10 April 2018, 29 October 2018, 19 November 2018, 17 January 2019, 23 January 2019, 25 February 2019, 20 March 2019, 5 August 2019, 7 August 2019, 22 August 2019 and 21 October 2019, respectively, and the Company's circulars dated 2 March 2018 and 28 February 2019, respectively.

On 15 January 2020, the Company entered into the Subscription Agreement with 10 subscribers (who were independent professional or institutional PRC investors). The issue price for the Company's non-public issuance of A shares was set at RMB30.21 per share and a total of 381,098,968 shares were issued, raising gross proceeds of RMB11,512,999,823.28 and net proceeds of RMB11,459,418,724.31 after deduction of issue expenses, which was to be applied in (1) technology research and product development relating to 5G network evolution; and (2) replenishment of working capital. The total nominal value of A shares issued by the Company was RMB381,098,968, and the net price derived from each A Share was RMB30.07. On the signing date of the subscription agreement pursuant to which the issue price and other terms of the proposed non-public issuance of A Shares were determined (i.e. 15 January 2020), the closing price of H Shares was HK\$27.05 and the closing price of A Shares was RMB36.92. The new shares under the non-public issue of A shares by the Company were listed on the Shenzhen Stock Exchange on 4 February 2020. For details, please refer to the announcements "DETERMINATION OF ISSUE PRICE FOR THE NON-PUBLIC ISSUANCE OF A SHARES AND ENTERING INTO OF SUBSCRIPTION AGREEMENT", "COMPLETION OF NON-PUBLIC ISSUANCE OF A SHARES" and "Announcement on the Adjustment to the Listing Date of Non-public Issuance of New A Shares" published by the Company on 16 January 2020, 23 January 2020 and 2 February 2020, respectively.

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

The following table sets out details of the application of proceeds from the non-public issuance of A shares during the reporting period.

Unit: RMB ten thousand

| Project | Amount |
|--|---------------------|
| Net proceeds | 1,145,941.87 |
| Add: Net amount of accrued interest income less handling fee | 303.65 |
| Less: Net amount of replacement and transfer for the reporting period (Technological research and product development projects relating to 5G network evolution) | 109,496.12 |
| Amount utilised as working capital replenishment for the reporting period (surplus proceeds transferred to working capital replenishment on a permanent basis) | 13,816.06 |
| Net amount of replacement and transfer for the previous year (Technological research and product development projects relating to 5G network evolution) | 632,933.34 |
| Amount utilised in the previous year (Working capital replenishment) | 390,000.00 |
| Balance of proceeds as at the end of the reporting period | 0.00 |

Material Matters

Pursuant to the “Resolutions on the closing of investment projects utilising proceeds from the non-public issuance of A shares and allocation of the surplus proceeds as supplementary working capital on a permanent basis” considered and approved at the Thirty-first Meeting of the Eighth Session of the Board of Directors of the Company on 29 January 2021, the closing of investment projects utilising proceeds from the non-public issuance of A shares and allocation of surplus proceeds amounting to RMB138 million as supplementary working capital on a permanent basis was approved. The Company cancelled the dedicated account for issue proceeds in February and the actual amount of surplus proceeds upon cancellation was RMB138,160,600, which will be utilised in full as supplementary working capital on a permanent basis, whereby relevant tripartite supervision agreements for the proceeds were also terminated.

(VI) TRANSFER OF 90% EQUITY INTERESTS IN CALTTA BY THE COMPANY

Based on considerations relating to the Company’s strategic development, the Company entered into the Equity Transfer Agreement with Beijing E-Town Semiconductor Industry Investment Centre (Limited Partnership) (hereinafter “E-Town Semiconductor”) on 11 January 2021. Pursuant to the Equity Transfer Agreement, the Company shall transfer its 90% equity interests in Caltta to E-Town Semiconductor for a consideration of RMB1,035 million. The Company completed the disposal of 90% equity interests in Caltta in March 2021, after which the Company ceased to hold any equity interest in Caltta. Details of the transaction are set out in the following table:

| Counterparty | Equity disposed of | Date of disposal | Trading price (RMB100 million) | Net profit contribution to listed company from the equity interest from the beginning of the period to the date of disposal (RMB100 million) | Net profit contribution to listed company of equity disposal as a percentage of total net profit ^{Note 1} | Pricing principle of equity disposal | Whether a connected transaction | Connected relationship with counterparty | Whether equity involved has been transferred in full | Whether implemented as scheduled; reasons if not and measures adopted if not |
|----------------------|-------------------------------|------------------|--------------------------------|--|--|--|---------------------------------|--|--|--|
| E-Town Semiconductor | 90% equity interest in Caltta | March 2021 | 10.35 | (0.36) | 16.24% | Determined through arm’s length negotiations between the two parties based on the operating and financial conditions of Caltta | No | N/A | Yes | Yes |

Note 1: Net profit refers to the net profit attributable to holders of ordinary shares of the listed company for the reporting period.

The aforesaid matter has been considered and approved at the Thirtieth Meeting of the Eighth Session of the Board of Directors of the Company. For details, please refer to the “Announcement Resolutions of the Thirtieth Meeting of the Eighth Session of the Board of Directors” and “Announcement Transfer of 90% Equity Interests in Caltta Technologies Co., Ltd.” published by the Company on 11 January 2021.

(VII) TERMINATION OF QUOTATION OF ZXELINK, A SUBSIDIARY OF THE COMPANY, ON NATIONAL EQUITIES EXCHANGE AND QUOTATIONS (“NEEQ”)

Pursuant to the “Resolution on the proposed application for termination of quotation on the National Equities Exchange and Quotations by subsidiary SHANGHAI ZXELINK CO., LTD” considered and approved at the Thirtieth Meeting of the Eighth Session of the Board of Directors of the Company held on 11 January 2021, it was approved that SHANGHAI ZXELINK CO., LTD (formerly known as Shanghai Zhongxing Telecom Equipment Technologies Corporation, hereinafter “ZXELINK”) would apply for the termination of its quotation on NEEQ. The termination of the quotation of ZXELINK on NEEQ has been approved by National Equities Exchange and Quotations Limited and ZXELINK shares have ceased to be quoted on NEEQ as from 25 February 2021.

For details, please refer to the “Announcement Resolutions of the Thirtieth Meeting of the Eighth Session of the Board of Directors” and “Overseas Regulatory Announcement Proposed Application for Termination of Quotation on National Equities Exchange and Quotations by Subsidiary SHANGHAI ZXELINK CO., LTD” published on 11 January 2021 and “Overseas Regulatory Announcement Announcement on the Approval for Termination of Quotation on National Equities Exchange and Quotations of SHANGHAI ZXELINK CO., LTD, a subsidiary” published on 24 February 2021 by the Company.

(VIII) CONNECTED TRANSACTIONS UNDER APPLICABLE LAWS AND REGULATIONS OF THE PRC

1. Connected transactions in the ordinary course of business

The connected transactions disclosed in the following table represent connected transactions reaching the benchmark for public disclosure as defined under the Shenzhen Listing Rules.

| Counterparty to connected transaction | Nature of connection | Classification | Subject matter | Pricing principle | Price (RMB) | As a percentage of transactions in the same classification | | Whether approved cap has been exceeded | Settlement | Market price for similar transactions available (RMB) date | | Domestic announcement index |
|---|--|--|---|---|---|--|------------|--|---------------------------------------|--|------------------------|---|
| | | | | | | Amount (RMB in ten thousands) | (%) | | | Domestic announcement | | |
| Zhongxingxin and its subsidiaries and companies in which it held equity interests of 30% or above | Controlling shareholder of the Company and its subsidiaries in which it held equity interests of 30% or above | Purchase of raw materials | The purchase of cabinets and related accessories, cases and related accessories, shelters, railings, antenna poles, optical products, refined-processing products, packaging materials, FPC, R-FPC and components and LiFePO4 battery and accessories by the Company from the connected party | 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. The prices of properties leased to connected parties by the Group were determined through arm's length negotiations based on normal commercial terms. Transaction prices at which products and services were sold and provided 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. | Cabinets and related accessories: RMB1-RMB300,000 per unit, cases and related accessories: RMB1-RMB15,000 per unit, depending on level of sophistication; Shelters: RMB1,000-RMB100,000 per unit depending on measurement, materials used and configuration; Railings: RMB1,000-50,000 per piece depending on level of sophistication and functional features; Antenna poles: RMB200-2,000 per piece depending on level of sophistication and functional features; Optical products: RMB1.3-30,000 per unit depending on level of sophistication and functional features; Refined-processing products: RMB0.5-50,000 per unit depending on level of sophistication and functional features; Packaging materials: RMB0.01-5,000 per piece depending on level of sophistication and functional features; FPC, R-FPC and components: RMB0.5-100 per piece depending on measurement, level of process sophistication and materials used; LiFePO4 battery: RMB3,000-6,000 per unit; battery accessories: RMB100-500 per unit, depending on model, functional features and level of process sophistication. Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB930-1,300 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day. | 14,479.35 | 0.51% | No | Commercial acceptance bill | N/A | 2018-12-25 | Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" |
| Huatong Technology Company Limited ("Huatong") | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president | Purchase of software outsourcing services | The purchase of personnel hiring and project outsourcing services by the Company from the connected party | Transaction prices at which products and services were sold and provided 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. | Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB930-1,300 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day. | 2,294.04 | 0.08% | No | Tele-transfer | N/A | 2020-1-17 | Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" |
| ZTE Software Technology (Nanchang) Company Limited ("Nanchang Software") | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president | Purchase of software outsourcing services | The purchase of personnel hiring and project outsourcing services by the Company from the connected party | Transaction prices at which 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. | Special-grade engineer at a price ranging from RMB970-1,800 per head/day; Supervisory engineer at a price ranging from RMB930-1,300 per head/day; Senior engineer at a price ranging from RMB520-1,150 per head/day; Common engineer at a price ranging from RMB440-750 per head/day; Assistant engineer at a price ranging from RMB350-550 per head/day; Technician at a price ranging from RMB320-500 per head/day. | 1,567.15 | 0.06% | No | Tele-transfer | N/A | 2020-1-17 | Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" |
| Zhongxing Hetai or its subsidiaries | A company for which a connected natural person of the Company acted as director and its subsidiaries | Purchase of hotel services | The purchase of hotel services by the Company from the connected party | Transaction prices at which 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. | Purchase price not higher than prices at which Zhongxing Hetai sells products (or services) to other customers purchasing similar products (or services) in similar amounts, subject to the actual agreement signed by the two parties. | 1,519.45 | 0.05% | No | Tele-transfer | N/A | 2018-12-25 | Announcement No. 2018104 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" |
| Zhongxing Hetai or its subsidiaries | A company for which a connected natural person of the Company acted as director and its subsidiaries | Lease of property and equipment and facilities | The lease of property and related equipment and facilities by the Company to the connected party | Transaction prices at which 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. | In 2021, RMB63/sq.m/month for hotel properties in Dameisha in Shenzhen; RMB55/sq.m/month for hotel properties in Nanjing; RMB72/sq.m/month for hotel properties in Shanghai; RMB43/sq.m/month for hotel properties in Xi'an. The rental fee for related equipment and facilities required by the hotel operations in Shenzhen, Shanghai, Nanjing and Xi'an was 1,370,000/year. | 1,993.22 | 13.02% | No | Tele-transfer | N/A | 2020-1-17 2021-4-29 | Announcement No. 202004 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" Announcement No. 202149 Announcement – Connected Transaction in relation to the Supplementary Agreement of Property and Equipment and Facilities Lease Framework Agreement with Zhongxing Hetai, a Connected Party" |
| 航天数据信息技术服务有限公司 (航天数据) | Subsidiary of a company for which a connected natural person of the Company acted as senior management | Sale of products | The sale of the full range of government and enterprise products by the Company to the connected party | Transaction prices at which 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. | 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. | 35,768.03 | 0.67% | No | Tele-transfer or bank acceptance bill | N/A | 2020-12-22 | Announcement No. 2020121 "Announcement on Projected Continuing Connected Transactions under the Rules Governing Listing of Stocks on The Shenzhen Stock Exchange" |
| Total | | | | | | 57,621.24 | N/A | - | - | - | - | - |

Material Matters

| | |
|--|---|
| Detailed information of substantial sales return | None |
| Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any) | <p>At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of raw materials from Zhongxingxin, a connected party, and its subsidiaries and companies in which it held equity interests of 30% or above by the Group in 2021 be capped at RMB900 million (before VAT);</p> <p>At the Thirteen Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020, it was considered and approved that the estimated purchases of software outsourcing services from Huatong and Nanchang Software, both connected parties, in 2021 be capped at RMB91.65 million and RMB58.20 million (before VAT), respectively;</p> <p>At the Forty-second Meeting of the Seventh Session of the Board of Directors of the Company held on 25 December 2018, it was considered and approved that the estimated purchases of hotel services from Zhongxing Hetai, a connected party, or its subsidiaries by the Group in 2021 be capped at RMB37.50 million (before VAT);</p> <p>At the Thirteenth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 January 2020 and the Thirty-fourth Meeting of the Eighth Session of the Board of Directors of the Company held on 28 April 2021, it was considered and approved that the estimated lease of properties and equipment and facilities to Zhongxing Hetai or its subsidiaries by the Group in 2021 be capped at RMB59.72 million (before VAT);</p> <p>At the Twenty-ninth Meeting of the Eighth Session of the Board of Directors of the Company held on 17 December 2020, it was considered and approved that the estimated sales of products to 航天歌華, a connected party, by the Group in 2021 be capped at RMB1,100 million (before VAT); and</p> <p>Please refer to the above table for details of the execution of the aforesaid continuing connected transactions.</p> |
| Reason for the substantial difference between transaction prices and referential market prices (if applicable) | N/A |

Note 1: For details of "Approved Cap", please refer to the section headed "Projected total amount of continuing connected transaction during the period by type and actual performance during the reporting period (if any)".

2. Connected transactions arising from acquisitions or disposals of assets and equity interests.

Applicable N/A

3. Connected transactions involving joint investment in third parties.

Applicable N/A

4. Creditors or debtors with connected parties

Applicable N/A

The Company did not incur any creditors or debtors with connected parties of a non-operating nature during the reporting period.

5. The Company did not have any connected financial companies. During the reporting period, there was no deposit, lending, credit facilities or other financial transactions between financial companies controlled by the Company and connected parties during the reporting period.

6. Other material connected transactions

Applicable N/A

(IX) MATERIAL CONTRACTS AND THEIR PERFORMANCE

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

2. Third-party guarantees of the Group

Third-party guarantees provided by the Company and subsidiaries (excluding guarantees provided by the Company on behalf of subsidiaries and vice versa and by subsidiaries on behalf of fellow subsidiaries)

| Guaranteed party | Date and index of domestic announcement disclosing the guarantee amount | Amount guaranteed | Date incurred | Actual amount guaranteed | Type of guarantee | Collateral | Counter-guarantee | Term of guarantee | Whether performance was completed | Whether provided on behalf of connected parties |
|---|---|-------------------|---------------|--------------------------|---|------------|-------------------|--|-----------------------------------|---|
| Beijing Fuhua Yuqi Information Technology Co., Ltd ^{note 1} | 1 December 2016 201678 | RMB21,019,250 | 1 April 2017 | RMB21,019,250 | Joint liability assurance | N/A | Note 1 | From the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of obligations under the Technology Development (Entrustment) Contract. | No | No |
| Total amount of third-party guarantee approved during the reporting period (A1) | | | - | | Total amount of third-party guarantee actually incurred during the reporting period (A2) | | - | | | |
| Total amount of third-party guarantee approved as at the end of the reporting period (A3) | | | RMB21,019,300 | | Total amount of balance of third-party guarantee actually incurred as at the end of the reporting period (A4) | | RMB21,019,300 | | | |

Guarantees provided by the Company on behalf of subsidiaries

| Guaranteed party | Date and index of domestic announcement disclosing the guarantee amount | Amount guaranteed | Date incurred | Actual amount guaranteed | Type of guarantee | Collateral | Counter-guarantee | Term of guarantee | Whether performance was completed | Whether provided on behalf of connected parties |
|--|---|------------------------------|-------------------|--------------------------|---------------------------|------------|-------------------|--|-----------------------------------|---|
| ZTE France SASU ^{note 2} | 14 December 2011 201152 | EUR10 million | N/A | - | Assurance | N/A | N/A | From maturity to the date on which performance of obligations of ZTE France under the "SMS Contract" and "PATES Contract" expires or terminates (whichever is later) | N/A | No |
| PT. ZTE Indonesia ^{note 3} | 13 September 2013 201362 | USD40 million | 23 October 2013 | USD40 million | Joint liability | N/A | N/A | From maturity to the date on which performance of material obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed | Note 3 | No |
| PT. ZTE Indonesia ^{note 3} | 13 September 2013 201362 | USD15 million | 11 September 2013 | USD15 million | Joint liability | N/A | N/A | From maturity to 5 March 2017 or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed (whichever is later) | Note 3 | No |
| ZTE (Malaysia) Corporation SDN. BHD ^{note 4} | 24 September 2014 201440 8 January 2016 201605 | USD60 million | 27 November 2014 | - | Joint liability | N/A | N/A | Commencing on the date on which the "UM Wireless Capacity Expansion Contract" comes into effect upon execution and ending on the date on which performance of the obligations of ZTE Malaysia under the "UM Wireless Capacity Expansion Contract" is completed | Yes | No |
| ZTE (Wenzhou) Railway Communication Technology Limited ^{note 5} | 30 September 2017 201765 | RMB3,300,000 | 28 December 2017 | RMB3,152,500 | Joint liability | N/A | Note 5 | Commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfillment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate | Yes | No |
| ZTE (H.K.) Limited ^{note 6} | 16 March 2018 201822 | Not more than USD600 million | 1 June 2020 | USD300 million | Joint liability assurance | N/A | N/A | From 1 June 2020 to (1) 1 June 2023, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first | No | No |
| | | | 13 August 2020 | USD50 million | Joint liability assurance | N/A | N/A | From 13 August 2020 to (1) 13 August 2025, or (2) the irrevocable settlement in full by ZTE HK of all amounts payable under the loan agreement and other agreements and documents thereunder, including the guarantee agreement, from the date of such agreements and documents to the long-stop date, whichever period occurs first | No | No |
| | | | 2 March 2021 | - | Joint liability assurance | N/A | N/A | A period of six months from 2 March 2021 to the loan maturity date (for loans, guarantee periods are calculated on the basis of individual drawdowns), provided that in the event of maturity being brought forward by the lender owing to the occurrence of events stipulated by laws and regulations or the master contract, guarantee period shall be two years from the date of maturity being brought forward | No | No |
| PT. ZTE Indonesia ^{note 7} | 15 October 2018 201890 | USD40 million | 25 October 2018 | USD40 million | Joint liability | N/A | N/A | Commencing on the date of issuance of the guarantee letter of the parent company and ending on the date on which the parent company is fully released from its assurance obligations under the guarantee | Note 7 | No |
| PT. ZTE Indonesia ^{note 7} | 15 October 2018 201890 | IDR300 billion | 26 April 2019 | IDR300 billion | Joint liability | N/A | N/A | Commencing on the date of issuance of the bank guarantee letter and ending upon the conclusion of an effective term of 3 years and 6 months or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed, whichever is later | Note 7 | No |

Material Matters

Guarantees provided by the Company on behalf of subsidiaries

| Guaranteed party | Date and index of domestic announcement disclosing the guarantee amount | Amount guaranteed | Date incurred | Actual amount guaranteed | Type of guarantee | Collateral | Counter-guarantee | Term of guarantee | Whether performance was completed | Whether provided on behalf of connected parties |
|---|---|-------------------------------------|---------------|---|-------------------|------------------|-------------------|---|-----------------------------------|---|
| PT. ZTE Indonesia ^{Note 8} | 19 February 2021 202118 | USD40 million | 30 June 2021 | USD40 million | Joint liability | N/A | N/A | Commencing on the date of issuance of the guarantee letter of the Company and ending upon the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed | No | No |
| PT. ZTE Indonesia ^{Note 8} | 19 February 2021 202118 | IDR400 billion | 30 June 2021 | IDR400 billion | Joint liability | N/A | N/A | Effective term of 3 years and 6 months or the date on which performance of obligations of PT. ZTE Indonesia under the "Equipment Purchase Contract" and "Technical Support Contract" is completed, whichever is later | No | No |
| 11 overseas subsidiaries involved in the MTN Group project ^{Note 9} | 17 March 2021 202128 | USD160 million | N/A | — | Joint liability | N/A | N/A | 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 | No |
| 11 overseas subsidiaries involved in the MTN Group project ^{Note 9} | 17 March 2021 202128 | USD16 million | N/A | — | Joint liability | N/A | N/A | 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 | No |
| Total amount of guarantee approved during the reporting period (B1) | | RMB4,158,660,800 ^{Note 10} | | Total amount of guarantee actually incurred during the reporting period (B2) | | RMB436,260,800 | | | | |
| Total amount of guarantee approved as at the end of the reporting period (B3) | | RMB9,251,370,900 ^{Note 10} | | Total amount of balance of guarantee actually incurred as at the end of the reporting period (B4) | | RMB2,831,456,400 | | | | |

Guarantees provided by subsidiaries on behalf of fellow subsidiaries

| Guaranteed party | Date and index of domestic announcement disclosing the guarantee amount | Amount guaranteed | Date incurred | Actual amount guaranteed | Type of guarantee | Collateral | Counter-guarantee | Term of guarantee | Whether performance was completed | Whether provided on behalf of connected parties |
|--|---|-------------------|------------------|--|---------------------------|--|-------------------|--|-----------------------------------|---|
| Xi'an Cris Semiconductor Technology Company Limited ^{Note 11} | N/A | USD30 million | 26 January 2017 | USD2,758,900 | Joint liability | N/A | N/A | Commencing on the date on which the "Guarantee Contract" comes into effect and ending upon the conclusion of a 2-year period during which Cris has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding. | No | No |
| ZTE ICT (Guangxi) Company Limited ^{Note 12} | 19 March 2019 201916 | RMB10 million | 20 March 2019 | RMB10 million | Joint liability assurance | N/A | N/A | Commencing on the date on which the "Maximum Guarantee Contract" comes into effect upon execution and ending on the date on which a period of 3 years has lapsed since the conclusion of the performance period for the primary creditor rights guaranteed | Yes | No |
| ZTE ICT Company Limited ^{Note 13} | 24 April 2020 202032 | RMB100 million | 7 May 2020 | RMB100 million | Secured by collaterals | State-owned land use rights and properties | N/A | Commencing on the date on which the "Maximum Mortgage Contract" comes into effect and ending on 3 January 2023 | No | No |
| Netas Bilişim Teknolojileri A.Ş. ^{Note 14} | N/A | USD2,153,300 | 14 November 2012 | — | Joint liability | N/A | N/A | Commencing on the date on which the "Systems Integration Agreement" comes into effect upon execution and ending on the date on which performance of the obligations of Netas Bilişim under the "Systems Integration Agreement" is completed. | No | No |
| BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ^{Note 14} | N/A | EUR10,753,800 | 5 May 2017 | EUR10,753,800 | Joint liability | N/A | N/A | Commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the "Procurement and Installation Agreement" is completed | No | No |
| Netaş Bilişim Teknolojileri A.Ş. ^{Note 15} | 22 December 2020 2020112 | USD90 million | 7 May 2020 | USD6,924,300 | Joint liability | N/A | N/A | Ending on the date on which the repayment of debt relating to the guarantee is completed | No | No |
| BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. ^{Note 15} | 22 December 2020 2020112 | USD20 million | 4 August 2020 | USD1,296,100 | Joint liability | N/A | N/A | Ending on the date on which the repayment of debt relating to the guarantee is completed | No | No |
| NETAŞ TELEKOMÜNİKASYON A.Ş. ^{Note 15} | 22 December 2020 2020112 | USD30 million | 18 May 2021 | USD2,914,400 | Joint liability | N/A | N/A | Ending on the date on which the repayment of debt relating to the guarantee is completed | No | No |
| Netaş Telecom Limited Liability Partnership ^{Note 15} | 22 December 2020 2020112 | USD10 million | N/A | — | Joint liability | N/A | N/A | Ending on the date on which the repayment of debt relating to the guarantee is completed | N/A | No |
| Total amount of guarantee for subsidiary approved during the reporting period (C1) | | — | | Total amount of guarantee for subsidiary actually incurred during the reporting period (C2) | | RMB102,719,500 | | | | |
| Total amount of guarantee for subsidiary approved as at the end of the reporting period (C3) | | RMB1,369,864,600 | | Total amount of balance of guarantee for subsidiaries actually incurred as at the end of the reporting period (C4) | | RMB285,418,400 | | | | |

| Total amount guaranteed by the Company (sum of the three categories set out above) | | | |
|--|-------------------|---|------------------|
| Total amount of guarantee approved during the reporting period (A1+B1+C1) | RMB4,158,660,800 | Total amount of guarantee actually incurred during the reporting period (A2+B2+C2) | RMB538,980,300 |
| Total amount of guarantee approved as at the end of the reporting period (A3+B3+C3) | RMB10,642,254,800 | Total amount of balance of guarantee actually incurred as at the end of the reporting period (A4+B4+C4) | RMB3,137,894,100 |
| Total amount of guarantee (A4+B4+C4) as a percentage of net assets of the Company | | | 6.68% |
| Including: | | | |
| Amount of guarantee provided on behalf of shareholders, de facto controllers and their connected parties (D) | | | 0 |
| Amount of debt guarantee provided directly or indirectly on behalf of parties with a gearing ratio exceeding 70% (E) | | | RMB3,011,200,600 |
| Amount of total guarantee exceeding 50% of net assets (F) | | | 0 |
| Aggregate amount of the three guarantee amounts stated above (D+E+F) | | | RMB3,011,200,600 |
| Statement on liability incurred during the reporting period or potential joint liability for debt settlement (if any) in respect of outstanding guarantees | | | N/A |
| Statement on provision of guarantee to third parties in violation of stipulated procedures (if any) | | | N/A |

- Note 1:** It was considered and approved at the Tenth Meeting of the Seventh Session of the Board of Directors of the Company that guarantee be provided by the Company by way of joint liability assurance for the performance of obligations by Beijing Fuhua Yuqi Information Technology Co., Ltd. ("Fuhua Yuqi") under the Technology Development (Entrustment) Contract for a guarantee amount of not more than RMB21,019,250 for a term commencing on the date on which the Technology Development (Entrustment) Contract comes into effect upon execution and ending on the completion of Fuhua Yuqi's performance of obligations under the Technology Development (Entrustment) Contract. The Technology Development (Entrustment) Contract came into effect on 1 April 2017 upon execution. Fuhua Yuqi has provided a third-party counter-guarantee to the Company in respect of the aforesaid guarantee. As at the end of the reporting period, the aforesaid guarantee was under normal performance.
- Note 2:** It was approved at the Twenty-fourth Meeting of the Fifth Session of the Board of Directors of the Company that a guarantee for an amount of not more than EUR10 million in respect of the performance obligations of ZTE France SASU ("ZTE France"), a wholly-owned subsidiary of the Company under the 2010 SMS Execution Contract ("SMS Contract") and the PATES-NG Execution Contract ("PATES Contract"). The PATES Contract was completed and the guarantee provided by the Company in respect of the performance obligations of ZTE France has not completed registration procedures of the State Administration of Foreign Exchange and had yet to be performed.
- Note 3:** It was considered and approved at the Ninth Meeting of the Sixth Session of the Board of Directors of the Company and the Third Extraordinary General Meeting of 2013 of the Company that a performance guarantee of USD40 million be provided by the Company for ZTE Indonesia, a wholly-owned subsidiary of the Company, and application be made by the Company to the relevant bank for the issuance of a letter of performance guarantee with an amount of USD15 million. As at the end of the reporting period, the aforesaid guarantee have been released.
- Note 4:** At the Twenty-first Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2014 of the Company, it was considered and approved that the Company would provide a USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company. At the Thirty-ninth Meeting of the Sixth Session of the Board of Directors and the First Extraordinary General Meeting of 2016 of the Company, it was considered and approved that the Company would increase the USD20 million performance guarantee for ZTE Malaysia, a wholly-owned subsidiary of the Company, by USD40 million (namely, a total of not more than USD60 million). As of the end of the reporting period, ZTE Malaysia's obligations under the UM Wireless Capacity Expansion Contract have been fulfilled, and the performance guarantee provided by the Company for ZTE Malaysia has been released accordingly.
- Note 5:** As considered and passed at the Twenty-third Meeting of the Seventh Session of the Board of Directors of the Company, the provision by the Company of a guarantee by way of performance bond amounting to not more than RMB3.30 million in respect of the performance obligations of ZTE (Wenzhou) Railway Communication Technology Limited ("ZTE Wenzhou") under the "Wenzhou Public Security Communications Contract" for a period commencing on the date of issuance of the performance bond and ending on the 30th day after the due fulfilment of inspection upon completion of the Wenzhou Public Security Communications Project with the receipt of an acceptance certificate was approved. The Company has applied to the relevant bank for the issuance of a bank guarantee letter providing guarantee by way of performance bond with a cumulative maximum amount of RMB3,152,500 in respect of the performance obligations of ZTE Wenzhou under the "Wenzhou Public Security Communications Contract". As of the end of the reporting period, the aforementioned performance bond has expired and the guarantee has been released accordingly.

Material Matters

- Note 6: 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. In June 2020, ZTE HK entered a USD300 million loan agreement with 8 Chinese/foreign banks headed by Bank of China, Macau Branch (“BOC Macau”). At the same time, the Company entered into a guarantee agreement with BOC Macau to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. On 13 August 2020, ZTE HK entered into a USD50 million loan agreement with 3 banks, including CITIC Bank London Branch. At the same time, the Company entered into a guarantee agreement with CITIC Bank London Branch to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. On 2 March 2021, ZTE HK entered into a USD150 million loan agreement with BOCHK. At the same time, the Company entered into a guarantee agreement with BOCHK to provide guarantee by way of joint liability assurance in respect of the debt of ZTE HK under the loan agreement and the agreements and documents thereunder. As of the end of the reporting period, the above-mentioned debts of ZTE HK in BOCHK have not yet been incurred.
- Note 7: As considered and passed at the Thirty-ninth Meeting of the Seventh Session of the Board of Directors of the Company, the provision of USD40 million performance guarantee and the application to the relevant bank for the issuance of an IDR300 billion bank letter of guarantee by the Company for ZTE Indonesia, a wholly-owned subsidiary, was approved. The aforesaid guarantee was within the limit of USD200 million for the guarantee of contract performance provided for wholly-owned overseas subsidiaries as considered and passed at the 2017 Annual General Meeting. As of the end of the reporting period, the Company’s US\$40 million performance guarantee for its wholly-owned subsidiary, ZTE Indonesia, has been released, and the cancellation of the performance bond of IDR300 billion has not yet been completed.
- Note 8: As considered and passed at the Thirty-second Meeting of the Eighth Session of the Board of Directors of the Company and the 2020 Annual General Meeting, the provision of USD40 million performance guarantee and the application to the relevant bank for the issuance of an IDR400 billion bank letter of guarantee by the Company for ZTE Indonesia, a wholly-owned subsidiary, was approved. As of the end of the reporting period, the aforementioned guarantees have become effective.
- Note 9: As considered and passed at the Thirty-third Meeting of the Eighth Session of the Board of Directors of the Company and the 2020 Annual General Meeting, the provision of no more than USD160 million performance guarantee and the application to the relevant bank for the issuance of a USD16 million bank letter of guarantee by the Company for 11 overseas subsidiaries involved in MTN Group projects (including ZTE Corporation South Africa Proprietary Limited, ZTE Congo SARL, ZTE Zambia Service Limited, ZTE Uganda Limited, ZTE Nigeria Limited, ZTE Corporation Cote D’Ivoire SARL.U, ZTE Ghana Limited, ZTE Guinea SA, ZTE Afghanistan Ltd Co, ZTE Cameroon SARL and ZTE (H.K.) Limited), was approved. As of the end of the reporting period, the aforementioned guarantee has not yet become effective.
- Note 10: As considered and passed at the Thirty-third Meeting of the Eighth Session of the Board of Directors of the Company and the 2020 Annual General Meeting, the provision of performance guarantee line of no more than USD400 million in aggregate for 11 overseas subsidiaries (excluding the 11 overseas subsidiaries involved in the MTN Group projects), was approved. The computations of the total amount of guarantee on behalf of subsidiaries approved during the reporting period (B1) and the total amount of guarantee on behalf of subsidiaries approved as at the end of the reporting period (B3) include a USD400 million guarantee provided for overseas wholly-owned subsidiaries. As at the end of the reporting period, the aforesaid guarantee had yet to be applied.
- Note 11: It was considered and approved at the board meeting of ZTE Micro-electronics, a subsidiary of the Company, that ZTE Micro-electronics would provide joint liability guarantee for an amount of not more than USD30 million in connection with the procurement orders between Xi’an Cris Semiconductor Technology Company Limited (“Cris”), its wholly-owned subsidiary, and Taiwan Semiconductor Manufacturing Company Limited (“TSMC”) for a term commencing on the date on which the “Guarantee Contract” comes into effect and ending upon on the conclusion of a 2-year period during which Cris has not ordered any manufacturing service from TSMC provided that no debt payment is due and outstanding. As at the end of the reporting period, the aforesaid guarantee was under normal operation and guarantee for an amount of USD2,759,900 had come into effect.
- Note 12: As considered and approved at the Forty-fifth Meeting of the Seventh Session of the Board of Directors of the Company and by the board of directors and general meeting of ZTE ICT, ZTE ICT would provide guarantee by way of assurance with an amount of RMB10 million in respect of the obligations of ZTE ICT (Guangxi) Company Limited (“Guangxi ICT”), under the “Working Capital Maximum Borrowing Contract” in favour of Guilin Bank, Wuzhou Branch, for a term commencing on the date on which the “Maximum Guarantee Contract” comes into effect and ending on the date on which a period of 3 years has lapsed since the conclusion of the performance period for the primary creditor rights guaranteed. On 20 March 2019, ZTE ICT entered into a “Maximum Guarantee Contract” with Guilin Bank, Wuzhou Branch. As of the end of the reporting period, Guangxi ICT had settled the loan to the Guilin Bank, Wuzhou Branch and the aforementioned guarantee was released.

Note 13: As considered and approved at the Sixteenth Meeting of the Eighth Session of the Board of Directors of the Company and by the board of directors and general meeting of Hunan ZICT Technology Co., Ltd (“Hunan ZICT”), Hunan ZICT would provide a maximum RMB100 million guarantee backed by real estate mortgages in favour of Shanghai Pudong Development Bank Corporation Shenzhen Branch (“PDB”) in respect of financing for ZICT. The real estate mortgage came into effect after ZICT entered into a Finance Facility Agreement with PDB and Hunan ZICT entered into a Maximum Mortgage Contract with PDB and completed registration of the mortgage on 7 May 2020. As at the end of the reporting period, the aforesaid guarantees were under normal performance.

Note 14: The Company completed the acquisition of Netaş, a listed Turkish company, on 28 July 2017. Prior to the acquisition of Netaş by the Company, Netaş had provided the following guarantee for its subsidiaries Probil Bilgi İşlem Destek ve Danışmanlık San.ve Tic. A.Ş. (renamed Netaş Bilişim Teknolojileri A.Ş and hereinafter as “Netaş Bilişim”) and BDH Bilişim Destek Hizmetleri Sanayi ve Ticaret A.Ş. (“BDH”): (1) guarantee in respect of the performance obligations of Netaş Bilişim under the “Systems Integration Agreement” for an amount of approximately USD2,153,300 for a term commencing on the date on which the “Systems Integration Agreement” comes into effect upon execution and ending on the date on which the performance of the obligations of Netaş Bilişim under the “Systems Integration Agreement” are completed. As at the end of the reporting period, the actual amount of guarantee incurred by Netaş Bilişim was 0; (2) guarantee in respect of the performance obligations of BDH under the “Procurement and Installation Agreement” for an amount of EUR10,753,800 for a term commencing on 5 May 2017 and ending on the date on which the performance of obligations of BDH under the “Procurement and Installation Agreement” is completed. As at the end of the reporting period, the aforesaid guarantees were under normal performance.

Note 15: As considered and approved at the Twenty-ninth Meeting of the Eighth Session of the Board of Directors of the Company and the Netaş board of directors, 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 USD150 million. The facilities shall cover loans, letters of guarantee and reverse supply chain financing, among others. The effective period of the guarantee shall be 1 January 2021 to 31 December 2021. The guarantees that are still in effect under the guarantee of the previous year occupy such guarantee. As at the end of the reporting period, Netaş and BDH had provided guarantee for credit facilities amounting to USD8,924,300 for Netaş Bilişim; Netaş and Netaş Bilişim had provided guarantee for credit facilities amounting to USD1,296,100 for BDH; and Netaş Bilişim had provided guarantee for credit facilities amounting to USD2,914,400 for Netaş. As at the end of the reporting period, the guarantee provided to NetaşTelecom Limited Liability Partnership by Netaş had yet to be applied.

Note 16: The guarantee amounts were translated at the book exchange rates of the Company as at 30 June 2021: USD1: RMB6.4625; EUR1: RMB7.6902; IDR1: RMB0.000444402.

3. Statement on guarantees provided in violation of regulations

Applicable N/A

4. For details of the special statement and independent opinion on the fund transfer between the Company and connected parties and third-party guarantees of the Company furnished by Independent Non-Executive Directors of the Company, please refer to the “Overseas Regulatory Announcement” published by the Company on 27 August 2021.

5. Entrusted fund management

For details of the Group’s entrusted fund management during the reporting period, please refer to the section headed “Report of the Board of Directors — (II) 7. Analysis of investments” in this report.

6. Progress during the reporting period of material contracts entered into during or prior to the reporting period

Applicable N/A

Material Matters

(X) UNDERTAKING

1 Undertaking of the Company for which fulfillment was completed during the reporting period

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

On 29 January 2021, the "Resolution on the closing of investment projects utilising proceeds from the non-public issuance of A shares and allocation of the surplus proceeds as supplementary working capital on a permanent basis" was considered and approved at the Thirty-first Meeting of the Eighth Session of the Board of Directors of the Company, pursuant to which the closing of investment projects utilising proceeds from the non-public issuance of A shares and allocation of surplus proceeds amounting to RMB138 million as supplementary working capital on a permanent basis was approved. As at 8 February 2021, the Company had cancelled the designated account for issue proceeds. During the period from 7 August 2019 to 8 February 2021, the Company did not commit new funds into the quasi-financial business (including fund commitments in various forms such as capital increase, loans and guarantees, among others). The Company had completed the performance of the undertaking.

2. Undertakings by relevant parties including the shareholders, connected parties, acquirers of the Company and the Company outstanding as at the end of the reporting period

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

- a. Zhongxingxin, the controlling shareholder of the Company, entered into "Non-Competition Agreement" with the Company on 19 November 2004, pursuant to which Zhongxingxin has undertaken to the Company that: Zhongxingxin will not, and will prevent and preclude any of its other subsidiaries from carrying on or participating in any activities in any businesses deemed to be competing with existing and future businesses of the Company in any form (including but not limited to sole ownership, equity joint venture or co-operative joint venture and direct or indirect ownership of equity or other interests in other companies or enterprises, other than through ZTE); Zhongxingxin will immediately terminate and/or procure any of its subsidiaries to terminate any participation in, management or operation of any competing businesses or activities that Zhongxingxin and/or such subsidiaries are participating in or carrying on in any manner at any time.
- b. Zhongxingxin, the controlling shareholder of the Company, provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the non-public issuance of A shares in 2018: (1) that it will not, for so long as it remains the controlling shareholder of the Company, act beyond its powers to interfere with the Company's operating and management activities or infringe upon the Company's interests; (2) that it will willingly assume the liability for compensating the Company or other shareholders in accordance with the law in the event of losses incurred by the Company or other shareholders as a result of its violation of or refusal to honour its undertaking.

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

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

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

The Directors and senior management of the Company provided the following undertaking on 31 January 2018 in respect of the implementation of remedial measures to address the dilution of return for the current period due to the non-public issuance of A shares in 2018: (1) that they will not be engaged in tunneling in favour of other units or individuals on a no-payment basis or upon unfair terms, or otherwise compromise the interests of the Company in any other manner; (2) that they will exercise restraint in spending when performing duties of their office; (3) that they will not misappropriate Company assets for investing activities or expenses not related to the performance of their duties; (4) that they will procure the linking of the remuneration regime formulated by the Board of Directors or the Remuneration and Evaluation Committee of the Board of Directors with the implementation of the Company's measures relating to compensation for return; (5) that they will procure the linking of the exercise conditions under the Company's share option incentives to be announced with the implementation of the Company's measures relating to compensation for return; (6) that they will willingly assume the liability for compensating the Company or shareholders in accordance with the law in the event of losses incurred by the Company or shareholders as a result of their violation of or refusal to honour their undertaking.

(4) Undertaking by parties to share issuance for asset acquisition and raising ancillary funds

① *Undertaking that information provided is true, accurate and complete*

| Undertaking party | Details |
|--------------------------------------|---|
| The Company and ZTE Microelectronics | <ol style="list-style-type: none"> 1. Our company shall provide information and data relating to the transaction to the parties, intermediaries and regulatory authorities involved in the transaction in a timely manner, and warrants that all information, data and descriptions and confirmations furnished (collectively, the "Relevant Information") are true, accurate and complete without any false information, misleading statement or material omission; 2. Our company warrants that all information in the form of document provided to the parties, intermediaries and regulatory authorities involved in the transaction are true, accurate and complete original written information or duplicate copy of information, that information in printed version is consistent with information in electronic version, that duplicate copy or photocopy of the information is consistent with the original information or document, that the signatures and seals of all documents are authentic, that the signatories of such documents are legally authorised and such documents have been validly signed, without any false information, misleading statement or material omission; 3. Our company warrants the performance of statutory disclosure and reporting obligations and that there are no discloseable contracts, agreements, arrangements or other matters that have not been disclosed; 4. During the period in which we are involved in the transaction, our company shall disclose Relevant Information of the transaction in a timely manner in accordance with the provisions of pertinent laws, regulations, rules and regulatory documents, as well the requirements of CSRC, stock exchanges and other regulatory authorities, and shall warrant that such Relevant Information is true, accurate and complete without any false information, misleading statement or material omission; 5. In the event of any violation of the aforesaid warranty, our company shall assume legal liability in accordance with the law. |

Material Matters

| Undertaking party | Details |
|---|---|
| Directors, Supervisors and senior management of the Company | <ol style="list-style-type: none"> 1. I warrant that all information, data and descriptions and confirmations furnished (collectively, the "Relevant Information") are true, accurate and complete without any false information, misleading statement or material omission, and assume individual and collective legal responsibility for the truthfulness, accuracy and completeness of the Relevant Information provided; 2. I warrant that all information in the form of document provided by me to the parties, intermediaries and regulatory authorities involved in the transaction are true, accurate and complete original written information or duplicate copy of information, that information in printed version is consistent with information in electronic version, that duplicate copy or photocopy is consistent with the original information or document, that the signatures and seals of all documents are authentic, that the signatories of such documents are legally authorised and such documents have been validly signed, without any false information, misleading statement or material omission; 3. If the Relevant Information provided or disclosed by me in connection with the transaction is alleged to contain false information or misleading statement or be subject to material omissions, for which a case has been opened with the judiciary authorities or CSRC for investigation, I shall suspend the transfer of any share interests in ZTE before a conclusion has been reached in such investigation, and shall submit the written application for and share account subject to transfer suspension to the Board of ZTE within two trading days upon receipt of the notification of such case investigation, and the Board shall apply to the stock exchange and clearing company for a lock-up on my behalf; in the event no application for lock-up has been submitted within two trading days, the Board is authorised to submit, after verification, my ID information and account information directly to the stock exchange and clearing company and apply for the lock-up; in the event the Board fails to submit my ID information and account information to the stock exchange and clearing company, the stock exchange and clearing company are authorised to lock up the relevant shares directly. If violations of laws and regulations are identified in the conclusion of investigation, I will assume legal liability in accordance with the law. |
| Zhongxingxin | <ol style="list-style-type: none"> 1. Our company shall disclose or provide information and data relating to the transaction to the parties, intermediaries and regulatory authorities involved in the transaction in a timely and impartial manner, and warrants that all information, data and descriptions and confirmations furnished are true, accurate and complete without any false information, misleading statement or material omission; 2. If the Relevant Information provided or disclosed by our company in connection with the transaction is alleged to contain false information or misleading statement or be subject to material omissions, for which a case has been opened with the judiciary authorities or CSRC for investigation, our company shall suspend the transfer of any share interests in ZTE before a conclusion has been reached in such investigation, and shall submit the written application for and share account subject to transfer suspension to the Board of ZTE within two trading days upon receipt of the notification of such case investigation, and the Board of ZTE shall apply to the stock exchange and clearing company for a lock-up on behalf of our company; in the event no application for lock-up has been submitted within two trading days, the Board of ZTE is authorised to submit, after verification, our company's ID information and account information directly to the stock exchange and clearing company and apply for the lock-up; in the event the Board of ZTE fails to submit our company's ID information and account information to the stock exchange and clearing company, the stock exchange and clearing company are authorised to lock up the relevant shares directly. If violations of laws and regulations are identified in the conclusion of investigation, our company undertakes to voluntarily apply the locked up shares in compensation arrangements for investors. |

| Undertaking party | Details |
|--|--|
| Hengjian Xinxin and Huitong Rongxin | <ol style="list-style-type: none"> <li data-bbox="416 383 1447 528">1. Our enterprise shall provide information and data relating to the transaction to ZTE and the parties, intermediaries and regulatory authorities involved in the transaction in a timely manner, and warrants that all information, data and descriptions and confirmations furnished (collectively, the “Relevant Information”) are true, accurate and complete without any false information, misleading statement or material omission; <li data-bbox="416 562 1447 797">2. Our enterprise warrants that all information in the form of document provided to ZTE and the parties, intermediaries and regulatory authorities involved in the transaction are true, accurate and complete original written information or duplicate copy of information, that information in printed version is consistent with information in electronic version, that duplicate copy or photocopy of the information is consistent with the original information or document, that the signatures and seals of all documents are authentic, that the signatories of such documents are legally authorised and such documents have been validly signed, without any false information, misleading statement or material omission; <li data-bbox="416 831 1447 909">3. Our enterprise warrants the performance of statutory disclosure and reporting obligations and that there are no discloseable contracts, agreements, arrangements or other matters that have not been disclosed; <li data-bbox="416 943 1447 1122">4. During the period in which our enterprise is involved in the transaction, our enterprise shall disclose Relevant Information of the transaction in a timely manner in accordance with the provisions of pertinent laws, regulations, rules and regulatory documents, as well the requirements of CSRC, stock exchanges and other regulatory authorities, and shall warrant that such Relevant Information is true, accurate and complete without any false information, misleading statement or material omission; <li data-bbox="416 1155 1447 1626">5. If the Relevant Information provided or disclosed by our enterprise in connection with the transaction is alleged to contain false information or misleading statement or be subject to material omissions, for which a case has been opened with the judiciary authorities or CSRC for investigation, we shall suspend the transfer of any share interests in ZTE before a conclusion has been reached in such investigation, and shall submit the written application for and share account subject to transfer suspension to the Board of ZTE within two trading days upon receipt of the notification of such case investigation, and the Board of ZTE shall apply to the stock exchange and clearing company for a lock-up on behalf of our enterprise; in the event no application for lock-up has been submitted within two trading days, the Board of ZTE is authorised to submit, after verification, my ID information and account information directly to the stock exchange and clearing company and apply for the lock-up; in the event the Board of ZTE fails to submit the ID information and account information of our enterprise to the stock exchange and clearing company, the stock exchange and clearing company are authorised to lock up the relevant shares directly. If violations of laws and regulations are identified in the conclusion of investigation, our enterprise undertakes to voluntarily apply the locked up shares in compensation arrangements for investors; <li data-bbox="416 1659 1447 1760">6. Our enterprise undertakes that if the Relevant Information provided in the course of the transaction is not true, accurate or complete or contains false information or misleading statements or is subject to material omission, our enterprise will willingly assume legal liability in accordance with the law; <li data-bbox="416 1794 1447 1854">7. If our enterprise violates the aforesaid undertaking, our enterprise will assume legal liability in accordance with the law. |
| Directors, supervisors and senior management of ZTE Microelectronics | <ol style="list-style-type: none"> <li data-bbox="416 1895 1447 2033">1. I warrant that all information, data and descriptions and confirmations furnished (collectively, the “Relevant Information”) are true, accurate and complete without any false information, misleading statement or material omission, and assume individual and collective legal responsibility for the truthfulness, accuracy and completeness of the Relevant Information provided; |

Material Matters

| Undertaking party | Details |
|-------------------|---|
| | <p>2. I warrant that all information in the form of document provided by me to the parties, intermediaries and regulatory authorities involved in the transaction are true, accurate and complete original written information or duplicate copy of information, that information in printed version is consistent with information in electronic version, that duplicate copy or photocopy is consistent with the original information or document, that the signatures and seals of all documents are authentic, that the signatories of such documents are legally authorised and such documents have been validly signed, without any false information, misleading statement or material omission;</p> <p>3. In the event of any violation of the aforesaid undertaking, I will assume legal liability in accordance with the law.</p> |

② Undertaking in relation to the lock-up of shares

| Undertaking party | Details |
|-------------------------------------|--|
| Hengjian Xinxin and Huitong Rongxin | <p>1. In the event of the acquisition of any new ZTE shares in the transaction, if the ZTE Microelectronics equity interests used for the acquisition of the new shares have been consecutively held for less than 12 months, the new ZTE shares acquired by our enterprise as a result shall not be directly or indirectly transferred and/or entrusted to the management of a third party within 36 months since the listing of the new shares; in the event of the acquisition of any new ZTE shares in the transaction, if the ZTE Microelectronics equity interests used for the acquisition of the new shares have been consecutively held for more than 12 months, the new ZTE shares acquired by our enterprise as a result shall not be directly or indirectly transferred and/or entrusted to the management of a third party within 12 months since the listing of the new shares;</p> <p>2. ZTE shares derived from ZTE shares acquired through the transaction as a result of ex-right or ex-dividend events of ZTE such as bonus issues, share capital increase or share placing during the lock up period and acquired by our enterprise shall also be subject to the aforesaid undertaking relating to the lock up period;</p> <p>3. If the information provided or disclosed in connection with the transaction is alleged to contain false information or misleading statement or be subject to material omissions, for which a case has been opened with the judiciary authorities or CSRC for investigation, our enterprise shall not transfer any share interests in ZTE before a conclusion has been clearly stated in the case investigation;</p> <p>4. If the lock up period relating to the aforesaid undertaking is inconsistent with the lock up period stipulated by securities regulatory authorities, stock exchange or under pertinent provisions, our enterprise shall adjust the aforesaid lock-up period in accordance with the securities regulatory authorities, stock exchanges or pertinent provisions;</p> <p>5. Upon conclusion of the aforesaid lock-up period, any sell-down of shares by our enterprise shall be in compliance with the provisions of laws and regulations, pertinent rules of the stock exchange and the articles of association, internal regulations and other relevant documents of ZTE;</p> <p>6. In the event of any violation of the aforesaid undertaking, our enterprise will assume legal liability in accordance with the law.</p> |

③ *Undertaking in relation to ownership of the target assets*

| Undertaking party | Details |
|-------------------------------------|---|
| Hengjian Xinxin and Huitong Rongxin | <ol style="list-style-type: none"> 1. Our enterprise has fulfilled the obligation of capital contribution as a shareholder of the target company in accordance with the law without any defect in capital contribution. There is no act in violation of its obligation and responsibility as shareholder, or any condition that might affect the legal subsistence of the target company. As shareholder of the target company, our enterprise is not subject to any defect or objection in its eligibility as shareholder. Our enterprise concurs with the current shareholding structure of the target company; 2. Our enterprise has legal ownership of the equity interests in the target company held by us (the "Target Equity") and related shareholders' rights. The ownership over the Target Equity is clear without any form of entrusted shareholding, trust arrangement, arrangement for revenue rights, option arrangement, equity holding for the account of other parties or any representation of the interests of other parties. The Target Equity is not subject to any mortgage, pledge, seizure, freezing and other restrictions of rights, or any undertaking or arrangement prohibiting or restricting transfers or any other third-party claims; our enterprise warrants that it will not create any encumbrance or limitation to rights, such as mortgage, pledge, freezing or seizure, or carry out any transfer or disposal prior to the transfer of the Target Equity to ZTE; 3. There is no litigation, arbitration of other forms of dispute of which the Target Equity is a subject or target, nor any pending or potential litigation, arbitration, any other administrative or judicial procedures or other forms of disputes that might cause the Target Equity held by our enterprise to be seized, frozen or subject to transfer restrictions by relevant judicial authorities or administrative authorities, and the transfer or transmission of the Target Equity to ZTE is not subject to any impediment caused by internal decision making or legal or policy impediment; 4. The internal and external authorisations, approvals, evaluation (where necessary), filing (where necessary) and decisions required for the implementation of the transaction, execution of relevant transaction documents and performance of the transaction by our enterprise have been legally and validly obtained; 5. Our enterprise undertakes that, if our enterprise violates the aforesaid undertaking our enterprise will assume legal liability in accordance with the law. |

④ *Letter of undertaking in relation to maintaining the independence of the listed company*

| Undertaking party | Details |
|-------------------------------------|---|
| Hengjian Xinxin and Huitong Rongxin | <ol style="list-style-type: none"> 1. Following the completion of the transaction, our enterprise will strictly comply with the provisions of CSRC regarding the independence of listed companies and refrain from taking advantage of its position as shareholder to violate the normative operating procedures of listed companies, acting beyond its powers to interfere with the operation and management of ZTE and its subsidiaries, appropriating the interests of ZTE and its subsidiaries and compromising the lawful interests of ZTE and other shareholders; 2. Our enterprise warrants the independence of ZTE from our enterprise, the connected persons of our enterprise and other entities controlled by our enterprise in terms of business, assets, finance, staffing and organisation. We will not engage in any activities that might affect the independence of ZTE or compromise the interests of ZTE and its shareholders; |

Material Matters

| Undertaking party | Details |
|-------------------|---|
| | <p>3. Our enterprise warrants to maintain the independence of ZTE, and our enterprise and other entities controlled by our enterprise will not illicitly appropriate the funds and resources of ZTE by any means, and will strictly comply with the rules and regulations of ZTE on avoiding fund appropriation by connected parties, as well as the provisions of pertinent laws, regulations and regulatory documents;</p> <p>4. In the event of any violation of the aforesaid undertaking, our enterprise will assume legal liability in accordance with the law.</p> |
| | <p>⑤ <i>Undertaking relating to remedial measures to address the dilution of return for the current period following the reorganisation</i></p> |

| Undertaking party | Details |
|--|--|
| Directors and senior management of the Company | <p>1. To refrain in tunneling in favour of other units or individuals on a no-payment basis or upon unfair terms, or otherwise compromise the interests of ZTE;</p> <p>2. To exercise restraint in spending when performing duties of my office;</p> <p>3. To refrain from appropriating ZTE assets for investing activities or expenses not related to the performance of my duties;</p> <p>4. To procure the linking of the remuneration regime formulated by the Board or the Remuneration and Evaluation Committee of the Board with the implementation of ZTE's measures relating to compensation for return;</p> <p>5. To procure the linking of the exercise conditions under ZTE's share option incentives to be announced with the implementation of ZTE's measures relating to compensation for return;</p> <p>6. To willingly assume the liability for compensating ZTE and/or shareholders in accordance with the law in the event of losses incurred by the ZTE and/or shareholders as a result of their violation of or refusal to honour their undertaking.</p> |
| Zhongxingxin | <p>For so long as it remains the controlling shareholder of ZTE, to refrain from acting beyond its powers to interfere with the operation and management of ZTE and from appropriating the interests of ZTE.</p> |
| | <p>⑥ <i>Undertaking relating to plans for sell-down of shares</i></p> |

| Undertaking party | Details |
|-------------------|---|
| Zhongxingxin | <p>Our company signed a "Summary Report on Equity Change" on 22 June 2020, disclosing that the possibility of increasing or decreasing shareholdings in ZTE within the 12 months commencing on the date of signing of the said "Summary Report on Equity Change" cannot be ruled out. Other than the aforesaid, during the period from the date on which the first Board resolution of ZTE considering and approving the transaction plan was announced to the date on which the implementation of the reorganisation is completed, if our company conducts sell-down based on its own requirements or market changes, our company will strictly comply with the provisions and requirements of pertinent laws and regulations regarding the sell-down of shares, and shall fulfill information disclosure obligations as required in a timely manner in accordance with the law.</p> |

| Undertaking party | Details |
|--|---|
| Directors and senior management of the Company | During the period from the date on which the first Board resolution of ZTE considering and approving the transaction plan was announced to the date on which the implementation of the reorganisation is completed, if I conduct sell-down based on my own requirements or market changes, I will strictly comply with the provisions and requirements of pertinent laws and regulations regarding the sell-down of shares, and shall fulfill information disclosure obligations as required in a timely manner in accordance with the law. |

The aforesaid undertakings were under normal performance during the reporting period and there was no unfulfilled undertaking overdue and outstanding.

(XI) EXPLANATORY STATEMENT BY THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE OF THE COMPANY ON THE ACCOUNTANT’S “QUALIFIED OPINION” FOR THE REPORTING PERIOD

Applicable N/A

(XII) EXPLANATORY STATEMENT BY THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE OF THE COMPANY ON THE CHANGES IN AND HANDLING OF MATTERS RELATING TO ACCOUNTANT’S “QUALIFIED OPINION” FOR THE PREVIOUS YEAR

Applicable N/A

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

Applicable N/A

(XIV) EXPLANATORY STATEMENT ON RECTIFICATION OF SIGNIFICANT ACCOUNTING ERRORS FOR THE REPORTING PERIOD REQUIRING RETROSPECTIVE RESTATEMENT

Applicable N/A

(XV) EXPLANATION STATEMENT ON CHANGES TO THE SCOPE OF CONSOLIDATED FINANCIAL STATEMENT IN COMPARISON WITH THE LAST ANNUAL FINANCIAL REPORT

New subsidiaries established during the period included: tier-one subsidiary Zhongxing Intelligent Technology (Nanjing) Company Limited.

Subsidiaries deregistered during the period included: tier-one subsidiary Xi’an Zhongxing Jingcheng Technology Company Limited; tier-two subsidiary Xiamen Zhenkun New Energy Auto Company Limited and tier-three subsidiary ZTE Switzerland AG.

The Company completed the disposal of 90% equity interests in its subsidiary, Caltta and Netas Bilisim Teknolojileri Anonim Sirketi, a subsidiary of the Company, completed the disposal of 100% equity interests in NetRD Bilgi Teknolojiler iva Telekomunikasyon A.S. during the reporting period. Caltta and its subsidiaries and NetRD Bilgi Teknolojiler iva Telekomunikasyon A.S. have been excluded from the consolidated financial statements of the Group.

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

Material Matters

(XVI) REPLACEMENT OR DISMISSAL OF ACCOUNTANT FIRMS BY THE COMPANY DURING THE REPORTING PERIOD

Applicable N/A

(XVII) 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 DUTIES, AND ENFORCEMENT BY OTHER COMPETENT AUTHORITIES FOR ALLEGED VIOLATION OF LAWS AND REGULATIONS AFFECTING THE PERFORMANCE OF DUTIES AGAINST THE COMPANY, ITS DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT OR CONTROLLING SHAREHOLDER DURING THE REPORTING PERIOD.

Applicable N/A

(XVIII) CREDIBILITY OF THE COMPANY AND ITS CONTROLLING SHAREHOLDER

Applicable N/A

There were no obligations effected by court judgement and endorsed by legal documents outstanding on the part of or overdue debts of a substantial nature owed by the Company or its controlling shareholder during the reporting period.

(XIX) RISK OF DELISTING TO WHICH THE COMPANY WAS SUBJECT AS A RESULT OF VIOLATIONS OF LAWS AND REGULATIONS DURING THE REPORTING PERIOD

Applicable N/A

(XX) OTHER MATERIAL MATTERS

Save as aforesaid, there were no other material matters of the Company during the reporting period as defined under Article 80 of the Securities Law or Article 22 of the Measures for the Administration of Information Disclosure by Listed Companies and matters considered material in the judgement of the Board of Directors of the Company.

(XXI) OTHER DISCLOSEABLE MATERIAL MATTERS OCCURRING TO THE SUBSIDIARIES OF THE COMPANY DURING THE REPORTING PERIOD THAT REMAINED UNDISCLOSED.

Changes in Shareholdings and Information of Shareholders

(I) CHANGES IN SHAREHOLDINGS DURING THE REPORTING PERIOD

Unit: share

| | 31 December 2020 | | Increase/decrease as a result of the change during the reporting period (+, -) | | | | | 30 June 2021 | |
|--|----------------------|----------------|--|-------------|-------------------------------|------------------------|---------------------|----------------------|----------------|
| | Number of shares | Percentage | New issue | Bonus issue | Transfer from capital reserve | Others ^{Note} | Sub-total | Number of shares | Percentage |
| I. Shares subject to lock-up | 381,678,564 | 8.27% | - | - | - | -381,113,143 | -381,113,143 | 565,421 | 0.01% |
| 1. State-owned shares | - | - | - | - | - | - | - | - | - |
| 2. State-owned corporate shares | 43,032,108 | 0.93% | - | - | - | -43,032,108 | -43,032,108 | - | - |
| 3. Other domestic shares | 338,066,860 | 7.33% | - | - | - | 338,066,860 | -338,066,860 | - | - |
| Comprising: domestic | | | | | | | | | |
| non-state-owned corporate shares | 338,066,860 | 7.33% | - | - | - | -338,066,860 | -338,066,860 | - | - |
| Domestic natural person shares | - | - | - | - | - | - | - | - | - |
| 4. Foreign shares | - | - | - | - | - | - | - | - | - |
| Comprising: Foreign corporate shares | - | - | - | - | - | - | - | - | - |
| Foreign natural person shares | - | - | - | - | - | - | - | - | - |
| 5. Senior management shares | 579,596 | 0.01% | - | - | - | -14,175 | -14,175 | 565,421 | 0.01% |
| II. Shares not subject to lockup | 4,231,756,334 | 91.73% | - | - | - | +381,113,143 | +381,113,143 | 4,612,869,477 | 99.99% |
| 1. RMB ordinary shares | 3,476,253,800 | 75.35% | - | - | - | +381,113,143 | +381,113,143 | 3,857,366,943 | 83.61% |
| 2. Domestic-listed foreign shares | - | - | - | - | - | - | - | - | - |
| 3. Overseas-listed foreign shares (H shares) | 755,502,534 | 16.38% | - | - | - | - | - | 755,502,534 | 16.38% |
| 4. Others | - | - | - | - | - | - | - | - | - |
| III. Total number of shares | 4,613,434,898 | 100.00% | - | - | - | - | - | 4,613,434,898 | 100.00% |

Note: The Company's non-public issuance of A shares has expired and the lock-up has been released, and the shares of Directors, supervisors and senior executives will be locked-up or unlocked in proportion according to relevant domestic regulations.

(II) CHANGES IN SHARES SUBJECT TO LOCK-UP DURING THE REPORTING PERIOD

Unit: share

| No. | Name of shareholders subject to lock-up | Number of A shares subject to lock-up as at 31 December 2020 | Number of A shares released from lock-up 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 at 30 June 2021 | Reason for lock-up | Date of unlocking |
|-----|--|--|--|---|---|---|-----------------------------------|
| 1 | Shenzhen Huitong Rongxin Investment Co., Ltd. | 43,032,108 | 43,032,108 | - | - | | |
| 2 | Nanjing Xinchuangxing Consulting and Management Partnership (Limited) | 43,032,108 | 43,032,108 | - | - | | |
| 3 | New China Life Insurance Company Limited – New Traditional Products 2 | 43,032,108 | 43,032,108 | - | - | | |
| 4 | Shenzhen Investment Holding Capital Co., Ltd. – Holding Win-win Equity Investment Fund Partnership | 43,032,108 | 43,032,108 | - | - | | |
| 5 | Guangdong Hengjian Asset Management Co., Ltd. – Guangdong Henghui Equity Investment Fund (Limited Partnership) | 43,032,108 | 43,032,108 | - | - | The expiry of the non-public offering lock-up period | 4 February 2021 ^{Note 1} |
| 6 | NSSF Portfolio #101 | 42,204,567 | 42,204,567 | - | - | | |
| 7 | NSSF Portfolio #108 | 18,205,892 | 18,205,892 | - | - | | |
| 8 | Basic Pension Insurance Fund Portfolio #808 | 7,447,864 | 7,447,864 | - | - | | |
| 9 | NSSF Portfolio #115 | 6,620,324 | 6,620,324 | - | - | | |
| 10 | NSSF Portfolio #401 | 6,620,324 | 6,620,324 | - | - | | |
| 11 | Other restricted shares under non-public issue | 84,839,457 | 84,839,457 | - | - | | |
| 12 | Restricted senior management shares | 579,596 | 14,175 | - | 565,421 | Restricted senior management shares ^{Note 2} | - |
| - | Total | 381,678,564 | 381,113,143 | - | 565,421 | | |

Changes in Shareholdings and Information of Shareholders

Note 1: The new shares under the non-public issue of A shares by the Company were listed on the Shenzhen Stock Exchange on 4 February 2020. The said restricted shares under the non-public issuance shall not be transferred within 12 months from 4 February 2020. The date of listing and trading of the new shares under the Company' non-public issuance of A shares was 4 February 2021. For details, please refer to the "Overseas Regulatory Announcement" published by the Company on 2 February 2021.

Note 2: Attributable to the calculation of the number of restricted shares of directors, supervisors and senior management of listed companies based on the number of shares registered under their names on the last trading day of the previous year by China Securities Depository and Clearing Corporation Limited, Shenzhen Branch in accordance with the "Company Law of the People's Republic of China", "Administrative Rules for Company Shares held by Directors, Supervisors and Senior Management of Listed Companies and Changes thereof" and "Shenzhen Stock Exchange Guideline for Company Shares held by Directors, Supervisors and Senior Management of Listed Companies and Changes thereof".

(III) ISSUE AND LISTING OF SECURITIES DURING THE REPORTING PERIOD

1. The Company granted 149,601,200 A share options to 1,996 participants on 6 July 2017. The registration of the grant of such A share options was completed on 20 July 2017. The code of the options is "037050" and the abbreviated name is "中興JLC2". For details of the exercise and cancellation of the aforesaid share options, please refer to the section headed "Corporate Governance — (VII) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME" in this report. During the period after the end of the reporting period to the date of publication of this report, 24,274,777 A share options in aggregate were exercised by participants under the 2017 Share Option Incentive Scheme of the Company and the Company's total share capital was increased by 24,274,777 shares. The Company's total share capital as at the date of the publication of this report is 4,637,709,675.
2. On 6 November 2020, the Company awarded 158,472,000 A shares options to 6,123 participants. The registration of the aforesaid award of A share options was completed on 30 November 2020 with the share option code of "037099" and abbreviated name of "中興JLC3". For details of the above-mentioned share option adjustments and cancellations, please refer to the section headed "Corporate Governance (VII) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME" in this report.
3. For details of the Company's issuance of SCPs, please refer to the section headed "Information on Bonds — (III) Non-financial Corporate Debt Financing Instruments" in this report.
4. The Company had no employees' shares.

(IV) SHAREHOLDERS OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD**1. Total number of shareholders, shareholdings of top ten shareholders and top ten holders that were not subject to lock-up as at the end of the reporting period**

| Total number of shareholders | | | | | | | |
|---|------------------------------|--|--|-----------------|--|---|---|
| As at 30 June 2021 | | There were 514,768 shareholders (comprising 514,456 holders of A shares and 312 holders of H shares) | | | | | |
| Shareholdings of top 10 shareholders or shareholders holding 5% or above of the shares | | | | | | | |
| Name of shareholders | Nature of shareholders | Percentage of shareholdings | Total number of shares held as at the end of the reporting period (shares) | Class of shares | Increase/decrease during the reporting period (shares) | Number of shares held subject to lock-up (shares) | Number of shares pledged, marked or frozen (shares) |
| 1. Zhongxingxin | Domestic general corporation | 21.85% | 1,005,840,400 | A share | -27,601,800 | – | Nil |
| 2. HKSCC Nominees Limited ^{Note 2} | Foreign shareholders | 16.31% | 2,038,000 ^{Note 1} 752,366,075 | H share | – +156,767 | – | Unknown |
| 3. Hong Kong Securities Clearing Company Limited ^{Note 3} | Overseas corporation | 1.82% | 83,780,165 | A share | +27,697,268 | – | Nil |
| 4. Central Huijin Asset Management Co. Ltd. | State-owned corporation | 1.14% | 52,519,600 | A share | – | – | Nil |
| 5. Shenzhen Huitong Rongxin Investment Co., Ltd. | State-owned corporation | 0.93% | 43,032,108 | A share | – | – | Nil |
| 6. Shenzhen Investment Holding Capital Co., Ltd. – Shenzhen Investment Holding Win-win Equity Investment Fund Partnership (Limited Partnership) | Others | 0.93% | 43,032,108 | A share | – | – | Nil |
| 7. Guangdong Hengjian Asset Management Co., Ltd. – Guangdong Henghui Equity Investment Fund (Limited Partnership) | Others | 0.93% | 43,032,108 | A share | – | – | Nil |
| 8. Hunan Nantian (Group) Co., Ltd. | State-owned corporation | 0.90% | 41,516,065 | A share | – | – | Nil |
| 9. New China Life Insurance Company Limited – New Traditional Products 2 | Others | 0.87% | 40,032,165 | A share | -2,999,943 | – | Nil |
| 10. NSSF Portfolio #112 | Others | 0.85% | 39,287,181 | A share | +39,078,448 | – | Nil |

Changes in Shareholdings and Information of Shareholders

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

| Name of shareholders | Number of shares not subject to lock-up (shares) | Class of shares |
|---|---|-----------------|
| 1. Zhongxingxin | 1,005,840,400 | A share |
| | 2,038,000 | H share |
| 2. HKSCC Nominees Limited | 752,366,075 | H share |
| 3. Hong Kong Securities Clearing Company Limited | 83,780,165 | A share |
| 4. Central Huijin Asset Management Co. Ltd. | 52,519,600 | A share |
| 5. Shenzhen Huitong Rongxin Investment Co., Ltd. | 43,032,108 | A share |
| 6. Shenzhen Investment Holding Capital Co., Ltd. — Shenzhen Investment Holding Win-win Equity Investment Fund Partnership (Limited Partnership) | 43,032,108 | A share |
| 7. Guangdong Hengjian Asset Management Co., Ltd. — Guangdong Henghui Equity Investment Fund (Limited Partnership) | 43,032,108 | A share |
| 8. Hunan Nantian (Group) Co., Ltd. | 41,516,065 | A share |
| 9. New China Life Insurance Company Limited — New Traditional Products 2 | 40,032,165 | A share |
| 10. NSSF Portfolio #112 | 39,287,181 | A share |
| Descriptions of any connected party relationships or concerted actions among the above shareholders | 1. Zhongxingxin was neither a connected party nor a party of concerted action of any of the top ten shareholders and top ten holders of shares that were not subject to lock-up set out in the table above. 2. Save for the above, the Company is not aware of any connected party relationships or concerted party relationships among the top ten shareholders and the top ten holders of shares that were not subject to lock-up. | |
| Description of involvement in financing and securities lending businesses of top 10 shareholders (if any) | N/A | |
| Description of the above-mentioned shareholders' delegated/entrusted voting rights and waiver of voting rights | N/A | |
| Special description for the existence of special repurchase account among the top 10 shareholders | N/A | |
| Top 10 shareholders and top 10 holders of shares that were not subject to lock-up of the Company conducted any transactions on agreed repurchases during the reporting period | 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: During the reporting period, there was no placing of new shares in the Company to any strategic investors or ordinary legal persons that required shareholding for a designated period.

Note 5: Shareholders holding 5% or above of the Company's shares — Zhongxingxin, holding 1,007,878,400 shares in the Company in aggregate, representing 21.85% of the total share capital of the Company as at the end of the reporting period, was the controlling shareholder of the Company. Changes in the shareholdings of the Zhongxingxin during the reporting period are as follows:

| Name of shareholder | Increase/decrease of number of shares held during the reporting period (shares) | Number of shares held at the end of the reporting period (shares) | Class of shares held | Number of shares subject to lock-up held at the end of the reporting period (shares) | Number of shares not subject to lock-up held at the end of the reporting period (shares) | Number of shares pledged or frozen (shares) |
|---------------------|---|---|----------------------|--|--|---|
| Zhongxingxin | -27,601,800 | 1,005,840,400 | A shares | 0 | 1,005,840,400 | Nil |
| | 0 | 2,038,000 | H shares | 0 | 2,038,000 | Nil |

2. Controlling shareholder of the Company

(1) *During the reporting period, there was no change in the Company's controlling shareholder, the details of which are as follows:*

| | |
|----------------------------------|---|
| Name of controlling shareholder: | Zhongxingxin |
| Legal representative: | Wei Zaisheng |
| Date of incorporation: | 29 April 1993 |
| Uniform social credit code: | 91440300192224518G |
| Registered capital: | RMB100 million |
| Scope of business: | R&D of machine vision systems integration; design and production of optical instruments, industrial cameras and instruments and high-end mechanical equipment; computer systems integration; R&D, technology development, technology transfer, technical services, technical consultation and import and export of technologies in relation to software and hardware of computer vision data processing systems, electronic components and raw materials; 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.) |

(2) *The shareholders (or de facto controllers) of the controlling shareholders of the Company*

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

Xi'an Microelectronics, a subsidiary of China Aerospace Electronics Technology Research Institute, is a large-scale state-owned research institute established in 1965 with a start-up capital of RMB198,530,000. Its legal representative is Tang Lei and its uniform social credit code is 12100000H0420141X7. It is the only 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.

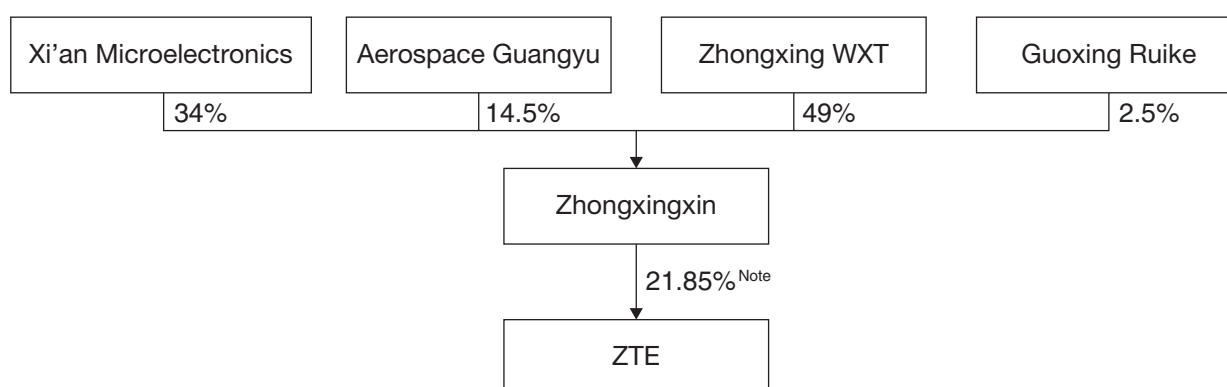
Changes in Shareholdings and Information of Shareholders

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 RMB17,950,000. Its uniform social credit code is 91440300192175031U. 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. Domestic trade and import and export operations; trade brokerage and agency; lease of owned properties; wholesale of aqua-products; sales of mining products (other than mining products required to be centrally purchased by entities designated by the State) and timber; sales of goldware and silverware; logistics information service (excluding dangerous items) and sales of construction materials (other than items prohibited under laws, administrative regulations or State Council decisions and subject to the obtaining of relevant permits for restricted items). Cargo freight and warehousing; wholesale of pre-packaged food; wholesale of agricultural by-products; sales of coal products; sales of pre-packaged food (including refrigerated food) and sales of bulk food (including refrigerated food); sales of medical equipment; sales of Class II and Class III radioactive devices; sales of light cycle oil (excluding dangerous chemicals).

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. Its uniform social credit code is 9144030027941498XF. The scope of business includes the development and production of telecommunications and transmission equipment, ancillary equipment, computer and peripheral equipment (excluding restricted projects); investment in industrial operations (subject to separate applications for specific projects).

Guoxing Ruike is a limited partnership established on 2 December 2016 with Guoxing Ruike Capital Management Company Limited as executive partner and a registered capital of RMB500 million. Its uniform social credit code is 91440400MA4W1GHE5H and its scope of operation includes capital management, investment with owned funds and project investment (subject to approval of relevant authorities if so required under the law).

The following diagram shows the shareholding and controlling relationships between the aforesaid entities and the Company as at 30 June 2021.



Note: During the period following the end of the reporting period up to the date of publication of this report, the participants of the Company's 2017 Share Option Incentive Scheme exercised a total of 24,274,777 A share options and the Company's total share capital increased by 24,274,777 shares. As of the disclosure date of this report, Zhongxingxin held 1,007,878,400 shares in the Company in aggregate, accounting for 21.73% of the Company's total share capital.

3. The Company had no other corporate shareholder which was interested in more than 10% of its shares.
4. Disclosure of interest of substantial shareholders of the Company in shares and underlying shares required by the SFO and Hong Kong Listing Rules

As at 30 June 2021, 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 1} | |
|---|--|---|--|--------------------------|
| | | | Total share capital | Relevant class of shares |
| Zhongxingxin | Beneficial owner | 1,033,442,200 A share (L) ^{Note 2} | 22.40%(L) | 26.79%(L) |
| Zhongxing WXT | Interests of corporate controlled by you | 1,033,442,200 A share (L) ^{Note 2} | 22.40%(L) | 26.79%(L) |
| Xi'an Microelectronics | Interests of corporate controlled by you | 1,033,442,200 A share (L) ^{Note 2} | 22.40%(L) | 26.79%(L) |
| China Aerospace Electronics Technology Research Institute | Interests of corporate controlled by you | 1,033,442,200 A share (L) ^{Note 2} | 22.40%(L) | 26.79%(L) |
| China Aerospace Science and Technology Corporation | Interests of corporate controlled by you | 1,033,442,200 A share (L) ^{Note 2} | 22.40%(L) | 26.79%(L) |
| BlackRock, Inc. | Interests of corporate controlled by you | 42,606,845 H share (L) 761,800 H share (S) | 0.92%(L) 0.02%(S) | 5.64%(L) 0.10%(S) |
| Capital Research and Management Company | Investment manager | 38,410,000 H share (L) | 0.83%(L) | 5.08%(L) |

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

Note 1: 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 4,613,434,898 shares, comprising 3,857,932,364 A shares and 755,502,534 H shares, as at 30 June 2021.

Note 2: According to the disclosure of interest notification submitted on 16 July 2021, the number of shares held is 1,005,840,400 A shares (L), accounting for 25.99% of class shares.

Save as disclosed above, as at 30 June 2021, so far as the Directors, Supervisors and senior management of the Company are aware, other than the Directors, Supervisors and chief executive of the Company, no person had an interest or short position in the shares and underlying shares of the Company that was required to be recorded in the register maintained pursuant to Section 336 of the SFO.

(V) PURCHASE, SALE AND REDEMPTION OF SECURITIES

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

(VI) THE COMPANY HAS NO PREFERENTIAL SHARES.

Directors, Supervisors and Senior Management

(I) CHANGES IN THE SHAREHOLDINGS AND SHARE OPTIONS OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

| No. | Name | Gender | Age | Title | Status of office | Term of office commencing on ^{Note 1} | Term of office ending on ^{Note 1} | Number of A shares held at the beginning of the reporting period (shares) | Increase in the number of A shares held during the period (shares) | Decrease in the number of A shares held during the period (shares) | Number of A shares held at the end of the reporting period (shares) | Reasons for changes |
|---|-------------------------------|--------|-----|--|------------------|--|--|---|--|--|---|---------------------|
| Directors of the Company | | | | | | | | | | | | |
| 1 | Li Zixue | Male | 57 | Chairman | Incumbent | 3/2019 | 3/2022 | — | — | — | — | — |
| 2 | Xu Ziyang | Male | 49 | Director | Incumbent | 3/2019 | 3/2022 | 84,000 | — | — | 84,000 | — |
| | | | | President | | 4/2019 | 3/2022 | | | | | |
| 3 | Li Buqing | Male | 49 | Director | Incumbent | 3/2019 | 3/2022 | — | — | — | — | — |
| 4 | Gu Junying | Male | 54 | Director | Incumbent | 3/2019 | 3/2022 | — | — | — | — | — |
| | | | | Executive Vice President | | 4/2019 | 3/2022 | | | | | |
| 5 | Zhu Weimin | Male | 55 | Director | Incumbent | 3/2019 | 3/2022 | — | — | — | — | — |
| 6 | Fang Rong | Female | 57 | Director | Incumbent | 3/2019 | 3/2022 | — | — | — | — | — |
| 7 | Cai Manli | Female | 48 | Independent Non-executive Director | Incumbent | 3/2019 | 3/2022 | — | — | — | — | — |
| 8 | Gordon Ng | Male | 57 | Independent Non-executive Director | Incumbent | 3/2019 | 3/2022 | — | — | — | — | — |
| 9 | Zhuang Jiansheng | Male | 56 | Independent Non-executive Director | Incumbent | 6/2020 | 3/2022 | — | — | — | — | — |
| Supervisors of the Company | | | | | | | | | | | | |
| 10 | Xie Daxiong ^{Note 2} | Male | 58 | Chairman of Supervisory Committee | Incumbent | 3/2019 | 3/2022 | 495,803 | — | — | 495,803 | — |
| 11 | Xia Xiaoyue | Female | 46 | Supervisor | Incumbent | 3/2019 | 3/2022 | 50,927 | — | — | 50,927 | — |
| 12 | Li Quancai | Male | 60 | Supervisor | Incumbent | 3/2019 | 3/2022 | — | — | — | — | — |
| 13 | Shang Xiaofeng | Male | 46 | Supervisor | Incumbent | 3/2019 | 3/2022 | — | — | — | — | — |
| 14 | Zhang Sufang | Female | 47 | Supervisor | Incumbent | 3/2019 | 3/2022 | — | — | — | — | — |
| Senior management of the Company | | | | | | | | | | | | |
| 15 | Wang Xiyu | Male | 47 | Executive Vice President | Incumbent | 4/2019 | 3/2022 | 68,566 | — | 17,000 | 51,566 | Note 3 |
| 16 | Li Ying | Female | 43 | Executive Vice President and Chief Financial Officer | Incumbent | 4/2019 | 3/2022 | 54,600 | — | 11,900 | 42,700 | Note 3 |
| 17 | Xie Junshi | Male | 46 | Executive Vice President | Incumbent | 9/2019 | 3/2022 | — | — | — | — | — |
| 18 | Ding Jianzhong | Male | 45 | Secretary to the Board of Directors | Incumbent | 7/2019 | 3/2022 | — | — | — | — | — |
| — | Total | — | — | — | — | — | — | 753,896 | — | 28,900 | 724,996 | — |

Note 1: The starting and ending dates of the term of office set out in this table are the starting and ending dates of the term of office of the Directors of the Eighth Session of the Board of Directors, Supervisors of the Eighth Session of the Supervisory Committee and senior management of the Company appointed by the Eighth Session of the Board of Directors.

Note 2: Mr. Xie Daxiong sold down 123,900 A shares in the Company by way of centralised priced bidding on 21 July 2021. For details, please refer to the "Overseas Regulatory Announcement Announcement on the Completion of Disposal Plan by the Supervisor" published by the Company on 22 July 2021.

Note 3: Decrease of shareholdings in accordance with pertinent domestic regulations.

Note 4: None of the Directors, Supervisors and senior management personnel in office as at the end of the reporting period held any H shares in the issued share capital of the Company during the reporting period.

Note 5: As at the end of the reporting period, Mr. Zhang Changling, spouse of Ms. Li Ying, held 20,000 2020 A shares options of the Company. Such share options have been recorded in the register required to be kept under the SFO.

For details of the share options of A shares of the Company held by Directors and senior management of the Company during the reporting period, please refer to the section headed "Corporate Governance — (VII) IMPLEMENTATION AND IMPACT OF THE COMPANY'S SHARE OPTION INCENTIVE SCHEME" in this report.

(II) INFORMATION CONCERNING DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING POSITIONS IN CORPORATE SHAREHOLDERS OF THE COMPANY AS AT THE END OF THE REPORTING PERIOD

| Name | Name of shareholder | Position with the shareholder | Commencement of term of office ^{Note 1} | Conclusion of term of office ^{Note 1} | Whether receiving remuneration from Zhongxingxin |
|----------------|---------------------|-------------------------------------|--|--|--|
| Zhu Weimin | Zhongxingxin | Director | August 2018 | August 2024 | Yes |
| Shang Xiaofeng | Zhongxingxin | Supervisor | August 2018 | August 2024 | Yes |
| Zhang Sufang | Zhongxingxin | Secretary to the board of directors | August 2018 | August 2024 | Yes |

Note 1: The starting dates of the term of office set out in this table are the starting dates of the term of office of the directors of the ninth session of the board of directors, supervisors of the ninth session of the supervisory committee and senior management appointed by the ninth session of the board of directors of Zhongxingxin. Zhongxing completed the election of a new session in August 2021. The ending dates set out in the above table represent the ending dates for the directors and supervisors of the tenth session of the board of directors and supervisory committee and the senior management appointed by the tenth session of the board of directors of Zhongxingxin.

(III) INFORMATION CONCERNING CURRENT DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OF THE COMPANY HOLDING MAJOR POSITIONS IN OTHER ENTITIES AS AT THE END OF THE REPORTING PERIOD

| Name | Name of other entities | Position in other entities | Whether remuneration is received from other entities |
|----------------------------------|--|---|--|
| Li Buqing ^{Note 1} | Shenzhen Aerospace Industrial Technology Research Institute Limited | Chief accountant | Yes |
| | CASIC Shenzhen (Group) Company Limited | Director and Chief accountant | No |
| | Shenzhen Aerospace Property Management Co., Ltd | Director | No |
| | Shenzhen Aerospace Liye Industry Development Co., Ltd. | Chairman | No |
| | Shenzhen Zhongxing Information Company Limited | Director | No |
| Zhu Weimin ^{Note 2} | Shenzhen Hangxin Property Management Co., Ltd. | Director | No |
| | Shenzhen ZTE International Investment Limited | Chairman | Yes |
| | Held positions in 6 subsidiaries of Shenzhen ZTE International Investment Limited including Beijing United ZTE International Investment Limited | Chairman/Director | No |
| | Zhongxing WXT | Director | No |
| | Shenzhen Techaser Technologies Co., Ltd. | Director | No |
| Fang Rong ^{Note 3} | Shenzhen Xinyu Tengyue Electronics Co., Ltd | Director | No |
| | Hainan Xinghang Technology Co., Ltd. | Director | No |
| | Zhongxing Development Company Limited | Director and Executive vice president | Yes |
| | Shenzhen ZTE International Investment Limited | Director | No |
| | Held positions in 11 subsidiaries or investees of Zhongxing Development Company Limited including Beijing Holi Health Information Scientific and Technological Co., Ltd. | Director | No |
| Cai Manli ^{Note 4} | Beijing United ZTE International Investment Limited | Director | No |
| | Beijing King & Wood Mallesons | Senior consultant | Yes |
| | Sichuan Xinwang Bank Co., Ltd | External supervisor | Yes |
| | Shanghai Flyco Electrical Appliance Co., Ltd | Independent director | Yes |
| | Hubei Radio & Television Information Network Co., Ltd. | Independent director | Yes |
| Gordon Ng | New Hope Liuhe Co., Ltd. | Independent director | Yes |
| | Kuangshi Technology Co., Ltd. | Independent director | Yes |
| | Guangzhou Jifei Technology Co., Ltd. | Independent director | Yes |
| | Dentons Hong Kong LLP | Partner | Yes |
| | China Engine International (Holdings) Limited | Independent non-executive director | Yes |
| Zhuang Jiansheng | Mainland Headwear Holdings Limited | Independent non-executive director | Yes |
| | Shanghai Huiyue Law Firm | Partner | Yes |
| Xie Daxiong | Guangdong Newstart Technology & Service Company Limited | Chairman | No |
| | Guangzhou Huijian Testing Technology Company Limited | Chairman | No |
| Li Quancai ^{Note 5} | 深圳市中興宜和投資發展有限公司 | Chairman | No |
| Shang Xiaofeng ^{Note 6} | Shenzhen Aerospace Guangyu Industrial Company Limited | Director, General manager | Yes |
| | 廣東歐科空調製冷有限公司 | Director | No |
| Zhang Sufang ^{Note 7} | Hainan Xinghang Technology Co., Ltd. | Supervisor | No |
| | Held positions in 14 subsidiaries or investee companies of Zhongxingxin including Sindi Technologies Co., Ltd. | Director/Chairman of the supervisory committee/Supervisor/general manager | No |
| Wang Xiyu ^{Note 8} | ZTE Microelectronics | Chairman | No |
| | ZTE Optoelectronics Technology Company Limited | Chairman | No |
| Li Ying | ZTE Group Finance | Chairman | No |
| | ZTE HK | Chairman | No |
| | Shenzhen ZTE Jinkong Commercial Factoring Company Limited | Chairman | No |
| | ZTE Microelectronics | Director | No |

Note 1: Mr. Li Buqing has been appointed as the director of Shenzhen Hangxin Property Management Co., Ltd. since June 2021.

Note 2: Mr. Zhu Weimin has been appointed as the director of Hainan Xinghang Technology Co., Ltd. since April 2021.

Directors, Supervisors and Senior Management

Note 3: Ms. Fang Rong has ceased to be chairman of Shenzhen Heyu International Supply Chain Company Limited as from January 2021 and has been appointed director of Heyihui (Shenzhen) Health Service Company Limited with effect from February 2021.

Note 4: Ms. Cai Manli has ceased to be general manager respectively of HEYI Rising Assets Management Co., Ltd, Shanghai Heyi Consulting and Management Group Co., Ltd, chairman of Zhejiang Caihe Tongyi Enterprise Development Co., Ltd. and Heyi Ruifeng Investment Management Co., Ltd. and manager of Ningpo Meishan Bonded Area Heyi Ruixiang Asset Management Co., Ltd. and Ningpo Meishan Bonded Area Heyi Yuejing Asset Management Co., Ltd. as from April 2021, and has been appointed independent director of Guangzhou Jifei Technology Co., Ltd with effect from March 2021.

Note 5: Mr. Li Quancai has ceased to be supervisor of 深圳市益和天成投資發展有限公司 from March 2021.

Note 6: Mr. Shang Xiaofeng has been appointed as the supervisor of Hainan Xinghang Technology Co., Ltd. since April 2021.

Note 7: Ms. Zhang Sufang has ceased to be representative of the executive partner of Hefei Zhongxing Hechuang Semiconductor Venture Investment Fund (Limited Partnership) from April 2021.

Note 8: Mr. Wang Xiyu has ceased to be chairman of Guangdong Newstart Technology & Service Company Limited and Xi'an Cris Semiconductor Technology Company Limited from January 2021 and March 2021 respectively.

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

Allowances for Directors are based on recommendations of the Remuneration and Evaluation Committee of the Board of Directors made to 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 Directors 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 annual performance appraisals conducted by the Remuneration and Evaluation Committee and determined upon consideration by the Board of Directors.

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

(V) INTERESTS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE OF THE COMPANY IN SHARES OR DEBENTURES

The interests in shares of the Company held by Directors, Supervisors and Chief Executive of the Company as at 30 June 2021 are set out in the section of this chapter headed "(I) CHANGES IN THE SHAREHOLDINGS AND SHARE OPTIONS OF THE COMPANY'S DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT" in this report.

Save as disclosed above, as at 30 June 2021, none of the Directors, Supervisors and Chief Executive 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 as set out in Appendix 10 to the Hong Kong Listing Rules.

Save as disclosed above, as at 30 June 2021, none of the Directors, Supervisors or the Chief Executive of the Company, or their respective spouses or children under the age of 18 had been granted or had exercised any rights to subscribe for the share capital or debentures of the Company or its associated corporations.

Information on Bonds

(I) CORPORATE BONDS

Applicable N/A

(II) DEBENTURES

Applicable N/A

(III) NON-FINANCIAL CORPORATE DEBT FINANCING INSTRUMENTS

Pursuant to the “Resolution on the Proposed Registration and Issue of Super and Short-term Commercial Paper (“SCP”)” considered and approved at the Twenty-fourth Meeting of the Seventh Session of the Board of Directors of the Company and the First Extraordinary General Meeting of 2017 of the Company, the Company’s application to National Association of Financial Market Institutional Investors (the “NAFMII”) for the registration and issue of SCP with a total amount of not more than RMB8,000 million was approved. The Company’s SCP with an amount of RMB8,000 million was registered with and approved by the NAFMII. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Approval of Registration for the Medium Term Notes and Super and Short-term Commercial Paper” published by the Company on 10 October 2019.

1. Basic information on non-financial corporate debt financing instruments

| Bond name | Bond abbreviation | Bond code | Issue date | Accrual date | Maturity date | Bond balance (RMB100 million) | Interest rate | Principal and interest repayment method | Trading market |
|--|-------------------|--|----------------|----------------|-------------------|-------------------------------------|---------------|--|---------------------------|
| ZTE Corporation 2021 Tranche I SCPs | 21中興通訊SCP001 | 012101775 | 28 April 2021 | 29 April 2021 | 26 October 2021 | 10 | 2.70% | One-off principal and interest repayment on maturity | Inter-bank bond market |
| ZTE Corporation 2021 Tranche II SCPs | 21中興通訊SCP002 | 012101763 | 28 April 2021 | 29 April 2021 | 26 October 2021 | 10 | 2.70% | One-off principal and interest repayment on maturity | Inter-bank bond market |
| ZTE Corporation 2021 Tranche III SCPs | 21中興通訊SCP003 | 012102436 | 5 July 2021 | 6 July 2021 | 30 September 2021 | 10 | 2.50% | One-off principal and interest repayment on maturity | Inter-bank bond market |
| ZTE Corporation 2021 Tranche IV SCPs | 21中興通訊SCP004 | 012102589 | 15 July 2021 | 16 July 2021 | 30 September 2021 | 10 | 2.45% | One-off principal and interest repayment on maturity | Inter-bank bond market |
| ZTE Corporation 2021 Tranche V SCPs | 21中興通訊SCP005 | 012102582 | 15 July 2021 | 16 July 2021 | 30 September 2021 | 10 | 2.45% | One-off principal and interest repayment on maturity | Inter-bank bond market |
| ZTE Corporation 2021 Tranche VI SCPs | 21中興通訊SCP006 | 012102879 | 6 August 2021 | 9 August 2021 | 30 September 2021 | 10 | 2.25% | One-off principal and interest repayment on maturity | Inter-bank bond market |
| ZTE Corporation 2021 Tranche VII SCPs | 21中興通訊SCP007 | 012102956 | 11 August 2021 | 13 August 2021 | 30 September 2021 | 10 | 2.15% | One-off principal and interest repayment on maturity | Inter-bank bond market |
| ZTE Corporation 2021 Tranche VIII SCPs | 21中興通訊SCP008 | 012103078 | 19 August 2021 | 20 August 2021 | 30 September 2021 | 10 | 2.15% | One-off principal and interest repayment on maturity | Inter-bank bond market |
| Investor suitability arrangements (if any) | | N/A | | | | | | | |
| Applicable trading mechanism | | Inter-bank bond market trading mechanism | | | | | | | |
| Whether there are risks (if any) of terminating listing transactions and countermeasures | | N/A | | | | | | | |
| Overdue bonds | | N/A | | | | | | | |

2. Trigger or execution of issuer or investor option clause or investor protection clause

Applicable N/A

3. Adjustment of ratings by credit rating agencies during the reporting period

Applicable N/A

Information on Bonds

4. **Implementation of and change in guarantees, debt repayment schemes and other debt repayment assurance measures during the reporting period and their impact on bond investors' interests**

Applicable N/A

5. **Other information**

Pursuant to the “Resolution on the Proposed Application for Consolidated Registration and Issuance of Multiple Types of Debt Financing Instruments for 2021” considered and approved at the Thirty-third Meeting of the Eighth Session of the Board of Directors and 2020 Annual General Meeting of the Company, the Company’s application to the NAFMII for consolidated registration of multiple types of debt financing instruments, including SCP, short-term commercial paper, medium-term note, perpetual note, asset-backed note, among others, which will be independently issued by the Company within the validity period of the registration. NAFMII has accepted the registration of the aforesaid multiple types of debt financing instruments of the Company. For details, please refer to the “Overseas Regulatory Announcement Announcement on the Proposed Application for Consolidated Registration for Issuance of Multiple Types of Debt Financing Instruments for 2021” published on 16 March 2021, “Announcement of Resolutions of the 2020 Annual General Meeting” published on 25 June 2021 and “Overseas Regulatory Announcement Announcement on the Approval of Registration for Multiple Types of Debt Financing Instruments” published on 18 August 2021 by the Company.

The Company broadened financing channels and lowered finance cost through the registration and issuance of debt financing instruments such as medium-term notes and SCPs in the inter-bank bond market. In accordance with the requirement of NAFMII, the Company revised the “Regulations for the Administration of Information Disclosure pertaining to Debt Financing Instruments in the Inter-bank Bond Market (2021)” in accordance with “Rules Governing the Disclosure of Information on Debt Financing Instruments Issued by Non-financial Enterprises in the Inter-bank Bond Market (2021)”, which was considered and approved at the Thirty-sixth Meeting of the Eighth Session of the Board of Directors held on 29 June 2021. For details, please refer to the relevant announcements published by the Company on 29 June 2021.

(IV) CONVERTIBLE CORPORATE BONDS

Applicable N/A

(V) LOSS REPORTED IN CONSOLIDATED STATEMENT FOR THE REPORTING PERIOD EXCEEDING 10% OF NET ASSETS AT THE END OF LAST YEAR

Applicable N/A

(VI) THE COMPANY’S MAJOR ACCOUNTING DATA AND FINANCIAL INDICATORS FOR THE PAST TWO YEARS AS AT THE END OF THE REPORTING PERIOD

| Items | At the end of the reporting period | At the end of last year | Increase/decrease at the end of the reporting period as compared to the end of last year |
|---------------|------------------------------------|-------------------------|--|
| Current ratio | 1.47 | 1.44 | 2.08% |
| Gearing ratio | 69.76% | 69.38% | Increased by 0.38 percentage points |
| Quick ratio | 1.06 | 0.99 | 7.07% |

| | For the reporting period | Corresponding period of last year | Increase/decrease of the reporting period as compared to the corresponding period of last year |
|---|-----------------------------|--------------------------------------|---|
| Net profit after extraordinary gain/ loss attributable to holders of ordinary shares of the listed company | 2,112,429 | 902,115 | 134.16% |
| EBITDA (RMB'000) | 8,407,967 | 5,669,890 | 48.29% |
| Debt-to-EBITDA ratio | 7.26% | 5.43% | Increased by 1.83 percentage points |
| Interest coverage ratio | 9.31 | 4.35 | 114.02% |
| Cash interest coverage ratio | 12.49 | 4.58 | 172.71% |
| EBITDA interest coverage ratio | 12.64 | 6.69 | 88.94% |
| Loan repayment ratio | 100% | 100% | — |
| Interest repayment ratio | 99.78% | 100% | Decreased by 0.22 percentage points |

Consolidated Balance Sheet

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

| Assets | Note V | 30 June 2021 (unaudited) | 31 December 2020 (audited) |
|------------------------------------|--------|--------------------------------|----------------------------------|
| Current assets | | | |
| Cash | 1 | 50,050,246 | 35,659,832 |
| Trading financial assets | 2 | 1,246,342 | 1,036,906 |
| Derivative financial assets | 3 | 179,954 | 36,118 |
| Trade receivables | 4A | 14,566,155 | 15,891,020 |
| Receivable financing | 4B | 6,751,417 | 1,970,624 |
| Factored trade receivables | 4A | 163,536 | 199,872 |
| Prepayments | 5 | 311,731 | 321,792 |
| Other receivables | 6 | 1,030,442 | 1,152,479 |
| Inventories | 7 | 34,618,885 | 33,689,306 |
| Contract assets | 8 | 7,338,889 | 8,926,411 |
| Other current assets | 20 | 7,352,341 | 8,092,915 |
| Total current assets | | 123,609,938 | 106,977,275 |
| Non-current assets | | | |
| Long-term receivables | 9 | 2,575,406 | 2,679,578 |
| Factored long-term receivables | 9 | 257,525 | 347,920 |
| Long-term equity investments | 10 | 1,757,495 | 1,713,803 |
| Other non-current financial assets | 11 | 1,372,893 | 1,536,741 |
| Investment properties | 12 | 2,036,112 | 2,035,234 |
| Fixed assets | 13 | 11,613,744 | 11,913,942 |
| Construction in progress | 14 | 1,169,589 | 1,039,900 |
| Right-of-use assets | 15 | 887,511 | 1,047,210 |
| Intangible assets | 16 | 8,776,300 | 9,367,282 |
| Development costs | 17 | 2,649,635 | 2,072,857 |
| Goodwill | 18 | 186,206 | 186,206 |
| Deferred tax assets | 19 | 2,995,948 | 3,437,101 |
| Other non-current assets | 20 | 6,013,815 | 6,279,857 |
| Total non-current assets | | 42,292,179 | 43,657,631 |
| TOTAL ASSETS | | 165,902,117 | 150,634,906 |

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

Consolidated Balance Sheet (continued)

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

| Liabilities | Note V | 30 June 2021 (unaudited) | 31 December 2020 (audited) |
|---|--------|--------------------------------|----------------------------------|
| Current liabilities | | | |
| Short-term loans | 21 | 12,925,345 | 10,559,160 |
| Bank advances on factored trade receivables | 4A | 165,376 | 201,484 |
| Derivative financial liabilities | 22 | 31,853 | 153,961 |
| Bills payable | 23A | 8,797,896 | 11,364,056 |
| Trade payables | 23B | 19,901,082 | 17,151,733 |
| Short-term bonds payable | 24 | 2,000,000 | — |
| Contract liabilities | 25 | 18,051,874 | 14,998,172 |
| Salary and welfare payables | 26 | 9,030,633 | 10,545,495 |
| Taxes payable | 27 | 746,082 | 878,201 |
| Other payables | 28 | 4,502,209 | 4,352,802 |
| Provisions | 29 | 2,007,265 | 2,085,234 |
| Non-current liabilities due within one year | 30 | 5,656,000 | 2,104,677 |
| Total current liabilities | | 83,815,615 | 74,394,975 |
| Non-current liabilities | | | |
| Long-term loans | 31 | 24,243,486 | 22,614,304 |
| Bank advances on factored long-term trade receivables | 9 | 263,144 | 353,446 |
| Lease liabilities | 32 | 637,791 | 718,186 |
| Provision for retirement benefits | | 141,887 | 144,250 |
| Deferred income | | 2,554,604 | 2,228,313 |
| Deferred tax liabilities | 19 | 129,430 | 134,317 |
| Other non-current liabilities | 33 | 3,949,943 | 3,924,609 |
| Total non-current liabilities | | 31,920,285 | 30,117,425 |
| Total liabilities | | 115,735,900 | 104,512,400 |

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

Consolidated Balance Sheet (continued)

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

| Shareholder's equity | Note V | 30 June 2021 (unaudited) | 31 December 2020 (audited) |
|---|--------|--------------------------------|----------------------------------|
| Shareholder's equity | | | |
| Share capital | 34 | 4,613,435 | 4,613,435 |
| Capital reserves | 35 | 23,753,838 | 23,275,810 |
| Less: treasury stock | 35 | 114,766 | 114,766 |
| Other comprehensive income | 36 | (2,253,297) | (2,270,622) |
| Surplus reserve | 37 | 2,968,473 | 2,968,473 |
| Retained profits | 38 | 17,980,404 | 14,824,478 |
| Total equity attributable to holders of ordinary shares of the parent | | 46,948,087 | 43,296,808 |
| Other equity instruments | | | |
| Including: perpetual capital instruments | 39 | — | — |
| Non-controlling interests | | 3,218,130 | 2,825,698 |
| Total shareholders' equity | | 50,166,217 | 46,122,506 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 165,902,117 | 150,634,906 |

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

Legal Representative:
Li Zixue

Chief Financial Officer:
Li Ying

Head of Finance Division:
Xu Jianrui

Consolidated Income Statement

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

| | Note V | Six months ended 30 June 2021 (unaudited) | Six months ended 30 June 2020 (unaudited) |
|--|--------|--|--|
| Operating revenue | 40 | 53,070,970 | 47,199,373 |
| Less: Operating costs | 40 | 33,892,782 | 31,418,303 |
| Taxes and surcharges | 41 | 385,671 | 311,846 |
| Selling and distribution costs | 42 | 4,169,804 | 3,940,595 |
| Administrative expenses | 43 | 2,543,538 | 2,265,126 |
| Research and development costs | 44 | 8,861,406 | 6,637,376 |
| Finance costs | 45 | 480,702 | 632,833 |
| Including: Interest expense | | 665,129 | 847,922 |
| Interest income | | 661,600 | 581,860 |
| Add: Other income | 46 | 1,267,706 | 860,171 |
| Investment income | 47 | 703,109 | 30,257 |
| Including: Share of losses of associates and joint ventures | | (70,777) | (63,816) |
| Losses from derecognition of financial assets at amortised cost | | (106,075) | (69,797) |
| Gains/losses from changes in fair values | 48 | 874,661 | 377,724 |
| Credit impairment losses | 49 | (125,249) | (274,761) |
| Asset impairment losses | 50 | 40,928 | (146,085) |
| Gains/losses from asset disposal | 51 | 47,494 | — |
| Operating profit | | 5,545,716 | 2,840,600 |
| Add: Non-operating income | 52 | 143,174 | 55,659 |
| Less: Non-operating expenses | 52 | 161,914 | 55,288 |
| Total profit | | 5,526,976 | 2,840,971 |
| Less: Income tax | 54 | 976,350 | 517,590 |
| Net profit | | 4,550,626 | 2,323,381 |
| Analysed by continuity of operations | | | |
| Net profit from continuing operations | | 4,550,626 | 2,323,381 |
| Analysed by ownership | | | |
| Holders of ordinary shares of the parent | | 4,078,613 | 1,857,289 |
| Holders of perpetual capital instruments | | — | 16,236 |
| Non-controlling interests | | 472,013 | 449,856 |

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

Consolidated Income Statement (continued)

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

| | Note V | Six months ended 30 June 2021 (unaudited) | Six months ended 30 June 2020 (unaudited) |
|---|--------|--|--|
| Other comprehensive income, net of tax | | 12,448 | (115,505) |
| Other comprehensive income attributable to holders of ordinary shares of the parent company, net of tax | 36 | 17,325 | (119,072) |
| Other comprehensive income that cannot be reclassified to profit or loss | | | |
| Change in net assets arising from the re-measurement of defined benefit plans | | — | — |
| | | — | — |
| Other comprehensive income that will be reclassified to profit or loss | | | |
| Exchange differences on translation of foreign operations | | 17,325 | (119,072) |
| | | 17,325 | (119,072) |
| Other comprehensive income attributable to non-controlling interests, net of tax | | (4,877) | 3,567 |
| Total comprehensive income | | 4,563,074 | 2,207,876 |
| Attributable to: | | | |
| Holders of ordinary shares of the parent | | 4,095,938 | 1,738,217 |
| Holders of perpetual capital instruments | | — | 16,236 |
| Non-controlling interests | | 467,136 | 453,423 |
| Earnings per share (RMB/share) | | | |
| Basic | 55 | RMB0.88 | RMB0.40 |
| Diluted | 55 | RMB0.88 | RMB0.40 |

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

Consolidated Statement of Changes in Equity

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

| | Six months ended 30 June 2021 (Unaudited) | | | | | | | | | |
|--|---|------------------|----------------------|----------------------------|-----------------|------------------|------------|-------------------------------|---------------------------|----------------------------|
| | Equity attributable to holders of ordinary shares of the parent | | | | | | | Other equity instruments | | |
| | Share capital | Capital reserves | Less: treasury stock | Other comprehensive income | Surplus reserve | Retained profits | Sub-total | Including: | | |
| | | | | | | | | Perpetual capital instruments | Non-controlling interests | Total shareholders' equity |
| I. Previous period's closing balance | 4,613,435 | 23,275,810 | (114,766) | (2,270,622) | 2,968,473 | 14,824,478 | 43,296,808 | — | 2,825,698 | 46,122,506 |
| II. Changes during the period | | | | | | | | | | |
| (I) Total comprehensive income | — | — | — | 17,325 | — | 4,078,613 | 4,095,938 | — | 467,136 | 4,563,074 |
| (II) Shareholder's capital injection and capital reduction | — | — | — | — | — | — | — | — | — | — |
| 1. Ordinary share injection from shareholders | — | 9,258 | — | — | — | — | 9,258 | — | 10,742 | 20,000 |
| 2. Equity settled share expenses charged to equity | — | 468,770 | — | — | — | — | 468,770 | — | — | 468,770 |
| 3. Capital reduction by shareholders | — | — | — | — | — | — | — | — | (24,867) | (24,867) |
| (III) Profit appropriation | — | — | — | — | — | — | — | — | — | — |
| 1. Distribution to shareholders | — | — | — | — | — | (922,687) | (922,687) | — | (60,579) | (983,266) |
| III. Current period's closing balance | 4,613,435 | 23,753,838 | (114,766) | (2,253,297) | 2,968,473 | 17,980,404 | 46,948,087 | — | 3,218,130 | 50,166,217 |

| | Six months ended 30 June 2020 (Unaudited) | | | | | | | | | |
|--|---|------------------|----------------------------|-----------------|------------------|------------|-------------------------------|---------------------------|----------------------------|--|
| | Equity attributable to holders of ordinary shares of the parent | | | | | | | Other equity instruments | | |
| | Share capital | Capital reserves | Other comprehensive income | Surplus reserve | Retained profits | Sub-total | Including: | | | |
| | | | | | | | Perpetual capital instruments | Non-controlling interests | Total shareholders' equity | |
| I. Previous period's closing balance | 4,227,530 | 12,144,432 | (2,000,980) | 2,775,521 | 11,680,365 | 28,826,868 | 6,252,364 | 2,875,066 | 37,954,298 | |
| II. Changes during the period | | | | | | | | | | |
| (I) Total comprehensive income | — | — | (119,072) | — | 1,857,289 | 1,738,217 | 16,236 | 453,423 | 2,207,876 | |
| (II) Shareholder's capital injection and capital reduction | | | | | | | | | | |
| 1. Ordinary share injection from shareholders | 385,905 | 11,203,859 | — | — | — | 11,589,764 | — | 15,098 | 11,604,862 | |
| 2. Equity settled share expenses charged to equity | — | 5,252 | — | — | — | 5,252 | — | — | 5,252 | |
| 3. Capital reduction by shareholders | — | — | — | — | — | — | — | (90,574) | (90,574) | |
| 4. Acquisition of non-controlling interests | — | (1,298) | — | — | — | (1,298) | — | (5,212) | (6,510) | |
| 5. Redemption of perpetual capital instruments | — | (80,000) | — | — | — | (80,000) | (5,920,000) | — | (6,000,000) | |
| (III) Profit appropriation | — | — | — | — | — | — | — | — | — | |
| 1. Distribution to shareholders | — | — | — | — | (922,687) | (922,687) | (348,600) | (127,122) | (1,398,409) | |
| III. Current period's closing balance | 4,613,435 | 23,272,245 | (2,120,052) | 2,775,521 | 12,614,967 | 41,156,116 | — | 3,120,679 | 44,276,795 | |

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

Consolidated Cash Flow Statement

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

| | Note V | Six months ended 30 June 2021 (unaudited) | Six months ended 30 June 2020 (unaudited) |
|--|--------|---|---|
| I. Cash flows from operating activities | | | |
| Cash received from sale of goods or rendering of services | | 57,879,831 | 51,930,178 |
| Refunds of taxes | | 2,826,692 | 1,970,019 |
| Cash received relating to other operating activities | | 2,620,132 | 2,686,249 |
| Sub-total of cash inflows | | 63,326,655 | 56,586,446 |
| Cash paid for goods and services | | 35,185,808 | 36,597,288 |
| Cash paid to and on behalf of employees | | 12,880,301 | 11,013,040 |
| Cash paid for various types of taxes | | 3,862,435 | 3,543,500 |
| Cash paid relating to other operating activities | | 4,369,676 | 3,391,848 |
| Sub-total of cash outflows | | 56,298,220 | 54,545,676 |
| Net cash flows from operating activities | 57 | 7,028,435 | 2,040,770 |
| II. Cash flows from investing activities | | | |
| Cash received from sale of investments | | 3,927,641 | 1,342,817 |
| Cash received from return on investment | | 92,361 | 214,682 |
| Net cash received from the disposal of fixed assets, intangible assets and other long-term assets | | 14,032 | 7,898 |
| Net cash received from the disposal of subsidiaries and other operating units | | 1,043,652 | 377 |
| Cash received relating to other investing activities | 56 | — | 245,000 |
| Sub-total of cash inflows | | 5,077,686 | 1,810,774 |
| Cash paid to acquisition of fixed asset, intangible assets and other long-term assets | | 2,988,051 | 2,722,869 |
| Cash paid for acquisition of investments | | 8,771,072 | 6,702,118 |
| Other cash paid in relation to investing activities | 56 | — | 33,709 |
| Sub-total of cash outflows | | 11,759,123 | 9,458,696 |
| Net cash flows from investing activities | | (6,681,437) | (7,647,922) |
| III. Cash flows from financing activities | | | |
| Cash received from capital injection | | 20,000 | 11,557,524 |
| Including: Capital injection into subsidiaries by minority shareholders | | 20,000 | 12,000 |
| Cash received from borrowings | | 20,776,602 | 35,976,266 |
| Other cash received in relation to financing activities | 56 | — | 3,000 |
| Sub-total of cash inflows | | 20,796,602 | 47,536,790 |
| Cash repayment of borrowings | | 11,029,930 | 26,178,820 |
| Cash payments for perpetual capital instruments | | — | 6,000,000 |
| Cash payments for distribution of dividends, profits and for interest expenses | | 756,904 | 1,157,063 |
| Including: Distribution of dividends, profits by subsidiaries to minority shareholders | | 126,904 | 141,424 |
| Other cash paid relating to financing activities | 56 | 220,584 | 270,570 |
| Sub-total of cash outflows | | 12,007,418 | 33,606,453 |
| Net cash flows from financing activities | | 8,789,184 | 13,930,337 |
| IV. Effect of changes in foreign exchange rate on cash and cash equivalents | | (155,128) | 146,027 |
| V. Net increase in cash and cash equivalents | | 8,981,054 | 8,469,212 |
| Add: cash and cash equivalents at beginning of period | | 31,403,056 | 28,505,800 |
| VI. Net balance of cash and cash equivalents at the end of period | 57 | 40,384,110 | 36,975,012 |

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

Balance Sheet

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

| Assets | Note XIV | 30 June 2021 (unaudited) | 31 December 2020 (audited) |
|--------------------------------------|----------|--------------------------------|----------------------------------|
| Current assets | | | |
| Cash | | 34,684,613 | 23,398,960 |
| Derivative financial assets | | 178,411 | 35,995 |
| Trade receivables | 1 | 19,233,957 | 19,779,132 |
| Receivable financing | | 6,614,535 | 1,864,477 |
| Factored trade receivables | 1 | 129,460 | 178,443 |
| Prepayments | | 7,519 | 11,779 |
| Other receivables | 2 | 46,589,922 | 40,271,860 |
| Inventories | | 14,163,947 | 18,444,527 |
| Contract assets | | 3,691,494 | 5,180,041 |
| Other current assets | | 2,663,058 | 3,490,828 |
| Total current assets | | 127,956,916 | 112,656,042 |
| Non-current assets | | | |
| Long-term trade receivables | 3 | 6,416,652 | 6,439,012 |
| Factored long-term trade receivables | 3 | 225,667 | 305,062 |
| Long-term equity investments | 4 | 14,526,862 | 13,475,272 |
| Other non-current financial assets | | 644,842 | 706,117 |
| Investment properties | | 1,600,879 | 1,600,000 |
| Fixed assets | | 5,888,367 | 6,056,830 |
| Construction in progress | | 415,726 | 365,523 |
| Right-of-use assets | | 330,993 | 372,162 |
| Intangible assets | | 3,362,137 | 3,156,323 |
| Development costs | | 120,833 | 314,854 |
| Deferred tax assets | | 1,597,239 | 2,244,139 |
| Other non-current assets | | 4,750,035 | 4,983,901 |
| Total non-current assets | | 39,880,232 | 40,019,195 |
| TOTAL ASSETS | | 167,837,148 | 152,675,237 |

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

Balance Sheet (continued)

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

| Liabilities and shareholders' equity | Note XIV | 30 June 2021 (unaudited) | 31 December 2020 (audited) |
|---|----------|---|----------------------------------|
| Current liabilities | | | |
| Short-term loans | | 7,391,167 | 7,590,608 |
| Bank advances on factored trade receivables | | 131,300 | 180,055 |
| Derivative financial liabilities | | 30,674 | 140,982 |
| Bills payable | | 12,622,495 | 12,884,302 |
| Trade payables | | 50,831,943 | 44,970,734 |
| Short-term bonds payable | | 2,000,000 | — |
| Contract liabilities | | 12,579,473 | 10,202,939 |
| Salary and welfare payables | | 4,695,323 | 5,782,275 |
| Taxes payable | | 66,895 | 131,279 |
| Other payables | | 13,591,031 | 13,871,716 |
| Provisions | | 1,284,375 | 1,568,818 |
| Non-current liabilities due within one year | | 3,464,073 | 747,843 |
| Total current liabilities | | 108,688,749 | 98,071,551 |
| Non-current liabilities | | | |
| Long-term loans | | 18,692,163 | 16,931,479 |
| Bank advances on factored long-term trade receivables | | 231,286 | 310,588 |
| Lease liabilities | | 196,354 | 218,235 |
| Provision for retirement benefits | | 141,887 | 144,250 |
| Deferred income | | 369,398 | 293,675 |
| Other non-current liabilities | | 1,823,896 | 1,798,324 |
| Total non-current liabilities | | 21,454,984 | 19,696,551 |
| Total liabilities | | 130,143,733 | 117,768,102 |
| Shareholders' equity | | | |
| Share capital | | 4,613,435 | 4,613,435 |
| Capital reserves | | 22,067,422 | 21,583,815 |
| Less: treasury stock | | 114,766 | 114,766 |
| Other comprehensive income | | 712,859 | 701,136 |
| Surplus reserve | | 2,306,717 | 2,306,717 |
| Retained profits | | 8,107,748 | 5,816,798 |
| Total shareholders' equity attributable to holders of ordinary shares | | 37,693,415 | 34,907,135 |
| Total shareholders' equity | | 37,693,415 | 34,907,135 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | | 167,837,148 | 152,675,237 |

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

Income Statement

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

| | Note XIV | Six months ended 30 June 2021 (unaudited) | Six months ended 30 June 2020 (unaudited) |
|---|----------|---|---|
| Operating revenue | 5 | 50,890,634 | 43,309,434 |
| Less: Operating costs | 5 | 42,705,115 | 37,477,589 |
| Taxes and surcharges | | 109,066 | 95,051 |
| Selling and distribution costs | | 2,344,578 | 2,256,304 |
| Administrative expenses | | 2,068,229 | 1,884,914 |
| Research and development costs | | 1,598,161 | 553,072 |
| Finance costs | | 336,205 | 389,750 |
| Including: Interest expense | | 464,259 | 601,126 |
| Interest income | | 405,988 | 261,988 |
| Add: Other income | | 353,248 | 218,101 |
| Investment income | 6 | 893,762 | 80,218 |
| Including: Share of investment losses of associates and joint ventures | 6 | (67,079) | (56,186) |
| Losses from derecognition of financial assets at amortised cost | 6 | (46,752) | (7,504) |
| Gains/(losses) from changes in fair values | | 196,281 | (85,498) |
| Credit impairment losses | | (60,658) | (141,591) |
| Asset impairment losses | | 423,953 | (93,212) |
| Asset disposal | 7 | 47,494 | — |
| Operating profit | | 3,583,360 | 630,772 |
| Add: Non-operating income | | 109,185 | 35,546 |
| Less: Non-operating expenses | | 42,724 | 20,785 |
| Total profit | | 3,649,821 | 645,533 |
| Less: Income tax | | 436,184 | 109,341 |
| Net profit | | 3,213,637 | 536,192 |
| Including: net profit from continuing operations | | 3,213,637 | 536,192 |
| Analysed by ownership | | | |
| Attributable to holders of ordinary shares | | 3,213,637 | 519,956 |
| Attributable to holders of perpetual capital instruments | | — | 16,236 |

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

Income Statement (continued)

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

| | Note XIV | Six months ended 30 June 2021 (unaudited) | Six months ended 30 June 2020 (unaudited) |
|---|----------|--|--|
| Other comprehensive income, net of tax | | 11,723 | (28) |
| Other comprehensive income that cannot be reclassified to profit and loss | | | |
| Change in net assets arising from the re-measurement of defined benefit plans | | — | — |
| Other comprehensive income that will be reclassified to profit and loss | | | |
| Exchange differences on translation of foreign operations | | 11,723 | (28) |
| Total comprehensive income | | 3,225,360 | 536,164 |
| Attributable to: | | | |
| Holders of ordinary shares | | 3,225,360 | 519,928 |
| Holders of perpetual capital instruments | | — | 16,236 |

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

Statement of Changes in Equity

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

| | Six months ended 30 June 2021 (unaudited) | | | | | | | | |
|--|---|-------------------|----------------------|----------------------------|------------------|------------------|--|--|----------------------------|
| | Share capital | Capital reserves | Less: treasury stock | Other comprehensive income | Surplus reserve | Retained profits | Total equity of holders of ordinary shares | Other equity instruments – Perpetual capital instruments | Total shareholders' equity |
| I. Closing balance of previous period | 4,613,435 | 21,583,815 | (114,766) | 701,136 | 2,306,717 | 5,816,798 | 34,907,135 | – | 34,907,135 |
| II. Changes during the period | | | | | | | | | |
| (I) Total comprehensive income | – | – | – | 11,723 | – | 3,213,637 | 3,225,360 | – | 3,225,360 |
| (II) Shareholder's capital injection and capital reduction | – | – | – | – | – | – | – | – | – |
| 1. Equity settled share expenses charged to equity | – | 468,770 | – | – | – | – | 468,770 | – | 468,770 |
| 2. Others | – | 14,837 | – | – | – | – | 14,837 | – | 14,837 |
| (III) Profit appropriation | – | – | – | – | – | (922,687) | (922,687) | – | (922,687) |
| 1. Distribution to shareholders | – | – | – | – | – | (922,687) | (922,687) | – | (922,687) |
| III. Current period's closing balance | 4,613,435 | 22,067,422 | (114,766) | 712,859 | 2,306,717 | 8,107,748 | 37,693,415 | – | 37,693,415 |

| | Six months ended 30 June 2020 (unaudited) | | | | | | | |
|--|---|-------------------|----------------------------|------------------|------------------|--|--|----------------------------|
| | Share capital | Capital reserves | Other comprehensive income | Surplus reserve | Retained profits | Total equity of holders of ordinary shares | Other equity instruments – Perpetual capital instruments | Total shareholders' equity |
| I. Closing balance of previous period | 4,227,530 | 9,996,674 | 696,467 | 2,113,765 | 4,208,836 | 21,243,272 | 6,252,364 | 27,495,636 |
| II. Changes during the period | | | | | | | | |
| (I) Total comprehensive income | – | – | (28) | – | 519,956 | 519,928 | 16,236 | 536,164 |
| (II) Shareholder's capital injection and capital reduction | | | | | | | | |
| 1. Shareholders' capital contribution | 385,905 | 11,203,910 | – | – | – | 11,589,815 | – | 11,589,815 |
| 2. Equity settled share expenses charged to equity | – | 5,252 | – | – | – | 5,252 | – | 5,252 |
| 3. Redemption of perpetual capital instruments | – | (80,000) | – | – | – | (80,000) | (5,920,000) | (6,000,000) |
| (III) Profit appropriation | – | – | – | – | (922,687) | (922,687) | (348,600) | (1,271,287) |
| 1. Distribution to shareholders | – | – | – | – | (922,687) | (922,687) | (348,600) | (1,271,287) |
| III. Current period's closing balance | 4,613,435 | 21,125,836 | 696,439 | 2,113,765 | 3,806,105 | 32,355,580 | – | 32,355,580 |

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

Cash Flow Statement

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

| | Six months ended 30 June 2021 (unaudited) | Six months ended 30 June 2020 (unaudited) |
|---|--|--|
| I. Cash flows from operating activities | | |
| Cash received from sale of goods or rendering of services | 55,708,144 | 46,987,381 |
| Refunds of taxes | 1,291,719 | 1,449,017 |
| Cash received relating to other operating activities | 762,903 | 807,272 |
| Sub-total of cash inflows | 57,762,766 | 49,243,670 |
| Cash paid for goods and services | 45,023,046 | 45,214,325 |
| Cash paid to and on behalf of employees | 4,111,210 | 3,479,049 |
| Cash paid for various types of taxes | 804,387 | 924,655 |
| Cash paid relating to other operating activities | 2,457,805 | 2,235,172 |
| Sub-total of cash outflows | 52,396,448 | 51,853,201 |
| Net cash flows from operating activities | 5,366,318 | (2,609,531) |
| II. Cash flows from investing activities | | |
| Cash received from sale of investments | 3,918,950 | 861,230 |
| Cash received from return on investments | 685,025 | 3,792,067 |
| Net cash received from the disposal of fixed assets, intangible assets and other long-term assets | 19,000 | 5,586 |
| Cash received relating to other investing activities | 1,120,000 | 3,125,000 |
| Sub-total of cash inflows | 5,742,975 | 7,783,883 |
| Cash paid to acquisition of fixed asset, intangible assets and other long-term assets | 1,246,338 | 1,039,365 |
| Cash paid for acquisition of investments | 9,152,920 | 4,040,600 |
| Other cash paid in relation to investing activities | — | 6,050,000 |
| Sub-total of cash outflows | 10,399,258 | 11,129,965 |
| Net cash flows from investing activities | (4,656,283) | (3,346,082) |
| III. Cash flows from financing activities | | |
| Cash received from capital injection | — | 11,545,524 |
| Cash received from borrowings | 14,144,360 | 27,079,645 |
| Sub-total of cash inflows | 14,144,360 | 38,625,169 |
| Cash repayment of borrowings | 7,828,070 | 12,664,267 |
| Cash payment for perpetual capital instruments | — | 6,000,000 |
| Cash payments for distribution of dividends and profits or for interest expenses | 373,080 | 856,609 |
| Other cash paid in relation to financing activities | 71,819 | 71,492 |
| Sub-total of cash outflows | 8,272,969 | 19,592,368 |
| Net cash flows from financing activities | 5,871,391 | 19,032,801 |
| IV. Effect of changes in foreign exchange rate on cash and cash equivalents | (107,013) | 85,535 |
| V. Net increase in cash and cash equivalents | 6,474,413 | 13,162,723 |
| Add: Balance of cash and cash equivalents at the beginning of the period | 20,097,442 | 10,032,692 |
| VI. Net balance of cash and cash equivalents at the end of the period | 26,571,855 | 23,195,415 |

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

Notes to Financial Statements

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

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.

I. CORPORATE BACKGROUND

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

The Company and its subsidiaries (collectively the “Group”) are mainly engaged in production of remote control switch systems, multimedia communications systems and communications transmission systems; research and production of mobile communications systems equipment, satellite communications, microwave communications equipment and beepers, technical design, development, consultation and related services for computer hardware and software, closed-circuit TVs, microwave communications, automated signal control, computer information processing, process monitoring systems, disaster alarm systems, new energy power generation and application systems; provision of technical design, development, consultation and related services for wireline and wireless communications projects of railways, underground railways, urban rail transit, highways, plants and mines, ports and terminals and airports (excluding restricted projects); research and development, production, sales, technical services, engineering installation and maintenance in connection with communication power sources and power distribution systems; research and development, production, sales, technical services, engineering installation and maintenance in connection with data centre infrastructure facilities and ancillary products (including power supply and distribution, air-conditioning refrigeration equipment, cold passages and intelligent management systems); purchase and sale of electronics devices, micro-electronics components (excluding franchised, state-controlled and monopolised merchandises); sub-contracting of communications and related projects outside the PRC and global tendering projects within the PRC, as well as import and export of the equipment and materials required by the aforesaid projects outside the PRC and deployment of labors and workers for carrying out the aforesaid projects outside the PRC; technical development and sale of electronics systems equipment (excluding restricted items and franchised, state controlled and monopolised merchandises); operations of import and export businesses (implemented in accordance with the provision under the certificate of qualifications approved and issued by Shenzhen Bureau of Trade and Development); specialised subcontracting of telecommunications projects (subject to obtaining relevant certificate of qualification); lease of owned properties; accreditation service.

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

The financial statements were approved by the Board of Directors of the Company by way of resolution on 27 August 2021.

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

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

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

The financial statements are prepared on a going concern basis.

Notes to Financial Statements

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

II. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS (CONTINUED)

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

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

1. Statement of compliance

The financial statements truly and completely reflect the financial position of the Group and the Company as at 30 June 2021 and the results of their operations and their cash flows for the six months ended 30 June 2021.

2. Financial year

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

3. Reporting currency

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

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

4. Business combination

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

Business combinations involving entities under common control

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

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

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

4. Business combination (continued)

Business combinations not involving entities under common control

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

The acquiree's identifiable assets, liabilities and contingent liabilities are recognised at their fair values at the acquisition date.

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

5. Consolidated financial statements

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

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

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

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

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.

Notes to Financial Statements

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

III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

6. Classification of joint venture arrangements and joint operation

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

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

7. Cash and cash equivalents

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

8. Foreign currency translation

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

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

8. Foreign currency translation (continued)

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

9. Financial instruments

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

Recognition and derecognition of financial instruments

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

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

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

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

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

Classification and valuation of financial assets

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial assets (continued)

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

Debt instruments at amortised cost

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

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.

Financial assets at fair value through current profit or loss

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Classification and valuation of financial liabilities

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

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

Financial liabilities at fair value through profit or loss

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

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

Other financial liabilities

Subsequent to initial recognition, these financial liabilities are carried at amortised cost using the effective interest method.

Impairment of financial instruments

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

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Impairment of financial instruments (continued)

Financial assets other than those measured with simplified valuation methods, the Group evaluates at each balance sheet date whether its credit risk has significantly increased since initial recognition. The period during which credit risk has not significantly increased since initial recognition is considered the first stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the next 12 months and shall compute interest income according to the book balance and effective interest rate; the period during which credit risk has significantly increased since initial recognition although no credit impairment has occurred is considered the second stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the entire valid period and shall compute interest income according to the book balance and effective interest rate; The period during which credit impairment has occurred after initial recognition is considered the third stage, at which the Group shall measure loss provision based on the amount of expected credit loss for the entire period and shall compute interest income according to the amortised cost and effective interest rate. For financial instruments with relatively low credit risk at the balance sheet date, the Group assumes its credit risk has not significantly increase since initial recognition.

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

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

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

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.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

9. Financial instruments (continued)

Derivative financial instruments

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

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

Transfer of financial assets

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

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

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

10. Inventories

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

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

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

Inventories at the end of the year are stated at the lower of cost or net realisable value. Provision for impairment of inventories is made and recognised in profit or loss when the net realisable value is lower than cost. If the factors that give rise to the provision in prior years are not in effect in current year, as a result that the net realisable value of the inventories is higher than cost, provision should be reversed within the impaired cost, and recognised in profit or loss.

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments

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

Long-term equity investments were recorded at initial investment cost on acquisition. For long-term equity investments acquired through the business combination of entities under common control, the initial investment cost shall be the share of carrying value of the owners' equity of the merged party at the date of combination as stated in the consolidated financial statements of the ultimate controlling party. Any difference between the initial investment cost and the carrying value of the consideration for the combination shall be dealt with by adjusting the capital reserve (if the capital reserve is insufficient for setting off the difference, such difference shall be further set off against retained profits). Upon disposal of the investment, other comprehensive income prior to the date of combination shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. For long-term equity investments acquired through the business combination of entities not under common control, the initial investment cost shall be the cost of combination (for business combinations of entities not under common control achieved in stages through multiple transactions, the initial investment cost shall be the sum of the carrying value of the equity investment in the acquired party held at the date of acquisition and new investment cost incurred as at the date of acquisition). The cost of combination shall be the sum of assets contributed by the acquiring party, liabilities incurred or assumed by the acquiring party and the fair value of equity securities issued. Upon disposal of the investment, other comprehensive income recognised under the equity method held prior to the date of acquisition shall be dealt with on the same basis as if the relevant assets or liabilities were disposed of directly by the investee. Shareholders' equity recognised as a result of changes in shareholders' equity other than the set-off of profit and loss, other comprehensive income and profit allocation of the investee shall be transferred to current profit and loss upon disposal of the investment. Items which remain long-term equity investments after the disposal shall be accounted for on a pro-rata basis, while items reclassified as financial instruments following the disposal shall be accounted for in full. The accumulated fair value change of equity investments held prior to the date of acquisition and included in the other comprehensive income as financial instruments shall be transferred in full to current profit and loss upon the change to cost method. The initial investment cost of long-term equity investments other than those acquired through business combination shall be recognised in accordance with the following: for those acquired by way of cash payments, the initial investment cost shall be the consideration actually paid plus expenses, tax amounts and other necessary outgoings directly related to the acquisition of the long-term equity investments. For long-term equity investments acquired by way of the issue of equity securities, the initial investment cost shall be the fair value of the equity securities issued. For long-term equity investments acquired by way of the swap of non-monetary assets, the initial investment cost shall be determined in accordance with "ASBE No. 7 – Swap of Non-monetary Assets." For long-term equity investments acquired by way of debt restructuring, the initial investment cost shall be determined in accordance with "ASBE No. 12 – Debt Restructuring."

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

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

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

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

Under the equity method, after the long-term equity investments are acquired, investment gains or losses and other comprehensive income are recognised according to the entitled share of net profit or loss and other comprehensive income of the investee and the carrying amount of the long-term equity investment is adjusted accordingly. When recognising the Group's share of the net profit or loss of the invested entity, the Group makes adjustments based on fair values of the investees' identifiable assets and liabilities at the acquisition date in accordance with the Group's accounting policy and accounting period to investee's net profits, eliminating pro-rata profit or loss from internal transactions with associates and joint ventures attributed to investor (except that loss from inter-group transactions deemed as asset impairment loss shall be fully recognised), provided that invested or sold assets constituting businesses shall be excluded. When the invested enterprise declares profit appropriations or cash dividends, the carrying amount of investment is adjusted down by the Group's share of the profit appropriations and dividends. The Group shall discontinue recognising its share of the losses of the investee after the long-term equity investment together with any long-term interests that in substance forms part of the Group's net investment in the investee are reduced to zero, except to the extent that the Group has incurred obligations to assume additional losses. The Group also adjusts the carrying amount of long-term equity investments for other changes in owner's equity of the investees (other than the net-off of net profits or losses, other comprehensive income and profit allocation of the investee), and includes the corresponding adjustment in equity.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

11. Long-term equity investments (continued)

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

12. Investment properties

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

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

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

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

13. Fixed Assets

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

13. Fixed Assets (continued)

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

| | Useful life | Estimated residual value ratio | Annual depreciation rate |
|----------------------|-------------|--------------------------------|--------------------------|
| Freehold land | Indefinite | — | N/A |
| Buildings | 30–50 years | 5% | 1.90%–3.17% |
| Electronic equipment | 3–5 years | 5% | 19%–32% |
| Machinery equipment | 5–10 years | 5% | 9.5%–19% |
| Motor vehicles | 5–10 years | 5% | 9.5%–19% |
| Other equipment | 5 years | 5% | 19% |

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

14. Construction in progress

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

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

15. Borrowing costs

Borrowing costs are interest and other costs incurred by the Group in connection with the borrowings of funds, which include borrowing interest, amortisation of discount or premium on debt, other supplementary costs and certain foreign exchange differences that occurred from the borrowings in foreign currencies.

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

Capitalisation of borrowing costs begins where:

- (1) Capital expenditure has already happened;
- (2) Borrowing expenses has already incurred;
- (3) Purchasing or production activities to get the assets ready for their intended use or sale have already happened.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

15. Borrowing costs (continued)

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

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

- (1) Where funds are borrowed specifically, costs eligible for capitalisation are the actual costs incurred less any income earned on the temporary investment of such borrowings;
- (2) Where funds are part of a general pool, the eligible amount is determined by applying a capitalisation rate to the expenditure on that asset. The capitalisation rate will be the weighted average of the borrowing costs applicable to the general pool.

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

16. Intangible assets

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

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

Useful life of respective intangible assets is as follows:

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

16. Intangible assets (continued)

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

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

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

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

17. Provisions

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

- (1) the obligation is a present obligation of the Group;
- (2) the obligation would probably result in an outflow of economic benefits from the Group;
- (3) the obligation could be reliably measured.

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

18. Share-based payments

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

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

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

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

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

19. Other equity instrument

The perpetual capital instruments issued by the Group, the term of which can be extended by the Group for an unlimited number of times upon maturity, the coupon interest payment for which can be deferred by the Group and for which the Group has no contractual obligation to pay cash or other financial assets, are classified as equity instruments.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue

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

Contract for the sales of products

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

Contract for the rendering of services

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

Telecommunication system construction contract

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

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue (continued)

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.

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.

Significant financing component

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

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

Warranty clauses

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

20. Revenue (continued)

Contract changes

In the event of contract changes to the construction contracts between the Group and its customers:

- (1) Where contract changes have added distinctly separable construction services and contract price clause that representing the standalone selling prices of newly added construction services, such contract changes are accounted for as a separate contract;
- (2) Where contract changes do not fall under the description in (1) and construction services transferred are clearly separable from construction services not transferred as at the date on which contract changes occur, such changes should be deemed as the termination of the original contract, and the unfulfilled portion of the original contract and the changed portion of the contract shall be combined as a new contract for accounting treatment;
- (3) Where contract changes do not fall under the description in (1) and construction services transferred are not clearly separable from construction services not transferred as at the date on which contract changes occur, the changed portion of the contract shall be accounted for as an integral part of the original contract, and the impact on recognised revenue shall be reflected by adjusting current revenue as at the date of contract changes.

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.

Contract assets

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

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

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 noncurrent assets.

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

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

- (1) they are directly related to a current or anticipated contract, including direct labour, direct materials, manufacturing expenses (or similar expenses), to be borne by customers as specifically stipulated, and otherwise incurred solely in connection with the contract;
- (2) they will increase the resources to be utilised in the Company's future performance of its contractual obligations;
- (3) they are expected to be recoverable.

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

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

- (1) The remaining consideration expected to be obtained as a result of the transfer of goods relating to such assets;
- (2) Estimated costs to be incurred in connection with the transfer of relevant goods.

In the event that the difference between (1) and (2) becomes higher than the carrying value of such assets as a result of changes in the factors of impairment for previous periods, previous provisions for asset impairment losses should be written back and included in current profit or loss, provided that the carrying asset value following the write-back shall not exceed the carrying value such assets would have on the date of write-back were there no provision for impairment.

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

23. Government grants (continued)

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

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

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

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

24. Income tax

Income taxes include current and deferred tax. Income taxes are recognised in current period's profit or loss as income tax expense or income tax benefit, except for the adjustment made for goodwill in a business combination and income tax from transactions or items that directly related to equity.

For current period's deferred tax assets and liabilities arising in current and prior periods, the Group measures them at the amount expected to be paid or recovered according to the relevant taxation regulations.

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

24. Income tax (continued)

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

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

- (1) where the deductible temporary difference arises from transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- (2) deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures are recognised when all following conditions are met: it is probable that the temporary differences will reverse in the foreseeable future, it is probable that taxable profit against the deductible temporary differences will be available.

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

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. To determine whether a contract has conveyed the right to control the use of an identified asset for a period of time, the Group assesses whether the customer to the contract has both the right to obtain substantially all economic benefits from the use of the identified asset and the right to direct the use of the identified asset during the period of use.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessee

The types of the Group's lease assets include mainly properties, vehicles and other equipment.

Initial measurement

At the inception of a lease term, the right to use lease assets during the lease term is recognised as right-of-use assets, and outstanding lease payments are recognised as leased liabilities at their present value, with the exception of short-term leases and low-value asset leases. In calculating the present value of lease payments, the Group adopts the incremental loan interest rate for the lessee as the discount rate.

The lease term is the period during which the Group owns a non-cancellable right to use the lease assets. Where the Group has an option for renewal to elect to renew the lease of the asset and it can be reasonably ascertained that such option will be exercised, the lease term shall also include the period covered by such option for renewal. Where the Group has an option for termination to terminate the lease of such asset but it can be reasonably ascertained that such option will not be exercised, the lease term shall include the period covered by such option for termination. In the case of a material event or change within the control of the Group affecting its reasonable decision on whether to exercise the option, the Group shall re-assess whether it can reasonably ascertain the exercise of the renewal option, call option or non-exercise the option for termination.

Subsequent measurement

Depreciation of the right-of-use assets is provided for using the averaging method over the lease term. Where it can be reasonably ascertained that the ownership over the lease assets can be obtained upon the conclusion of the lease term, depreciation is provided over the remaining useful life of the lease assets. Where the acquisition of the ownership over the lease assets upon the conclusion of the lease term cannot be reasonably ascertained, depreciation is provided over the lease term or the remaining useful life of the lease assets, whichever shorter.

Interest expenses on lease liabilities over the respective periods of the lease term are computed based on fixed cyclical interest rates and charged to current profit or loss.

Variable lease payments not included in lease liabilities are charged to current profit or loss as and when incurred.

Where there are changes in the substantial fixed payment amount, changes in amounts payable expected of the remaining value of guarantees, changes in the index or ratio used to determine lease payment amounts, and changes in the assessment outcome relating to or actual exercise of the call option, renewal option and termination option, the Group re-measures the lease liabilities based on present value of the modified lease payment and adjusts the carrying value of the right-of-use assets accordingly. Where the lease liabilities requires further write-down when the carrying value of the right-of-use assets has already written down to zero, the remaining amount is charged to current profit or loss.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessee (continued)

Modification of leases

Modification means the modification of the scope, consideration and duration of a lease on top of the original contract terms, including the increase or termination of the right to use one or more lease assets and the extension or shortening of the lease term stipulated in a contract, among others.

If the modification of a lease fulfills the following conditions, the Group will account for such modification as a separate lease:

- (1) Such modification has enlarged the scope of the lease by increasing the right of use to one for one or more lease assets;
- (2) The consideration for the increase approximates the standalone price for the extended portion of the lease after adjustments based on the status of the contract.

If the modification is not accounted for as a standalone lease, the Group re-determines the lease term on the date on which the modification comes into effect and adopts a revised discount rate to discount lease payments after the modification, so as to re-measure the lease liabilities. In calculating the present value of lease payments after the modification, the Group adopts the interest rate implicit in the lease over the remaining lease term as the discount rate; where the interest rate implicit in the lease over the remaining lease term cannot be ascertained, the Group's incremental loan interest rate at the effective date of the modification is adopted as the discount rate.

The impact of the aforesaid adjustments to lease liabilities is accounted for by distinguishing between the following:

- (1) Where the modification results in the reduction of the scope of the lease or the shortening of the lease term, the Group writes down the carrying value of the right-of-use assets to reflect the partial or complete termination of the lease. Profit or loss relating to the partial or complete termination of the lease is charged to current profit or loss.
- (2) For other modifications, the Group adjusts the carrying value of the right-of-use assets accordingly.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessee (continued)

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.

As a lessor

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

As the lessor under a finance lease

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

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

If the modification of a finance lease fulfills the following conditions, the Group will account for such modification as a separate lease:

- (1) Such modification has enlarged the scope of the lease by increasing the right of use to one for one or more lease assets;
- (2) The consideration for the increase approximates the standalone price for the extended portion of the lease after adjustments based on the status of the contract.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

25. Leases (continued)

As a lessor (continued)

As the lessor under a finance lease (continued)

Modifications of a finance lease not accounted for as a standalone lease are accounted for as a modified finance lease by distinguishing between the following:

- (1) Where the modification becomes effective on the commencement date of a lease classified as an operating lease, it is accounted for as a new lease from the date on which the modification becomes effective, and the carrying value of the lease assets is the net amount of lease investment prior to the date on which the modification becomes effective;
- (2) Where the modification becomes effective on the commencement date of a lease classified as an finance lease, it is accounted for in accordance with the provisions under Note III.20 pertaining to the revision or renegotiation of a contract.

As the lessor under an operating lease

Rental income under an operating lease is recognised as current profit or loss over the respective periods of the lease term on a straight-line basis, while contingent rental is charged to current profit or loss as and when incurred.

Modifications of an operating lease are accounted for as a new lease from the date on which the modifications become effective. Advanced receipts or lease payments receivable relating to the unmodified lease are treated as payments under the new lease.

Leaseback transactions

The Group determines whether the transfer of assets in a leaseback transaction should be classified as sales in accordance with Note III.20.

As lessee

If the transfer of assets in a leaseback transaction is classified as sales, the Group, as lessee, measures the right-of-use assets formed by the leaseback based on the portion of the original book value of the assets relating to the right-of-use acquired in the leaseback and recognise profit or loss only to the extent of the rights transferred to the lessor. If the transfer of assets in a leaseback transaction is not classified as sales, the Group, as lessee, continues to recognise the transferred assets and at the same time also recognises financial liabilities equivalent in amount to the transfer income. Such financial liabilities are accounted for in accordance with Note III.9.

As lessor

If the transfer of assets in a leaseback transaction is classified as sales, the Group accounts for the acquisition of assets as lessor and account for leased assets in accordance with the aforesaid provisions. If the transfer of assets in a leaseback transaction is not classified as sales, the Group, as lessor, does not recognise the transferred assets, but instead recognises financial assets equivalent in amount to the transfer income. Such financial assets are accounted for in accordance with Note III.9.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

26. Impairment

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

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

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

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

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

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

Previously recognised impairment losses are not reversed in subsequent periods.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

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. Benefits provided by the Group to the spouses, children and dependents of employees and families of deceased employees are also a part of employee remuneration.

Short-term remuneration

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

Retirement benefit (defined deposit scheme)

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

Retirement benefit (defined benefit scheme)

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

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

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

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

Termination benefits

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

27. Employee remuneration (continued)

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, other debt investments and listed and unlisted equity instrument investments. Fair value means the price receivable from the disposal of an asset or required to be paid for the transfer of a liability in an orderly transaction incurred by market participants on the measurement date. The Group measures assets or liabilities at fair value with the assumption that the orderly transaction of asset disposal or the transfer of liabilities takes place in the major market for the relevant assets or liabilities. Where there is no major market, the Group assumes such transaction takes place in the most favourable market for the relevant assets or liabilities.

The major market (or most favourable market) is a trading market which the Group has access to on the measurement date. The Group adopts assumptions used by market participants when they price the asset or liability with the aim of maximising its economic benefits.

The measurement of non-financial assets measured at fair value should take into account the ability of market participants to utilise the asset in the best way for generating economic benefits, or the ability to dispose of such asset to other market participants who are able to utilise the asset in the best way for generating economic benefits.

The Group adopts valuation techniques that are appropriate in the current circumstances and supported by sufficient usable data and other information. Observable input will be used first and foremost. Unobservable input will only be used when it is not possible or practicable to obtain observable input.

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

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

29. Profit distribution

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates

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

Judgement

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

Determination of standalone contractual performance obligations under telecommunication system construction contracts

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

Determination of progress of performance of service rendering contracts

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgement (continued)

Performance of obligation at a point of time

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

Business model

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

Characteristics of contract cash flow

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

Deferred tax liabilities relating to subsidiaries, associates and joint ventures

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Judgement (continued)

Derecognition of financial assets

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

Estimation uncertainty

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

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

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

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

Impairment of financial instruments

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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Depreciation and amortisation

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

Development costs

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

Deferred tax assets

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

Estimated standalone selling price

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

Provision for inventory impairment

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

Warranty

The Group makes reasonable estimates on warranty fee rates in respect of contract groups with similar characteristics based on the historic data and current conditions of warranty, taking into consideration all relevant information such as product improvements and market changes, among others. 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.

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Fair value estimates of investment properties

The best evidence of fair value is given by current prices in an active market for similar lease and other contracts. In the absence of relevant information, the management shall determine the relevant amount within the range of reasonable fair value estimates. The management's judgment will be based on market rental prices of similar properties under current leases in an active market and discounted cash flow projections based on reliable estimates of future cash flows using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. Principal assumptions adopted by the Group in estimating fair values include market rents for similar properties at the same location and under the same conditions, discount rates, vacancy rates, projected future market rent and maintenance cost. The carrying value of investment property as at 30 June 2021 was RMB2,036,112,000 (31 December 2020: RMB2,035,234,000).

Fair value of non-listed equity investment

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

Provision for expected credit losses on trade receivables and contract assets

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

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

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

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III. PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES (CONTINUED)

30. Significant accounting judgements and estimates (continued)

Estimation uncertainty (continued)

Lease period – lease contracts comprising the optional for renewal

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

IV. TAXATION

1. Principal tax items and tax rates

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

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IV. TAXATION (CONTINUED)

2. Tax concession

The Company is subject to an enterprise income tax rate of 15% for the years from 2020-2022 as a national-grade hi-tech enterprise incorporated in Shenzhen. Income tax rates for certain domestic subsidiaries of the Group are disclosed as follows:

Shenzhen Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% for 2020-2022 as a national-grade hi-tech enterprise.

Shenzhen Zhongxing Telecom Technology & Service Company Limited is subject to an enterprise income tax rate of 15% for the years from 2019 to 2021 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% for 2020-2022 as a national-grade key software enterprise.

Xi'an Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2020-2022 as a hi-tech.

Nanjing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% for 2021 as a hi-tech.

Xi'an ZTE Terminal Technology Limited is subject to an enterprise income tax rate of 15% for 2021 as an approved enterprise engaged in nationally encouraged industries under the West China preferential policy.

Nanjing Zhongxing New Software Company Limited is subject to an enterprise income tax rate of 10% for 2021 as a national-grade key software enterprise.

Zhongxing Smart Auto Company Limited is subject to an enterprise income tax rate of 15% from 2021-2023 as a national-grade hi-tech enterprise.

Xi'an Cris Semiconductor Technology Company Limited is subject to an enterprise income tax rate of 10% in 2021 as a legally incorporated and qualified Integrated Circuit Design Enterprise.

ZTE Microelectronics Technology Company Limited is subject to an enterprise income tax rate of 15% from 2020-2022 as a national-grade hi-tech enterprise.

Wuhan Zhongxing Software Company Limited is subject to an enterprise income tax rate of 12.5% for 2021 in the fifth year of its entitlement to the preferential treatment for software companies of exemption for two years and 50% reduction for three years.

Chongqing Zhongxing Software Company Limited is subject to an enterprise income tax rate of 15% in 2020-2022 as a national-grade hi-tech enterprise.

Shanghai Zhongxing Yilian Telecom Equipment Technology & Service Company Limited was subject to an enterprise income tax rate of 15% for the years of 2020-2022 as a national-grade hi-tech enterprise.

Guangdong ZTE Newstart Technology Co., Ltd. was subject to an enterprise income tax rate of 15% for the years of 2020-2022 as a national-grade hi-tech enterprise.

Nubia Technology Limited was subject to an enterprise income tax rate of 15% for the years of 2020-2022 as a national-grade hi-tech enterprise.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS

1. Cash and Bank Balance

| | 30 June 2021 | 31 December 2020 |
|--------------|-------------------|---------------------|
| Cash | 1,586 | 1,655 |
| Bank Deposit | 48,070,386 | 33,974,444 |
| Other cash | 1,978,274 | 1,683,733 |
| | 50,050,246 | 35,659,832 |

As at 30 June 2021, the Group's overseas currency deposits amounted to RMB3,432,826,000 (31 December 2020: RMB3,674,558,000). Funds placed overseas and subject to remittance restrictions amounted to RMB79,505,000 (31 December 2020: RMB60,697,000).

Current bank deposits earn interest income based on current deposit interest rate. The period for time deposits varies subject to the Group's cash needs, earn interest income based on corresponding time deposits interest rate. Time deposit of over three months amounting to RMB7,687,862,000 (31 December 2020: RMB2,573,043,000) were not included in cash and cash equivalents. Time deposit with a term of less than three months amounted to RMB4,013,608,000 (31 December 2020: RMB700,521,000).

2. Trading financial assets

| | 30 June 2021 | 31 December 2020 |
|--|------------------|---------------------|
| Financial assets at fair value through current profit and loss | | |
| Investment in equity instrument | 1,246,342 | 507,821 |
| Other investment | — | 529,085 |
| | 1,246,342 | 1,036,906 |

3. Derivative financial assets

| | 30 June 2021 | 31 December 2020 |
|--|-----------------|---------------------|
| Derivative financial assets at fair value through current profit or loss | 179,954 | 36,118 |

Trading in derivative financial assets at fair value through current profit or loss mainly comprised transactions in forward exchange contracts with reputable banks in the PRC mainland and Hong Kong with credit ratings of A- or above. As such forward exchange contracts were not designated for hedging purpose, they were dealt with at fair value through current profit or loss. For the reporting period, gain arising from fair value changes of non-hedging derivative financial instruments amounting to RMB265,985,000 (Six months ended 30 June 2020: loss of RMB80,671,000) was dealt with in current profit or loss.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4A. Trade receivables

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

Aging analysis of trade receivables was as follows:

| | 30 June 2021 | 31 December 2020 |
|--|-------------------|---------------------|
| Within 1 year | 14,524,864 | 15,962,806 |
| 1 to 2 years | 1,653,792 | 2,030,116 |
| 2 to 3 years | 1,260,714 | 1,372,649 |
| Over 3 years | 6,327,179 | 6,079,878 |
| | 23,766,549 | 25,445,449 |
| Less: bad debt provision for trade receivables | 9,200,394 | 9,554,429 |
| | 14,566,155 | 15,891,020 |

| | 30 June 2021 | | | | 31 December 2020 | | | | | |
|--|-------------------|----------------|--------------------|----------------|-------------------|-------------------|----------------|--------------------|----------------|-------------------|
| | Book balance | | Bad debt provision | | Book value | Book balance | | Bad debt provision | | Book value |
| | Amount | Percentage (%) | Amount | Percentage (%) | | Amount | Percentage (%) | Amount | Percentage (%) | |
| Standalone bad debt provision | 3,688,477 | 16 | 3,688,477 | 100 | - | 4,002,648 | 16 | 4,002,648 | 100 | - |
| For which provision for bad debt is recognised by group with credit risk characteristics | 20,078,072 | 84 | 5,511,917 | 27 | 14,566,155 | 21,442,801 | 84 | 5,551,781 | 26 | 15,891,020 |
| | 23,766,549 | 100 | 9,200,394 | 39 | 14,566,155 | 25,445,449 | 100 | 9,554,429 | 38 | 15,891,020 |

As at 30 June 2021, bad debt provisions for trade receivables which were individually made were as follows:

| | Book balance | Bad debt provision | Expected credit loss rate |
|-------------------------------------|------------------|-----------------------|---------------------------------|
| Overseas carriers 1* | 418,051 | 418,051 | 100% |
| Overseas carriers 2* | 243,869 | 243,869 | 100% |
| Overseas carriers 3* | 242,243 | 242,243 | 100% |
| Overseas carriers 4* | 198,527 | 198,527 | 100% |
| Overseas carriers 5* | 91,379 | 91,379 | 100% |
| Others (Customer 6 to Customer 40)* | 2,494,408 | 2,494,408 | 100% |
| | 3,688,477 | 3,688,477 | 100% |

* The provision was made mainly in view of significant financial difficulty experienced by the debtors.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4A. Trade receivables (continued)

As at 31 December 2020, bad debt provisions for trade receivables which were individually made were as follows:

| | Book balance | Bad debt provision | Expected credit loss rate |
|-------------------------------------|------------------|--------------------|---------------------------|
| Overseas carriers 1* | 437,501 | 437,501 | 100% |
| Overseas carriers 2* | 275,245 | 275,245 | 100% |
| Overseas carriers 3* | 242,243 | 242,243 | 100% |
| Overseas carriers 4* | 234,235 | 234,235 | 100% |
| Overseas carriers 5* | 126,316 | 126,316 | 100% |
| Others (Customer 6 to Customer 40)* | 2,687,108 | 2,687,108 | 100% |
| | <u>4,002,648</u> | <u>4,002,648</u> | <u>100%</u> |

* The provision was made in view of significant financial difficulty experienced by the debtors.

Trade receivables For which provision for bad debt is recognised by group with similar credit risk characteristics are set out as follows:

| | 30 June 2021 | | | 31 December 2020 | | |
|--------------|--|-------------------------------|--|--|-------------------------------|--|
| | Carrying amount estimated to be in default | Expected credit loss rate (%) | Expected credit loss during the entire subsistence | Carrying amount estimated to be in default | Expected credit loss rate (%) | Expected credit loss during the entire subsistence |
| 0-6 months | 12,288,030 | 2 | 291,438 | 13,794,187 | 2 | 334,348 |
| 6-12 months | 1,519,750 | 14 | 217,450 | 1,359,046 | 19 | 252,669 |
| 1-2 years | 1,540,584 | 27 | 421,619 | 1,798,892 | 34 | 606,115 |
| 2-3 years | 1,010,050 | 85 | 861,752 | 917,238 | 86 | 785,211 |
| Over 3 years | 3,719,658 | 100 | 3,719,658 | 3,573,438 | 100 | 3,573,438 |
| | <u>20,078,072</u> | | <u>5,511,917</u> | <u>21,442,801</u> | | <u>5,551,781</u> |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4A. Trade receivables (continued)

Movements in bad-debt provision for trade receivables are set out as follows:

| | Opening balance | Charge/ reversal for the period | Write off during the period | Effect of exchange rate | Others | Closing balance |
|-------------------------------|--------------------|--|-----------------------------------|-------------------------------|----------|--------------------|
| 30 June 2021 | | | | | | |
| Bad debt provision | 9,555,334 | 55,861 | (207,684) | (168,775) | (33,282) | 9,201,454 |
| Including: Trade receivables | 9,554,429 | 55,706 | (207,684) | (168,775) | (33,282) | 9,200,394 |
| Factored trade receivables | 905 | 155 | — | — | — | 1,060 |
| 31 December 2020 | | | | | | |
| Bad debt provision | 13,100,538 | 182,221 | (3,366,645) | (360,780) | — | 9,555,334 |
| Including: Trade receivables | 13,100,250 | 181,604 | (3,366,645) | (360,780) | — | 9,554,429 |
| Factored trade receivables | 288 | 617 | — | — | — | 905 |

During the period, RMB205,296,000 (Six months ended 30 June 2020: RMB47,654,000) 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. RMB91,839,000 (Six months ended 30 June 2020: RMB2,979,036,000) was written off as the amount, arising from non-connected transactions, was deemed irrecoverable.

Top 5 accounts of trade receivables as at 30 June 2021 were as follows:

| Customer | Amount | As a percentage of total trade receivables | Closing balance of bad debt provision |
|------------|-----------|---|--|
| Customer 1 | 1,887,813 | 7.94% | 35,471 |
| Customer 2 | 1,133,715 | 4.77% | 536,299 |
| Customer 3 | 833,501 | 3.51% | 146,842 |
| Customer 4 | 799,088 | 3.36% | 25,120 |
| Customer 5 | 460,332 | 1.94% | 18,538 |
| | 5,114,449 | 21.52% | 762,270 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4A. Trade receivables (continued)

Top 5 accounts of trade receivables as at 31 December 2020 were as follows:

| Customer | Amount | As a percentage of total trade receivables | Closing balance of bad debt provision |
|------------|-----------|--|---------------------------------------|
| Customer 1 | 2,232,144 | 8.77% | 26,232 |
| Customer 2 | 1,408,616 | 5.54% | 565,335 |
| Customer 3 | 1,178,784 | 4.63% | 23,841 |
| Customer 4 | 711,336 | 2.80% | 21,340 |
| Customer 5 | 497,233 | 1.95% | 13,352 |
| | 6,028,113 | 23.69% | 650,100 |

The Group factored trade receivables measured at amortised cost on a non-recourse basis to financial institutions. The carrying amount of trade receivables derecognized as at the end of the period was RMB6,117,728,000 (30 June 2020: RMB3,350,217,000) and loss of RMB106,075,000 (Six months ended 30 June 2020: Loss of RMB69,797,000) was recognised in investment income for the period.

Transfer of trade receivables that did not qualify for derecognition was separately classified as “Factored trade receivables” and “Bank advances on factored trade receivables”. For details of the transfer of receivables, please refer to Note VIII.2.

4B. Receivable financing

| | 30 June 2021 | 31 December 2020 |
|-----------------------------|--------------|------------------|
| Commercial acceptance bills | 4,614,011 | 1,465,791 |
| Bank acceptance bills | 2,137,406 | 504,833 |
| | 6,751,417 | 1,970,624 |

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.

Notes to Financial Statements

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

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

4B. Receivable financing (continued)

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

| | 30 June 2021 | | 31 December 2020 | |
|-----------------------------|------------------|------------------|------------------|------------------|
| | Derecognised | Not derecognised | Derecognised | Not derecognised |
| Commercial acceptance bills | 365,365 | — | 1,614,429 | — |
| Bank acceptance bills | 954,872 | — | 1,369,471 | — |
| | 1,320,237 | — | 2,983,900 | — |

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

| | Opening balance | Charge for the period | Reversal for the period | Closing balance |
|---------------------|-----------------|-----------------------|-------------------------|-----------------|
| 30 June 2021 | 1,439 | 3,025 | — | 4,464 |
| 31 December 2020 | 1,936 | (497) | — | 1,439 |

5. Prepayments

Aging analysis of prepayments was as follows:

| | 30 June 2021 | | 31 December 2020 | |
|---------------|--------------|------------|------------------|------------|
| | Book balance | Percentage | Book balance | Percentage |
| Within 1 year | 311,731 | 100% | 321,792 | 100% |

Top 5 accounts of prepayments as at 30 June 2021 were as follows:

| Supplier | Amount | As a percentage of total amounts of prepayments |
|------------|---------------|---|
| Supplier 1 | 35,920 | 11.52% |
| Supplier 2 | 17,674 | 5.67% |
| Supplier 3 | 13,566 | 4.35% |
| Supplier 4 | 10,196 | 3.27% |
| Supplier 5 | 10,000 | 3.21% |
| | 87,356 | 28.02% |

Notes to Financial Statements

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

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

5. Prepayments (continued)

Top 5 accounts of prepayments as at 31 December 2020 were as follows:

| Supplier | Amount | As a percentage of total amounts of prepayments |
|------------|--------|---|
| Supplier 1 | 19,934 | 6.19% |
| Supplier 2 | 17,005 | 5.28% |
| Supplier 3 | 15,280 | 4.75% |
| Supplier 4 | 10,000 | 3.11% |
| Supplier 5 | 9,284 | 2.89% |
| | 71,503 | 22.22% |

6. Other receivables

| | 30 June 2021 | 31 December 2020 |
|-----------------------|--------------|------------------|
| Interests receivables | 165,164 | 64,353 |
| Other receivables | 865,278 | 1,088,126 |
| | 1,030,442 | 1,152,479 |

Interests receivables

| | 30 June 2021 | 31 December 2020 |
|---------------|--------------|------------------|
| Time deposits | 165,164 | 64,353 |

Other receivables

Aging analysis of other receivables was as follows:

| | 30 June 2021 | 31 December 2020 |
|--------------------|--------------|------------------|
| Within 1 year | 625,220 | 712,800 |
| 1 year to 2 years | 351,222 | 400,421 |
| 2 years to 3 years | 75,260 | 85,802 |
| Over 3 years | 80,073 | 91,289 |
| | 1,131,775 | 1,290,312 |
| Bad debt provision | (266,497) | (202,186) |
| | 865,278 | 1,088,126 |

Other receivables analysed by nature were as follows:

| | 30 June 2021 | 31 December 2020 |
|---------------------------------|--------------|------------------|
| Staff loans | 55,223 | 296,171 |
| Transactions with third parties | 810,055 | 791,955 |
| | 865,278 | 1,088,126 |

Notes to Financial Statements

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

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (continued)

Other receivables (continued)

Top 5 accounts of other receivables as at 30 June 2021 were as follows:

| Due from | Closing balance | As a percentage of the total amount of other receivables | Bad debt provision | Expected credit loss | Nature |
|----------------------|------------------------|---|---------------------------|-----------------------------|---------------------------------|
| Third-party entity 1 | 125,000 | 11.04% | — | — | Transactions with third parties |
| Third-party entity 2 | 56,646 | 5.01% | (56,646) | 100% | Loans and advances |
| Third-party entity 3 | 46,873 | 4.14% | — | — | Transactions with third parties |
| Third-party entity 4 | 42,236 | 3.73% | (42,236) | 100% | Transactions with third parties |
| Third-party entity 5 | 35,508 | 3.14% | — | — | Transactions with third parties |
| Total | 306,263 | 27.06% | (98,882) | | |

Top 5 accounts of other receivables as at 31 December 2020 were as follows:

| Due from | Closing balance | As a percentage of the total amount of other receivables | Bad debt provision | Expected credit loss | Nature |
|----------------------|------------------------|---|---------------------------|-----------------------------|---------------------------------|
| Third-party entity 1 | 125,000 | 9.69% | — | — | Transactions with third parties |
| Third-party entity 2 | 56,646 | 4.39% | (56,646) | 100% | Loans and advances |
| Third-party entity 3 | 42,615 | 3.30% | (42,615) | 100% | Transactions with third parties |
| Third-party entity 4 | 36,000 | 2.79% | — | — | Transactions with third parties |
| Third-party entity 5 | 32,729 | 2.54% | — | — | Transactions with third parties |
| Total | 292,990 | 22.71% | (99,261) | | |

Notes to Financial Statements

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

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

6. Other receivables (continued)

Other receivables (continued)

The above top five accounts of other receivables represent amounts receivable from third parties of the Group and were aged within 36 months.

Financial assets included in other receivables was RMB1,076,552,000. For financial assets included in other receivables based on expected credit losses in the next 12 months and expected credit losses during the entire life, the change of provisions for bad debt was as follows:

| | Stage 1 Expected credit losses in the next 12 months | Stage 2 Expected credit losses during the entire life Financial assets with credit impairment occurred (Standalone assessment) | Stage 3 Financial assets with credit impairment occurred (During the entire life) | Total |
|---------------------------|---|---|--|----------------|
| Opening balance | 793 | — | 201,393 | 202,186 |
| Charge for the period | 18 | — | 74,083 | 74,101 |
| Reversal for the period | — | — | — | — |
| Charge-off for the period | — | — | (11,349) | (11,349) |
| Effect of exchange rate | — | — | 1,559 | 1,559 |
| Balance at 30 June 2021 | 811 | — | 265,686 | 266,497 |

7. Inventories

| | 30 June 2021 | | | 31 December 2020 | | |
|--|-------------------|--------------------------------|-------------------|-------------------|-----------------------------|-------------------|
| | Book balance | Provision for impairment | Carrying value | Book balance | Provision for impairment | Carrying value |
| Raw materials and materials under subcontract processing | 18,468,045 | 960,489 | 17,507,556 | 13,635,517 | 789,230 | 12,846,287 |
| Work in progress | 2,086,726 | 35,954 | 2,050,772 | 1,381,110 | 22,218 | 1,358,892 |
| Finished goods | 3,388,287 | 451,775 | 2,936,512 | 2,935,688 | 548,437 | 2,387,251 |
| Dispatch of goods | 8,391,752 | 1,362,420 | 7,029,332 | 11,859,666 | 1,838,061 | 10,021,605 |
| Contract costs | 6,334,129 | 1,239,416 | 5,094,713 | 8,173,003 | 1,097,732 | 7,075,271 |
| | 38,668,939 | 4,050,054 | 34,618,885 | 37,984,984 | 4,295,678 | 33,689,306 |

Notes to Financial Statements

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

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

7. Inventories (continued)

Movements in provision for inventory impairment are set out as follows:

Six months ended 30 June 2021

| | Opening balance | Charge/ (reversal) for the period | Transfer to write-off during the period | Others | Closing balance |
|--|-----------------|-----------------------------------|---|----------|-----------------|
| Raw materials and materials under subcontract processing | 789,230 | 196,767 | (669) | (24,839) | 960,489 |
| Work in progress | 22,218 | 20,369 | — | (6,633) | 35,954 |
| Finished goods | 548,437 | (61,448) | (22,048) | (13,166) | 451,775 |
| Dispatch of goods and contract cost | 2,935,793 | (316,739) | (100) | (17,118) | 2,601,836 |
| | 4,295,678 | (161,051) | (22,817) | (61,756) | 4,050,054 |

2020

| | Opening balance | Charge/ (reversal) for the year | Transfer to write-off during the year | Others | Closing balance |
|--|-----------------|---------------------------------|---------------------------------------|---------|-----------------|
| Raw materials and materials under subcontract processing | 805,389 | 25,939 | (84,372) | 42,274 | 789,230 |
| Work in progress | 13,012 | 5,154 | (7,714) | 11,766 | 22,218 |
| Finished goods | 529,099 | 50,182 | (33,385) | 2,541 | 548,437 |
| Dispatch of goods and contract cost | 2,917,048 | 31,152 | (8,751) | (3,656) | 2,935,793 |
| | 4,264,548 | 112,427 | (134,222) | 52,925 | 4,295,678 |

8. Contract assets

| | 30 June 2021 | | | 31 December 2020 | | |
|-----------------|--------------|--------------------------|----------------|------------------|--------------------------|----------------|
| | Book balance | Provision for impairment | Carrying value | Book balance | Provision for impairment | Carrying value |
| Contract assets | 7,676,862 | (337,973) | 7,338,889 | 9,237,256 | (310,845) | 8,926,411 |

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

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(All amounts in RMB'000 unless otherwise stated)

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

8. Contract assets (continued)

The change of provision for impairment of contract assets was as follows:

| | Opening balance | Charge for the period | Charge-off for the period | Exchange rate changes | Closing balance |
|-------------------------------|-----------------|-----------------------|---------------------------|-----------------------|-----------------|
| Six months ended 30 June 2021 | 310,845 | 29,855 | (437) | (2,290) | 337,973 |

Contract assets for which impairment loss provision is made based on standalone bad debt provision and customer credit rating analysis were analysed as follows:

| | 30 June 2021 | | |
|--|--|---------------------------|--|
| | Carrying amount estimated to be in default | Expected credit loss rate | Expected credit loss during the entire subsistence |
| Standalone bad debt provision | 214,456 | 100.00% | 214,456 |
| For which provision for bad debt is recognised by group with credit risk characteristics | 7,462,406 | 1.66% | 123,517 |
| | 7,676,862 | 4.40% | 337,973 |

| | 31 December 2020 | | |
|--|--|---------------------------|--|
| | Carrying amount estimated to be in default | Expected credit loss rate | Expected credit loss during the entire subsistence |
| Standalone bad debt provision | 166,906 | 100.00% | 166,906 |
| For which provision for bad debt is recognised by group with credit risk characteristics | 9,070,350 | 1.59% | 143,939 |
| | 9,237,256 | 3.37% | 310,845 |

9. Long-term receivables

| | 30 June 2021 | 31 December 2020 |
|--|------------------|------------------|
| Installment payments for the provision of telecommunication system construction projects | 2,758,466 | 2,871,490 |
| Less: Bad debt provision for long-term receivables | 183,060 | 191,912 |
| | 2,575,406 | 2,679,578 |

Notes to Financial Statements

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

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

9. Long-term receivables (continued)

Movements in bad debt provision for long-term trade receivables are set out as follows:

| | Opening balance | Charge/ (reversal) for the period/ year | Write-off during the period/year | Exchange rate effect | Closing balance |
|---|-----------------|--|--|-------------------------|--------------------|
| 30 June 2021 | | | | | |
| Bad debt provision | 197,438 | (7,738) | — | (1,021) | 188,679 |
| Including: long-term trade receivables | 191,912 | (7,831) | — | (1,021) | 183,060 |
| Factored long-term receivables | 5,526 | 93 | — | — | 5,619 |
| 31 December 2020 | | | | | |
| Bad debt provision | 68,140 | 131,026 | — | (1,728) | 197,438 |
| Including: long-term trade receivables | 67,953 | 125,687 | — | (1,728) | 191,912 |
| Factored long-term receivables | 187 | 5,339 | — | — | 5,526 |

The discount rates adopted for long-term receivables ranged from 4.50%–7.81%.

Long-term trade receivables was provided based on expected credit loss during the entire life. All long-term trade receivables had not expired during the year. The rate of expected credit loss was 6.64%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as “Factored long-term trade receivables” and “Bank advances on factored long-term trade receivables”. For details of the transfer of long-term receivables, please refer to Note VIII.2.

10. Long-term equity investments

| | | 30 June 2021 | 31 December 2020 |
|---|-----|-----------------|---------------------|
| Equity method | | | |
| Joint ventures | (1) | 353,824 | 205,022 |
| Associates | (2) | 1,490,443 | 1,600,152 |
| Less: provision for impairment of long-term equity investments | | 86,772 | 91,371 |
| | | 1,757,495 | 1,713,803 |

Notes to Financial Statements

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

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Long-term equity investments (continued)

30 June 2021

(1) Joint Ventures

| | Shareholding percentage | Movement during the period | | | | | | | Closing book balance | Impairment provision as at the end of the period |
|--|-------------------------|----------------------------|------------------------|------------------------|---|----------------------------|-----------------------|--|----------------------|--|
| | | Opening book balance | Increase of investment | Decrease of investment | Investment gains/losses under equity method | Other comprehensive income | Other equity movement | Allowance for cash dividend impairment provision | | |
| Puxing Mobile Tech Company Limited | 33.85% | 31,343 | — | — | (20,592) | — | — | — | 10,751 | — |
| 德特賽維技術有限公司 | 49% | 26,768 | — | — | (5,265) | — | — | — | 21,503 | — |
| 重慶百德行置業有限公司 | 10% | 7,000 | — | — | — | — | — | — | 7,000 | — |
| Shaanxi Crowd Investment Zhanlu Phase I Equity Investment Partnership Enterprise (Limited Partnership) | 40% | 40,000 | — | — | — | — | — | — | 40,000 | — |
| Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership) | 40% | 99,911 | 180,000 | — | (5,341) | — | — | — | 274,570 | — |
| | | 205,022 | 180,000 | — | (31,198) | — | — | — | 353,824 | — |

(2) Associates

| | Shareholding percentage | Movement during the period | | | | | | | Closing book balance | Impairment provision as at the end of the period |
|---|-------------------------|----------------------------|------------------------|------------------------|---|----------------------------|-----------------------|--|----------------------|--|
| | | Opening book balance | Increase of investment | Decrease of investment | Investment gains/losses under equity method | Other comprehensive income | Other equity movement | Allowance for cash dividend impairment provision | | |
| KAZNURTEL Limited Liability Company* | — | — | — | (2,477) | — | — | — | 2,477 | — | — |
| ZTE Energy Limited | 23.26% | 447,010 | — | — | 36,251 | — | — | (9,188) | 474,073 | — |
| ZTE Software Technology (Nanchang) Company Limited* | — | — | — | — | — | — | — | — | — | — |
| Telecom Innovations (Uzbekistan) Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | 34.04% | — | — | — | — | — | — | — | — | (11,216) |
| 北京億科三友科技發展有限公司* | 18% | — | — | — | — | — | — | — | — | — |
| 上海中興思格通訊有限公司* | — | — | — | (4,764) | — | — | — | 4,764 | — | — |
| 中興維維科技江蘇有限公司 | 23% | 1,492 | — | — | (354) | — | — | — | 1,138 | — |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | 49% | — | — | — | — | — | — | — | — | (7,117) |
| 中山優順置業有限公司 | 20% | 2,000 | — | — | — | — | — | — | 2,000 | — |
| 鐵建聯和(北京)科技有限公司 | 30% | — | — | — | — | — | — | — | — | (570) |
| 廣東中城信息技術有限公司 | 39% | 4,687 | — | — | — | — | — | — | 4,687 | — |
| 上海博色信息技術有限公司 | 29% | 4,138 | — | — | (739) | — | — | — | 3,399 | — |
| New Idea Investment Pte. Ltd | 20% | — | — | — | — | — | — | — | — | (14,551) |
| 奧辰智能科技產業有限公司 | 19% | — | — | — | — | — | — | — | — | (37,248) |
| 南京寧網科技有限公司 | 21.26% | 3,812 | — | — | (1,729) | — | — | — | 2,083 | — |
| Hengyang ICT Real Estate Co., Ltd. | 30% | 52,446 | — | — | — | — | — | (16,070) | 36,376 | (16,070) |
| 貴州中安雲網科技有限公司 | 9.31% | 5,118 | — | — | — | — | — | — | 5,118 | — |
| 陝西高瑞裝備與智能製造產業研究院有限公司 | 12.5% | 2,152 | — | — | — | — | — | (48) | 2,104 | — |
| 中教雲通(北京)科技有限公司* | — | 1,526 | — | (1,526) | — | — | — | — | — | — |
| Kron Telekomunikasyon Hizmetleri A.S. | 10% | 9,718 | — | — | 11 | (749) | — | — | 8,980 | — |
| 山東興濟置業有限公司 | 10% | 1,069 | — | — | — | — | — | — | 1,069 | — |
| ZTE 9 (Wuxi) Co., Ltd.* | — | — | — | (13,428) | — | — | — | — | 13,428 | — |
| Huanggang Education Valley Investment Holdings Co., Ltd | 25% | 4,414 | — | — | — | — | — | — | 4,414 | — |
| Whale Cloud Technology Co., Ltd. | 28.99% | 867,614 | — | — | (63,396) | — | — | — | 804,218 | — |
| Shijiazhuang Smart Industries Company Limited | 12% | 16,172 | — | — | (6,456) | — | — | — | 9,716 | — |
| Zhongxing Feiliu Information Technology Company Limited | 31.69% | 42,848 | — | — | (3,030) | — | — | — | 39,818 | — |
| 江西國投信息技術有限公司 | 15% | 1,571 | — | — | (137) | — | — | — | 1,434 | — |
| 安徽奇英智能科技產業有限公司 | 35% | 3,044 | — | — | — | — | — | — | 3,044 | — |
| Shenzhen Zhongxin New Energy Technology Company Limited* | — | 37,950 | — | (37,950) | — | — | — | — | — | — |
| | | 1,508,781 | — | (60,145) | (39,579) | (749) | — | (9,236) | 1,403,671 | (86,772) |

* KAZNURTEL Limited Liability Company, ZTE Software Technology (Nanchang) Company Limited, 北京億科三友科技發展有限公司, 上海中興思格通訊有限公司, 中教雲通(北京)科技有限公司, ZTE 9 (Wuxi) Co., Ltd and Shenzhen Zhongxin New Energy Technology Company Limited were no longer accounted for as associates for the period owing to the loss of significant influence.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Long-term equity investments (continued)

2020

(1) Joint Ventures

| | Shareholding percentage | Movement during the year | | | | | | | Carrying value as at the end of the year | Impairment provision as at the end of the year | |
|--|-------------------------|--------------------------|------------------------|------------------------|---|----------------------------|-----------------------|---------------|--|--|--|
| | | Opening balance | Increase of investment | Decrease of investment | Investment gains/losses under equity method | Other comprehensive income | Other equity movement | Cash dividend | | | Charge outgoing transfer of impairment provision |
| Bestel Communications Ltd.* | 50% | — | — | (2,255) | — | — | — | — | 2,255 | — | — |
| Puxing Mobile Tech Company Limited | 33.85% | 45,706 | — | — | (14,363) | — | — | — | — | 31,343 | — |
| PengzhongXingsheng | 50% | — | — | (6,134) | — | — | — | — | 6,134 | — | — |
| 德特賽維技術有限公司 | 49% | 21,809 | — | — | 4,959 | — | — | — | — | 26,768 | — |
| 重慶百德行置業有限公司 | 10% | 7,000 | — | — | — | — | — | — | — | 7,000 | — |
| Shaanxi Crowd Investment Zhanlu Phase I Equity Investment Partnership Enterprise (Limited Partnership) | 40% | 40,000 | — | — | — | — | — | — | — | 40,000 | — |
| Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership) | 33% | — | 100,000 | — | (89) | — | — | — | — | 99,911 | — |
| | | 114,515 | 100,000 | (8,389) | (9,493) | — | — | — | 8,389 | 205,022 | — |

* Bestel Communications Ltd and PengzhongXingsheng were no longer accounted for as joint ventures for the period owing to the loss of joint control following their deregistration.

(2) Associates

| | Shareholding percentage | Movement during the year | | | | | | | Carrying value as at the end of the year | Impairment provision as at the end of the year | |
|---|-------------------------|--------------------------|------------------------|------------------------|---|----------------------------|-----------------------|---------------|--|--|--|
| | | Opening balance | Increase of investment | Decrease of investment | Investment gains/losses under equity method | Other comprehensive income | Other equity movement | Cash dividend | | | Charge outgoing transfer of impairment provision |
| KAZNURTEL Limited Liability Company | 49% | — | — | — | — | — | — | — | — | — | (2,477) |
| ZTE Energy Limited | 23.26% | 426,769 | — | — | 25,264 | — | — | (5,023) | — | 447,010 | — |
| ZTE Software Technology (Nanchang) Company Limited | 30% | 3,764 | — | — | (3,764) | — | — | — | — | — | — |
| Telecom Innovations (Uzbekistan) Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | 34.04% | — | — | — | — | — | — | — | — | — | (11,216) |
| 北京億科三友科技發展有限公司 | 18% | 1,324 | — | — | (1,324) | — | — | — | — | — | — |
| 中山優順置業有限公司 | 33% | — | — | — | — | — | — | — | — | — | (4,764) |
| 上海中興思科通訊有限公司 | 30% | 2,181 | — | — | (2,181) | — | — | — | — | — | — |
| 中興羅維科技江蘇有限公司 | 23% | 2,862 | — | — | (1,370) | — | — | — | — | 1,492 | — |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | 49% | — | — | — | — | — | — | — | — | — | (7,117) |
| 廈門智慧小區網絡科技有限公司* | — | 1,097 | — | (1,278) | — | — | — | — | 181 | — | — |
| 中山優順置業有限公司 | 20% | 2,000 | — | — | — | — | — | — | — | 2,000 | — |
| 福建聯和(北京)科技有限公司 | 30% | 742 | — | — | (172) | — | — | — | (570) | — | (570) |
| 廣東福能大數據產業園建設有限公司** | — | 12,192 | — | (7,853) | (4,339) | — | — | — | — | — | — |
| 廣東中城信息技術有限公司 | 39% | 4,862 | — | — | (175) | — | — | — | — | 4,687 | — |
| 上海博色信息技術有限公司 | 29% | 26,782 | — | (20,700) | (1,944) | — | — | — | — | 4,138 | — |
| New Idea Investment Pte. Ltd | 20% | 7,163 | — | — | — | 2 | — | — | (7,165) | — | (14,551) |
| 興辰智能科技產業有限公司 | 19% | — | — | — | — | — | — | — | — | — | (37,248) |
| 南京華網科技有限公司 | 21.26% | 2,860 | — | — | 952 | — | — | — | — | 3,812 | — |
| Hengyang ICT Real Estate Co., Ltd. | 30% | 52,446 | — | — | — | — | — | — | — | 52,446 | — |
| 貴州中安雲網科技有限公司 | 9.31% | 5,024 | 105 | — | (11) | — | — | — | — | 5,118 | — |
| 陝西高能裝備與智能製造產業研究院有限公司 | 12.5% | 2,054 | — | — | 98 | — | — | — | — | 2,152 | — |
| Laxense, Inc.** | — | 16,300 | — | (15,900) | (7) | (393) | — | — | — | — | — |
| 中教雲通(北京)科技有限公司 | 28% | 1,935 | — | — | (409) | — | — | — | — | 1,526 | — |
| Kron Telekomunikasyon Hizmetleri A.S. | 10% | 10,560 | — | — | 1,078 | (765) | — | (1,155) | — | 9,718 | — |
| 山東興濟置業有限公司 | 10% | 1,069 | — | — | — | — | — | — | — | 1,069 | — |
| ZTE 9 (Wuxi) Co., Ltd. | 26.21% | — | — | — | — | — | — | — | — | — | (13,428) |
| Nubia Technology Limited*** | — | 644,000 | — | (1,484,868) | (93,830) | — | — | — | 934,698 | — | — |
| Huanggang Education Valley Investment Holdings Co., Ltd | 25% | 5,399 | — | — | (985) | — | — | — | — | 4,414 | — |
| Whale Cloud Technology Co., Ltd. | 28.99% | 901,674 | — | — | (308,526) | — | 274,466 | — | — | 867,614 | — |
| Shijiazhuang Smart Industries Company Limited | 12% | 32,080 | — | — | (15,908) | — | — | — | — | 16,172 | — |
| Zhongxing Feiliu Information Technology Company Limited | 31.69% | 45,634 | — | — | (2,786) | — | — | — | — | 42,848 | — |
| 江西國投信息技術有限公司 | 15% | — | 1,500 | — | 71 | — | — | — | — | 1,571 | — |
| 安徽奇英智能技術有限公司 | 35% | — | 7,000 | — | (3,956) | — | — | — | — | 3,044 | — |
| Shenzhen Zhongxin New Energy Technology Company Limited | 45.9% | — | 34,748 | — | 3,202 | — | — | — | — | 37,950 | — |
| | | 2,212,773 | 43,353 | (1,530,599) | (411,022) | (1,156) | 274,466 | (6,178) | 927,144 | 1,508,781 | (91,371) |

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(All amounts in RMB'000 unless otherwise stated)

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

10. Long-term equity investments (continued)

2020 (continued)

(2) Associates (continued)

- * 廈門智慧小區網絡科技有限公司 ceased to be accounted for as an associate for the year as the Group lost significant influence over this company as a result of its deregistration;
- ** 廣東福能大數據產業園建設有限公司 and Laxense, Inc. ceased to be accounted for as associates for the year as the Group lost significant influence over them as a result of equity transfer;
- *** Nubia Technology Limited was included in the consolidated statements of the Group and ceased to be accounted for as an associate for the year following the acquisition of 28.43% equity interests in Nubia Technology Limited by the Group which resulted in the Group holding 78.33% equity interests in Nubia Technology Limited following the acquisition.

Impairment provision for long-term equity investment:

30 June 2021

| | Opening balance | Charge for the period | Charge-off for the period | Closing balance |
|--|-----------------|-----------------------|---------------------------|-----------------|
| KAZNURTEL Limited Liability Company | 2,477 | — | (2,477) | — |
| Telecom Innovations (Uzbekistan) | 11,216 | — | — | 11,216 |
| 北京億科三友科技發展有限公司 | 4,764 | — | (4,764) | — |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | 7,117 | — | — | 7,117 |
| New Idea Investment Pte. Ltd | 14,551 | — | — | 14,551 |
| 興辰智能科技產業有限公司 | 37,248 | — | — | 37,248 |
| ZTE 9 (Wuxi) Co., Ltd. | 13,428 | — | (13,428) | — |
| 鐵建聯和(北京)科技有限公司 | 570 | — | — | 570 |
| Hengyang ICT Real Estate Co., Ltd | — | 16,070 | — | 16,070 |
| | 91,371 | 16,070 | (20,669) | 86,772 |

31 December 2020

| | Opening balance | Charge for the year | Charge-off for the year | Closing balance |
|--|------------------|---------------------|-------------------------|-----------------|
| Bestel Communications Ltd. | 2,255 | — | (2,255) | — |
| PengzhongXingsheng | 6,134 | — | (6,134) | — |
| KAZNURTEL Limited Liability Company | 2,477 | — | — | 2,477 |
| Telecom Innovations (Uzbekistan) | 11,216 | — | — | 11,216 |
| 北京億科三友科技發展有限公司 | 4,764 | — | — | 4,764 |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | 7,117 | — | — | 7,117 |
| 廈門智慧小區網絡科技有限公司 | 181 | — | (181) | — |
| New Idea Investment Pte. Ltd | 7,386 | 7,165 | — | 14,551 |
| 興辰智能科技產業有限公司 | 37,248 | — | — | 37,248 |
| ZTE 9 (Wuxi) Co., Ltd. | 13,428 | — | — | 13,428 |
| 鐵建聯和(北京)科技有限公司 | — | 570 | — | 570 |
| Nubia Technology Limited | 934,698 | — | (934,698) | — |
| | 1,026,904 | 7,735 | (943,268) | 91,371 |

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(All amounts in RMB'000 unless otherwise stated)

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

11. Other non-current financial assets

| | 30 June 2021 | 31 December 2020 |
|--|-----------------|---------------------|
| Financial assets at fair value through current profit and loss | 1,372,893 | 1,536,741 |

12. Investment properties

30 June 2021

| | Buildings |
|---|-----------|
| Opening balance | 2,035,234 |
| Business combination not under common control | — |
| Other outgoing transfers | — |
| Fair value change (Note V.48) | 878 |
| Closing balance | 2,036,112 |

31 December 2020

| | Buildings |
|---|-----------|
| Opening balance | 1,957,242 |
| Business combination not under common control | 96,901 |
| Other outgoing transfers | (20,667) |
| Fair value change (Note V.48) | 1,758 |
| Closing balance | 2,035,234 |

During the period, the Group leased buildings of the investment properties to a related party and other non-related parties by way of operating lease.

As at 30 June 2021, investment properties with a carrying value of RMB1,256,000,000 (31 December 2020: RMB1,727,000,000) had yet to obtain title registration certificates.

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(All amounts in RMB'000 unless otherwise stated)

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

13. Fixed Assets

30 June 2021

| | Buildings | Freehold land | Electronic equipment | Machinery equipment | Vehicles | Other equipment | Total |
|--|-----------|---------------|----------------------|---------------------|----------|-----------------|-------------|
| Cost | | | | | | | |
| Opening balance | 9,584,112 | 29,289 | 6,367,292 | 3,135,370 | 275,430 | 396,183 | 19,787,676 |
| Acquisitions | 151,943 | — | 647,773 | 229,841 | 8,441 | 21,642 | 1,059,640 |
| Transfer from construction in progress | — | — | 40,138 | 1,406 | — | 36 | 41,580 |
| Disposal or retirement | (532,876) | — | (388,883) | (137,621) | (13,204) | (75,713) | (1,148,297) |
| Exchange rate adjustments | (2,937) | 869 | (7,558) | (3,477) | (364) | (6,512) | (19,979) |
| Closing balance | 9,200,242 | 30,158 | 6,658,762 | 3,225,519 | 270,303 | 335,636 | 19,720,620 |
| Accumulated depreciation | | | | | | | |
| Opening balance | 2,150,165 | — | 3,457,403 | 1,800,470 | 165,703 | 271,258 | 7,844,999 |
| Charge | 165,195 | — | 454,113 | 127,724 | 11,096 | 17,892 | 776,020 |
| Disposal or retirement | (131,582) | — | (316,810) | (89,416) | (11,100) | (34,792) | (583,700) |
| Exchange rate adjustments | (2,831) | — | (6,747) | (2,720) | (249) | (3,875) | (16,422) |
| Closing balance | 2,180,947 | — | 3,587,959 | 1,836,058 | 165,450 | 250,483 | 8,020,897 |
| Provision for impairment | | | | | | | |
| Opening balance | 21,270 | — | 1,840 | 5,521 | — | 104 | 28,735 |
| Charge | — | — | — | 57,032 | — | 952 | 57,984 |
| Disposal or retirement | — | — | (422) | (10) | — | (21) | (453) |
| Exchange rate adjustments | — | — | (284) | — | — | (3) | (287) |
| Closing balance | 21,270 | — | 1,134 | 62,543 | — | 1,032 | 85,979 |
| Net book value | | | | | | | |
| As at the end of the period | 6,998,025 | 30,158 | 3,069,669 | 1,329,918 | 104,853 | 84,121 | 11,613,744 |
| As at the beginning of the period | 7,412,677 | 29,289 | 2,908,049 | 1,329,379 | 109,727 | 124,821 | 11,913,942 |

31 December 2020

| | Buildings | Freehold land | Electronic equipment | Machinery equipment | Vehicles | Other equipment | Total |
|---|-----------|---------------|----------------------|---------------------|----------|-----------------|-------------|
| Cost | | | | | | | |
| Opening balance | 7,376,296 | 40,441 | 5,533,723 | 3,164,125 | 281,759 | 362,772 | 16,759,116 |
| Acquisitions | 1,653,580 | — | 1,566,243 | 249,756 | 22,940 | 74,009 | 3,566,528 |
| Transfer from construction in progress | 533,155 | — | 31,824 | 1,610 | — | 88 | 566,677 |
| Business combination not under common control | 79,598 | — | 60,453 | 57,045 | 6,706 | 779 | 204,581 |
| Disposal or retirement | (35,617) | — | (818,322) | (315,996) | (31,234) | (22,424) | (1,223,593) |
| Exchange rate adjustments | (22,900) | (11,152) | (6,629) | (21,170) | (4,741) | (19,041) | (85,633) |
| Closing balance | 9,584,112 | 29,289 | 6,367,292 | 3,135,370 | 275,430 | 396,183 | 19,787,676 |
| Accumulated depreciation | | | | | | | |
| Opening balance | 1,853,492 | — | 3,313,005 | 1,775,221 | 169,974 | 222,677 | 7,334,369 |
| Charge | 280,061 | — | 798,921 | 278,667 | 23,062 | 84,210 | 1,464,921 |
| Business combination not under common control | 47,707 | — | 45,053 | 27,401 | 3,684 | 672 | 124,517 |
| Disposal or retirement | (18,557) | — | (695,099) | (261,273) | (28,446) | (25,103) | (1,028,478) |
| Exchange rate adjustments | (12,538) | — | (4,477) | (19,546) | (2,571) | (11,198) | (50,330) |
| Closing balance | 2,150,165 | — | 3,457,403 | 1,800,470 | 165,703 | 271,258 | 7,844,999 |
| Provision for impairment | | | | | | | |
| Opening balance | 21,270 | — | 1,886 | 16,926 | 1,096 | 81 | 41,259 |
| Charge | — | — | 426 | 10 | — | 21 | 457 |
| Disposal or retirement | — | — | (638) | (11,415) | (1,096) | — | (13,149) |
| Exchange rate adjustments | — | — | 166 | — | — | 2 | 168 |
| Closing balance | 21,270 | — | 1,840 | 5,521 | — | 104 | 28,735 |
| Net book value | | | | | | | |
| As at the end of the year | 7,412,677 | 29,289 | 2,908,049 | 1,329,379 | 109,727 | 124,821 | 11,913,942 |
| As at the beginning of the year | 5,501,534 | 40,441 | 2,218,832 | 1,371,978 | 110,689 | 140,014 | 9,383,488 |

As at 30 June 2021, 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 RMB1,995,169,000 (31 December 2020: RMB2,033,892,000).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

14. Construction in progress

Changes in major construction in progress as at 30 June 2021 were as follows:

| | Budget | Opening balance | Increase during the year | Transfer to fixed assets during the year | Other reduction | Impairment provision | Closing balance | Source of funds | Construction contribution as a percentage of budget (%) | Work progress |
|---|---------|-----------------|--------------------------|--|-----------------|----------------------|-----------------|-----------------|---|--------------------|
| Nanjing Project | 978,070 | 361,161 | 54,498 | — | — | — | 415,659 | Internal funds | 42.50% | Under construction |
| New energy commercial vehicle production base | 578,333 | 6,356 | 32,274 | — | — | — | 38,630 | Internal funds | 97.59% | Under construction |
| Shanghai R&D Centre Phase III | 478,000 | 182,031 | 62,039 | — | — | — | 244,070 | Internal funds | 62.46% | Under construction |
| ZTE headquarters | 169,040 | 84,520 | 16,904 | — | — | — | 101,424 | Internal funds | 14.50% | Under construction |
| Xi'an Project | 774,200 | 194,464 | 33,044 | — | — | — | 227,508 | Internal funds | 29.39% | Under construction |
| Others | — | 211,368 | 4,381 | 41,580 | 31,871 | — | 142,298 | Internal funds | | Under construction |
| | | 1,039,900 | 203,140 | 41,580 | 31,871 | — | 1,169,589 | | | |

Changes in major construction in progress as at 31 December 2020 were as follows:

| | Budget | Opening balance | Increase during the year | Transfer to fixed assets during the year | Other reduction | Impairment provision | Closing balance | Source of funds | Construction contribution as a percentage of budget (%) | Work progress |
|---|---------|-----------------|--------------------------|--|-----------------|----------------------|-----------------|-----------------|---|--------------------|
| Nanjing Project | 978,070 | 261,568 | 99,593 | — | — | — | 361,161 | Internal funds | 36.93% | Under construction |
| New energy commercial vehicle production base | 578,333 | 526,796 | 5,317 | 525,757 | — | — | 6,356 | Internal funds | 92.01% | Under construction |
| Shanghai R&D Centre Phase III | 478,000 | 75,810 | 106,221 | — | — | — | 182,031 | Internal funds | 49.49% | Under construction |
| ZTE headquarters | 169,040 | 50,712 | 33,808 | — | — | — | 84,520 | Internal funds | 12.08% | Under construction |
| Xi'an Project | 774,200 | 129,471 | 64,993 | — | — | — | 194,464 | Internal funds | 25.12% | Under construction |
| Others | — | 127,359 | 131,520 | 40,920 | — | 6,591 | 211,368 | Internal funds | | Under construction |
| | | 1,171,716 | 441,452 | 566,677 | — | 6,591 | 1,039,900 | | | |

As at 30 June 2021, there was no capitalised interest in the balance of the construction in progress (31 December 2020: Nil).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

15. Rights-of-use assets

30 June 2021

| | Buildings and structures | Vehicles | Other investment | Total |
|-----------------------------------|--------------------------|----------|------------------|-----------|
| Cost | | | | |
| Opening balance | 1,615,090 | 129,627 | 143,818 | 1,888,535 |
| Increase | 92,947 | 23,398 | — | 116,345 |
| Decrease | (69,275) | (50,025) | (73,813) | (193,113) |
| Exchange rate adjustment | (21,138) | (30,297) | (103) | (51,538) |
| Closing balance | 1,617,624 | 72,703 | 69,902 | 1,760,229 |
| Cumulative depreciation | | | | |
| Opening balance | 628,047 | 99,259 | 114,019 | 841,325 |
| Charge | 220,366 | 11,675 | 17,969 | 250,010 |
| Decrease | (69,275) | (50,025) | (73,813) | (193,113) |
| Exchange rate adjustment | (11,334) | (14,093) | (77) | (25,504) |
| Closing balance | 767,804 | 46,816 | 58,098 | 872,718 |
| Book value | | | | |
| As at the end of the period | 849,820 | 25,887 | 11,804 | 887,511 |
| As at the beginning of the period | 987,043 | 30,368 | 29,799 | 1,047,210 |

31 December 2020

| | Buildings and structures | Vehicles | Other investment | Total |
|---------------------------------|--------------------------|----------|------------------|-----------|
| Cost | | | | |
| Opening balance | 1,395,884 | 110,319 | 123,555 | 1,629,758 |
| Increase | 299,975 | 11,646 | 74,423 | 386,044 |
| Decrease | (127,650) | (22,912) | (53,907) | (204,469) |
| Exchange rate adjustment | 46,881 | 30,574 | (253) | 77,202 |
| Closing balance | 1,615,090 | 129,627 | 143,818 | 1,888,535 |
| Cumulative depreciation | | | | |
| Opening balance | 437,127 | 32,804 | 96,046 | 565,977 |
| Charge | 274,565 | 59,628 | 71,909 | 406,103 |
| Decrease | (127,650) | (22,912) | (53,907) | (204,469) |
| Exchange rate adjustment | 44,005 | 29,739 | (29) | 73,714 |
| Closing balance | 628,047 | 99,259 | 114,019 | 841,325 |
| Book value | | | | |
| As at the end of the year | 987,043 | 30,368 | 29,799 | 1,047,210 |
| As at the beginning of the year | 958,757 | 77,515 | 27,509 | 1,063,781 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Intangible assets

30 June 2021

| | Software | Technology know-how | Land use right | Franchise | Deferred development costs | Total |
|-----------------------------------|-----------|---------------------|----------------|-----------|----------------------------|------------|
| Cost | | | | | | |
| Opening balance | 994,714 | 464,259 | 3,075,120 | 2,061,615 | 14,191,688 | 20,787,396 |
| Acquisition | 146,790 | 38,376 | — | 44,336 | — | 229,502 |
| In-house R&D | — | — | — | — | 482,844 | 482,844 |
| Disposal or retirement | (57,479) | (1,692) | (65,926) | (1,415) | — | (126,512) |
| Exchange rate adjustments | (9,120) | — | — | (16,824) | — | (25,944) |
| Closing balance | 1,074,905 | 500,943 | 3,009,194 | 2,087,712 | 14,674,532 | 21,347,286 |
| Accumulated amortisation | | | | | | |
| Opening balance | 389,337 | 327,705 | 393,296 | 952,686 | 9,271,610 | 11,334,634 |
| Charge | 107,190 | 29,693 | 37,456 | 158,247 | 874,150 | 1,206,736 |
| Disposal or retirement | (41,693) | (771) | (17,249) | (436) | — | (60,149) |
| Exchange rate adjustments | (6,660) | (1) | — | (2,308) | — | (8,969) |
| Closing balance | 448,174 | 356,626 | 413,503 | 1,108,189 | 10,145,760 | 12,472,252 |
| Provision for impairment | | | | | | |
| Opening balance | 14,615 | 12,205 | — | 58,660 | — | 85,480 |
| Charge | 16,214 | — | — | — | — | 16,214 |
| Disposal or retirement | — | — | — | — | — | — |
| Exchange rate adjustments | (537) | — | — | (2,423) | — | (2,960) |
| Closing balance | 30,292 | 12,205 | — | 56,237 | — | 98,734 |
| Book value | | | | | | |
| As at the end of the period | 596,439 | 132,112 | 2,595,691 | 923,286 | 4,528,772 | 8,776,300 |
| As at the beginning of the period | 590,762 | 124,349 | 2,681,824 | 1,050,269 | 4,920,078 | 9,367,282 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

16. Intangible assets (continued)

31 December 2020

| | Software | Technology know-how | Land use right | Franchise | Deferred development costs | Total |
|---|----------|---------------------|----------------|-----------|----------------------------|------------|
| Cost | | | | | | |
| Opening balance | 707,951 | 157,517 | 2,733,148 | 1,152,934 | 12,145,786 | 16,897,336 |
| Acquisition | 343,047 | 11,270 | 346,789 | 163,741 | — | 864,847 |
| In-house R&D | — | — | — | — | 2,045,902 | 2,045,902 |
| Business combination not under common control | 37,024 | 304,415 | 1,640 | 735,132 | — | 1,078,211 |
| Disposal or retirement | (70,980) | (8,943) | (6,457) | (65) | — | (86,445) |
| Exchange rate adjustments | (22,328) | — | — | 9,873 | — | (12,455) |
| Closing balance | 994,714 | 464,259 | 3,075,120 | 2,061,615 | 14,191,688 | 20,787,396 |
| Accumulated amortisation | | | | | | |
| Opening balance | 206,494 | 149,587 | 321,658 | 746,349 | 7,676,568 | 9,100,656 |
| Charge | 230,393 | 22,552 | 71,513 | 214,581 | 1,595,042 | 2,134,081 |
| Business combination not under common control | 28,667 | 158,679 | 260 | 572 | — | 188,178 |
| Disposal or retirement | (61,367) | (3,113) | (135) | (34) | — | (64,649) |
| Exchange rate adjustments | (14,850) | — | — | (8,782) | — | (23,632) |
| Closing balance | 389,337 | 327,705 | 393,296 | 952,686 | 9,271,610 | 11,334,634 |
| Provision for impairment | | | | | | |
| Opening balance | 14,300 | — | 6,322 | 57,238 | — | 77,860 |
| Charge | — | 12,205 | — | — | — | 12,205 |
| Disposal or retirement | — | — | (6,322) | — | — | (6,322) |
| Exchange rate adjustments | 315 | — | — | 1,422 | — | 1,737 |
| Closing balance | 14,615 | 12,205 | — | 58,660 | — | 85,480 |
| Book value | | | | | | |
| As at the end of the year | 590,762 | 124,349 | 2,681,824 | 1,050,269 | 4,920,078 | 9,367,282 |
| As at the beginning of the year | 487,157 | 7,930 | 2,405,168 | 349,347 | 4,469,218 | 7,718,820 |

As at 30 June 2021, 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 RMB1,004,026,000 (31 December 2020: RMB1,032,215,000).

As at 30 June 2021, intangible assets formed through internal research and development accounted for 52% of the book value of intangible assets as at the end of the period (31 December 2020: 53%).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

17. Deferred development costs

30 June 2021

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|-----------------|------------------|----------------------------|----------------------------|------------------|
| Handsets | 2,270 | 18,080 | (2,438) | 17,912 |
| System products | 2,070,587 | 1,041,542 | (480,406) | 2,631,723 |
| | 2,072,857 | 1,059,622 | (482,844) | 2,649,635 |

31 December 2020

| | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|-----------------|------------------|--------------------------|--------------------------|------------------|
| Handsets | 32,057 | 77,485 | (107,272) | 2,270 |
| System products | 1,844,352 | 2,164,865 | (1,938,630) | 2,070,587 |
| | 1,876,409 | 2,242,350 | (2,045,902) | 2,072,857 |

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

18. Goodwill

Movements in the original value of goodwill are as follows:

30 June 2021

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|-------------------------------------|-----------------|----------------------------|----------------------------|-----------------|
| | | Exchange rate change | Disposal | |
| Zhuhai Guangtong Bus Co., Ltd. | 186,206 | — | — | 186,206 |
| Suzhou Laxense Technology Co., Ltd. | 33,500 | — | — | 33,500 |
| NETAS TELEKOMUNIKASYON A.S. | 89,763 | — | — | 89,763 |
| | 309,469 | — | — | 309,469 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Goodwill (continued)

31 December 2020

| | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|-------------------------------------|-----------------|---|--------------------------|-----------------|
| | | Business combination not under common control | Disposal | |
| Zhuhai Guangtong Bus Co., Ltd. | 186,206 | — | — | 186,206 |
| Suzhou Laxense Technology Co., Ltd. | 33,500 | — | — | 33,500 |
| NETAS TELEKOMUNIKASYON A.S. | 89,763 | — | — | 89,763 |
| | 309,469 | — | — | 309,469 |

Change in goodwill impairment provision was as follows:

30 June 2021

| | Opening balance | Increase during the period | Decrease during the period | Closing |
|-------------------------------------|-----------------|----------------------------|----------------------------|---------|
| | | Exchange rate movement | Disposal | |
| Zhuhai Guangtong Bus Co., Ltd. | — | — | — | — |
| Suzhou Laxense Technology Co., Ltd. | 33,500 | — | — | 33,500 |
| NETAS TELEKOMUNIKASYON A.S. | 89,763 | — | — | 89,763 |
| Total | 123,263 | — | — | 123,263 |

31 December 2020

| | Opening balance | Increase during the year | Decrease during the year | Closing |
|-------------------------------------|-----------------|--------------------------|--------------------------|---------|
| | | Exchange rate movement | Disposal | |
| Zhuhai Guangtong Bus Co., Ltd. | — | — | — | — |
| Suzhou Laxense Technology Co., Ltd. | 33,500 | — | — | 33,500 |
| NETAS TELEKOMUNIKASYON A.S. | 89,763 | — | — | 89,763 |
| Total | 123,263 | — | — | 123,263 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

18. Goodwill (continued)

Goodwill acquired as a result of corporate merger has been allocated to the following asset groups or portfolio of asset groups for the purpose of impairment testing:

In 2019, Zhuhai Guangtong Bus Co., Ltd. transferred significant assets to Zhongxing Smart Auto Company Limited, its parent company. The management is of the view that Zhuhai Guangtong Bus Co., Ltd and Zhongxing Smart Auto Company Limited should be treated as one single asset group.

- Zhongxing Smart Auto Company Limited asset group

Zhongxing Smart Auto Company Limited asset group

In 2019, Zhuhai Guangtong Bus Co., Ltd. and Zhongxing Smart Auto Company Limited were combined as one single asset group, resulting in modification of the asset group ascertained on the date of purchase.

19. Deferred tax assets/liabilities

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

| | 30 June 2021 | | 31 December 2020 | |
|---|----------------------------------|---------------------|----------------------------------|---------------------|
| | Deductible temporary differences | Deferred tax assets | Deductible temporary differences | Deferred tax assets |
| Deferred tax assets | | | | |
| Unrealised profits arising on consolidation | 2,545,307 | 482,121 | 2,281,961 | 464,969 |
| Provision for impairment in inventory | 1,210,614 | 259,863 | 1,295,712 | 266,314 |
| Foreseeable construction contract losses | 1,189,126 | 178,369 | 1,424,193 | 213,629 |
| Amortisation of deferred development costs | 2,842,665 | 319,837 | 2,572,554 | 279,142 |
| Provision for warranties and returned goods | 197,281 | 33,631 | 245,741 | 40,938 |
| Provision for retirement benefits | 190,694 | 32,891 | 175,954 | 29,277 |
| Deductible tax losses | 8,758,212 | 1,537,098 | 10,369,097 | 1,599,119 |
| Accruals | 2,133,825 | 383,943 | 4,118,262 | 545,809 |
| Overseas taxes pending deduction | — | — | 1,747,971 | 262,196 |
| Share option scheme expenses | 965,274 | 144,791 | 496,504 | 74,476 |
| Lease liabilities | 1,077,891 | 153,362 | 1,162,649 | 165,721 |
| | 21,110,889 | 3,525,906 | 25,890,598 | 3,941,590 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

19. Deferred tax assets/liabilities (continued)

| | 30 June 2021 | | 31 December 2020 | |
|--|----------------------------------|--------------------------|----------------------------------|--------------------------|
| | Deductible temporary differences | Deferred tax liabilities | Deductible temporary differences | Deferred tax liabilities |
| Deferred tax liabilities | | | | |
| Revaluation gain of investment properties | 1,091,779 | 163,767 | 1,090,898 | 163,635 |
| Investment in equity instrument at fair value through profit or loss | 740,226 | 147,158 | 513,699 | 99,174 |
| Adjustments to fair value of business combination not under common control | 915,667 | 137,350 | 1,073,769 | 161,065 |
| Rights-of-use assets | 887,511 | 133,127 | 1,047,210 | 157,082 |
| Others | 519,910 | 77,986 | 385,670 | 57,850 |
| | 4,155,093 | 659,388 | 4,111,246 | 638,806 |

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

| | 30 June 2021 | | 31 December 2020 | |
|--------------------------|-------------------|----------------------|-------------------|----------------------|
| | Amount of set-off | Amount after set-off | Amount of set-off | Amount after set-off |
| Deferred tax assets | 529,958 | 2,995,948 | 504,489 | 3,437,101 |
| Deferred tax liabilities | 529,958 | 129,430 | 504,489 | 134,317 |

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

| | 30 June 2021 | 31 December 2020 |
|-----------------------|--------------|------------------|
| Deductible tax losses | 4,417,119 | 5,008,396 |

Deductible tax losses of unrecognised deferred tax assets expiring in:

| | 30 June 2021 | 31 December 2020 |
|-------------|------------------|------------------|
| 2021 | 31,847 | 103,206 |
| 2022 | 339,795 | 106,593 |
| 2023 | 190,178 | 372,143 |
| 2024 | 236,291 | 341,724 |
| Beyond 2025 | 3,619,008 | 4,084,730 |
| | 4,417,119 | 5,008,396 |

The Group recognises deferred tax assets based on deductible temporary differences. In relation to deferred income tax relating to deductible tax loss and tax allowance, the Group expects to generate sufficient taxable income prior to the expiry of deductible tax loss and tax allowance.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

20. Other current assets/other non-current assets

Other current assets

| | 30 June 2021 | 31 December 2020 |
|---|------------------|---------------------|
| Advanced payment of output tax and credit tax available for set off | 7,277,274 | 8,024,888 |
| Others | 75,067 | 68,027 |
| | 7,352,341 | 8,092,915 |

Other non-current assets

| | 30 June 2021 | 31 December 2020 |
|---|------------------|---------------------|
| Prepayments for project, equipment and land | 744,804 | 967,600 |
| Risk compensation fund | 227,796 | 261,394 |
| Guarantee deposit | 351,323 | 351,623 |
| Restricted cash (Note 1) | 2,668,257 | 2,692,163 |
| Prepaid income tax | 265,311 | 241,137 |
| Others | 1,756,324 | 1,765,940 |
| | 6,013,815 | 6,279,857 |

Note 1: Restricted funds represented deposits in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed. For details, please refer to Note XII.2.

21. Short-term loans

| | | 30 June 2021 | | 31 December 2020 | |
|-------------------------|------------|----------------------|-------------------|----------------------|-------------------|
| | | Original currency | RMB equivalent | Original currency | RMB equivalent |
| Credit loans | RMB | 5,876,351 | 5,876,351 | 4,631,452 | 4,631,452 |
| | USD | 403,000 | 2,604,388 | 531,948 | 3,468,509 |
| | EUR | 64,599 | 496,779 | 125,817 | 1,009,251 |
| | TRY | 324,150 | 241,330 | 266,000 | 236,282 |
| Bills discounting loans | RMB | 450,322 | 450,322 | 748,180 | 748,180 |
| Letter of credit loans | RMB | 3,200,000 | 3,200,000 | 300,000 | 300,000 |
| Pledged loans | Note 1 RMB | 30,000 | 30,000 | 30,000 | 30,000 |
| Guarantee loans | RMB | — | — | 20,000 | 20,000 |
| Secured loans | Note 2 RMB | 26,175 | 26,175 | 115,486 | 115,486 |
| | | | 12,925,345 | | 10,559,160 |

Notes to Financial Statements

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

21. Short-term loans (continued)

As at 30 June 2021, the annual interest rate of the above loans ranged from 0.80%–20.00% (except for TRY loans which were subject to an annual interest rate of 9.30%–20.00%) (31 December 2020: 0.80%–19.50%, including TRY loans which were subject to an annual interest rate of 9.30%–19.50%).

Note 1: The guaranteed loan comprised mainly loans extended to ZTE ICT Company Limited secured by trade receivables with a book value of RMB6,841,000 and contract assets with a book value of RMB10,259,000 of the “Jinan Environmental Project” and trade receivables with a book value of RMB3,586,000 and contract assets with a book value of RMB5,892,000 of the “Suzhou High-speed Rail” project.

Note 2: The secured loans comprised mainly an RMB26,176,000 loan extended to ZTE ICT (Hunan) Company Limited secured by buildings with a book value of RMB46,531,000 and land use rights with a book value of RMB23,736,000.

22. Derivative financial liabilities

| | 30 June 2021 | 31 December 2020 |
|---|-----------------|---------------------|
| Financial liabilities at fair value through current profit and loss | 31,853 | 153,961 |

Financial liabilities at fair value through profit or loss represent forward foreign exchange contract. For details please refer to Note V.3.

23A. Bills payable

| | 30 June 2021 | 31 December 2020 |
|-----------------------------|------------------|---------------------|
| Bank acceptance bills | 3,870,265 | 5,624,190 |
| Commercial acceptance bills | 4,927,631 | 5,739,866 |
| | 8,797,896 | 11,364,056 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

23B. Trade payables

Trade payables

An aging analysis of the trade payables are as follows:

| | 30 June 2021 | 31 December 2020 |
|--------------------|-------------------|---------------------|
| 0 to 6 months | 19,029,820 | 16,404,105 |
| 6 to 12 months | 433,512 | 371,996 |
| 1 year to 2 years | 211,850 | 181,788 |
| 2 years to 3 years | 180,956 | 155,278 |
| Over 3 years | 44,944 | 38,566 |
| | 19,901,082 | 17,151,733 |

Trade payables are interest-free and repayable normally within 6 months.

As at 30 June 2021, were no material trade payables aged over 1 year (31 December 2020: Nil).

24. Short-term bonds payable

| | 30 June 2021 | 31 December 2020 |
|------|------------------|---------------------|
| SCPs | 2,000,000 | — |
| | 2,000,000 | — |

The balance of short-term bonds payable as at 30 June 2021 is set out as follows:

| Face value | Issue date | Term | Issue amount | Opening balance | Issued during the period | Annual interest rate | Interest provision for the period | Amortisation of discount/premium | Repayment during the period | Closing balance |
|---------------|------------|----------|---------------|-----------------|--------------------------|----------------------|-----------------------------------|----------------------------------|-----------------------------|-----------------|
| 1,000,000,000 | 2021/4/29 | 180 days | 1,000,000,000 | — | 1,000,000,000 | 2.70% | 4,586 | — | — | 1,000,000,000 |
| 1,000,000,000 | 2021/4/29 | 180 days | 1,000,000,000 | — | 1,000,000,000 | 2.70% | 4,586 | — | — | 1,000,000,000 |

25. Contract liabilities

| | 30 June 2021 | 31 December 2020 |
|-----------------------------------|-----------------|---------------------|
| Contracted consideration received | 18,051,874 | 14,998,172 |

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. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Salary and welfare payables

Salaries payable

30 June 2021

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---|-----------------|----------------------------|----------------------------|-----------------|
| Short-term remuneration | 10,383,922 | 11,705,225 | (13,304,173) | 8,784,974 |
| Retirement benefits (Defined contribution scheme) | 126,395 | 809,728 | (743,339) | 192,784 |
| Termination benefits | 35,178 | 134,255 | (116,558) | 52,875 |
| | 10,545,495 | 12,649,208 | (14,164,070) | 9,030,633 |

31 December 2020

| | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|---|-----------------|--------------------------|--------------------------|-----------------|
| Short-term remuneration | 8,800,736 | 21,677,370 | (20,094,184) | 10,383,922 |
| Retirement benefits (Defined contribution scheme) | 143,866 | 808,532 | (826,003) | 126,395 |
| Termination benefits | 9,403 | 272,837 | (247,062) | 35,178 |
| | 8,954,005 | 22,758,739 | (21,167,249) | 10,545,495 |

Short-term remuneration analysed as follows:

30 June 2021

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---|-----------------|----------------------------|----------------------------|-----------------|
| Salary, bonus and allowance | 8,443,244 | 10,563,750 | (12,421,216) | 6,585,778 |
| Staff welfare | 14,973 | 12,356 | (17,156) | 10,173 |
| Social Insurance | 61,668 | 448,047 | (471,748) | 37,967 |
| Including: Medical | 58,421 | 414,258 | (437,971) | 34,708 |
| Work injuries | 1,373 | 10,672 | (11,041) | 1,004 |
| Maternity | 1,874 | 23,117 | (22,736) | 2,255 |
| Housing funds | 33,405 | 330,599 | (360,459) | 3,545 |
| Labour union fund and employee education fund | 1,830,632 | 350,473 | (33,594) | 2,147,511 |
| | 10,383,922 | 11,705,225 | (13,304,173) | 8,784,974 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

26. Salary and welfare payables (continued)

Salaries payable (continued)

31 December 2020

| | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|--|--------------------|--------------------------------|--------------------------------|--------------------|
| Salary, bonus and allowance | 7,322,241 | 19,338,887 | (18,217,884) | 8,443,244 |
| Staff welfare | 16,880 | 25,380 | (27,287) | 14,973 |
| Social Insurance | 62,202 | 731,430 | (731,964) | 61,668 |
| Including: Medical | 55,308 | 686,624 | (683,511) | 58,421 |
| Work injuries | 2,913 | 8,413 | (9,953) | 1,373 |
| Maternity | 3,981 | 36,393 | (38,500) | 1,874 |
| Housing funds | 22,725 | 683,172 | (672,492) | 33,405 |
| Labour union fund and employee education fund | 1,376,688 | 898,501 | (444,557) | 1,830,632 |
| | 8,800,736 | 21,677,370 | (20,094,184) | 10,383,922 |

Defined contribution plans are analysed as follows:

30 June 2021

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|------------------------|--------------------|----------------------------------|----------------------------------|--------------------|
| Pension insurance | 123,944 | 788,969 | (721,842) | 191,071 |
| Unemployment insurance | 2,451 | 20,759 | (21,497) | 1,713 |
| | 126,395 | 809,728 | (743,339) | 192,784 |

31 December 2020

| | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|------------------------|--------------------|--------------------------------|--------------------------------|--------------------|
| Pension insurance | 136,591 | 789,947 | (802,594) | 123,944 |
| Unemployment insurance | 7,275 | 18,585 | (23,409) | 2,451 |
| | 143,866 | 808,532 | (826,003) | 126,395 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

27. Tax payable

| | 30 June 2021 | 31 December 2020 |
|---------------------------------------|-----------------|---------------------|
| Value-added tax | 104,799 | 118,864 |
| Enterprise income tax | 445,619 | 445,022 |
| Including: PRC tax | 433,212 | 424,621 |
| Overseas tax | 12,407 | 20,401 |
| Personal income tax | 133,504 | 213,819 |
| City maintenance and construction tax | 31,527 | 30,996 |
| Education surcharge | 27,448 | 27,643 |
| Other taxes | 3,185 | 41,857 |
| | 746,082 | 878,201 |

28. Other payables

| | 30 June 2021 | 31 December 2020 |
|-------------------|------------------|---------------------|
| Interest payables | 43,048 | 28,561 |
| Dividend payables | 926,591 | 4,677 |
| Other payables | 3,532,570 | 4,319,564 |
| | 4,502,209 | 4,352,802 |

Dividend payables

| | 30 June 2021 | 31 December 2020 |
|--|-----------------|---------------------|
| Dividend on ordinary shares | 922,912 | 225 |
| Dividend payables to minority shareholders | 3,679 | 4,452 |
| | 926,591 | 4,677 |

Other payables

| | 30 June 2021 | 31 December 2020 |
|--|------------------|---------------------|
| Accruals | 872,332 | 881,389 |
| Deferred income from staff housing due in 1 year | 205,724 | 633,222 |
| Payables to external parties | 2,101,107 | 2,483,236 |
| Deposits | 5,559 | 8,105 |
| Others | 347,848 | 313,612 |
| | 3,532,570 | 4,319,564 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

29. Provisions

30 June 2021

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---------------------------------|------------------|----------------------------|----------------------------|------------------|
| Expected contract loss (Note 1) | 1,756,267 | 676,411 | (785,766) | 1,646,912 |
| Outstanding litigation (Note 2) | 172,964 | 95,933 | (61,197) | 207,700 |
| Provision for warranties | 156,003 | 40,149 | (43,499) | 152,653 |
| | 2,085,234 | 812,493 | (890,462) | 2,007,265 |

31 December 2020

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|---------------------------------|------------------|----------------------------|----------------------------|------------------|
| Expected contract loss (Note 1) | 1,619,216 | 1,185,309 | (1,048,258) | 1,756,267 |
| Outstanding litigation (Note 2) | 166,491 | 60,538 | (54,065) | 172,964 |
| Provision for warranties | 180,757 | 127,260 | (152,014) | 156,003 |
| | 1,966,464 | 1,373,107 | (1,254,337) | 2,085,234 |

Note 1: Unavoidable cost for the performance of contract in excess of expected economic benefits of the contract.

Note 2: Provisions in respect of likely compensation amounts for cases as assessed based on the advice from appointed legal counsel and the progress of such cases.

30. Non-current liabilities due within one year

| | 30 June 2021 | 31 December 2020 |
|-------------------------------------|------------------|------------------|
| Long-term loans due within one year | 5,215,899 | 1,651,543 |
| Lease liabilities | 440,101 | 453,134 |
| | 5,656,000 | 2,104,677 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

31. Long-term loans

| | | 30 June 2021 | | 31 December 2020 | |
|------------------|------------|----------------------|-------------------|----------------------|-------------------|
| | | Original currency | RMB equivalent | Original currency | RMB equivalent |
| Credit loans | RMB | 18,077,450 | 18,077,450 | 16,269,550 | 16,269,550 |
| | USD | 565,000 | 3,651,312 | 572,500 | 3,732,929 |
| | EUR | 18,343 | 13,657 | 23,502 | 20,876 |
| | TRY | 363 | 2,789 | 363 | 2,909 |
| Guaranteed loans | Note 1 USD | 350,000 | 2,261,875 | 350,000 | 2,282,140 |
| Secured loans | Note 2 RMB | 204,190 | 204,190 | 206,190 | 206,190 |
| Pledged loans | Note 3 RMB | 32,213 | 32,213 | 99,710 | 99,710 |
| | | | 24,243,486 | | 22,614,304 |

Note 1: The loan comprised mainly bank loans extended to ZTE (H.K.) Limited and guaranteed by ZTE Corporation (31 December 2020: RMB350,000,000).

Note 2: The secured loans comprised mainly an RMB3,000,000 loan extended to 安徽皖興通信息技術有限公司 secured by land use rights with a book value of RMB14,707,000 and an RMB201,190,000 (31 December 2020: RMB201,189,000) loan extended to Zhongxing Smart Auto Company Limited secured by land use rights with a book value of RMB225,500,000 and buildings with a book value of RMB511,883,000.

Note 3: The loan comprised mainly an RMB22,213,000 loan pledged by trade receivables with a book value of RMB26,582,000, contract assets with a book value of RMB1,319,000 and project long-term receivables with a book value of RMB7,299,000 and an RMB10,000,000 loan pledged by trade receivables of "Guangming Huanshui" with a book value of RMB7,303,000 extended to ZTE ICT Company Limited.

As at 30 June 2021, the annual interest rate for the aforesaid loans was 0.75%–10.00%, among which the loan interest rate for the TRY contract was 9.00%–10.00% (31 December 2020: 0.75%–12.06%, among which the loan interest rate for the TRY contract was 9.00%–12.06%).

Aging profile of bank loans

| | 30 June 2021 | 31 December 2020 |
|--|-------------------|---------------------|
| Listed as: | | |
| Bank loan repayable: | | |
| Within one year | 18,141,244 | 12,210,703 |
| Within the second year | 13,527,360 | 9,914,007 |
| Within the third to fifth years, inclusive | 10,641,407 | 12,625,578 |
| After five years | 74,719 | 74,719 |
| Total bank loans | 42,384,730 | 34,825,007 |

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(All amounts in RMB'000 unless otherwise stated)

V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

32. Lease liabilities

| | 30 June 2021 | 31 December 2020 |
|-------------------|-----------------|---------------------|
| Lease liabilities | 637,791 | 718,186 |

33. Other non-current liabilities

| | 30 June 2021 | 31 December 2020 |
|---|------------------|---------------------|
| Deferred income relating to staff housing | 233,199 | 236,408 |
| Long-term payable | 3,699,686 | 3,668,911 |
| Amounts payable to third parties | 17,058 | 19,290 |
| | 3,949,943 | 3,924,609 |

34. Share capital

30 June 2021

| | Opening balance | Increase/decrease during the period | | | | Closing balance |
|--|--------------------|-------------------------------------|---------------------------|-----------|-----------|--------------------|
| | | Issue of new share | Transfer from reserves | Others | Sub-total | |
| Restricted shares | | | | | | |
| State-owned legal person shares | 43,032 | — | — | (43,032) | (43,032) | — |
| Other domestic shareholdings | 338,067 | — | — | (338,067) | (338,067) | — |
| Senior management shares | 580 | — | — | (14) | (14) | 566 |
| Total number of restricted shares | 381,679 | — | — | (381,113) | (381,113) | 566 |
| Unrestricted shares | | | | | | |
| RMB Ordinary shares | 3,476,254 | — | — | 381,113 | 381,113 | 3,857,367 |
| Overseas listed foreign shares | 755,502 | — | — | — | — | 755,502 |
| Total number of unrestricted shares | 4,231,756 | — | — | 381,113 | 381,113 | 4,612,869 |
| Total number of shares | 4,613,435 | — | — | — | — | 4,613,435 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

34. Share capital (continued)

31 December 2020

| | Opening balance | Increase/decrease during the period | | | Closing balance |
|-------------------------------------|-----------------|-------------------------------------|------------------------|--------|-----------------|
| | | Issue of new share | Transfer from reserves | Others | |
| Restricted shares | | | | | |
| State-owned legal person shares | — | 43,032 | — | — | 43,032 |
| Other domestic shareholdings | — | 338,067 | — | — | 338,067 |
| Senior management shares | 494 | 86 | — | — | 86 |
| Total number of restricted shares | 494 | 381,185 | — | — | 381,185 |
| Unrestricted shares | | | | | |
| RMB ordinary shares | 3,471,534 | 4,720 | — | — | 4,720 |
| Overseas listed foreign shares | 755,502 | — | — | — | 755,502 |
| Total number of unrestricted shares | 4,227,036 | 4,720 | — | — | 4,720 |
| Total number of shares | 4,227,530 | 385,905 | — | — | 385,905 |

35. Capital reserves

30 June 2021

| | Opening balance | Increase during the period | Decrease during the period | Closing balance |
|------------------------------|-----------------|----------------------------|----------------------------|-----------------|
| Share premium (Note 1) | 22,716,657 | 9,258 | — | 22,725,915 |
| Share-based payment (Note 2) | 479,153 | 468,770 | — | 947,923 |
| Other capital investment | 80,000 | — | — | 80,000 |
| | 23,275,810 | 478,028 | — | 23,753,838 |

31 December 2020

| | Opening balance | Increase during the year | Decrease during the year | Closing balance |
|--------------------------|-----------------|--------------------------|--------------------------|-----------------|
| Share premium | 11,774,076 | 11,480,688 | (538,107) | 22,716,657 |
| Share-based payment | 290,356 | 235,705 | (46,908) | 479,153 |
| Other capital investment | 80,000 | — | — | 80,000 |
| | 12,144,432 | 11,716,393 | (585,015) | 23,275,810 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

35. Capital reserves (continued)

Note 1: Additional capital contribution by minority interests resulted in the dilution of equity interests and the increase in the shareholders' premium of the capital reserve by RMB9,258,000.

Note 2: Registration of the grant under the Company's 2017 Share Option Incentive Scheme was completed in July 2017. The scheme was implemented in three exercise periods. Share option expenses for the period of RMB47,171,000 were recognised in respect of share options for the third period. Registration of the grant under the Company's 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 RMB385,009,000 were recognised in respect of share options for the three periods. The Company's Management Stock Ownership Scheme completed non-trading transfer in December 2020, divided into two phases based on the exercise periods. Expenses for the period of RMB36,590,000 were recognised in respect of Management Stock Ownership Scheme. For details please refer to Note XI.

36. Other comprehensive income

Accumulated balance of other comprehensive income on the balance sheet attributable to the parent company:

| | 1 January 2020 | Increase/ decrease | 31 December 2020 | Increase/ decrease | 30 June 2021 |
|--|-------------------|-----------------------|---------------------|-----------------------|-----------------|
| Changes in net liabilities arising from the re-measurement of defined benefit plans | (73,277) | 350 | (72,927) | — | (72,927) |
| Share of investee results in other comprehensive income under equity method which will not be reclassified to profit and loss | 44,350 | — | 44,350 | — | 44,350 |
| Effective portion of hedging instruments | (67,982) | — | (67,982) | — | (67,982) |
| Differences arising from foreign currency translation | (2,696,840) | (269,992) | (2,966,832) | 17,325 | (2,949,507) |
| Fair value at date of reclassification of owned properties reclassified as investment properties at fair value in excess of book value | 792,769 | — | 792,769 | — | 792,769 |
| | (2,000,980) | (269,642) | (2,270,622) | 17,325 | (2,253,297) |

Other comprehensive income on the income statement incurred during the current period:

Six months ended 30 June 2021

| | Amount before taxation | Less: amount recognised in other comprehensive income for the previous period and profit and loss for the current period | Less: income tax | Attributable to the parent company | Attributable to non-controlling interests |
|---|---------------------------|--|------------------|--|---|
| Differences arising from foreign currency translation | 12,448 | — | — | 17,325 | (4,877) |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

36. Other comprehensive income (continued)

Six months ended 30 June 2020

| | Amount before taxation | Less: amount recognised in other comprehensive income for the previous period and profit and loss for the current period | Less: income tax | Attributable to the parent company | Attributable to non-controlling interests |
|--|---------------------------|--|------------------|---------------------------------------|---|
| Differences arising from foreign currency translation | (115,505) | — | — | (119,072) | 3,567 |

37. Surplus reserves

30 June 2021

| | Opening balance | Opening adjustment | Increase during the period | Decrease during the period | Closing balance |
|-------------------------------|--------------------|-----------------------|----------------------------------|----------------------------------|--------------------|
| Statutory surplus reserves | 2,968,473 | — | — | — | 2,968,473 |

31 December 2020

| | Opening balance | Opening adjustment | Increase during the year | Decrease during the year | Closing balance |
|-------------------------------|--------------------|-----------------------|--------------------------------|--------------------------------|--------------------|
| Statutory surplus reserves | 2,775,521 | — | 192,952 | — | 2,968,473 |

In accordance with the Company Law of the PRC and the articles of associations, the Company is required to allocate 10% of their profit after tax to the statutory surplus reserve, until the accumulated statutory surplus reserve has reached 50% of the registered capitals of the Company.

The Company may further allocate to the discretionary surplus reserve after the statutory surplus reserves allocation. The discretionary surplus reserve can be applied towards making up losses of the previous years, or capitalised as the Company's share capital.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

38. Retained profits

| | 30 June 2021 | 31 December 2020 |
|---|-----------------|---------------------|
| Retained profits at the beginning of the period | 14,824,478 | 11,680,365 |
| Net profit attributable to shareholders of the parent | 4,078,613 | 4,259,752 |
| Surplus reserve | — | (192,952) |
| Distribution to shareholders | (922,687) | (922,687) |
| Retained profits at the end of the period | 17,980,404 | 14,824,478 |

Pursuant to the resolution passed at the general meeting held on 25 June 2021, the Company shall pay a cash dividend of RMB0.2 (2020: RMB0.2) per share to all shareholders. Based on the total share capital in issue of 4,637,709,675 shares (2020: 4,613,434,898) as at the shareholding record date, the total amount of profit distribution shall be RMB927,541,935 (2020: RMB922,686,980), the implementation of which was completed on 20 August 2021.

39. Other equity instruments

(1) General information of Medium Term Notes outstanding as at the end of the period

As at 30 June 2021, the Group had no outstanding perpetual capital instruments in issue.

As at 31 December 2020, the Group had no outstanding perpetual capital instruments in issue.

(2) Change of issued Medium Term Note as at the end of the period

The change of Medium Term Notes outstanding of the Group are as follows:

30 June 2021: Nil

31 December 2020

| | Opening balance | | Increase during the year | | Decrease during the year | | Closing balance | |
|-----------|----------------------|--------------------------------|--------------------------|--------------------------------|--------------------------|--------------------------------|----------------------|--------------------------------|
| | Quantity (10,000) | Carrying value (RMB'000) | Quantity (10,000) | Carrying value (RMB'000) | Quantity (10,000) | Carrying value (RMB'000) | Quantity (10,000) | Carrying value (RMB'000) |
| Tranche I | 6,000 | 6,000,000 | — | — | 6,000 | 6,000,000 | — | — |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Operating revenue and costs

| | Six months ended 30 June 2021 | | Six months ended 30 June 2020 | |
|--------------------|----------------------------------|-------------------|----------------------------------|------------|
| | Revenue | Cost | Revenue | Cost |
| Principal business | 51,434,237 | 32,871,077 | 46,122,101 | 30,644,231 |
| Other business | 1,636,733 | 1,021,705 | 1,077,272 | 774,072 |
| | 53,070,970 | 33,892,782 | 47,199,373 | 31,418,303 |

Operating revenue is analysed as follows:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|----------------------------------|-------------------------------------|-------------------------------------|
| Revenue from customer contract | 53,010,999 | 47,130,591 |
| Rental income — operating leases | 59,971 | 68,782 |
| | 53,070,970 | 47,199,373 |

Breakdown of revenue from customer contracts:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|-------------------------------------|-------------------------------------|
| Major operating area | | |
| The PRC | 35,894,853 | 31,682,382 |
| Asia (excluding the PRC) | 7,140,276 | 6,923,102 |
| Africa | 2,351,270 | 2,522,750 |
| Europe, America and Oceania | 7,624,600 | 6,002,357 |
| | 53,010,999 | 47,130,591 |
| Types of key products | | |
| Sale of products | 17,754,461 | 12,540,730 |
| Rendering of services | 3,767,790 | 6,277,650 |
| Network construction | 31,488,748 | 28,312,211 |
| | 53,010,999 | 47,130,591 |
| Timing of revenue recognition | | |
| Recognition of revenue at a point in time | 49,243,209 | 40,852,941 |
| Recognition of revenue over a period of time | 3,767,790 | 6,277,650 |
| | 53,010,999 | 47,130,591 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

40. Operating revenue and costs (continued)

Revenue included in the opening book value of contract liabilities and recognized for the period is as follows:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|-------------------------------------|-------------------------------------|
| Revenue included in the opening book value of contract liabilities and recognized for the period | 6,173,073 | 6,643,607 |

41. Taxes and surcharges

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| City maintenance and construction tax | 139,950 | 119,525 |
| Education surcharge | 110,571 | 91,981 |
| Property tax | 40,239 | 20,338 |
| Stamp duty | 35,973 | 32,425 |
| Others | 58,938 | 47,577 |
| | 385,671 | 311,846 |

42. Selling and distribution costs

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|------------------------------------|-------------------------------------|-------------------------------------|
| Wages, welfare and bonuses | 2,468,358 | 2,496,826 |
| Services charges | 280,796 | 452,148 |
| Travelling expenses | 259,253 | 223,271 |
| Service fees | 95,010 | 117,210 |
| Office expense | 108,630 | 112,859 |
| Advertising and promotion expenses | 488,612 | 337,090 |
| Others | 469,145 | 201,191 |
| | 4,169,804 | 3,940,595 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

43. Administrative expenses

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Wages, welfare and bonuses | 1,160,306 | 983,163 |
| Office expenses | 85,489 | 37,331 |
| Amortisation and depreciation charges | 308,698 | 232,439 |
| Lease expenses | 32,095 | 26,049 |
| Travelling expenses | 27,736 | 27,617 |
| Audit fees [#] | 8,429 | 9,227 |
| Others | 920,785 | 949,300 |
| | 2,543,538 | 2,265,126 |

44. Research and development costs

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Wages, welfare and bonuses | 5,996,212 | 4,560,698 |
| Direct material costs | 241,769 | 232,602 |
| Amortisation and depreciation charges | 1,344,819 | 955,618 |
| Office expenses | 157,372 | 123,215 |
| Technical cooperation fee | 794,836 | 500,842 |
| Others | 326,398 | 264,401 |
| | 8,861,406 | 6,637,376 |

45. Finance costs

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|
| Interest expenses | 665,129 | 847,922 |
| Including: Interest expenses on lease liabilities | 34,490 | 44,961 |
| Interest expense on long-term payables | 28,781 | 31,643 |
| Interest expense on SCPs | 9,172 | 23,414 |
| Less: Interest income | 661,600 | 581,860 |
| Loss on foreign currency exchange | 406,610 | 257,510 |
| Bank charges | 70,563 | 109,261 |
| | 480,702 | 632,833 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

45. Finance costs (continued)

Details of interest income are as follows:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---------------------------------------|-------------------------------------|-------------------------------------|
| Interest income from cash | 517,400 | 448,939 |
| Interest income from finance contract | 110,626 | 100,024 |
| Interest income from finance lease | 33,574 | 32,897 |
| | 661,600 | 581,860 |

46. Other income

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 | Relating to asset/ income |
|---|-------------------------------------|-------------------------------------|------------------------------|
| Refund of VAT on software products (Note 1) | 801,562 | 513,313 | Relating to income |
| Refund of handling charges for personal tax | 21,893 | 12,856 | Relating to income |
| Others | 444,251 | 334,002 | Relating to income |
| | 1,267,706 | 860,171 | |

Note 1: Refund of VAT on software products represents the refund upon payment of VAT according to the portion of any effective VAT 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.

47. Investment income

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|
| Investment loss from long-term equity investment under equity method | (70,777) | (63,816) |
| Investment income from financial assets at fair value through current profit or loss during the period of holding | 6,254 | 5,769 |
| Investment (loss)/income arising from the disposal of derivative financial assets | (71,317) | 70,475 |
| Investment income arising from the disposal of financial assets at fair value through profit or loss | 82,358 | 100,596 |
| Investment income/(loss) from the disposal of long-term equity interests | 862,666 | (12,970) |
| Loss upon derecognition of financial assets at amortised cost | (106,075) | (69,797) |
| | 703,109 | 30,257 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

48. Gain/loss from changes in fair values

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|
| Financial assets at fair value through current profit or loss | 607,798 | 454,773 |
| Derivative financial instruments | 265,985 | (80,671) |
| Investment properties at fair value | 878 | 3,622 |
| | 874,661 | 377,724 |

49. Credit impairment losses

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|
| Impairment loss of trade receivables | 55,706 | 205,715 |
| Impairment loss of receivable financing | 3,025 | 1,013 |
| Impairment loss of other receivables | 74,101 | 63,165 |
| (Reversal)/loss of impairment of long-term receivables | (7,831) | 4,738 |
| Loss/(reversal) of impairment of factored trade receivables | 155 | (17) |
| Loss of impairment of long-term factored receivables | 93 | 147 |
| | 125,249 | 274,761 |

50. Asset impairment losses

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|
| (Reversal)/loss on inventories provisions | (161,051) | 134,538 |
| Long-term equity investment impairment loss | 16,070 | 7,165 |
| Impairment loss of contract assets | 29,855 | 4,382 |
| Impairment loss of intangible assets | 16,214 | — |
| Impairment loss of fixed assets | 57,984 | — |
| | (40,928) | 146,085 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

51. Gain on asset disposal

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|----------------------------------|-------------------------------------|-------------------------------------|
| Gain on disposal of fixed assets | 47,494 | — |

52. Non-operating income/non-operating expenses

Non-operating income

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 | Amount of extraordinary gain/loss recognised for the six months ended 30 June 2021 |
|---|-------------------------------------|-------------------------------------|--|
| Income from contract penalty and reward | 15,581 | 11,316 | 15,581 |
| Others | 127,593 | 44,343 | 127,593 |
| | 143,174 | 55,659 | 143,174 |

Non-operating expenses

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 | Amount of extraordinary gain/loss recognised for the six months ended 30 June 2021 |
|----------------------------|-------------------------------------|-------------------------------------|--|
| Compensation and indemnity | 83,036 | 6,602 | 83,036 |
| Others | 78,878 | 48,686 | 78,878 |
| | 161,914 | 55,288 | 161,914 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

53. Expenses by nature

Supplementary information of the Group's operating costs, Selling and distribution costs, Research and development costs and administration expenses by nature were as follows:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|-------------------------------------|-------------------------------------|
| Cost of goods and services | 32,436,327 | 28,596,539 |
| Staff remuneration (including share-based payment) | 10,766,759 | 10,143,690 |
| Depreciation and amortisation | 2,215,862 | 1,980,997 |
| Others | 4,048,582 | 3,540,174 |
| | 49,467,530 | 44,261,400 |

54. Income tax

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---------------------|-------------------------------------|-------------------------------------|
| Current income tax | 540,084 | 510,981 |
| Deferred income tax | 436,266 | 6,609 |
| | 976,350 | 517,590 |

Reconciliation between income tax and total profit was as follows:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|-------------------------------------|-------------------------------------|
| Total profit | 5,526,976 | 2,840,971 |
| Tax at statutory tax rate (Note 1) | 1,381,744 | 710,243 |
| Effect of different tax rates applicable to certain subsidiaries | (516,163) | (392,114) |
| Adjustment to current tax in previous periods | (14,795) | 27,241 |
| Profits and losses attributable to jointly-controlled entities and associates | 10,617 | 9,720 |
| Income not subject to tax | (14,030) | (44,620) |
| Additional deduction for R&D expenses, interest on perpetual instruments and non-deductible tax expenses | (121,434) | (81,776) |
| Utilisation of tax losses from previous years | (11,601) | (5,951) |
| Unrecognised tax losses and temporary difference available for setoff | 262,012 | 294,847 |
| Tax charge at the Group's effective rate | 976,350 | 517,590 |

Note 1: The Group's income tax has been provided at the rate on the estimated taxable profits and applicable tax rates arising in the PRC. Taxes on taxable profits elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

55. Earnings per share

Basic earnings per share is computed by dividing the net profit attributable to holder of ordinary shares of the Company for the period by the weighted average number of ordinary shares in issue.

In the calculation of diluted earnings per share, net profit attributable to ordinary equity holders of the Company for the period, as the numerator, is adjusted for the following: (1) interests on potentially dilutive ordinary shares recognised as expenses for the period; (2) income or expenses arising from the conversion of potentially dilutive ordinary shares; and (3) income tax effect on the above adjustments.

In the calculation of diluted earnings per share, the denominator shall be the sum of: (1) weighted average number of ordinary shares of the Company in issue adopted in the calculation of basic earnings per share; and (2) weighted average number of ordinary shares created assuming conversion of potentially dilutive ordinary shares into ordinary shares.

In calculating the weighted average number of ordinary shares created upon conversion of potentially dilutive ordinary shares into ordinary share, potentially dilutive ordinary shares issued in previous periods are assumed to have been converted at the beginning of the current period, whereas potentially dilutive ordinary shares issued in the current period are assumed to have been converted on the date of issue.

Calculations of basic and diluted earnings per shares were as follows:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|
| Earnings | | |
| Net profit attributable to ordinary shareholders of the Company for the period | 4,078,613 | 1,857,289 |
| Shares | | |
| Weighted average number of ordinary shares of the Company ('000 shares) | 4,613,435 | 4,612,335 |
| Diluting effect — weighted average number of ordinary shares ('000 shares) Note 1 | | |
| Stock option | 17,177 | 22,143 |
| Adjusted weighted average number of ordinary shares of the Company ('000 shares) | 4,630,612 | 4,634,478 |

Note 1: The calculation of the diluted earnings/(losses) per share amount is based on the profit/(loss) for the period attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the period, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at nil consideration on the deemed exercise or conversion of all dilutive potential ordinary shares.

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

56. Notes to major items in cash flow statement

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|-------------------------------------|-------------------------------------|
| Cash received in connection with other operating activities: | | |
| Interest income | 658,774 | 581,860 |
| Cash received in connection with other investing activities: | | |
| Receipt of transfer amounts for equity interests in Guoxin Electronics | — | 245,000 |
| Cash paid in connection with other investing activities: | | |
| Net cash outflow in connection with disposal of Zhongxin New Energy | — | 33,709 |
| Cash received in connection with other financing activities: | | |
| Disposal of minority interests in subsidiaries | — | 3,000 |
| Cash paid in connection with other financing activities: | | |
| Refund of investment by non-controlling interests | — | 42,315 |
| Principal and interest payment for lease liabilities | 220,584 | 228,255 |

57. Supplemental information on cash flow statement

(1) Supplemental information on cash flow statement

Reconciliation of net profit to cash flows from operating activities:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|-------------------------------------|-------------------------------------|
| Net profit | 4,550,626 | 2,323,381 |
| Add: Credit impairment losses | 125,249 | 274,761 |
| Asset impairment (reversal)/losses | (40,928) | 146,085 |
| Depreciation of fixed assets | 776,020 | 648,956 |
| Depreciation of rights-of-use assets | 250,010 | 276,166 |
| Amortisation of intangible assets | 1,189,832 | 1,055,875 |
| Loss on disposal of fixed assets, intangible assets and other long-term assets | (25,344) | 26,618 |
| Gain from changes in fair value | (874,661) | (377,724) |
| Finance costs | 490,987 | 755,103 |
| Investment income | (703,109) | (30,257) |
| Decrease in deferred tax assets | 441,153 | 38,731 |
| Decrease in deferred tax liabilities | (4,887) | (32,122) |
| Increase in inventories | (599,382) | (9,865,735) |
| (Increase)/decrease in operating receivables | (827,668) | 926,489 |
| Increase in operating payables | 4,740,967 | 10,091,211 |
| Cost of share-based payment | 468,770 | 52,162 |
| Increase in cash not immediately available for payments | (2,929,200) | (4,268,930) |
| Net cash flow from operating activities | 7,028,435 | 2,040,770 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

57. Supplemental information on cash flow statement (continued)

(1) Supplemental information on cash flow statement (continued)

Change in cash and cash equivalents:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|-------------------------------------|-------------------------------------|
| Balance of cash at the end of the period | 1,586 | 2,584 |
| Less: balance of cash at the beginning of the period | 1,655 | 2,269 |
| Add: Balance of cash at the end of the period | 40,382,524 | 36,972,428 |
| Less: balance of cash at the beginning of the period | 31,401,401 | 28,503,531 |
| Net increase in balance of cash and cash equivalents | 8,981,054 | 8,469,212 |

(2) Information on subsidiaries and other business units acquired or disposed of:

Information on subsidiaries and other business units disposed of:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|
| Price at which subsidiaries and other business units were disposed of | 1,111,422 | 3,830 |
| Cash and cash equivalents received on disposal of subsidiaries and other business units | 1,111,422 | 3,830 |
| Cash and cash equivalents held by subsidiaries and other business units disposed of | (67,770) | (37,539) |
| Net cash received on disposal of subsidiaries and other business units | 1,043,652 | (33,709) |

(3) Cash and cash equivalents

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|-------------------------------------|-------------------------------------|
| Cash | | |
| Including: Cash on hand | 1,586 | 2,584 |
| Bank deposit readily available for payment | 40,382,524 | 36,972,428 |
| Cash and cash equivalents at end of period | 40,384,110 | 36,975,012 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

58. Assets under restrictions on ownership or right of use

| | 30 June 2021 | 31 December 2020 | |
|--|------------------|---------------------|--------|
| Cash | 1,978,274 | 1,683,733 | Note 1 |
| Trade receivables and contract assets | 69,081 | 188,303 | Note 2 |
| Fixed assets | 558,413 | 608,213 | Note 3 |
| Work in progress | — | 6,356 | |
| Intangible assets | 263,937 | 282,266 | Note 4 |
| Other non-current assets — restricted cash | 3,247,376 | 3,305,180 | Note 5 |
| | 6,117,081 | 6,074,051 | |

Note 1: As at 30 June 2021, the Group's cash subject to ownership restriction amounted to RMB1,978,274,000 (31 December 2020: RMB1,683,733,000), including acceptance bill deposits of RMB174,110,000 (31 December 2020: RMB115,095,000), letter of credit deposits of RMB863,427,000 (31 December 2020: RMB421,498,000), deposit for guarantee letter of RMB68,561,000 (31 December 2020: RMB185,796,000), dues from the People's Bank of China of RMB159,482,000 (31 December 2020: RMB180,812,000), technology grants of RMB712,694,000 (31 December 2020: RMB767,435,000).

Under the factored trade receivables agreements between the Group and certain domestic banks, provisions are being made for a risk compensation fund at a mutually determined percentage based on the risk profile of the facilities concerned. The risk compensation fund shall be released at the original percentage in respect of the facilities if there is no overdue principal or interest payment at the agreed final payment date, or when the principal and interest of the banking facilities have been fully settled. As at 30 June 2021, the risk compensation fund under the arrangements for loans and factored trade receivables amounted to RMB227,796,000 (31 December 2020: RMB261,394,000), being risk compensation fund to be released within one year and accounted for as other non-current assets.

Note 2: As at 30 June 2021, trade receivables and contract assets with a carrying value of RMB69,081,000 (31 December 2020: RMB15,860,000 and RMB172,443,000) were pledged to secure bank borrowing.

Note 3: As at 30 June 2021, fixed assets with a carrying value of RMB558,413,000 (31 December 2020: RMB608,213,000) were pledged to secure bank borrowing; no fixed assets were pledged in connection with asset acquisitions (31 December 2020: Nil).

Note 4: As at 30 June 2021, intangible assets with a carrying value of RMB263,937,000 (31 December 2020: RMB282,266,000) were pledged to secure bank borrowings. No intangible assets were pledged as security for asset acquisition (31 December 2020: Nil).

Note 5: As at 30 June 2021, restricted funds represented a RMB2,668,257,000 (31 December 2020: RMB2,692,163,000) deposit in an escrow account approved by the U.S. Department of Commerce which restriction will be lifted after a monitoring period of 10 years has lapsed, the details of which are set out in Note XII.2; a RMB351,323,000 performance bond with a term of over 1 year provided for ZTE in favour of a project partner (31 December 2020: RMB351,623,000); and risk compensation fund to be released after one year amounting to RMB227,796,000 (31 December 2020: RMB261,394,000).

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

59. Monetary items in foreign currencies

The Group's major monetary items in foreign currencies:

| | | 30 June 2021 | | | 31 December 2020 | | |
|-------------------|--------|----------------------|------------------|-------------------|----------------------|------------------|-------------------|
| | | Original currency | Exchange rate | RMB equivalent | Original currency | Exchange rate | RMB equivalent |
| Cash | USD | 135 | 6.4625 | 874 | 144 | 6.5204 | 939 |
| | DZD | 958 | 0.0480 | 46 | 1,054 | 0.0493 | 52 |
| | EGP | — | 0.0480 | — | 90 | 0.3671 | 33 |
| Bank deposit | USD | 549,019 | 6.4625 | 3,548,033 | 781,347 | 6.5204 | 5,094,698 |
| | EUR | 264,460 | 7.6902 | 2,033,752 | 198,162 | 8.0216 | 1,589,574 |
| | JPN | 5,503,138 | 0.0585 | 321,774 | 2,047,247 | 0.0632 | 129,341 |
| | PKR | 3,960,779 | 0.0409 | 162,106 | 3,054,547 | 0.0406 | 124,054 |
| | MYR | 51,409 | 1.5555 | 79,969 | 27,884 | 1.6186 | 45,132 |
| | ETB | 332,070 | 0.1479 | 49,122 | 401,712 | 0.1708 | 68,603 |
| | NPR | 882,417 | 0.0544 | 48,018 | 817,829 | 0.0556 | 45,461 |
| | DZD | 886,678 | 0.0480 | 42,554 | 166,087 | 0.0493 | 8,196 |
| | GBP | 4,586 | 8.9348 | 40,979 | 6,198 | 8.8931 | 55,122 |
| | RUB | 453,832 | 0.0893 | 40,525 | 779,987 | 0.0883 | 68,843 |
| | IDR | 89,632,725 | 0.0004 | 39,833 | 63,862,311 | 0.0005 | 29,522 |
| | HKD | 46,380 | 0.8318 | 38,579 | 51,058 | 0.8408 | 42,931 |
| | CAD | 5,033 | 5.2142 | 26,241 | 8,262 | 5.1213 | 42,313 |
| | BRL | 16,273 | 1.2920 | 21,025 | 11,930 | 1.2548 | 14,970 |
| THB | 89,217 | 0.2019 | 18,015 | 190,863 | 0.2172 | 41,464 | |
| EGP | 43,253 | 0.4108 | 17,770 | 20,619 | 0.4143 | 8,543 | |
| Other cash | USD | — | — | — | 21,773 | 6.9830 | 152,041 |
| Trade receivables | USD | 753,508 | 6.4625 | 4,869,543 | 683,372 | 6.5204 | 4,455,859 |
| | EUR | 121,900 | 7.6902 | 937,436 | 180,735 | 8.0216 | 1,449,784 |
| | INR | 7,874,626 | 0.0869 | 684,305 | 10,581,764 | 0.0890 | 941,777 |
| | THB | 391,357 | 0.2019 | 79,015 | 308,237 | 0.2172 | 66,949 |
| | BRL | 13,070 | 1.2920 | 16,886 | 34,430 | 1.2548 | 43,203 |
| Other receivables | USD | 23,598 | 6.4625 | 152,504 | 39,587 | 6.5204 | 258,123 |
| | EUR | 10,440 | 8.0216 | 83,743 | 11,204 | 8.022 | 89,874 |
| | JPN | 446,061 | 0.0632 | 28,181 | 166,440 | 0.0632 | 10,515 |
| | RUB | 165,516 | 0.0893 | 14,780 | 4,782 | 0.0883 | 422 |
| | PKR | 346,980 | 0.0409 | 14,201 | 497,099 | 0.0406 | 20,189 |
| Trade payables | USD | 1,040,344 | 6.4625 | 6,723,224 | 703,148 | 6.5204 | 4,584,806 |
| | IDR | 1,750,613,701 | 0.0004 | 700,245 | 2,121,098,139 | 0.0005 | 1,060,549 |
| | EUR | 67,018 | 7.6902 | 515,381 | 89,483 | 8.0216 | 717,797 |
| | MXN | 830,532 | 0.3246 | 269,630 | — | — | — |
| | PHP | 1,634,948 | 0.1324 | 216,513 | 1,299,128 | 0.1358 | 176,422 |
| Other payables | USD | 86,711 | 6.4625 | 560,373 | 103,414 | 6.5204 | 674,301 |
| | EUR | 38,118 | 7.6902 | 293,132 | 85,214 | 8.0216 | 683,553 |
| | JPN | 499,019 | 0.0585 | 29,178 | 83958 | 0.0632 | 5304 |
| | SAR | 10,224 | 1.7233 | 17,620 | 10,116 | 1.7388 | 17,590 |

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V. EXPLANATORY NOTES TO MAJOR ITEMS IN THE CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

59. Monetary items in foreign currencies (continued)

| | | 30 June 2021 | | | 31 December 2020 | | |
|------------------|-----|-------------------|---------------|----------------|-------------------|---------------|----------------|
| | | Original currency | Exchange rate | RMB equivalent | Original currency | Exchange rate | RMB equivalent |
| Short-term loans | USD | 403,000 | 6.4625 | 2,604,388 | 531,948 | 6.5204 | 3,468,507 |
| | EUR | 64,599 | 7.6902 | 496,779 | 125,817 | 8.0216 | 1,009,254 |
| | TRY | 400,061 | 0.7445 | 297,845 | 412,174 | 0.8883 | 366,134 |
| Long-term loans | USD | 915,000 | 6.4625 | 5,913,188 | 922,500 | 6.5204 | 6,015,069 |
| | TRY | 18,343 | 0.7445 | 13,657 | 23,502 | 0.8883 | 20,877 |
| | EUR | 363 | 7.6902 | 2,789 | 363 | 8.0216 | 2,909 |

The Group's principal places of business overseas include the United States, Indonesia and India. Its operating entities in these countries adopt their respective principal currency for conducting business as their book currencies.

VI. CHANGES TO THE SCOPE OF CONSOLIDATION

1. Disposal of subsidiaries

| | Place of registration | Business nature | The Group's total shareholding percentage (%) | Percentage of the Group's total voting rights (%) | Reason for ceasing to be subsidiary |
|--|-----------------------|---------------------------------------|---|---|-------------------------------------|
| Caltta Technologies Co., Ltd. | Beijing | Mobile communication system equipment | 90% | 90%/100% | Note 1 |
| NetRD Bilgi Teknolojiler İve Telekomunikasyon A.S. | Istanbul | IT and communication technology | 100% | 100%/100% | Note 2 |

Note 1: The Company entered into an equity transfer agreement with Beijing E-town Semiconductor Industrial Investment Centre (Limited Partnership) ("E-town Semiconductor") on 11 January 2020 for the disposal of 90% equity interests in Caltta Technologies Co., Ltd. held by the Company for a consideration of RMB1,035,000,000. The disposal was completed in March 2021. Hence, as from March 2021, the Group has ceased to include Caltta Technologies Co., Ltd. in its consolidated financial statements. The relevant financial information of Caltta Technologies Co., Ltd. is set out as follows:

| | 30 June 2021 Book value |
|----------------------------|----------------------------|
| Current assets | 441,539 |
| Non-current assets | 66,829 |
| Current liabilities | (259,692) |
| Non-current liabilities | — |
| | 248,676 |
| Minority interests | (24,867) |
| Gain/loss from disposal | 811,191 |
| Consideration for disposal | 1,035,000 |
| | |
| | January to March 2021 |
| Operating revenue | 63,498 |
| Operating cost | 39,271 |
| Net profit | (40,276) |

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VI. CHANGES TO THE SCOPE OF CONSOLIDATION (CONTINUED)

1. Disposal of subsidiaries (continued)

Note 2: Netas Bilisim Teknolojileri Anonim Sirketi, a subsidiary of the Group, completed the disposal of 100% equity interest in NetRD Bilgi Teknolojiler ive Telekomunikasyon A.S. to MERA Switzerland AG in March 2021. Hence, as from March 2021, the Group has ceased to include NetRD Bilgi Teknolojiler ive Telekomunikasyon A.S. in its consolidated financial statements.

2. Changes to the scope of consolidation for other reasons

Xi'an Zhongxing Jingcheng Technology Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities in February 2021 and had been excluded from the consolidated financial statements of the Group as from February 2021. ZTE Switzerland AG, a tier-three subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities in March 2021 and had been excluded from the consolidated financial statements of the Group as from March 2021. Xiamen Zhenkun New Energy Auto Company Limited, a tier-two subsidiary of the Company, completed deregistration with the industrial and commercial administration authorities in June 2021 and had been excluded from the consolidated financial statements of the Group as from June 2021. During the period, a new tier-one subsidiary Zhongxing Intelligent Technology (Nanjing) Company Limited was established.

VII. INTERESTS IN OTHER ENTITIES

1. Interests in subsidiaries

Particulars of the major subsidiaries of the Group are as below:

| Type of subsidiary | Place of registration/ principal places of business | Business nature | Registered capital | Percentage of shareholding % | |
|--|--|-----------------------------|--------------------|------------------------------|----------|
| | | | | Direct | Indirect |
| Subsidiaries acquired by way of incorporation or investment | | | | | |
| Shenzhen ZTE Kangxun Telecom Company Limited | Shenzhen | Manufacturing | RMB1,755 million | 100% | — |
| ZTE (H.K.) Limited | Hong Kong | Information technology | HKD995 million | 100% | — |
| Shenzhen Zhongxing Software Company Limited | Shenzhen | Information technology | RMB51.08 million | 100% | — |
| Xi'an ZTE Terminal Technology Company Limited | Xi'an | Manufacturing | RMB300 million | 100% | — |
| ZTE Microelectronics Technology Co., Ltd. | Shenzhen | Manufacturing | RMB131,578,947 | 68.4% | 12.78% |
| Xi'an Zhongxing New Software Company Limited | Xi'an | Information technology | RMB600 million | 100% | — |
| Shenzhen Zhongxing Telecom Technology & Service Company Limited | Shenzhen | Telecommunications services | RMB200 million | 90% | 10% |
| Shenzhen ZTE Capital Management Company Limited | Shenzhen | Investment fund | RMB30 million | 55% | — |

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates

| | Place of registration/ principal place of business | Nature of business | Registered capital | Percentage of Shareholding% | | Accounting method |
|--|--|---|--------------------|-----------------------------|----------|-------------------|
| | | | | Direct | Indirect | |
| Joint Ventures | | | | | | |
| Puxing Mobile Tech Company Limited | PRC | R&D, production and sales of communications equipment | RMB128,500,000 | 33.85% | — | Equity method |
| 德特賽維技術有限公司 | PRC | Software development, information technology consultant and information systems integration | RMB60,000,000 | 49% | — | Equity method |
| 重慶百德行置業有限公司 | PRC | Real estate | RMB70,000,000 | 10% | — | Equity method |
| Shaanxi Crowd Investment Zhanlu Phase I Equity Investment Partnership Enterprise (Limited Partnership) | PRC | Venture investment, equity investment, investment management and investment consultation | RMB100,000,000 | 40% | — | Equity method |
| Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership) | PRC | Equity investment, investment management and asset management | RMB1,000,000,000 | 40% | — | Equity method |

* Companies in which the Group had a shareholding percentage less than 20% were listed as associates, mainly in view of the Group's right to participate in the decision-making of the financial and operational policies of the investees.

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates (continued)

| | Place of registration/ principal place of business | Nature of business | Registered capital | Percentage of Shareholding% | | Accounting method |
|---|--|---|----------------------|-----------------------------|----------|-------------------|
| | | | | Direct | Indirect | |
| Associates | | | | | | |
| ZTE Energy Limited | PRC | Energy | RMB1,290,000,000 | 23.26% | — | Equity method |
| Telecom Innovations (Uzbekistan) | Uzbekistan | Sales and production of communications equipment | USD5,050,000 | 34.04% | — | Equity method |
| Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited* | PRC | Hotel management service | RMB30,000,000 | 18% | — | Equity method |
| 中興耀維科技江蘇有限公司 | PRC | Energy | RMB20,000,000 | 23% | — | Equity method |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | Zimbabwe | Colour ring and other telecommunications VAS | USD500 | 49% | — | Equity method |
| 中山優順置業有限公司 | PRC | Real estate | RMB10,000,000 | 20% | — | Equity method |
| 鐵建聯合(北京)科技有限公司 | PRC | Technology promotion and application services | RMB20,000,000 | 30% | — | Equity method |
| 廣東中城信息技術有限公司 | PRC | Software and IT services | RMB30,000,000 | 39% | — | Equity method |
| 上海博色信息技術有限公司 | PRC | Professional technical services | RMB1,894,100 | 29% | — | Equity method |
| 南京寧網科技技術有限公司 | PRC | Manufacturing of computers, communication and other electronic equipment | RMB25,487,370 | 21.26% | — | Equity method |
| New Idea Investment Pte. Ltd | Singapore | Investment company | USD10,200,000 + SGD1 | 20% | — | Equity method |
| Xingchen Smart Tech Industry Company Limited* | PRC | Manufacturing of computers and related equipment | RMB200,000,000 | 19% | — | Equity method |
| Hengyang ICT Real Estate Co., Ltd | PRC | Real estate | RMB20,000,000 | 30% | — | Equity method |
| 貴州中安雲網科技技術有限公司* | PRC | Technology and innovative IOT inter-network services | RMB30,000,000 | 9.31% | — | Equity method |
| 陝西高端裝備與智能製造產業研究院有限公司* | PRC | High-end equipment and smart manufacturing, product research, consultation service and technology development | RMB16,000,000 | 12.5% | — | Equity method |
| Kron Telekomunikasyon Hizmetleri A.S.* | Turkey | Communication and Internet service | TRY14,268,513 | 10% | — | Equity method |
| 山東興濟置業有限公司* | PRC | Real estate | RMB10,000,000 | 10% | — | Equity method |
| Huanggang Education Valley Investment Holdings Co., Ltd | PRC | Education | RMB50,000,000 | 25% | — | Equity method |
| Shijiazhuang Smart Industry Company Limited* | PRC | Smart City construction and operation | RMB400,000,000 | 12% | — | Equity method |
| Whale Cloud Technology Co., Ltd. | PRC | Scientific research and technical service | RMB754,108,771 | 28.99% | — | Equity method |
| 江西國投信息技術有限公司 | PRC | Smart city operation | RMB100,000,000 | 15% | — | Equity method |
| 安徽奇英智能科技技術有限公司 | PRC | Intelligent technology, automobile and Information technology | RMB20,000,000 | 35% | — | Equity method |
| Zhongxing Feiliu Information Technology Company Limited | PRC | Development of computer software/and hardware, development of big data technology | RMB118,153,846 | 31.69% | — | Equity method |

* Companies in which the Group had a shareholding percentage less than 20% were listed as associates, mainly in view of the Group's right to participate in the decision-making of the financial and operational policies of the investees.

During the reporting period, the Group had no subsidiaries that were subject to material minority interest, nor key joint ventures or associates which had a significant impact on the Group.

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VII. INTERESTS IN OTHER ENTITIES (CONTINUED)

2. Equity investments in joint ventures and associates (continued)

The following table sets out the combined financial information of joint ventures and associates which are insignificant to the Group:

| | 30 June 2021 | 31 December 2020 |
|---|-------------------------------------|-------------------------------------|
| Joint ventures | | |
| Aggregate carrying value of investments | 353,824 | 205,022 |
| | | |
| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
| Aggregate amounts of the following attributable to shareholdings: | | |
| Net loss | (31,198) | (8,461) |
| Other comprehensive income | — | — |
| Total comprehensive income | (31,198) | (8,461) |
| | | |
| | 30 June 2021 | 31 December 2020 |
| Associates | | |
| Aggregate carrying value of investments | 1,403,671 | 1,508,781 |
| | | |
| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
| Aggregate amounts of the following attributable to shareholdings: | | |
| Net loss | (39,579) | (8,928) |
| Other comprehensive income | (749) | 547 |
| Total comprehensive income | (40,328) | (8,381) |

As at 30 June 2021, there were no contingent liabilities associated with the investments in joint ventures and associates (31 December 2020: Nil).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments

The book values of various financial instruments at the balance sheet date were as follows:

30 June 2021

Financial assets

| | Financial assets at fair value through current profit and loss | At amortised cost | Measured at fair value through other comprehensive income | Total |
|---|--|-------------------|---|-------------------|
| Cash | — | 50,050,246 | — | 50,050,246 |
| Derivative financial assets | 179,954 | — | — | 179,954 |
| Trading financial assets | 1,246,342 | — | — | 1,246,342 |
| Trade receivables | — | 14,566,155 | — | 14,566,155 |
| Long-term trade receivables | — | 2,575,406 | — | 2,575,406 |
| Factored trade receivables and factored long-term receivables | — | 421,061 | — | 421,061 |
| Financial assets in other receivables | — | 1,076,552 | — | 1,076,552 |
| Receivable financing | — | — | 6,751,417 | 6,751,417 |
| Financial assets in other non-current assets | — | 3,247,376 | — | 3,247,376 |
| Other non-current assets | 1,372,893 | — | — | 1,372,893 |
| | 2,799,189 | 71,936,796 | 6,751,417 | 81,487,402 |

Financial liabilities

| | Financial liabilities at fair value through current profit and loss | At amortised cost | Total |
|---|---|-------------------|-------------------|
| Derivative financial liabilities | 31,853 | — | 31,853 |
| Bank loans | — | 42,384,730 | 42,384,730 |
| Lease liabilities | — | 1,077,892 | 1,077,892 |
| Bills payable | — | 8,797,896 | 8,797,896 |
| Trade payables | — | 19,901,082 | 19,901,082 |
| Short-term bonds payable | — | 2,000,000 | 2,000,000 |
| Bank advances on factored trade receivables and long-term trade receivables | — | 428,520 | 428,520 |
| Other payables (excluding accruals and staff housing fund contributions) | — | 2,454,514 | 2,454,514 |
| Other non-current liabilities | — | 3,699,686 | 3,699,686 |
| | 31,853 | 80,744,320 | 80,776,173 |

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(English translation for reference only)
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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS

1. Classification of financial instruments (continued)

31 December 2020

Financial assets

| | Financial assets at fair value through current profit and loss | At amortised cost | Measured at fair value through other comprehensive income | Total |
|--|---|----------------------|---|------------|
| Cash | — | 35,659,832 | — | 35,659,832 |
| Derivative financial assets | 36,118 | — | — | 36,118 |
| Trading financial assets | 1,036,906 | — | — | 1,036,906 |
| Trade receivables | — | 15,891,020 | — | 15,891,020 |
| Long-term trade receivables | — | 2,679,578 | — | 2,679,578 |
| Factored trade receivables and factored long-term receivables | — | 547,792 | — | 547,792 |
| Financial assets in other receivables | — | 994,141 | — | 994,141 |
| Receivable financing | — | — | 1,970,624 | 1,970,624 |
| Financial assets in other non-current assets | — | 3,305,180 | — | 3,305,180 |
| Other non-current assets | 1,536,741 | — | — | 1,536,741 |
| | 2,609,765 | 59,077,543 | 1,970,624 | 63,657,932 |

Financial liabilities

| | Financial liabilities at fair value through current profit and loss | At amortised cost | Total |
|--|--|-------------------|------------|
| Derivative financial liabilities | 153,961 | — | 153,961 |
| Bank loans | — | 34,825,007 | 34,825,007 |
| Lease liabilities | — | 1,171,320 | 1,171,320 |
| Bills payable | — | 11,364,056 | 11,364,056 |
| Trade payables | — | 17,151,733 | 17,151,733 |
| Bank advances on factored trade receivables and long-term trade receivables | — | 554,930 | 554,930 |
| Other payables (excluding accruals and staff housing fund contributions) | — | 2,804,953 | 2,804,953 |
| Other non-current liabilities | — | 3,668,911 | 3,668,911 |
| | 153,961 | 71,540,910 | 71,694,871 |

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(English translation for reference only)
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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfers of financial assets

Transferred financial assets that are not derecognised in their entirety

During the period, the Group was engaged in certain discounting business with a number of PRC domestic banks. The Group is of the view that there was nil bills receivable (31 December 2020: Nil) which retained substantially all risks and rewards upon discounting and hence did not qualify for derecognition of financial assets.

As part of its normal business, the Group entered into some trade receivables factoring agreements with a number of banks and transferred certain trade receivables to banks ("Factored Trade Receivables"). Under certain trade receivables factoring agreement, the Group was still exposed, after the transfer of the trade receivables, to risks relating to debtor's default and delayed payments, and therefore retained substantially all risks and rewards relating to the trade receivables and did not qualify for derecognition of financial assets. The Group continued to recognise assets and liabilities concerned to the extent of the carrying value of the trade receivables. As at 30 June 2021, there were no trade receivables that have been transferred but not settled by the debtors (31 December 2020: Nil).

According to some trade receivables factoring agreements, the Group is exposed default risks of certain trade debtors after the transfer. If the debtor's default extends beyond a certain period, the Group may be required to pay interests to the banks in respect of certain delayed repayments. Since the Group has neither transferred nor retained substantially all risks and rewards relating to the trade receivables, the assets and liabilities concerned are recognised to the extent of trade receivables transferred under continuous involvement. As at 30 June 2021 the carrying value of trade receivables that have been transferred but not settled by the debtors amounted to RMB22,573,718,000 (31 December 2020: RMB22,950,261,000). The amount of assets and liabilities under continuous involvement relating to debtor's default and delayed repayments are set out as follows:

| | Financial assets (at amortised cost) Trade receivables/long-term receivables | |
|--|---|---------------------|
| | 30 June 2021 | 31 December 2020 |
| Carrying value of assets under continuous involvement | 421,061 | 547,792 |
| Carrying value of liabilities under continuous involvement | 428,520 | 554,930 |

Factored trade receivables that did not qualify for derecognition and factored trade receivables under continuous involvement were classified as "Factored trade receivables" or "Long-term factored trade receivables." As at 30 June 2021, the amount of factored trade receivables was RMB421,061,000 (31 December 2020: RMB547,792,000). Relevant liabilities were classified as "Bank advances on factored trade receivables" or "Bank advances on long-term trade receivables." As at 30 June 2021, the amount of bank advances on factored trade receivables was RMB428,520,000 (31 December 2020: RMB554,930,000).

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

2. Transfers of financial assets (continued)

Transferred financial assets derecognised in entirety but subject to continuing involvement

The Group was engaged in certain discounting businesses with a number of domestic PRC banks during the period. The Group was of the view that substantially all risks and rewards relating to bills receivable with a book value of RMB1,320,237,000 (31 December 2020: RMB2,983,900,000) were transferred upon discounting and therefore the bills receivable qualified for the derecognition of financial assets. Hence, the relevant bills receivable were derecognised at their book value as at the discounting date. The maximum exposure from the Group's continuing involvement in such derecognised bills receivable and the undiscounted cash flow for the repurchase of such bills equal to the carrying amounts of the bills receivable. The Group is of the view that the fair value of continuous involvement in the derecognised bills receivable is not significant. For the relevant period, the Group recognised discounted interests of RMB8,447,000 (six months ended 30 June 2020: RMB32,891,000) in respect of the derecognised bills receivable as at the date of transfer.

3. Risks of financial instruments

The Group's daily activities expose it to the risk of a variety of financial instruments, mainly including credit risk, liquidity risk and market risk (including currency risk and interest rate risk). The Group's major financial instruments included cash and bank balances, equity investments, borrowings, notes receivable and trade receivables, notes payable and trade payables, etc. The risks related to these financial instruments and the risk management strategy adopted by the Group to reduce these risks are described as follows.

The Company management is responsible for planning and establishing the risk management framework of the Group, formulating risk management policies and related guidelines of the Group and supervising the implementation of risk management measures. The Group has already developed risk management policies to identify and analyse the risks faced by the Group, which have clearly identified specific risks, covering numerous aspects such as market risk, credit risk and liquidity risk management. The Group regularly assesses the market environment and changes in the Group's business activities to determine whether or not to update its risk management policies and systems. The risk management of the Group is conducted by the operations and management department according to the policy approved by the Company management. The operations and management department identifies, evaluates and avoids related risks through close cooperation with other business units of the Group. The internal audit department of the Group conducts regular audits on risk management control and procedures and reports to the Audit Committee of the Group.

The Group spreads the risks of financial instruments by means of the appropriate diversification of its investment and business portfolios, and reduces the risks of concentration on any single industry, particular region or specific trading counterparty by formulating corresponding risk management policies.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk

The Group only trades with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis to ensure that the Group is not exposed to significant bad debts. For transactions that are not denominated in the functional currency of the relevant operating unit, the Group does not offer credit terms without the special approval of the credit control department of the Group.

Since cash and bank balances, bank acceptance bills receivable and derivative financial instruments are placed with the well-established banks with high credit ratings, the credit risk of these financial instruments is relatively low.

The Group's other financial assets comprise cash, equity investments, other receivables and certain derivatives. The credit risk associated with such financial assets arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

Criteria for judging significant increases in credit risk

The Company assesses whether or not the credit risk of the relevant financial instruments has increased significantly since the initial recognition at each balance sheet date. While determining whether the credit risk has significantly increased since initial recognition or not, the Company takes into account the reasonable and substantiated information that is accessible without exerting undue extra cost or effort, including qualitative and quantitative analysis based on the historical data of the Company, external credit risk rating, and forward-looking information. Based on the single financial instrument or the combination of financial instruments with similar characteristics of credit risk, the Company compares the risk of default of financial instruments on the balance sheet date with that on the initial recognition date in order to determine changes in the risk of default during the expected lifetime of financial instruments.

The Company considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative and qualitative criteria have been met:

- Quantitative criteria are primarily represented by the increase in the probability of default for the remaining lifetime at the reporting date being considered significant comparing with the one at initial recognition.
- Qualitative criteria are primarily represented by the significant adverse change in the debtor's operational or financial status and the watch list for potential default, among others.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

Definition of credit-impaired financial assets

The standard adopted by the Group to determine whether a credit impairment occurs is consistent with the internal credit risk management objectives of the relevant financial instrument, taking into account quantitative and qualitative criteria. When the Group assesses whether the credit impairment of debtor occurred,

the principal factors considered are as follows:

- Significant financial difficulty of the issuer or debtor;
- Debtors' breach of contract, such as defaulting or becoming overdue on interest or principal payments;
- The creditor of the debtor, for economic or contractual reasons relating to the debtor's financial difficulty, having granted to the debtor a concession that the creditor would not otherwise consider;
- It is becoming probable that the debtor will enter bankruptcy or other financial restructuring;
- The disappearance of an active market for that financial asset because of financial difficulties of the issuer or debtor;
- The purchase or origination of a financial asset at a deep discount that reflects the incurrence of credit losses;

The credit impairment on a financial asset may be caused by the combined effect of multiple events and may not be necessarily due to a single event.

Parameters of ECL measurement

Based on whether there is a significant increase in credit risk and whether there is an impairment of assets, the Group measures the impairment loss for different assets with ECL of 12 months or the entire lifetime respectively. The key measuring parameters of ECL include probability of default (PD), loss given default (LGD) and exposure at default (EAD). The Group takes into account the quantitative analysis of historical statistics (such as ratings of counterparties, manners of guarantees and types of collaterals, repayments, etc.) and forward-looking information in order to establish the model of PD, LGD and EAD.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Credit risk (continued)

Parameters of ECL measurement (continued)

Relative definitions are listed as follows:

- PD refers to the possibility that the debtor will not be able to fulfil its obligations of repayment over the next 12 months or throughout the entire remaining lifetime. The Group's PD is adjusted based on the results of the expected credit loss model, taking into account the forward-looking information to reflect the debtor's PD under the current macroeconomic environment;
- LGD refers to the Group's expectation of the extent of the loss resulting from the default exposure. Depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, the LGD varies. The LGD is the percentage of loss of risk exposure at the time of default, calculated over the next 12 months or over the entire remaining lifetime;
- EAD is the amount that the Company should be reimbursed at the time of the default in the next 12 months or throughout the entire remaining lifetime.

Forward-looking information

The assessment of a significant increase in credit risk and the calculation of ECL both involve forward-looking information. Through the analysis of historical data, the Group identifies the key economic indicators that affect the credit risk and ECL.

The impact of these economic indicators on the PD and the LGD varies according to different business sectors. The Group applies experts' judgement in this process and predicts these economic indicators on a monthly basis according to the result of the experts' judgement to determine the impact of these economic indicators on the PD and the LGD.

For trade receivables and contract assets for which impairment provision for expected credit loss for the entire period has been made, a risk matrix model may be provided in lieu of credit risk rating. The risk matrix may follow the example shown in Note V.4A and V.8.

Liquidity risk

The Group monitors its risk to the shortage of funds using a recurring liquidity planning tool. This tool considers the maturity profile of both its financial instruments and financial assets (e.g. trade receivables and bank loans) and projected cash flows from operations.

The Group's objective is to maintain balance between the continuity and flexibility of financing through the use of bank loans and other interest-bearing loans.

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Liquidity risk (continued)

The maturity profile of financial liabilities based on undiscounted contractual cash flow is summarised as follows:

30 June 2021

| | Current | Within 1 year | 1-2 years | 2-3 years | Over 3 years | Total |
|---|------------|------------------|------------|------------|-----------------|------------|
| Bank loans | — | 18,369,034 | 14,057,302 | 9,370,901 | 2,369,625 | 44,166,862 |
| Lease liabilities | — | 463,949 | 341,944 | 175,133 | 189,673 | 1,170,699 |
| Derivative financial liabilities | — | 31,853 | — | — | — | 31,853 |
| Bills payable | — | 8,797,896 | — | — | — | 8,797,896 |
| Trade payables | 19,901,082 | — | — | — | — | 19,901,082 |
| Bank advances on factored trade receivables and factored long-term trade receivable | — | 165,272 | 81,676 | 31,729 | 149,843 | 428,520 |
| Other payables (excluding accruals and staff housing fund contributions) | 2,454,514 | — | — | — | — | 2,454,514 |
| Short-term bond payable | — | 2,009,173 | — | — | — | 2,009,173 |
| Other non-current liabilities | 6,541 | 13,519 | 747,502 | 740,485 | 2,435,078 | 3,943,125 |
| | 22,362,137 | 29,850,696 | 15,228,424 | 10,318,248 | 5,144,219 | 82,903,724 |

31 December 2020

| | Current | Within 1 year | 1-2 years | 2-3 years | Over 3 years | Total |
|---|------------|------------------|------------|------------|-----------------|------------|
| Bank loans | — | 12,455,544 | 10,356,144 | 13,069,761 | 444,609 | 36,326,058 |
| Lease liabilities | — | 453,134 | 428,583 | 211,222 | 276,437 | 1,369,376 |
| Derivative financial liabilities | — | 153,961 | — | — | — | 153,961 |
| Bills payable | — | 11,364,056 | — | — | — | 11,364,056 |
| Trade payables | 17,151,733 | — | — | — | — | 17,151,733 |
| Bank advances on factored trade receivables and factored long-term trade receivable | — | 239,672 | 150,365 | 63,440 | 102,182 | 555,659 |
| Other payables (excluding accruals and staff housing fund contributions) | 2,804,953 | — | — | — | — | 2,804,953 |
| Other non-current liabilities | 86,266 | 13,238 | 13,871 | 1,480,971 | 2,398,617 | 3,992,963 |
| | 20,042,952 | 24,679,605 | 10,948,963 | 14,825,394 | 3,221,845 | 73,718,759 |

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk

Interest rate risk

The Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term liabilities with floating interest rates.

As at 30 June 2021, the bank loans of the Group and the Company including fixed rate debts and floating debts based on LIBOR and Euribor. The Group and the Company had no significant concentration of interest rate risk.

The Group's interest risk policy is to manage interest rate risk by maintaining an appropriate mix of fixed and variable rate instruments. The Group's policy is to maintain the fixed interest rate between 0.75% to 20.00%. Approximately 25% (31 December 2020: 9.50%) of the Group's interest bearing borrowings were subject to interests at fixed rates. In addition, the Group borrowed USD1,298 million loans at floating interest rate.

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 |
|-------------------------------|--|---|--|--|
| Six months ended 30 June 2021 | 25 (25) | (74,681) 74,681 | — — | (74,681) 74,681 |
| Six months ended 30 June 2020 | 25 (25) | (50,897) 50,897 | — — | (50,897) 50,897 |

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

3. Risks of financial instruments (continued)

Market risk (continued)

Foreign currency risk

The Group is exposed to trading exchange rate risks. Such exposures arise from sales or purchases by operating units in currencies other than the units' functional currency, where the revenue is denominated in USD and RMB and certain portion of the bank loans is denominated in USD. The Group tends to avoid foreign currency exchange risk or provide for revenue allocation terms when arriving at purchase and sales contracts to minimise its transactional currency exposures. The Group takes rolling forecast on foreign currency revenue and expenses and matches the currency and amount incurred, so as to alleviate the impact to business due to exchange rate fluctuation.

The following table demonstrates the sensitivity of a reasonably possible change in exchange rates may lead to the changes in the Group's net profit or loss, with all other variables held constant, as at the balance sheet date.

| | Increase/ (decrease) in USD exchange rate | Increase/ (decrease) in net profit or loss | Increase/ (decrease) in other Comprehensive income net of tax | Increase/ (decrease) in total shareholders' equity |
|--------------------------------------|--|---|--|--|
| Six months ended 30 June 2021 | | | | |
| Weaker RMB against USD | 5% | (18,545) | — | (18,545) |
| Stronger RMB against USD | (5%) | 18,545 | — | 18,545 |
| Six months ended 30 June 2020 | | | | |
| Weaker RMB against USD | 5% | (19,922) | — | (19,922) |
| Stronger RMB against USD | (5%) | 19,922 | — | 19,922 |

| | Increase/ (decrease) in EUR exchange rate | Increase/ (decrease) in net profit or loss | Increase/ (decrease) in other comprehensive income net of tax | Increase/ (decrease) in total shareholders' equity |
|--------------------------------------|--|---|--|--|
| Six months ended 30 June 2021 | | | | |
| Weaker RMB against EUR | 5% | 84,541 | — | 84,541 |
| Stronger RMB against EUR | (5%) | (84,541) | — | (84,541) |
| Six months ended 30 June 2020 | | | | |
| Weaker RMB against EUR | 5% | 72,910 | — | 72,910 |
| Stronger RMB against EUR | (5%) | (72,910) | — | (72,910) |

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VIII. RISKS ASSOCIATED WITH FINANCIAL INSTRUMENTS (CONTINUED)

4. Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group makes adjustments in the light of changes in economic conditions and in the risk profiles of relevant assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the current period ended 30 June 2021.

The Group manages capital using the financial gearing ratio, which is the ratio of interest-bearing liabilities to the sum of owners' equity and interest-bearing liabilities. The financial gearing ratio of the Group as at the balance sheet dates was as follows:

| | 30 June 2021 | 31 December 2020 |
|---|-----------------|---------------------|
| Interest-bearing bank borrowings | 42,384,730 | 34,825,007 |
| Lease liabilities | 1,077,892 | 1,171,320 |
| Short-term bonds payable | 2,000,000 | — |
| Bank advances on factored receivables and long-term trade receivables | 428,520 | 554,930 |
| Total interest-bearing liabilities | 45,891,142 | 36,551,257 |
| Owners' equity | 50,166,217 | 46,122,506 |
| Total equity and interest-bearing liabilities | 96,057,359 | 82,673,763 |
| Gearing ratio | 47.8% | 44.2% |

IX. DISCLOSURE OF FAIR VALUES

1. Assets and liabilities measured at fair value

30 June 2021

| | Input applied in the measurement of fair value | | | Total |
|--|--|--|--|------------|
| | Quoted prices in active markets Level 1 | Significant observable inputs Level 2 | Significant unobservable inputs Level 3 | |
| Continuous measurement of fair value | | | | |
| Derivative financial assets | — | 179,954 | — | 179,954 |
| Trading financial assets | 260,400 | — | 985,942 | 1,246,342 |
| Other non-current financial assets | — | — | 1,372,893 | 1,372,893 |
| Receivable financing investment properties | — | 6,751,417 | — | 6,751,417 |
| Leased buildings | — | — | 2,036,112 | 2,036,112 |
| | 260,400 | 6,931,371 | 4,394,947 | 11,586,718 |
| Derivative financial liabilities | — | (31,853) | — | (31,853) |
| | — | (31,853) | — | (31,853) |

Notes to Financial Statements

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

1. Assets and liabilities measured at fair value (continued)

31 December 2020

| | Input applied in the measurement of fair value | | | Total |
|--------------------------------------|--|--|--|-----------|
| | Quoted prices in active markets Level 1 | Significant observable inputs Level 2 | Significant unobservable inputs Level 3 | |
| Continuous measurement of fair value | | | | |
| Derivative financial assets | — | 36,118 | — | 36,118 |
| Trading financial assets | 312,925 | 529,085 | 194,896 | 1,036,906 |
| Other non-current financial assets | — | — | 1,536,741 | 1,536,741 |
| Receivable financing | — | 1,970,624 | — | 1,970,624 |
| Investment properties | | | | |
| Leased buildings | — | — | 2,035,234 | 2,035,234 |
| | 312,925 | 2,535,827 | 3,766,871 | 6,615,623 |
| Derivative financial liabilities | — | (153,961) | — | (153,961) |
| | 312,925 | 2,381,866 | 3,766,871 | 6,461,662 |

2. Estimation of fair value

Fair value of financial assets

The management has conducted evaluations of our cash, bills receivable, trade receivables, bills payable and trade payables. The fair values approximate the book values as the remaining terms are not long.

Fair value of financial assets and financial liabilities refers to the amount at which assets are exchanged and debts settled between two informed and willing parties in an arm's length transaction. Methods and assumptions adopted in the estimation of fair values are explained as follows.

The fair values of long-term receivables and long/short-term loans are determined on the basis of discounted future cash flow. The discount rate adopted is the rate of market yield for other financial instruments with substantially identical contract terms and characteristics, risk profiles and outstanding term. As at 30 June 2021, the non-performance risk in respect of long/short-term loans was assessed to be insignificant.

The fair values of listed equity instruments are determined on the basis of market prices. The fair values of equity investments in listed companies during the lock-up period is arrived at based on quotations in an active market discounted at a percentage reflecting the lack of liquidity during lock-up.

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

2. Estimation of fair value (continued)

Fair value of financial assets (continued)

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

The Group has entered into derivative financial instruments with a number of counterparties (who are mainly financial institutions with sound credit rating). Derivative financial instruments include interest rate swaps and forward exchange contracts. The fair value of interest rate swaps is measured using the short-term interest rate pricing model after taking into consideration the terms of the relevant reciprocal agreement. Principal input of the model include the expected volatility rate of short-term interest rates and the interest rate curve of forward LIBOR rates. The data of these two parameters may be directly observed or implied in market prices. Forward exchange contracts are measured using valuation techniques similar to those adopted for forward pricing. The valuation model covers a number of inputs observable in the market, such as the credit quality of the counterparty, spot and forward exchange rates and interest rate curves. The carrying value of an interest rate swap and a forward exchange contract is identical with its fair value. As at 30 June 2021, the fair value of derivative financial assets represented the net value after offsetting credit valuation adjustments attributable to the risk of counterparty default.

For financial products at fair value through profit or loss, the Group estimates the fair value based on the discounted cash flow model using market interest rates of instruments with similar terms and risks.

Fair value of investment properties

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including: (a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; (b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and (c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and (when possible) by external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows. The carrying amount of investment properties at 30 June 2021 was RMB2,036,112,000 (31 December 2020: RMB2,035,234,000).

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

3. Unobservable inputs

Below is a summary of the significant unobservable inputs to the fair value measurement of Level 3:

30 June 2021

| | Fair value at end of period | Valuation techniques | Unobservable inputs | Range |
|------------------------------|-----------------------------|-----------------------------|---|--|
| Commercial properties | RMB2,036,112,000 | Discounted cash flow method | Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long term vacancy rate | RMB51–RMB513 2%–5% 0.5%–5.9% |
| Equity instrument investment | RMB2,358,835,000 | Market method | Discount rate Liquidity discount rate P/E EV/Revenue EV/EBIT | 7.50%–8.25% 4%–30% 13–67 2–6 11–14 |

31 December 2020

| | Fair value at end of year | Valuation techniques | Unobservable inputs | Range |
|------------------------------|---------------------------|-----------------------------|---|---|
| Commercial properties | RMB2,035,234,000 | Discounted cash flow method | Estimated rental value (per sq. m. and per month) Rent growth (p.a.) Long term vacancy rate | RMB43–RMB513 2%–5% 0.5%–5.9% |
| Equity instrument investment | RMB1,731,637,000 | Market method | Discount rate Liquidity discount rate P/E EV/Revenue EV/EBIT | 7.50%–8.25% 4%–30% 7–43 1–6 11–13 |

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IX. DISCLOSURE OF FAIR VALUES (CONTINUED)

4. Fair value measurement adjustment

Reconciliation of continuous fair value measurements categorised within Level 3 of the fair value hierarchy:

30 June 2021

| | Opening balance | Transfer into Level 3 | Transfer out of Level 3 | Through profit or loss | Addition | Disposal | Closing balance | Change in unrealised profit or loss for the period of assets held at end of period included in profit and loss |
|------------------------------------|-----------------|-----------------------|-------------------------|------------------------|----------|----------|-----------------|--|
| Investment properties | 2,035,234 | — | — | 878 | — | — | 2,036,112 | 878 |
| Trading financial assets | 194,896 | 736,376 | (6,041) | 60,711 | — | — | 985,942 | 60,710 |
| Other non-current financial assets | 1,536,741 | — | (166,060) | 21,918 | — | (19,706) | 1,372,893 | 6,165 |
| Total | 3,766,871 | 736,376 | (172,101) | 83,507 | — | (19,706) | 4,394,947 | 67,753 |

31 December 2020

| | Opening balance | Transfer into Level 3 | Transfer out of Level 3 | Through profit or loss | Addition | Disposal | Closing balance | Change in unrealised profit or loss for the period of assets held at end of period included in profit and loss |
|------------------------------------|-----------------|-----------------------|-------------------------|------------------------|----------|-----------|-----------------|--|
| Investment properties | 1,957,242 | — | — | 1,758 | 76,234 | — | 2,035,234 | 1,758 |
| Trading financial assets | 407,007 | 182,815 | (407,005) | (4,743) | 16,822 | — | 194,896 | (4,743) |
| Other non-current financial assets | 1,594,254 | — | (59,937) | 177,638 | 11,018 | (186,232) | 1,536,741 | 150,263 |
| Total | 3,958,503 | 182,815 | (466,942) | 174,653 | 104,074 | (186,232) | 3,766,871 | 147,278 |

In the continuous fair value measurement at Level 3, profit and loss included in current profit and loss relating to non-financial assets is analyzed as follows:

| | Six months ended 30 June 2021 Relating to non-financial assets | Six months ended 30 June 2020 Relating to non-financial assets |
|--|---|---|
| Total profit or loss for the period included in profit and loss | 878 | 3,622 |
| Change in unrealised profit or loss for the period of assets held at the end of the period | 878 | 3,622 |

5. Transfers between levels of fair value measurement

During the period, there were no transfers of fair value measurements between Level 1 and Level 2.

Notes to Financial Statements

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

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES

1. Controlling shareholder

| Name of controlling shareholder | Place of registration | Nature of business | Registered capital | Percentage of shareholding | Percentage of voting rights |
|--------------------------------------|-----------------------|--------------------|--------------------|----------------------------|-----------------------------|
| Zhongxingxin Telecom Company Limited | Shenzhen, Guangdong | Manufacturing | RMB100 million | 21.85% | 21.85% |

According to Shenzhen Stock Exchange Listing Rules, the Company's controlling shareholder is Zhongxingxin Telecom Company Limited.

2. Subsidiaries

Details of the subsidiaries are set out in Note VI and Note VII.1.

3. Joint ventures and associates

Details of the joint ventures and associates are set out in Note VII.2.

4. Other related parties

| | Relationship |
|--|--|
| Sindi Technologies Co., Ltd. | Subsidiary of the Company's controlling shareholder |
| ZTE Quantum Co., Ltd. | Subsidiary of the Company's controlling shareholder |
| Shenzhen Zhongxingxin Cloud Service Company Limited | Subsidiary of the Company's controlling shareholder |
| 深圳市中興新力精密機電技術有限公司 | Subsidiary of the Company's controlling shareholder |
| Pylon Technologies Co., Ltd. | Subsidiary of the Company's controlling shareholder |
| Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited* | Subsidiary of the Company's controlling shareholder |
| 深圳市星楷通訊設備有限公司 | Subsidiary of the Company's controlling shareholder |
| Shenzhen Xinyu Tengyue Electronics Co., Ltd | Subsidiary of the Company's controlling shareholder |
| Zhongxing Development Company Limited | Company for which a connected natural person of the Company acted as director and executive vice president |
| Huatong Technology Co., Ltd. | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| Huatong Software Technology (Nanjing) Company Limited | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| ZTE Software Technology (Shenyang) Company Limited | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| Hangzhou Zhongxing Development Company Limited | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| Chongqing Zhongxing Development Company Limited | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| 三河中興發展有限公司 | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |

Notes to Financial Statements

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

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

4. Other related parties (continued)

| | Relationship |
|--|--|
| 三河中興物業服務有限公司 | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| 重慶中興中投物業服務有限公司 | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| 深圳中興和泰海景酒店投資發展有限公司 | Subsidiary of a company for which a connected natural person of the Company acted as director and executive vice president |
| Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | Company for which a connected natural person of the Company acted as director |
| 南京中興和泰酒店管理有限公司 | Subsidiary of an associate of the Company |
| 西安中興和泰酒店管理有限公司 | Subsidiary of an associate of the Company |
| 上海市和而泰酒店投資管理有限公司 | Subsidiary of an associate of the Company |
| Shenzhen ZTE International Investment Company Limited | Company for which a connected natural person of the Company acted as chairman |
| Tianjin ZTE International Investment Company Limited | Subsidiary of a company for which a connected natural person of the Company acted as chairman |
| Shenzhen Zhongxing WXT Equipment Company Limited | Company for which a connected natural person of the Company acted as director |
| 北京中興協力科技有限公司 | Subsidiary of a company for which a connected natural person of the Company acted as director |
| Shenzhen Zhongxing Information Company Limited | Company for which a connected natural person of the Company acted as director |
| 航天歐華信息技術有限公司 | Subsidiary of a company for which a connected natural person of the Company served as senior management |
| 廣東歐科空調製冷有限公司 | a company for which a connected natural person of the Company acted as director |
| 深圳市中興宜和投資發展有限公司 | a company for which a connected natural person of the Company acted as director |
| Xi'an Microelectronics Technology Research Institute | Entity at which a connected natural person of the Company had previously acted as head |
| Lishan Microelectronics Corporation | Company for which a connected natural person of the Company acted as executive director and general manager |
| 深圳中興新源環保股份有限公司 | Company for which a connected natural person of the Company acted as chairman |
| 上海中興科源實業有限公司 | Subsidiary of a company for which a connected natural person of the Company acted as chairman |
| 深圳中興節能環保股份有限公司 | Company for which a connected natural person of the Company acted as vice chairman |
| Whale Cloud Technology (Changsha) Co., Ltd. | Subsidiary of an associate of the Company |
| 玄雀數據科技(南京)有限公司 | Subsidiary of an associate of the Company |

*1 The company was deregistered on 17 November 2020.

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(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties

(1) Transaction of goods with related parties

Sales of goods to related parties

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|-------------------------------------|-------------------------------------|
| Zhongxingxin Telecom Company Limited | 6 | 31 |
| Puxing Mobile Tech Company Limited | 811 | 2,103 |
| Sindi Technologies Co., Ltd | 22 | 153 |
| 航天歐華信息技術有限公司 | 357,680 | 456,384 |
| Telecom Innovations (Uzbekistan) | — | 285 |
| Shenzhen Zhongxingxin Cloud Service Company Limited | — | 231 |
| Shenzhen Zhongxing Information Company Limited | 15,859 | 3,648 |
| 上海中興思積通訊有限公司 | — | 439 |
| Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | 27 | 36 |
| 南京中興和泰酒店管理有限公司 | 24 | 9 |
| 西安中興和泰酒店管理有限公司 | 1,368 | 724 |
| Nubia Technology Limited | — | 298,016 |
| Zhongxing Development Company Limited | 93 | 29 |
| Whale Cloud Technology (Changsha) Co., Ltd | — | 3 |
| 江西國投信息科技有限公司 | — | 7,451 |
| 上海博色信息科技有限公司 | 225 | 1,046 |
| Shenzhen Zhongxin New Energy Technology Company Limited | 5 | 173 |
| 深圳星楷通訊設備有限公司 | 29,635 | 5,744 |
| ZTE Energy Limited | — | 3 |
| 上海市和而泰酒店投資管理有限公司 | 829 | 650 |
| Whale Cloud Technology Co., Ltd. | 191 | — |
| Huanggang Education Valley Investment Holdings Co., Ltd. | 13 | — |
| | 406,788 | 777,158 |

Notes to Financial Statements

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

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(1) Transaction of goods with related parties (continued)

Purchases of goods and services from related parties

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|
| Sindi Technologies Co., Ltd [#] | 57,831 | 75,863 |
| Shenzhen Xinyu Tengyue Electronics Co., Ltd | 11,690 | 11,446 |
| ZTE Software Technology (Nanchang) Company Limited | 15,671 | 12,036 |
| 深圳市中興新力精密機電技術有限公司 [#] | 56,059 | 71,218 |
| Huatong Technology Company Limited | 22,940 | 23,235 |
| Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | 6,720 | 4,855 |
| 南京中興和泰酒店管理有限公司 | 3,396 | 2,197 |
| 上海市和而泰酒店投資管理有限公司 | 2,153 | 2,282 |
| 西安中興和泰酒店管理有限公司 | 2,926 | 1,266 |
| Pylon Technologies Co., Ltd [#] | 18,452 | 22,845 |
| Nubia Technology Limited | — | 98,240 |
| ZTE Software Technology (Shenyang) Company Limited | 2,349 | 5,908 |
| 廣東歐科空調製冷有限公司 | 12,191 | 1,747 |
| Whale Cloud Technology Co., Ltd. | 97,506 | 179,717 |
| 安徽中興聚力精密機電技術有限公司 [#] | 761 | 552 |
| 北京中興協力科技有限公司 | 2,828 | — |
| 深圳中興和泰海景酒店投資發展有限公司 | 2,077 | — |
| 重慶中興中投物業服務有限公司 | 24 | — |
| | 315,574 | 513,407 |

[#] Also a connected person defined under the Hong Kong Listing Rules.

Note: For the period, the Group conducted commodity trade with connected parties based on market prices.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties

As lessor

| | Property leased | Six months ended 30 June 2021 Lease income | Six months ended 30 June 2020 Lease income |
|--|---------------------------------------|--|--|
| 上海中興思秸通訊有限公司 | Office | 170 | 192 |
| 上海中興科源實業有限公司 | Office | 213 | 208 |
| Huatong Software Technology (Nanjing) Company Limited | Office | 193 | 184 |
| Shenzhen Zhongxingxin Cloud Service Company Limited | Office | 1,688 | 397 |
| Zhongxing Feiliu Information Technology Company Limited | Office | 369 | 300 |
| Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited | Property and equipment and facilities | 7,069 | 8,957 |
| 南京中興和泰酒店管理有限公司 | Property and equipment and facilities | 3,789 | 4,203 |
| 上海市和而泰酒店投資管理有限公司 | Property and equipment and facilities | 8,596 | 10,003 |
| 西安中興和泰酒店管理有限公司 | Property and equipment and facilities | 479 | 13,533 |
| 深圳中興節能環保股份有限公司 | Office | 88 | 88 |
| 深圳市中興新力精密機電技術有限公司 | Quarters | — | 6 |
| Shenzhen ZTE International Investment Company Limited | Property | 66 | — |
| | | 22,720 | 38,071 |

Notes to Financial Statements

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

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

5. Major transactions between the Group and related parties (continued)

(2) Leasing with related parties (continued)

As lessee

| Property leased | | Six months ended 30 June 2021 Lease income | Six months ended 30 June 2020 Lease income |
|--|--------|--|--|
| Zhongxingxin Telecom Company Limited | Office | 4,386 | 5,112 |
| Zhongxing Development Company Limited | Office | 979 | 867 |
| Chongqing Zhongxing Development Company Limited | Office | 4,358 | 3,989 |
| 三河中興發展有限公司 | Office | 7,557 | 7,283 |
| 三河中興物業服務有限公司 | Office | 1,629 | 1,864 |
| Tianjin ZTE International Investment Company Limited | Office | 2,401 | 2,183 |
| | | 21,310 | 21,298 |

Note: The Group recognised lease income of RMB22,720,000 (Six months ended 30 June 2020: RMB38,071,000) for the period according to the lease contracts for the lease of office and equipment to the aforesaid connected parties.

The Group recognised lease expenses of RMB21,310,000 (Six months ended 30 June 2020: RMB21,298,000) for the period according to the lease contracts for the lease of office from the aforesaid connected parties.

(3) Other major related transactions

Remuneration of key management staff

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|----------------------------------|----------------------------------|
| Short-term staff remuneration | 5,120 | 5,050 |
| Retirement benefit | 132 | 76 |
| Share option incentive and management stock ownership schemes* | 5,682 | 842 |
| | 10,934 | 5,968 |

* Share option incentive scheme and management stock ownership scheme for the reporting period included the 2017 Share Option Incentive Scheme, 2020 Share Option Incentive Scheme and 2020 Management Stock Ownership scheme. For details, please refer to Note XI. 2 and 3.

Notes to Financial Statements

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

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Commitments with related parties

- (1) In December 2018, the Group entered into a 3-year purchase agreement with Zhongxingxin Telecom Company Limited and its subsidiaries for the purchase of raw materials for use in production. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amounts of total purchases by the Group from the aforesaid related parties for 2021 are estimated at RMB900 million (before VAT).
- (2) In December 2018, the Group entered into a 3-year purchase agreement with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited and its subsidiaries for the purchase of hotel services. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amounts of total purchases of hotel services by the Group from the aforesaid related parties for 2021 are estimated at RMB37,500,000 (before VAT).
- (3) In January 2020, the Group entered into a 3-year purchase agreement with Huatong Software Technology (Nanjing) Company Limited for the purchase of software outsource services. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amounts of software outsource service purchased by the Group from the aforesaid related parties for 2021 and 2022 are estimated at RMB91,650,000 and RMB98,380,000 (before VAT), respectively.
- (4) In January 2020, the Group entered into a 3-year software outsource service cooperation agreement with ZTE Software Technology (Nanchang) Company Limited for the purchase of software outsource services. For details of purchases incurred during the year, please refer to Note X.5 (1). The maximum amounts of purchase by the Group from the aforesaid related parties for 2021 and 2022 are estimated at RMB58,200,000 and RMB66,000,000 (before VAT), respectively.
- (5) In January 2020, the Group entered into a 2-year property and equipment lease contract with Shenzhen Zhongxing Hetai Hotel Investment and Management Company Limited or its subsidiaries. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The rental income for the Group from the aforesaid related parties for 2021 estimated at RMB59,720,000.
- (6) In December 2020, the Group entered into a 1-year sales agreement with 航天歐華信息技術有限公司 for the sales of the full range of government and corporate products. For details of sales incurred during the year, please refer to Note X.5 (1). The maximum amounts of sales by the Group to the aforesaid related parties for 2021 is estimated at RMB1.1 billion (before VAT).
- (7) In July 2020, the Group entered into a 2-year property lease contract with 上海中興科源實業有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB425,000 and RMB213,000, respectively.
- (8) In June 2020, the Group entered into a 2-year property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB1,106,000 and RMB553,000, respectively.

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(English translation for reference only)
(All amounts in RMB'000 unless otherwise stated)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Commitments with related parties (continued)

- (9) In July 2020, the Group entered into a 26-month property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB937,000 and RMB703,000, respectively.
- (10) In November 2020, the Group entered into a 27-month property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 be RMB1,067,000 and RMB1,067,000 respectively.
- (11) In June 2021, the Group entered into a 1-year property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB287,000 and RMB246,000, respectively.
- (12) In January 2021, the Group entered into a 9-month property lease contract with 深圳中興節能環保股份有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 to be RMB132,000.
- (13) In February 2021, the Group entered into a 7-year property lease assignment with Shenzhen ZTE International Investment Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB132,000 and RMB132,000, respectively.
- (14) In January 2020, the Group entered into a 2-year property lease contract with Huatong Software Technology (Nanjing) Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 to be RMB386,000.
- (15) In April 2019, the Group entered into a 3-year property lease contract with 上海中興思秸通訊有限公司. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB341,000 and RMB114,000, respectively.
- (16) In August 2020, the Group entered into a 2-year property lease contract with Shenzhen Zhongxingxin Cloud Service Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB184,000 and RMB122,000, respectively.
- (17) In January 2021, the Group entered into a 2-year property lease contract with Zhongxing Feiliu Information Technology Company Limited. For details of rental income incurred during the year, please refer to Note X. 5 (2). The Group estimated rental income for 2021 and 2022 to be RMB738,000 and RMB738,000, respectively.

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(Prepared in accordance with PRC ASBEs)
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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Commitments with related parties (continued)

- (18) In April 2019, the Group entered into a 2-year lease agreement with Zhongxingxin Telecom Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2).
- (19) In April 2021, the Group entered into a 2-year lease agreement with Zhongxingxin Telecom Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB5,489,000 and RMB10,977,000, respectively.
- (20) In April 2021, the Group entered into a 3-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB2,102,000 and RMB2,803,000, respectively.
- (21) In April 2021, the Group entered into a 1-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB317,000 and RMB106,000, respectively.
- (22) In April 2021, the Group entered into a 3-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB1,119,000 and RMB1,493,000, respectively.
- (23) In May 2021, the Group entered into a 1-year lease agreement with Tianjin ZTE International Investment Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB190,000 and RMB99,000, respectively.
- (24) In December 2018, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 to be RMB573,000.
- (25) In June 2019, the Group entered into a 5-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB796,000 and RMB796,000, respectively.
- (26) In March 2020, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB10,061,000 and RMB10,061,000, respectively.

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(All amounts in RMB'000 unless otherwise stated)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

6. Commitments with related parties (continued)

- (27) In March 2020, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB2,088,000 and RMB2,088,000, respectively.
- (28) In December 2020, the Group entered into a 3-year lease agreement with 三河中興發展有限公司. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental for 2021 and 2022 to be RMB1,983,000 and RMB1,983,000, respectively.
- (29) In January 2021, the Group entered into a 2-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental 2021 and 2022 to be RMB8,055,000 and RMB8,137,000, respectively.
- (30) In January 2021, the Group entered into a 2-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental 2021 and 2022 to be RMB405,000 and RMB405,000, respectively.
- (31) In January 2021, the Group entered into a 2-year lease agreement with Chongqing Zhongxing Development Company Limited. For details of rental expenses incurred during the year, please refer to Note X. 5 (2). The Group estimated rental 2021 and 2022 to be RMB338,000 and RMB338,000, respectively.

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(All amounts in RMB'000 unless otherwise stated)

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7. Balances of amounts due from/to related parties

| Item | Name of related parties | 30 June 2021 | 31 December 2020 |
|----------------------|--|-----------------|---------------------|
| Receivable financing | 航天歐華信息技術有限公司 | 264,368 | 149,436 |
| | Shenzhen Zhongxing Information Company Limited | 8,955 | 4,932 |
| | | 273,323 | 154,368 |
| Trade receivable | Puxing Mobile Tech Company Limited | 8,774 | 9,513 |
| | Xi'an Microelectronics Technology Research Institute | — | 9 |
| | 航天歐華信息技術有限公司 | 410 | 7,319 |
| | ZTE Software Technology (Nanchang) Company Limited | 650 | 650 |
| | Huanggang Education Valley Investment Holdings Co., Ltd. | — | 202 |
| | Whale Cloud Technology Co., Ltd. | 131,852 | 152,139 |
| | Shenzhen Zhongxing Information Company Limited | 10,969 | 2,105 |
| | Shenzhen Zhongxingxin Cloud Service Company Limited | 241 | 241 |
| | Shenzhen Zhongxin New Energy Technology Company Limited | — | 687 |
| | 鐵建聯和(北京)科技有限公司 | 7,560 | — |
| | 西安中興和泰酒店管理有限公司 | 518 | — |
| | 160,974 | 172,865 | |
| Other receivables | 南京中興和泰酒店管理有限公司 | 8,369 | 10,438 |
| | 深圳市星楷通訊設備有限公司 | 22,060 | — |
| | Shenzhen Zhongxing Information Company Limited | 14 | 14 |
| | Zhongxing Feiliu Information Technology Company Limited | 20 | — |
| | Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited | 17,821 | 17,821 |
| | 西安中興和泰酒店管理有限公司 | 29,935 | 24,340 |
| | 山東興濟置業有限公司 | 20,591 | 20,591 |
| | 上海市和而泰酒店投資管理有限公司 | 42,406 | 45,024 |
| | Whale Cloud Technology Co., Ltd | 640 | — |
| | 上海中興思秸通訊有限公司 | 208 | 77 |
| | Shenzhen Zhongxin New Energy Technology Company Limited | — | 760 |
| | 142,064 | 119,065 | |
| Bills payable | Shenzhen Xinyu Tengyue Electronics Co., Ltd | 11,503 | 312 |
| | Sindi Technologies Co., Ltd. | 45,883 | 59,822 |
| | 深圳市中興新力精密機電技術有限公司 | 50,587 | 57,225 |
| | 廣東歐科空調製冷有限公司 | 9,346 | — |
| | Pylon Technologies Co., Ltd. | 24,972 | — |
| | 142,291 | 117,359 | |

Notes to Financial Statements

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

X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7. Balances of amounts due from/to related parties (continued)

| Item | Name of related parties | 30 June 2021 | 31 December 2020 |
|----------------|---|-----------------|---------------------|
| Trade payables | Shenzhen Xinyu Tengyue Electronics Co., Ltd | 4,183 | 1,778 |
| | Sindi Technologies Co., Ltd. | 24,528 | 1,116 |
| | Shenzhen Zhongxing Xinzhou Complete Equipment Company Limited | — | 183 |
| | Shenzhen Zhongxing WXT Equipment Company Limited | 483 | 327 |
| | Shenzhen Zhongxing Information Company Limited | 13,120 | 1,729 |
| | Xi'an Microelectronics Technology Research Institute | — | 192 |
| | ZTE Software Technology (Nanchang) Company Limited | — | 135 |
| | 廣東歐科空調製冷有限公司 | 20,888 | 94 |
| | Pylon Technologies Co., Ltd. | 19,081 | 9,051 |
| | Whale Cloud Technology Co., Ltd. | 541,896 | 907,612 |
| | Puxing Mobile Tech Company Limited | 217 | 217 |
| | 深圳市中興新力精密機電技術有限公司 | 20,731 | 17,996 |
| | 安徽中興聚力精密機電技術有限公司 | 557 | 305 |
| | Shenzhen Zhongxin New Energy Technology Company Limited | — | 1,908 |
| | 玄雀數據科技(南京)有限公司 | — | 47,264 |
| | | 645,684 | 989,907 |

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

7. Balances of amounts due from/to related parties (continued)

| Item | Name of related parties | 30 June 2021 | 31 December 2020 | |
|--|--|--|------------------|-----|
| Contract liabilities | ZTE Software Technology (Nanchang) Company Limited | 5,327 | 5,327 | |
| | Puxing Mobile Tech Company Limited | — | 2,002 | |
| | Xi'an Microelectronics Technology Research Institute | 1,620 | 1,628 | |
| | 北京中興協力科技有限公司 | 155 | 155 | |
| | 航天歐華信息技術有限公 | 65,761 | 19,112 | |
| | ZTE Software Technology (Shenyang) Company Limited | 4 | 13 | |
| | 江西國投信息科技有限公司 | 328 | — | |
| | Whale Cloud Technology Co., Ltd. | — | 24,717 | |
| | Huanggang Education Valley Investment Holdings Co., Ltd. | — | 20 | |
| | 深圳市中興宜和投資發展有限公司 | — | 40 | |
| | | 73,195 | 53,014 | |
| | Other payables | Shenzhen Zhongxing WXT Equipment Company Limited | 12 | 12 |
| | | Zhongxingxin Telecom Company Limited | 318 | 308 |
| 深圳中興新源環保股份有限公司 | | 4 | 4 | |
| INTLIVE TECHNOLOGIES (PRIVATE) LIMITED | | 4,933 | 4,970 | |
| 中山優順置業有限公司 | | 2,000 | 2,000 | |
| Huanggang Education Valley Investment Holdings Co., Ltd. | | 178 | 158 | |
| Hengyang ICT Real Estate Co., Ltd | | 198 | 198 | |
| 山東興濟置業有限公司 | | 272 | 272 | |
| Lishan Microelectronics Corporation | | — | 65 | |
| Whale Cloud Technology Co., Ltd. | | 2,354 | 70,767 | |
| 深圳市中興宜和投資發展有限公司 | | — | 1,680 | |
| 深圳市星楷通訊設備有限公司 | | — | 2,597 | |
| ZTE Software Technology (Nanchang) Company Limited | | 50 | 50 | |
| Zhongxing Software Technology (Shenyang) Company Limited | | 200 | — | |
| 南京中興和泰酒店管理有限公司 | | 2,062 | 2,062 | |
| Shenzhen Zhongxin New Energy Technology Company Limited | | — | 300 | |
| 西安中興和泰酒店管理有限公司 | | 65 | 65 | |
| Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited | | 17 | 17 | |
| Shenzhen Zhongxingxin Cloud Service Company Limited | | 28 | 186 | |
| Zhongxing Feiliu Information Technology Company Limited | | 20 | — | |
| | 12,711 | 85,711 | | |

Other amounts due from/to related parties were interest-free, unsecured and had no fixed term of repayment. Amounts receivable from related parties were interest-free and unsecured with an usual credit term of 0-90 days, which may be extended to up to 1 year.

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X. RELATIONSHIPS AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

8. Deposit and lending services provided by ZTE Group Finance Company Limited to related parties

(1) Interest expenses

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|
| Zhongxing Feiliu Information Technology Company Limited | — | 1 |
| Shenzhen Zhongxin New Energy Technology Company Limited | — | 54 |
| | — | 55 |

XI. SHARE-BASED PAYMENT

1. Overview

Equity-settled share-based payments are as follows:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|---|-------------------------------------|-------------------------------------|
| Accumulated balance of equity-settled share-based payments credited to capital reserves | 947,924 | 295,608 |
| Transfer of equity-settled share-based payment cost to capital reserve share capital premium on exercise of share options | — | (46,910) |
| Total costs of equity-settled share-based payments in the period | 468,770 | 52,162 |

2. Share option incentive scheme

2017 Share Option Incentive Scheme

Pursuant to the “Resolution on Matters pertaining to the grant of shares options under the 2017 Share Option Incentive Scheme” considered and passed at the Twentieth Meeting of the Seventh Session of the Board of Directors and Seventeenth Meeting of the Seventh Session of the Supervisory Committee on 6 July 2017, the date of grant was set for 6 July 2017 and 149,601,200 share options were granted to 1,996 scheme participants. The scheme participants of the Share Incentive Scheme were the directors and senior management of the Company and key staff of the Company who have a direct impact or outstanding contributions to the Company’s business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company’s shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

The share options shall be valid for a period of five years from the date of grant. The first exercise period shall commence from the first trading day after expiry of the 24-month period from the date of grant. One-third of the options shall become exercisable in each of the three exercise periods, namely, the first, second and third exercise periods, subject to the fulfilment of conditions relating to business performance. The exercise price shall be RMB17.06 per share. The share options not exercisable due to failure to fulfil the Company's performance as the conditions of exercise or those currently not exercised after the end of the exercise period shall become null and void and be repurchased without consideration and cancelled by the Company.

The performance indicators for the exercise of the share options include:

- (1) Rate of Return on Common Stockholders' Equity ("ROE");
- (2) The growth rate of net profit attributable to the shareholders of the listed company (The growth rate of net profit).

For the purpose of calculating the aforesaid performance indicators under the Scheme, "net profit" shall refer to the net profit attributable to holders of ordinary shares of the listed company and "net assets" shall refer to the net assets attributable to holders of ordinary shares of the listed company.

The detailed conditions for the exercise of the share options:

The conditions for the exercise of the granted share options of each exercise period:

| Exercise period | Percentage of options exercisable | Duration | Conditions for exercise |
|---|--|-------------------|--|
| First exercise period ("First Period") | 1/3 | 2019.7.6-2020.7.5 | ROE for 2017 shall be no less than 10% and Net Profit Growth for 2017 shall be no less than 10% on a base amount of RMB3,825 million |
| Second exercise period ("Second Period") | 1/3 | 2020.7.6-2021.7.5 | ROE for 2018 shall be no less than 10% and Net Profit Growth for 2018 shall be no less than 20% on a base amount of RMB3,825 million |
| Third exercise period ("Third Period") | 1/3 | 2021.7.6-2022.7.5 | ROE for 2019 shall be no less than 10% and Net Profit Growth for 2019 shall be no less than 30% on a base amount of RMB3,825 million |

The fair value of the share options granted amounted to RMB1,477,496,000. Due to the nonfulfillment of exercise conditions for the second vesting period, the Group recognised share option expenses of RMB47,171,000 for the first six months of 2021 based on the best estimates of expected number of exercisable options at the end of the period for the first vesting period and the third vesting period.

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

Share options issued and outstanding under the Scheme are as follows:

| | 30 June 2021 | | 31 December 2020 | |
|--------------------------------|---|------------------------------------|---|------------------------------------|
| | Weighted average exercise price* RMB/share | Number of share options In '000 | Weighted average exercise price* RMB/share | Number of share options In '000 |
| At the beginning of the period | 16.86 | 39,726 | 17.06 | 44,532 |
| Exercised during the period | | — | | (4,806) |
| Lapsed | | — | | — |
| At the end of the period | 16.86 | 39,726 | 16.86 | 39,726 |

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

30 June 2021

| Number of share options In '000 | Exercise price* RMB/share | Valid exercise period |
|------------------------------------|------------------------------|----------------------------|
| 39,726 | 16.86 | 6 July 2021 to 5 July 2022 |
| 39,726 | | |

31 December 2020

| Number of share options In '000 | Exercise price RMB/share | Valid exercise period |
|------------------------------------|-----------------------------|----------------------------|
| 39,726 | 16.86 | 6 July 2021 to 5 July 2022 |
| 39,726 | | |

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2017 Share Option Incentive Scheme (continued)

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

| Exercise period | First | Second | Third |
|----------------------------------|--|--------|-------|
| Estimated dividend payment (RMB) | 0.18 | 0.18 | 0.18 |
| Volatility (%) | 43.35 | 42.2 | 42.9 |
| Risk-free interest rate (%) | 3.498 | 3.506 | 3.517 |
| Demission rate | Directors & senior management | 5% | 5% |
| | Key staff of the Company | 5% | 5% |

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

2020 Share Option Incentive Scheme

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 of the Company held on 6 November 2020, it was confirmed that 158,472,000 A shares options would be granted to 6,123 participants. According to ASBE 11 – Share-based Payments, the date of grant shall be the date of approval of the share-based payment agreement. Therefore, the grant date of the initial grant under the share option 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 staff of the Company who have a direct impact or outstanding contributions to the Company’s business results and ongoing development as a whole, excluding independent non-executive directors and supervisors, substantial shareholders holding 5% or more of the Company’s shares, separately or in aggregate, or the actual controller of the Company and their spouses, parents or children.

The share options shall be valid for a period of 4 years. The exercise period shall commence after a 1-year vesting 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 performance conditions or those currently not exercised after the end of the exercise period shall forthwith 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 detailed conditions for the exercise of the share options:

Notes to Financial Statements

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

XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2020 Share Option Incentive Scheme (continued)

The conditions for the exercise of the granted share options of 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 billion |
| Second exercise period ("Second Period") | 1/3 | 2022.11.6-2023.11.5 | Cumulative net Profit for 2020 and 2021 shall be no less than RMB6.47 billion |
| Third exercise period ("Third Period") | 1/3 | 2023.11.6-2024.11.5 | Cumulative net Profit for 2020, 2021 and 2022 shall be no less than RMB10.23 billion |

The fair value of the share options under the initial grant was RMB1,444,549,000. The Group recognised share option expenses of RMB385,009,000 for the first six months of 2021 based on the best estimates of expected number of exercisable options at the end of the period.

As at the balance sheet date, the exercise price and valid exercise period of share options issued and outstanding are as follows:

30 June 2021

| Number of share options In '000 | Exercise price RMB/share | Valid exercise period |
|------------------------------------|-----------------------------|------------------------------------|
| 52,824 | 34.47 | 6 November 2021 to 5 November 2022 |
| 52,824 | 34.47 | 6 November 2022 to 5 November 2023 |
| 52,824 | 34.47 | 6 November 2023 to 5 November 2024 |
| 158,472 | | |

31 December 2020

| Number of share options In '000 | Exercise price RMB/share | Valid exercise period |
|------------------------------------|-----------------------------|------------------------------------|
| 52,824 | 34.47 | 6 November 2021 to 5 November 2022 |
| 52,824 | 34.47 | 6 November 2022 to 5 November 2023 |
| 52,824 | 34.47 | 6 November 2023 to 5 November 2024 |
| 158,472 | | |

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XI. SHARE-BASED PAYMENT (CONTINUED)

2. Share option incentive scheme (continued)

2020 Share Option Incentive Scheme (continued)

The fair value of the equity-settled share options granted on the date of grant is estimated using the binomial tree model with the terms and conditions for the share options taken into account. The input variables under the applied model are as follows:

| Exercise period | First | Second | Third |
|----------------------------------|--|--------|-------|
| Estimated dividend payment (RMB) | 0.20 | 0.20 | 0.20 |
| Volatility (%) | 34.40 | 33.57 | 30.33 |
| Risk-free interest rate (%) | 2.775 | 2.846 | 2.909 |
| Demission rate | Directors & senior management | | |
| | 5% | 5% | 5% |
| | Key staff of the Company | | |
| | 5% | 5% | 5% |

Volatility is an assumption based on the trend reflected by historical volatility, and hence may not be the actual result. In respect of the fair value, other features of the granted share options were not considered.

3. MANAGEMENT STOCK OWNERSHIP SCHEME OF THE COMPANY 2020

Pursuant to the “Resolution on the Management Stock Ownership Scheme (Draft) and its Summary” considered and passed 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 on 12 October 2020 and the Second Extraordinary General Meeting of 2020 held on 6 November 2020, the total number of participants in this plan does not exceed 27, the share of this plan does not exceed 114,766,000 (including 114,766,000), and the price of each share is RMB1.00. Among them, there are a total of 8 directors, supervisors and senior executives of the company, and the total shares do not exceed 62,606,000, accounting for 54.55% of the total amount of the scheme. The total shares of other participants do not exceed 52,160,000, accounting for 45.45% of the total amount of the scheme. This management shareholding incentive scheme is the company’s medium and long-term incentive policy, and the source of the stock is company’s A shares in the company’s repurchase securities account.

As at 30 June 2021, the Company had repurchased 2,973,900 A shares, accounting for 0.06% of its total share capital, for traded prices ranging from a maximum of RMB38.85/share to a minimum of RMB38.40/share. Total amount paid was RMB114,766,000 (excluding transaction fees).

On 17 December 2020, the Company received a Securities Transfer Registration Confirmation from China Securities Depository and Clearing Corporation Shenzhen Branch, confirming that the Company’s stock held in the Company’s special securities account for repurchase had been transferred to the securities account of the “ZTE Corporation-Phase I Employee Stock Ownership Plan” (securities account number: 089925****) on a non-trading basis on 16 December 2020. The number of transferred shares is 2,973,900 shares, accounting for 0.06% of the company’s current total share capital. In accordance with the requirements of the ZTE Corporation Management Stock Ownership Scheme (Draft), a lock up period of not less than 12 months shall apply from the date of announcement of the completion of transfer of subject shares from the designated repurchase account. The lock up period for the shares under the Management Stock Ownership Scheme shall be from 18 December 2020 to 17 December 2021.

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XI. SHARE-BASED PAYMENT (CONTINUED)

3. MANAGEMENT STOCK OWNERSHIP SCHEME OF THE COMPANY 2020 (continued)

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 lock-up period of the target stocks obtained in this Management Stock Ownership Scheme is 12 months, calculated from the date when the company announces the completion of the transfer of the company's stock from the company's special securities account. Shares derived from share capital increase by conversion of capital reserves shall also be subject to the aforesaid lock up.

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 two periods separated by an interval of 12 months, with 50% vested in each period.

The share option expense recognised by the Group in January to June 2021 amounted to RMB36,590,000 based on the best estimates of expected number of exercisable shares at the end of the period.

XII. COMMITMENTS AND CONTINGENT EVENTS

1. Material commitments

| | 30 June 2021 | 31 December 2020 |
|--------------------------------|------------------|---------------------|
| Contracted but not provided of | | |
| Capital commitments | 2,669,929 | 2,837,222 |
| Investment commitments | 154,690 | 28,272 |
| | 2,824,619 | 2,865,494 |

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events

- 2.1. In November 2012, ZTE Brazil filed an application with the Civil Court of Brasilia to freeze the assets of a Brazilian company on the grounds that the said Brazilian company had failed to honour purchase payments of approximately BRL31,353,700 (equivalent to approximately RMB40,509,300). On 7 February 2013, the Civil Court of Brasilia ruled to suspend the freezing of the assets of such Brazilian company on the grounds that such company was not currently involved in any significant debt dispute with any other companies and that there was no indication that it would be subject to bankruptcy. In July 2013, ZTE Brazil filed a litigation with the Civil Court of Brasilia to demand immediate compensation from the said Brazilian company in the amount of BRL31,224,300 (equivalent to approximately RMB40,342,100), together with accruable interests and legal costs. In January 2016, the Civil Court of Brasilia handed down the first trial judgement, ruling that the Brazilian company should pay a compensation amount of BRL31,224,300 (equivalent to approximately RMB40,342,100) together with accrued interest and an adjustment amount for inflation. In April 2016, the Civil Court of Brasilia notified ZTE Brazil that the said Brazilian company had filed an application for appeal in respect of the aforesaid first trial judgement. On 29 August 2016, ZTE Brazil was notified that the federal district court had handed down a second trial judgement rejecting the appeal of the said Brazilian company. In November 2016, the federal district court ruled to activate provisional execution procedures to require the said Brazilian company to pay to ZTE Brazil BRL31,224,300 (equivalent to approximately RMB40,342,100) together with accrued interests and an adjustment amount for inflation. In February 2017, the federal district court ruled to reject the request of the said Brazilian company filed in October 2016 for clarification of the aforesaid second trial judgement. The court trial proceedings of the aforesaid case have ended.

On 30 November 2012, Civil Court No. 15 of Sao Paulo City, Brazil notified ZTE Brazil that the said Brazilian company had filed a lawsuit with the said court alleging that ZTE Brazil had committed fraud and negligence in the course of cooperation and demanding compensation for direct and indirect losses in the aggregate amount of approximately BRL82,974,500 (equivalent to approximately RMB107 million). The Company has appointed legal counsel to conduct active defence in respect of the said case.

Based on the legal opinion furnished by legal counsels engaged by the Company and the progress of the case, the Company is currently not able to make reliable estimates on outcome of the litigation.

Note: The exchange rates are based on the book exchange rates of the Company as at 30 June 2021 where BRL amounts are translated at the exchange rate of BRL1: RMB1.2920.

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

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

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.2. (continued)

On 28 December 2020, the Guangdong Higher Court made a ruling on the case to reject the aforesaid natural person's petition for litigation and to require the aforesaid natural person to pay the case admission fees.

On 25 January 2021, the aforesaid natural person filed an appeal demanding the Guangdong Higher Court to withdraw the first trial judgement and rule in support of all the claims of the aforesaid natural person instead.

Based on the legal opinion furnished by the legal counsel engaged by the Company and the progress of the cases, the Company is currently not able to make reliable estimates on outcome of the litigation.

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

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

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

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

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

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.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

- 2.4. 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 a period of 10 years from the issue of the 8 June 2018 Order (the "Probationary Period") (The USD0.4 billion penalty will be waived after the end of Probation Period if ZTE complies with the probationary conditions set forth in the Agreement and the 8 June 2018 Order during the Probationary Period). ZTE was required to comply with all applicable terms and conditions of the 2018 Superseding Settlement Agreement, including but not limited to: a new denial order (the "New Denial Order") for a period of ten years from the issuance of the 8 June 2018 Order that would, among other things, restrict and prohibit ZTE from applying for, obtaining, or using any license, license exception, or export control document, and participating in any way in any transaction involving any commodity, software, or technology that is subject to EAR to be imposed by BIS, provided that such New Denial Order shall be suspended during the Probationary Period and thereafter be waived subject to ZTE's compliance with the 2018 Superseding Settlement Agreement and the 8 June 2018 Order. For details of other terms and conditions, please refer to the "INSIDE INFORMATION ANNOUNCEMENT AND RESUMPTION OF TRADING" published by the Company on 12 June 2018.

To fulfill the obligations under the superseding settlement agreement of 2018 and the 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.

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XII. COMMITMENTS AND CONTINGENT EVENTS (CONTINUED)

2. Contingent events (continued)

2.4. (continued)

The Company has established the Export Compliance Committee of the Board of Directors, which includes the Company's executive directors, non-executive directors and independent non-executive directors; built a team composed of Chief Export Control Compliance Officer, Regional Export Control Compliance Directors and an export control compliance team with global coverage and engaged a number of counsels and consultants; established and optimised the Company's export control compliance management structure, system and procedure; introduced and implemented SAP Global Trade System (GTS) to automate key areas in export compliance management; carried out ECCN Publication Project, made available to its customers and business partners the applicable Export Control Classification Number ("ECCN") and other export control information for products subject to the EAR via the Company's official website; continued to provide online and offline export compliance training for senior management, subsidiaries, compliance liaisons, account managers and new employees; cooperated with the independent compliance monitor and special compliance coordinator to conduct various monitoring and compliance audit; and made continuous investment on the work on export control compliance.

In 2021, the Company will endeavour to comply with all local rules and regulations, as applicable, including restrictions under economic sanctions and export control laws and regulations, of the countries in which it operates its businesses. Complying with ZTE's Export Compliance Program and the regulations on which it is based is an essential requirement for ZTE's employees, contract employees, and businesses. Compliance not only protects value, but it also creates value. The Company attaches significant importance to the work on export control compliance, regarding compliance as foundation to the Company's strategy and condition and bottom-line for the Company's operations. The Company will continually create 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 2021 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.

- 2.5. As at 30 June 2021, an amount of RMB12,753,362,000 (31 December 2020: RMB12,832,332,000) was outstanding under the bank guarantee letters issued by the Group.

Notes to Financial Statements

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

XIII. OTHER SIGNIFICANT MATTERS

1. Leases

As lessee

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|--|-------------------------------------|
| Interest expense on lease liabilities | 34,490 | 44,961 |
| Short-term leases through current profit or loss using simplified approach | 144,575 | 98,266 |
| Total cash outflow relating to leases | 220,584 | 142,740 |

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 2 years. Some lease contracts provide for options of renewal and termination.

As lessor

Finance leasing:

Profit or loss relating to finance leases is set out as follows:

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|-------------------------------------|--|-------------------------------------|
| Interest income from finance leases | 33,574 | 32,897 |

Notes to Financial Statements

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

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

1. Leases (continued)

As lessor (continued)

As at 30 June 2021, the balance of unrealised finance income amounting to RMB176,369,000 was amortised over the respective periods in the lease period using the effective interest rate method. According to the lease contract signed with the lessees, minimum lease payments under non-cancellable operating leases falling due are as follows:

| | 30 June 2021 | 30 June 2020 |
|--|--------------|--------------|
| In the second to third years (including third year) | 1,824,100 | — |
| In the third to fourth years (including fourth year) | — | 1,824,100 |
| Less: unrealised finance income | 176,369 | 209,608 |
| Lease investment, net | 1,647,731 | 1,614,492 |

Operating lease:

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

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--------------|----------------------------------|----------------------------------|
| Lease income | 59,971 | 68,782 |

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

| | 30 June 2021 | 30 June 2021 |
|----------------------------------|--------------|--------------|
| Within 1 year (including 1 year) | 87,145 | 135,704 |
| 1 to 2 years (including 2 years) | 54,695 | 94,154 |
| 2 to 3 years (including 3 years) | 50,227 | 54,695 |
| 3 to 4 years (including 4 years) | 52,302 | 50,227 |
| 4 to 5 years (including 5 years) | 52,738 | 52,302 |
| More than 5 years | 137,866 | 193,635 |
| | 434,973 | 580,717 |

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

Notes to Financial Statements

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

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting

Operating segment

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

- (1) Carriers' network is focused on meeting carriers' requirements in network evolution with the provision of wireless access, wireline access, bearer systems, core networks, telecommunication software systems and services and other innovative technologies and product solutions;
- (2) The Consumer Business is focused on bringing experience in smart devices to customers while also catering to the requirements of industry and corporate clients through the development, production and sale of products such as smart phones, mobile data terminals, family terminals, innovative fusion terminals, as well as the provision of related software application and value-added services;
- (3) The Government and Corporate Business is focused on meeting requirements of government and corporate clients, providing informatisation solutions for the government and corporations through the application of products such as "communications networks, IOT, Big Data and cloud computing".

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit, which is a measure of adjusted total profit from continuing operations, which is consistent with the Group's total profit from continuing operations, except for the exclusion of finance costs, research and development costs, impairment losses, fair value gains from financial instruments, investment income as well as head office and corporate expenses.

Segment assets exclude derivative financial instruments, deferred tax assets, cash and cash equivalents, long-term equity investments, other receivables, other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude derivative financial instruments, borrowings, other payables, short-term bonds payable, tax payable, deferred tax liabilities, and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

Notes to Financial Statements

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

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segment (continued)

| | Carriers' network | Consumer business | Government and corporate business | Total |
|--|----------------------|----------------------|---|--------------|
| Segment revenue | | | | |
| Six months ended 30 June 2021 | | | | |
| Revenue from external transactions | 35,051,703 | 12,352,332 | 5,606,964 | 53,010,999 |
| Rental income | — | — | 59,971 | 59,971 |
| Sub-total | 35,051,703 | 12,352,332 | 5,666,935 | 53,070,970 |
| Segment results | 12,004,790 | 1,512,075 | 1,105,848 | 14,622,713 |
| Unallocated revenue | | | | 1,410,880 |
| Unallocated cost | | | | (10,829,799) |
| Finance costs | | | | (480,702) |
| Gain from changes in fair values | | | | 874,661 |
| Investment gain from associates and joint ventures | | | | (70,777) |
| Total profit | | | | 5,526,976 |
| Total assets | | | | |
| 30 June 2021 | | | | |
| Segment assets | 44,496,643 | 14,581,238 | 7,193,932 | 66,271,813 |
| Unallocated assets | | | | 99,630,304 |
| Sub-total | | | | 165,902,117 |
| Total liabilities | | | | |
| Segment liabilities | 12,895,204 | 3,553,002 | 2,084,815 | 18,533,021 |
| Unallocated liabilities | | | | 97,202,879 |
| Sub-total | | | | 115,735,900 |
| Supplemental information | | | | |
| Six months ended 30 June 2021 | | | | |
| Depreciation and amortisation expenses | 1,463,506 | 515,745 | 236,611 | 2,215,862 |
| Capital expenditure | 1,762,295 | 621,038 | 284,916 | 2,668,249 |
| Asset impairment losses | 27,032 | 9,526 | 4,370 | 40,928 |
| Credit impairment loss | (82,723) | (29,152) | (13,374) | (125,249) |

Notes to Financial Statements

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

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Operating segment (continued)

| | Carriers' network | Consumer business | Government and corporate business | Total |
|--|----------------------|----------------------|---|-------------|
| Segment revenue | | | | |
| Six months ended 30 June 2020 | | | | |
| Revenue from external transactions | 34,969,589 | 7,413,186 | 4,747,816 | 47,130,591 |
| Rental income | | | 68,782 | 68,782 |
| Sub-total | 34,969,589 | 7,413,186 | 4,816,598 | 47,199,373 |
| Segment results | 9,558,202 | 1,042,922 | 927,505 | 11,528,629 |
| Unallocated revenue | | | | 915,830 |
| Unallocated cost | | | | (9,284,563) |
| Finance costs | | | | (632,833) |
| Gain from changes in fair values | | | | 377,724 |
| Investment gain from associates and joint ventures | | | | (63,816) |
| Total profit | | | | 2,840,971 |
| Total assets | | | | |
| 31 December 2020 | | | | |
| Segment assets | 47,217,457 | 9,296,544 | 7,190,730 | 63,704,731 |
| Unallocated assets | | | | 86,930,175 |
| Sub-total | | | | 150,634,906 |
| Total liabilities | | | | |
| Segment liabilities | 11,852,008 | 1,896,156 | 1,804,938 | 15,553,102 |
| Unallocated liabilities | | | | 88,959,298 |
| Sub-total | | | | 104,512,400 |
| Supplemental information | | | | |
| Six months ended 30 June 2020 | | | | |
| Depreciation and amortisation expenses | 1,263,094 | 267,763 | 450,140 | 1,980,997 |
| Capital expenditure | 2,213,218 | 469,179 | 454,903 | 3,137,300 |
| Asset impairment losses | (108,232) | (22,944) | (14,909) | (146,085) |
| Credit impairment loss | (203,569) | (43,154) | (28,038) | (274,761) |

Notes to Financial Statements

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

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

2. Segment reporting (continued)

Group Information

Geographic information

Revenue from external customers

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|-----------------------------|-------------------------------------|-------------------------------------|
| The PRC | 35,954,824 | 31,751,164 |
| Asia (excluding the PRC) | 7,140,276 | 6,923,102 |
| Africa | 2,351,270 | 2,522,750 |
| Europe, America and Oceania | 7,624,600 | 6,002,357 |
| | 53,070,970 | 47,199,373 |

Revenue from external customers is analysed by geographic locations where the customers are located.

Total non-current assets

| | 30 June 2021 | 31 December 2020 |
|-----------------------------|-------------------|---------------------|
| The PRC | 23,628,811 | 23,868,451 |
| Asia (excluding the PRC) | 1,704,581 | 1,903,610 |
| Africa | 506,218 | 543,826 |
| Europe, America and Oceania | 405,770 | 113,328 |
| | 26,245,380 | 26,429,215 |

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.

Information of major customers

Operating revenue of RMB16,602,146,000 was derived from Carriers' network and consumer business revenue from one major customer (first half of 2020: RMB14,884,180,000 from one major customer).

Notes to Financial Statements

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

XIII. OTHER SIGNIFICANT MATTERS (CONTINUED)

3. # Net current assets/(liabilities)

| | 30 June 2021 Group | 31 December 2020 Group | 30 June 2021 Company | 31 December 2020 Company |
|----------------------------------|--------------------------|------------------------------|----------------------------|--------------------------------|
| Current assets | 123,609,938 | 106,977,275 | 127,956,916 | 112,656,042 |
| Less: current liabilities | 83,815,615 | 74,394,975 | 108,688,749 | 98,071,551 |
| Net current assets/(liabilities) | 39,794,323 | 32,582,300 | 19,268,167 | 14,584,491 |

4. # Total assets less current liabilities

| | 30 June 2021 Group | 31 December 2020 Group | 30 June 2021 Company | 31 December 2020 Company |
|---------------------------------------|--------------------------|------------------------------|----------------------------|--------------------------------|
| Total assets | 165,902,117 | 150,634,906 | 167,837,148 | 152,675,237 |
| Less: current liabilities | 83,815,615 | 74,394,975 | 108,688,749 | 98,071,551 |
| Total assets less current liabilities | 82,086,502 | 76,239,931 | 59,148,399 | 54,603,686 |

5. # Reconciliation of differences of consolidated cash flow statements prepared under PRC ASBEs and HKFRSs

Six months ended 30 June 2021

| | Net cash flow from operating activities | Net cash flow from investing activities | Net cash flow from financing activities |
|---|--|--|--|
| Net cash flow under PRC ASBEs | 7,028,435 | (6,681,437) | 8,789,184 |
| (1) bank loan interest and other finance cost and dividend paid | (756,904) | — | 756,904 |
| (2) Change in pledged bank deposit | (342,382) | 342,382 | — |
| (3) Others | — | — | — |
| Net cash flow under HKFRSs | 5,929,149 | (6,339,055) | 9,546,088 |

Six months ended 30 June 2020

| | Net cash flow from operating activities | Net cash flow from investing activities | Net cash flow from financing activities |
|---|--|--|--|
| Net cash flow under PRC ASBEs | 2,040,770 | (7,647,922) | 13,930,337 |
| (1) bank loan interest and other finance cost and dividend paid | (1,157,063) | — | 1,157,063 |
| (2) Change in pledged bank deposit | (1,047,242) | 1,047,242 | — |
| (3) Others | (500,000) | 500,000 | — |
| Net cash flow under HKFRSs | (663,535) | (6,100,680) | 15,087,400 |

Notes to Financial Statements

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

XIV.EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS

1. Trade receivables

The aging analysis of trade receivables is set out as follows:

| | 30 June 2021 | 31 December 2020 |
|--|-------------------|---------------------|
| Within 1 year | 12,434,687 | 12,342,423 |
| 1-2 years | 2,371,504 | 2,519,343 |
| 2- 3 years | 1,432,122 | 1,837,180 |
| Over 3 years | 10,976,573 | 11,273,053 |
| | 27,214,886 | 27,971,999 |
| Less: bad debt provision for trade receivables | 7,980,929 | 8,192,867 |
| | 19,233,957 | 19,779,132 |

| | 30 June 2021 | | | | 31 December 2020 | | | |
|--|-------------------|-------------------|--|-------------------|-------------------|-------------------|--|-------------------|
| | Book balance | | Expected credit loss for the entire subsisting period | | Book balance | | Expected credit loss for the entire subsisting period | |
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Individually significant and for which bad debt provision has been separately made | 3,542,535 | 13 | 3,542,535 | 100 | 3,737,658 | 13 | 3,737,658 | 100 |
| For which bad debt provision has been collectively made | | | | | | | | |
| 0-6 months | 8,965,247 | 34 | 137,524 | 1 | 9,221,426 | 34 | 129,412 | 1 |
| 6-12 months | 2,767,367 | 10 | 70,649 | 3 | 2,340,710 | 8 | 71,040 | 3 |
| 12-18 months | 1,183,107 | 4 | 62,210 | 5 | 1,507,580 | 5 | 124,598 | 8 |
| 18-24 months | 1,091,871 | 4 | 87,191 | 8 | 808,692 | 3 | 93,918 | 12 |
| 2-3 years | 1,193,148 | 4 | 431,433 | 36 | 1,517,661 | 5 | 484,827 | 32 |
| Over 3 years | 8,471,611 | 31 | 3,649,387 | 43 | 8,838,272 | 32 | 3,551,414 | 40 |
| | 23,672,351 | 87 | 4,438,394 | 19 | 24,234,341 | 87 | 4,455,209 | 18 |
| | 27,214,886 | 100 | 7,980,929 | 29 | 27,971,999 | 100 | 8,192,867 | 29 |

Movements in bad-debt provisions for trade receivables:

| | Opening balance | Provision/ (reversal) for the period | Write off for the period | Effect of exchange rate movement | Closing balance |
|------------------|--------------------|---|--------------------------------|---|--------------------|
| 30 June 2021 | 8,192,867 | 54,564 | (210,750) | (55,752) | 7,980,929 |
| 31 December 2020 | 10,974,675 | (319,383) | (2,462,425) | — | 8,192,867 |

As at 30 June 2021, RMB101,358,000 (2020: RMB118,758,000) 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 RMB91,839,000 (31 December 2020: RMB2,048,437,000) in respect of bad-debt provision for trade receivables.

Transfer of trade receivables that did not qualify for derecognition was separately classified as “Factored trade receivables” and “Bank advances on factored trade receivables”.

Notes to Financial Statements

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

XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

2. Other receivables

| | 30 June 2021 | 31 December 2020 |
|---------------------|-------------------|---------------------|
| Interest receivable | 155,308 | 62,806 |
| Dividend receivable | 1,232,846 | 1,752,847 |
| Other receivables | 45,201,768 | 38,456,207 |
| | 46,589,922 | 40,271,860 |

Other receivables

The aging analysis of other receivables:

| | 30 June 2021 | 31 December 2020 |
|--------------------|-------------------|---------------------|
| Within 1 year | 36,109,515 | 30,724,995 |
| 1-2 years | 4,045,826 | 3,442,527 |
| 2-3 years | 3,349,599 | 2,850,118 |
| Over 3 years | 1,713,158 | 1,457,698 |
| | 45,218,098 | 38,475,338 |
| Bad debt provision | (16,330) | (19,131) |
| Total | 45,201,768 | 38,456,207 |

Other receivables are analysed as follows:

| | 30 June 2021 | 31 December 2020 |
|---------------------------------|-------------------|---------------------|
| Staff loans | 50,615 | 282,353 |
| Transactions with third parties | 45,151,153 | 38,173,854 |
| Total | 45,201,768 | 38,456,207 |

Notes to Financial Statements

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

XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

3. Long-term trade receivables

| | 30 June 2021 | 31 December 2020 |
|--|------------------|---------------------|
| Loans granted to subsidiaries (Note 1) | 4,128,198 | 4,073,135 |
| Installment payments for the provision of telecommunication system construction projects | 2,310,951 | 2,393,718 |
| Less: Bad debt provision for long-term receivables | 22,497 | 27,841 |
| | 6,416,652 | 6,439,012 |

Note 1: Loans granted to subsidiaries set out above were interest-free, unsecured and planned for recovery in the foreseeable future. The Directors are of the view that the advances effectively constituted net investments in overseas business operations.

Movements in bad debt provision for long-term receivables during the period are as follows:

| | Opening balance | Provision for the period | Closing balance |
|------------------|--------------------|-----------------------------|-----------------|
| 30 June 2021 | 27,841 | (5,344) | 22,497 |
| 31 December 2020 | 29,594 | (1,753) | 27,841 |

The interest rate of long-term trade receivables ranged from 4.50%–6.16%.

Transfer of long-term trade receivables that did not qualify for derecognition was separately classified as “Factored long-term trade receivables” and “Bank advances on factored long-term trade receivables”.

4. Long-term equity investments

| | 30 June 2021 | 31 December 2020 |
|--|-------------------|---------------------|
| Equity method | | |
| Joint Ventures (1) | 306,824 | 158,022 |
| Associates (2) | 1,102,778 | 1,155,088 |
| Less: Provision for impairment in long-term equity Investments | — | 7,241 |
| | 1,409,602 | 1,305,869 |
| Cost method | | |
| Subsidiaries (3) | 13,503,017 | 12,571,262 |
| Less: Provision for impairment in long-term equity investments (4) | 385,757 | 401,859 |
| | 13,117,260 | 12,169,403 |
| | 14,526,862 | 13,475,272 |

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
(English translation for reference only)
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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2021

(1) Joint Ventures

| | Movements during the period | | | | | | | | | |
|---|-----------------------------|------------------------|------------------------|---|----------------------------|------------------------|------------------------|------------------------------------|----------------------|---|
| | Opening book balance | Increase of investment | Decrease of investment | Investment gains/losses undue equity method | Other Comprehensive income | Other equity movements | Cash dividend declared | Allowance for impairment provision | Closing book balance | Impairment provision at the end of the period |
| Puxing Mobile Tech Company Limited | 31,343 | — | — | (20,592) | — | — | — | — | 10,751 | — |
| 德特賽維技術有限公司 | 26,768 | — | — | (5,265) | — | — | — | — | 21,503 | — |
| Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership) | 99,911 | 180,000 | — | (5,341) | — | — | — | — | 274,570 | — |
| | 158,022 | 180,000 | — | (31,198) | — | — | — | — | 306,824 | — |

(2) Associates

| | Movements during the period | | | | | | | | | | |
|--|-----------------------------|------------------------|------------------------|---|----------------------------|------------------------|------------------------|------------------------------------|-------|----------------------|---|
| | Opening book balance | Increase of investment | Decrease of investment | Investment gains/losses undue equity method | Other Comprehensive income | Other equity movements | Cash dividend declared | Allowance for impairment provision | Other | Closing book balance | Impairment provision at the end of the period |
| KAZNURTEL Limited Liability Company* | — | — | (2,477) | — | — | — | — | 2,477 | — | — | — |
| ZTE Energy Limited | 447,009 | — | — | 36,251 | — | — | (9,188) | — | — | 474,072 | — |
| ZTE Software Technology (Nanchang) Company Limited* | — | — | — | — | — | — | — | — | — | — | — |
| 北京億科三友科技發展有限公司* | — | — | (4,764) | — | — | — | — | 4,764 | — | — | — |
| 上海中興思積通訊有限公司* | — | — | — | — | — | — | — | — | — | — | — |
| 中興羅維科技江蘇有限公司 | 1,492 | — | — | (354) | — | — | — | — | — | 1,138 | — |
| 廣東中城信息技術有限公司 | 4,687 | — | — | — | — | — | — | — | — | 4,687 | — |
| 上海博色信息技術有限公司 | 4,137 | — | — | (739) | — | — | — | — | — | 3,398 | — |
| 南京寧網科技有限公司 | 3,811 | — | — | (1,729) | — | — | — | — | — | 2,082 | — |
| Whale Cloud Technology Co., Ltd. | 652,476 | — | — | (59,824) | — | — | — | — | — | 592,652 | — |
| Shijiazhuang Smart Industries Company Limited | 16,172 | — | — | (6,456) | — | — | — | — | — | 9,716 | — |
| Zhongxing Feliu Information Technology Company Limited | 18,063 | — | — | (3,030) | — | — | — | — | — | 15,033 | — |
| | 1,147,847 | — | (7,241) | (35,881) | — | — | (9,188) | 7,241 | — | 1,102,778 | — |

* KAZNURTEL Limited Liability Company, ZTE Software Technology (Nanchang) Company Limited, 北京億科三友科技發展有限公司 and 上海中興思積通訊有限公司 were no longer accounted for as associates owing to the loss of significant influence.

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XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2021 (continued)

(3) Subsidiaries

| | Investment cost | Opening balance | Increase/decrease during the period | Closing balance | Percentage of shareholding | Percentage of voting rights | Cash dividend for the period |
|--|-----------------|-----------------|-------------------------------------|-----------------|----------------------------|-----------------------------|------------------------------|
| Shenzhen Zhongxing Software Company Limited | 263,293 | 263,293 | — | 263,293 | 100.0% | 100.0% | — |
| Shanghai ZXELINK Co., Ltd. | 37,382 | 37,382 | — | 37,382 | 90.0% | 90.0% | — |
| ZTE Kangxun Telecom Company Limited | 580,000 | 580,000 | — | 580,000 | 100.0% | 100.0% | — |
| ZTE Microelectronics Technology Company Limited | 91,957 | 91,957 | — | 91,957 | 68.4% | 68.4% | — |
| Anhui Wantong Posts and Telecommunication Company Limited | 179,767 | 179,767 | — | 179,767 | 90.0% | 90.0% | 7,200 |
| ZTE Integration Telecom Limited | 41,250 | 41,250 | — | 41,250 | 75.0% | 75.0% | — |
| Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited | 45,000 | 45,000 | — | 45,000 | 100.0% | 100.0% | — |
| Xi'an Zhongxing Jing Cheng Communication Company Limited | 40,500 | 40,500 | — | 40,500 | 83.0% | 83.0% | 4,565 |
| Guangdong ZTE Newstart Technology Co., Ltd. | 13,110 | 13,110 | — | 13,110 | 90.0% | 90.0% | — |
| 深圳市興意達通訊技術有限公司 | 5,000 | 5,000 | — | 5,000 | 100.0% | 100.0% | — |
| Xi'an Zhongxing New Software Company Limited | 600,000 | 600,000 | — | 600,000 | 100.0% | 100.0% | — |
| Shenzhen Zhongxing ICT Company Limited | 157,019 | 157,019 | — | 157,019 | 90.0% | 90.0% | — |
| 中興國通通訊裝備技術(北京)有限公司 | 22,160 | 22,160 | — | 22,160 | 100.0% | 100.0% | — |
| PT. ZTE Indonesia | — | 15,275 | (15,275) | — | *** | — | — |
| ZTE Wistron Telecom AB (European research institute) | 2,137 | 2,137 | — | 2,137 | 100.0% | 100.0% | — |
| ZTE Holdings (Thailand) Co., Ltd**** | 10 | 10 | — | 10 | 49.0% | 95.05% | — |
| ZTE (Thailand) Co., Ltd. | 5,253 | 5,253 | — | 5,253 | 49.0% | 49.0% | — |
| ZTE (USA) Inc. | 190,133 | 190,133 | — | 190,133 | 100.0% | 100.0% | — |
| ZTE Do Brasil LTDA | 18,573 | 18,573 | — | 18,573 | 100.0% | 100.0% | — |
| ZTE Romania S.R.L | — | 827 | (827) | — | *** | — | — |
| ZTE Telecom India Private Ltd. | 335,759 | 335,759 | — | 335,759 | 100.0% | 100.0% | — |
| ZTE-Communication Technologies, Ltd. (Russia) | 6,582 | 6,582 | — | 6,582 | 100.0% | 100.0% | — |
| Zhongxing Telecom Pakistan (Private) Ltd. | 5,279 | 5,279 | — | 5,279 | 93.0% | 93.0% | — |
| ZTE (H.K.) Limited | 853,800 | 853,800 | — | 853,800 | 100.0% | 100.0% | — |
| Shenzhen ZTE Capital Management Company Limited | 16,500 | 16,500 | — | 16,500 | 55.0% | 55.0% | 23,100 |
| ZTE (Heyuan) Company Limited | 500,000 | 500,000 | — | 500,000 | 100.0% | 100.0% | — |
| Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise | — | — | — | — | — | ** | 10,800 |
| ZTE Group Finance Co., Ltd | 1,000,000 | 1,000,000 | — | 1,000,000 | 100.0% | 100.0% | — |
| 深圳市百維技術有限公司 | 16,000 | 16,000 | — | 16,000 | 100.0% | 100.0% | — |
| 北京中興網捷技術有限公司 | 289,341 | 289,341 | — | 289,341 | 100.0% | 100.0% | — |
| Caltta Technologies Co., Ltd. | — | 42,750 | (42,750) | — | *** | — | — |
| Shenzhen Zhongxing Cloud Service Company Limited | 50,000 | 50,000 | — | 50,000 | 100.0% | 100.0% | — |
| Shenzhen Zhongxing SI Technology Company Limited | 27,000 | 27,000 | — | 27,000 | 90.0% | 90.0% | — |
| 福建海絲路科技有限公司 | 47,500 | 47,500 | — | 47,500 | 95.0% | 95.0% | — |
| Zhongxing New Energy Automobile Company Limited | 232,360 | 232,360 | — | 232,360 | 100.0% | 100.0% | — |
| Xi'an ZTE Terminal Technology Company Limited | 300,000 | 300,000 | — | 300,000 | 100.0% | 100.0% | — |
| Zhongxing Health Technology Company Limited | 15,000 | 15,000 | — | 15,000 | 50.0% | 50.0% | — |
| Shenzhen Zhongxing Smart Valley Technology Company Limited | 15,000 | 15,000 | — | 15,000 | 100.0% | 100.0% | — |
| Jiaxing Xinghe Equity Investment Partnership | 45,000 | 45,000 | — | 45,000 | 28.9% | ** | 6,400 |
| 中興捷維通訊技術有限責任公司 | 51,530 | 51,530 | — | 51,530 | 100.0% | 100.0% | — |
| 西安中興精誠科技有限公司 | — | 9,393 | (9,393) | — | 100.0% | 100.0% | — |
| Xinjiang ZTE Silk Road Network Technology Company Limited | 19,500 | 19,500 | — | 19,500 | 65.0% | 65.0% | — |

Notes to Financial Statements

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

XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2021 (continued)

(3) Subsidiaries (continued)

| | Investment cost | Opening balance | Increase/decrease during the period | Closing balance | Percentage of shareholding | Percentage of voting rights | Cash dividend for the period |
|--|-----------------|-----------------|-------------------------------------|-----------------|----------------------------|-----------------------------|------------------------------|
| Changsha Zhongxing Smart Technologies Company Limited | 350,000 | 350,000 | — | 350,000 | 100.0% | 100.0% | — |
| Shenzhen Zhongxing Videocom Technologies Company Limited | 31,400 | 31,400 | — | 31,400 | 44.0% | * | — |
| ZTE (Wenzhou) Railway Communication Technology Limited | 25,500 | 25,500 | — | 25,500 | 51.0% | 51.0% | — |
| Zhongxing (Shenyang) Financial Technology Company Limited | 45,000 | 45,000 | — | 45,000 | 100.0% | 100.0% | — |
| Shenzhen ZTE Jinkong Commercial Factoring Company Limited | 50,000 | 50,000 | — | 50,000 | 100.0% | 100.0% | — |
| Shenzhen Zhiheng Technology Company Limited | 2,000 | 2,000 | — | 2,000 | 100.0% | 100.0% | — |
| ZTE Gaoneng Technology Company Limited | 400,000 | 400,000 | — | 400,000 | 100.0% | 100.0% | — |
| ZTE Smart Auto Company Limited | 790,500 | 790,500 | — | 790,500 | 86.4% | 86.4% | — |
| Zhongxing Opto-electronic Technology Company Limited | 1,000,000 | 1,000,000 | — | 1,000,000 | 100.0% | 100.0% | — |
| Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership) | 21,000 | 21,000 | — | 21,000 | 25.0% | ** | — |
| ZTE Kela Technology (Suzhou) Co., Ltd. | 41,650 | 41,650 | — | 41,650 | 85.0% | 85.0% | — |
| Xi'an ZTE IOT Terminal Co., Ltd. | 49,000 | 49,000 | — | 49,000 | 100.0% | 100.0% | — |
| ZTE (Xi'an) Co., Ltd. | 500,000 | 500,000 | — | 500,000 | 100.0% | 100.0% | — |
| ZTE Wangkun Information Technology (Shanghai) Co., Ltd. | 52,270 | 52,270 | — | 52,270 | 100.0% | 100.0% | — |
| Xi'an Zhongxing Electronic Technology Company Limited | 45,000 | 45,000 | — | 45,000 | 100.0% | 100.0% | — |
| Wuhan ZTE Smart City Research Institute Co., Ltd. | 3,000 | 3,000 | — | 3,000 | 100.0% | 100.0% | — |
| ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd. | 10,000 | 10,000 | — | 10,000 | 100.0% | 100.0% | — |
| ZTE (Nanjing) Co., Ltd. | 1,000,000 | 1,000,000 | — | 1,000,000 | 100.0% | 100.0% | — |
| Nanjing Yingbo Super Computer Technology Company Limited | 23,600 | 23,600 | — | 23,600 | 56.4% | 56.4% | — |
| Nubia Technology Limited | 1,124,402 | 1,124,402 | — | 1,124,402 | 78.33% | 78.33% | — |
| 深圳市仁興科技有限責任公司 | 720,000 | 720,000 | — | 720,000 | 100.0% | 100.0% | — |
| Zhongxing Terminal Co., Ltd. | 100,000 | 100,000 | — | 100,000 | 100.0% | 100.0% | — |
| 中興智能科技南京有限公司 | 1,000,000 | — | 1,000,000 | 1,000,000 | 100.0% | 100.0% | — |
| | | 12,571,262 | 931,755 | 13,503,017 | | | 52,065 |

* This subsidiary is a company with limited liability in which the Company had a shareholding of less than 50%. It is accounted for as a subsidiary mainly for the reason that the articles of association of this company stipulate that its board of directors should comprise 5 members, all of which shall be appointed by the Company. As board resolutions are approved by a majority vote of the directors, the Company is in a position to control the company.

** This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

*** The company was disposed of prior to 30 June 2021 and the Company has ceased to be in control of the company.

**** The articles of association of ZTE Holdings (Thailand) Co., Ltd provide that ZTE Corporation's shareholding percentage is different from its percentage of voting rights in the company.

Notes to Financial Statements

(Prepared in accordance with PRC ASBEs)
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(All amounts in RMB'000 unless otherwise stated)

XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

30 June 2021 (continued)

(4) Provision for long-term equity investments

| | Opening balance | Increase/decrease during the year | Closing balance |
|---|-----------------|-----------------------------------|-----------------|
| ZTE (USA) Inc. | 5,381 | — | 5,381 |
| ZTE DoBrasil LT DA | 18,572 | — | 18,572 |
| ZTE Integration Telecom Limited | 4,591 | — | 4,591 |
| Wistron Telecom AB (European research institute) | 2,030 | — | 2,030 |
| Zhongxing Telecom Pakistan (Private) Ltd. | 2,971 | — | 2,971 |
| Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited | 9,656 | — | 9,656 |
| ZTE Holdings (Thailand) Co., Ltd | 10 | — | 10 |
| ZTE(Thailand) Co., Ltd. | 205 | — | 205 |
| ZTE Telecom India Private Ltd. | 335,759 | — | 335,759 |
| ZTE Romania S.R.L | 827 | (827) | — |
| PT ZTE Indonesia | 15,275 | (15,275) | — |
| ZTE-Communication Technologies, Ltd. (Russia) | 6,582 | — | 6,582 |
| | 401,859 | (16,102) | 385,757 |

31 December 2020

(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 Tech Company Limited | 45,706 | — | — | (14,363) | — | — | — | — | 31,343 | — |
| 德特賽維技術有限公司 | 21,809 | — | — | 4,959 | — | — | — | — | 26,768 | — |
| Zhuhai Hongtu Zhanlu Equity Investment Partnership Enterprise (Limited Partnership) | — | 100,000 | — | (89) | — | — | — | — | 99,911 | — |
| | 67,515 | 100,000 | — | (9,493) | — | — | — | — | 158,022 | — |

Notes to Financial Statements

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

XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(2) Associates

| | Movements during the year | | | | | | | | | Closing book balance | Impairment provision at the end of 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 | | |
| KAZNURTEL Limited Liability Company | - | - | - | - | - | - | - | - | - | - | (2,477) |
| ZTE Software Technology (Nanchang) Company Limited | 3,763 | - | - | (3,763) | - | - | - | - | - | - | - |
| ZTE Energy Limited | 426,768 | - | - | 25,264 | - | - | (5,023) | - | - | 447,009 | - |
| Shenzhen Zhongxing Hetai Hotel Investment Management Company Limited | 1,324 | - | - | (1,324) | - | - | - | - | - | - | - |
| 北京億科三友科技發展有限公司 | - | - | - | - | - | - | - | - | - | - | (4,764) |
| 上海中興思絡通訊有限公司 | 2,181 | - | - | (2,181) | - | - | - | - | - | - | - |
| 中興江蘇羅維科技 | 2,862 | - | - | (1,370) | - | - | - | - | - | 1,492 | - |
| 廣東中城信息技術有限公司 | 4,862 | - | - | (175) | - | - | - | - | - | 4,687 | - |
| 上海博色信息技術有限公司 | 26,782 | - | (20,700) | (1,945) | - | - | - | - | - | 4,137 | - |
| 南京華網科技有限公司 | 2,860 | - | - | 951 | - | - | - | - | - | 3,811 | - |
| Nubia Technology Limited | 665,048 | 553,700 | - | (94,347) | - | - | - | - | (1,124,401) | - | - |
| Whale Cloud Technology Co., Ltd. | 679,373 | - | - | (301,363) | - | 274,466 | - | - | - | 652,476 | - |
| Shijiazhuang Smart Industries Company Limited | 32,080 | - | - | (15,908) | - | - | - | - | - | 16,172 | - |
| Zhongxing Feliu Information Technology Company Limited | 20,849 | - | - | (2,786) | - | - | - | - | - | 18,063 | - |
| | 1,868,752 | 553,700 | (20,700) | (398,947) | - | 274,466 | (5,023) | - | (1,124,401) | 1,147,847 | (7,241) |

Notes to Financial Statements

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

XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(3) Subsidiaries

| | Investment cost | Opening balance | Increase/decrease during the period | Closing balance | Percentage of shareholding | Percentage of voting rights | Cash dividend for the period |
|--|-----------------|-----------------|-------------------------------------|-----------------|----------------------------|-----------------------------|------------------------------|
| Shenzhen Zhongxing Software Company Limited | 263,293 | 263,293 | — | 263,293 | 100.0% | 100.0% | 1,060,000 |
| Shanghai ZXELINK Co., Ltd | 37,382 | 37,382 | — | 37,382 | 90.0% | 90.0% | — |
| ZTE Kangxun Telecom Company Limited | 580,000 | 580,000 | — | 580,000 | 100.0% | 100.0% | — |
| ZTE Microelectronics Technology Company Limited | 91,957 | 91,957 | — | 91,957 | 68.4% | 68.4% | — |
| Anhui Wantong Posts and Telecommunication Company Limited | 179,767 | 179,767 | — | 179,767 | 90.0% | 90.0% | 5,400 |
| ZTE Integration Telecom Limited | 41,250 | 41,250 | — | 41,250 | 75.0% | 75.0% | — |
| Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited | 45,000 | 45,000 | — | 45,000 | 100.0% | 100.0% | — |
| Xi'an Zhongxing Jing Cheng Communication Company Limited | 40,500 | 40,500 | — | 40,500 | 83.0% | 83.0% | — |
| Guangdong ZTE Newstart Technology Co., Ltd. | 13,110 | 13,110 | — | 13,110 | 90.0% | 90.0% | — |
| 深圳市興意達通訊技術有限公司 | 5,000 | 5,000 | — | 5,000 | 100.0% | 100.0% | — |
| Xi'an Zhongxing New Software Company Limited | 600,000 | 600,000 | — | 600,000 | 100.0% | 100.0% | 500,000 |
| Shenzhen Zhongxing ICT Company Limited | 157,019 | 157,019 | — | 157,019 | 90.0% | 90.0% | — |
| 中興國通通訊裝備技術(北京)有限公司 | 22,160 | 22,160 | — | 22,160 | 100.0% | 100.0% | — |
| Shenzhen Guoxin Electronics Development Company Limited | — | 29,700 | (29,700) | — | *** | — | — |
| PT. ZTE Indonesia | 15,275 | 15,275 | — | 15,275 | 100.0% | 100.0% | — |
| ZTE Wistron Telecom AB (European research institute) | 2,137 | 2,137 | — | 2,137 | 100.0% | 100.0% | — |
| ZTE Holdings (Thailand) Co., Ltd | 10 | 10 | — | 10 | 49.0% | 95.05% | — |
| ZTE (Thailand) Co., Ltd. | 5,253 | 5,253 | — | 5,253 | 49.0% | 49.0% | — |
| ZTE (USA) Inc. | 190,133 | 190,133 | — | 190,133 | 100.0% | 100.0% | — |
| ZTE Corporation Mexico S.DER.LDEC.V. | — | 42 | (42) | — | *** | — | — |
| ZTE Do Brasil LTDA | 18,573 | 18,573 | — | 18,573 | 100.0% | 100.0% | — |
| ZTE Romania S.R.L | 827 | 827 | — | 827 | 100.0% | 100.0% | — |
| ZTE Telecom India Private Ltd. | 335,759 | 335,759 | — | 335,759 | 100.0% | 100.0% | — |
| ZTE-Communication Technologies, Ltd. (Russia) | 6,582 | 6,582 | — | 6,582 | 100.0% | 100.0% | — |
| Zhongxing Telecom Pakistan (Private) Ltd. | 5,279 | 5,279 | — | 5,279 | 93.0% | 93.0% | — |
| ZTE (H.K.) Limited | 853,800 | 853,800 | — | 853,800 | 100.0% | 100.0% | — |
| Shenzhen ZTE Capital Management Company Limited | 16,500 | 16,500 | — | 16,500 | 55.0% | 55.0% | 41,250 |
| ZTE (Heyuan) Company Limited | 500,000 | 500,000 | — | 500,000 | 100.0% | 100.0% | — |
| Shenzhen Zhonghe Chunsheng No. 1 Equity Investment Fund Partnership Enterprise | — | — | — | — | — | ** | 19,200 |
| ZTE Group Finance Co., Ltd | 1,000,000 | 1,000,000 | — | 1,000,000 | 100.0% | 100.0% | — |
| 深圳市百維技術有限公司 | 16,000 | 16,000 | — | 16,000 | 100.0% | 100.0% | — |
| 北京中興網捷科技有限責任公司 | 289,341 | 289,341 | — | 289,341 | 100.0% | 100.0% | — |
| Caltta Technologies Co., Ltd. | 42,750 | 42,750 | — | 42,750 | 90.0% | 90.0% | — |
| Shenzhen Zhongxing Cloud Service Company Limited | 50,000 | 50,000 | — | 50,000 | 100.0% | 100.0% | — |
| Shenzhen Zhongxing SI Technology Company Limited | 27,000 | 30,000 | (3,000) | 27,000 | 90.0% | 90.0% | — |
| 福建海絲路科技有限責任公司 | 47,500 | 47,500 | — | 47,500 | 95.0% | 95.0% | — |
| Zhongxing New Energy Automobile Company Limited | 232,360 | 232,360 | — | 232,360 | 100.0% | 100.0% | — |
| Xi'an ZTE Terminal Technology Company Limited | 300,000 | 300,000 | — | 300,000 | 100.0% | 100.0% | — |
| Zhongxing Health Technology Company Limited | 15,000 | 15,000 | — | 15,000 | 50.0% | 50.0% | — |
| Shenzhen Zhongxing Smart Valley Technology Company Limited | 15,000 | 15,000 | — | 15,000 | 100.0% | 100.0% | — |
| Jiaxing Xinghe Equity Investment Partnership | 45,000 | 56,800 | (11,800) | 45,000 | 28.9% | ** | 18,400 |
| 中興捷維通訊技術有限責任公司 | 51,530 | 51,530 | — | 51,530 | 100.0% | 100.0% | — |
| 西安中興精誠科技有限責任公司 | 9,393 | 9,393 | — | 9,393 | 100.0% | 100.0% | — |
| Xinjiang ZTE Silk Road Network Technology Company Limited | 19,500 | 19,500 | — | 19,500 | 65.0% | 65.0% | — |

Notes to Financial Statements

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(English translation for reference only)
(All amounts in RMB'000 unless otherwise stated)

XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(3) Subsidiaries (continued)

| | Investment cost | Opening balance | Increase/decrease during the period | Closing balance | Percentage of shareholding | Percentage of voting rights | Cash dividend for the period |
|--|-----------------|-----------------|-------------------------------------|-----------------|----------------------------|-----------------------------|------------------------------|
| Changsha Zhongxing Smart Technologies Company Limited | 350,000 | 350,000 | — | 350,000 | 100.0% | 100.0% | — |
| Shenzhen Zhongxing Videocom Technologies Company Limited | 31,400 | 35,400 | (4,000) | 31,400 | 44.0% | * | — |
| ZTE (Wenzhou) Railway Communication Technology Limited | 25,500 | 25,500 | — | 25,500 | 51.0% | 51.0% | 5,400 |
| Zhongxing (Shenyang) Financial Technology Company Limited | 45,000 | 45,000 | — | 45,000 | 100.0% | 100.0% | — |
| Shenzhen ZTE Jinkong Commercial Factoring Company Limited | 50,000 | 50,000 | — | 50,000 | 100.0% | 100.0% | — |
| Shenzhen Zhiheng Technology Company Limited | 2,000 | 2,000 | — | 2,000 | 100.0% | 100.0% | — |
| ZTE Gaoneng Technology Company Limited | 400,000 | 400,000 | — | 400,000 | 100.0% | 100.0% | — |
| ZTE Smart Auto Company Limited | 790,500 | 790,500 | — | 790,500 | 86.4% | 86.4% | — |
| Zhongxing Opto-electronic Technology Company Limited | 1,000,000 | 1,000,000 | — | 1,000,000 | 100.0% | 100.0% | — |
| Suzhou Zhonghe Chunsheng III Investment Centre (Limited Partnership) | 21,000 | 120,000 | (99,000) | 21,000 | 25.0% | ** | 36,000 |
| Shenzhen Zhongrui Detection Technology Co., Ltd. | — | 10,000 | (10,000) | — | — | — | — |
| ZTE Kela Technology (Suzhou) Co., Ltd. | 41,650 | 44,100 | (2,450) | 41,650 | 85.0% | 85.0% | — |
| Xi'an ZTE IOT Terminal Co., Ltd. | 49,000 | 49,000 | — | 49,000 | 100.0% | 100.0% | — |
| ZTE (Xi'an) Co., Ltd. | 500,000 | 500,000 | — | 500,000 | 100.0% | 100.0% | — |
| ZTE Wangkun Information Technology (Shanghai) Co., Ltd. | 52,270 | 36,000 | 16,270 | 52,270 | 100.0% | 100.0% | — |
| Xi'an Zhongxing Electronic Technology Company Limited | 45,000 | 45,000 | — | 45,000 | 100.0% | 100.0% | — |
| Wuhan ZTE Smart City Research Institute Co., Ltd. | 3,000 | 3,000 | — | 3,000 | 100.0% | 100.0% | — |
| ZTE Zhongchuang Kongjian (Xi'an) Investment Management Co., Ltd. | 10,000 | 10,000 | — | 10,000 | 100.0% | 100.0% | — |
| ZTE (Nanjing) Co., Ltd. | 1,000,000 | 1,000,000 | — | 1,000,000 | 100.0% | 100.0% | 400,000 |
| Nanjing Yingbo Super Computer Technology Company Limited | 23,600 | 13,000 | 10,600 | 23,600 | 56.4% | 56.4% | — |
| Nubia Technology Limited | 1,124,402 | — | 1,124,402 | 1,124,402 | 78.3% | 78.3% | — |
| 深圳市仁興科技有限責任公司 | 720,000 | — | 720,000 | 720,000 | 100% | 100% | — |
| Zhongxing Terminal Co., Ltd. | 100,000 | — | 100,000 | 100,000 | 100% | 100% | — |
| | | 10,759,982 | 1,811,280 | 12,571,262 | | | 2,085,650 |

* This subsidiary is a company with limited liability in which the Company had a shareholding of less than 50%. It was accounted for as a subsidiary mainly owing to the fact that the board of directors of such subsidiary comprises 5 members in accordance with its articles of association and all of them were nominated by the Company. As board resolutions are passed by a majority vote of the directors, the Company was in a position to exercise control over this subsidiary.

** This subsidiary is a limited partnership in which the Company had a shareholding of less than 50%. However, the limited partnership was managed and controlled by a general partner which was in turn a company controlled by the Company, therefore the Company was in a position to exercise control over this subsidiary.

*** The Company has ceased to exercise control over this company following its disposal in 2020.

Notes to Financial Statements

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

XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

4. Long-term equity investments (continued)

31 December 2020 (continued)

(4) Provision for long-term equity investments

| | Opening balance | Increase/ decrease during the year | Closing balance |
|---|-----------------|---|-----------------|
| ZTE (USA) Inc. | 5,381 | — | 5,381 |
| Shenzhen Guoxin Electronics Development Company Limited | 23,767 | (23,767) | — |
| ZTE DoBrasil LT DA | 18,572 | — | 18,572 |
| ZTE Integration Telecom Limited | 4,591 | — | 4,591 |
| Wistron Telecom AB (European research institute) | 2,030 | — | 2,030 |
| ZTE Corporation Mexico S.DER.LDEC.V. | 41 | (41) | — |
| Zhongxing Telecom Pakistan (Private) Ltd. | 2,971 | — | 2,971 |
| Shenzhen Zhongxing Telecom Equipment Technology & Service Company Limited | 9,656 | — | 9,656 |
| ZTE Holdings (Thailand) Co., Ltd | 10 | — | 10 |
| ZTE(Thailand) Co., Ltd. | 205 | — | 205 |
| ZTE Telecom India Private Ltd. | 335,759 | — | 335,759 |
| ZTE Romania S.R.L | 827 | — | 827 |
| PT ZTE Indonesia | 15,275 | — | 15,275 |
| ZTE-Communication Technologies Ltd. (Russia) | 6,582 | — | 6,582 |
| | 425,667 | (23,808) | 401,859 |

5. Operating revenue and costs

| | Six months ended 30 June 2021 | | Six months ended 30 June 2020 | |
|----------------------|----------------------------------|------------|----------------------------------|------------|
| | Revenue | Cost | Revenue | Cost |
| Principal operations | 44,147,330 | 42,492,324 | 36,601,236 | 37,445,605 |
| Other businesses | 6,743,304 | 212,791 | 6,708,198 | 31,984 |
| | 50,890,634 | 42,705,115 | 43,309,434 | 37,477,589 |

Notes to Financial Statements

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

XIV. EXPLANATORY NOTES TO MAJOR ITEMS IN THE FINANCIAL STATEMENTS (CONTINUED)

6. Investment income

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|--|-------------------------------------|-------------------------------------|
| Investment loss from long-term equity investment under equity method | (67,079) | (56,186) |
| Investment income from long-term equity investment under cost method | 52,065 | 89,650 |
| Investment (loss)/income from the disposal of derivative investment | (65,597) | 49,538 |
| Investment gain earned during the period of holding other non-current financial assets | 1,634 | 1,289 |
| Investment income from the disposal of long-term equity investment | 1,019,491 | 3,431 |
| Loss on derecognition of financial assets at amortised cost | (46,752) | (7,504) |
| | 893,762 | 80,218 |

7. Gain from asset disposal

| | Six months ended 30 June 2021 | Six months ended 30 June 2020 |
|------------------------------------|-------------------------------------|-------------------------------------|
| Gain from disposal of fixed assets | 47,494 | — |

Supplementary Information to the Financial Statements

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

1. BREAKDOWN OF EXTRAORDINARY GAINS/LOSSES

| | Six months ended 30 June 2021 |
|---|-------------------------------------|
| Gain from the disposal of non-current assets | 47,494 |
| Investment gain from the disposal of long-term equity investments | 862,666 |
| Gain/loss from fair-value change in derivative financial assets and derivative financial liabilities, and investment gain from disposal of derivative financial assets and derivative financial liabilities | 194,668 |
| Reversal of impairment provision for individually tested receivables | 205,296 |
| Gain/loss from change in fair value of investment properties | 878 |
| Other income (other than software VAT refund and refund of tax handing fees) | 444,250 |
| Net amount of other non-operating income and expenses and others other than the above | (18,739) |
| Other profit or loss items meeting the criteria for extraordinary profit or loss | 575,036 |
| | 2,311,549 |
| Effect of income tax | (346,732) |
| Effect of non-controlling interests (net of tax) | 1,367 |
| | 1,966,184 |

Note 1: The Group recognises extraordinary items in accordance with “Explanatory Announcement for Information Disclosure by Issuers of Public Securities No. 1 Extraordinary Items” (CSRC Announcement [2008] No. 43). The extraordinary gain/(loss) items within the definition of extraordinary gain/(loss), and the extraordinary gain/(loss) items defined as ordinary gain/(loss) items:

| | Six months ended 30 June 2021 | Reason |
|---|----------------------------------|---|
| Refund of VAT on software products | 801,562 | In line with national policies and received on an ongoing basis |
| Return of tax refund fee | 21,893 | In line with national policies and received on an ongoing basis |
| Investment income from venture capital firm | 75,275 | Within the scope of business |
| Gain/loss from fair-value change of venture companies | 668,455 | Within the scope of business |

Supplementary Information to the Financial Statements (continued)

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

2. RETURN RATIO ON NET ASSETS AND EARNINGS PER SHARE

30 June 2021

| | Weighted average return on net assets (%) | Earnings per share | |
|---|--|--------------------|---------|
| | | Basic | Diluted |
| Net profit attributable to ordinary shareholders of the Company | 9.04% | 0.88 | 0.88 |
| Net profit after extraordinary items attributable to ordinary shareholders of the Company | 4.68% | 0.46 | 0.46 |

30 June 2020

| | Weighted average return on net assets (%) | Earnings per share | |
|---|--|--------------------|---------|
| | | Basic | Diluted |
| Net profit attributable to ordinary shareholders of the Company | 5.28% | 0.40 | 0.40 |
| Net profit after extraordinary items attributable to ordinary shareholders of the Company | 2.56% | 0.20 | 0.19 |

Documents Available for Inspection

- (I) Text of the 2021 interim report signed by the Chairman of the Board of Directors;
- (II) Original copies of the Group's unaudited financial reports and consolidated financial statements for the six months ended 30 June 2021 duly signed by the Company's legal representative, Chief Financial Officer and Head of Finance Division;
- (III) Original copies of all documents and announcements of the Company published in China Securities Journal, Securities Times and Shanghai Securities News and on <http://www.cninfo.com.cn>; and
- (IV) Articles of Association.

By order of the Board
Li Zixue
Chairman
28 August 2021



ZTE 中兴通讯股份有限公司
ZTE CORPORATION